UniCredit S.p.A
First Half Financial Report
as at June 30, 2014

UniCredit S.p.A.
A joint stock company
Registered Office: Via Alessandro Specchi, 16 – 00186 Rome
Head Office: Piazza Gae Aulenti, 3 – Tower A - 20154 Milan
Share capital €19,905,773,742.24 fully paid in.
Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group with code 02008.1
Cod. ABI 02008.1
Fiscal Code, VAT number and Registration number with the Company Register of Rome: 00348170101
Member of the National Interbank Deposit Guarantee Fund and of the National Compensation Fund

Board of Directors, Board of Statutory Auditors and External Auditors

Board of Directors

Giuseppe Vita	Chairman
Candido Fois	Deputy Vice Chairman
Vincenzo Calandra Buonaura Luca Cordero di Montezemolo Fabrizio Palenzona	Vice Chairmen
Federico Ghizzoni	CEO
Mohamed Ali Al Fahim Manfred Bischoff Henryka Bochniarz Alessandro Caltagirone Francesco Giacomin Helga Jung Marianna Li Calzi Luigi Maramotti Giovanni Quaglia Lucrezia Reichlin Lorenzo Sassoli de Bianchi Alexander Wolfgring Anthony Wyand	Directors
Gianpaolo Alessandro	Company Secretary

Board of Statutory Auditors

Maurizio Lauri	Chairman
Giovanni Battista Alberti Cesare Bisoni Enrico Laghi Maria Enrica Spinardi	Standing Auditors
Federica Bonato Paolo Domenico Sfameni Beatrice Lombardini Pierpaolo Singer[1]	Alternate Auditors

General Manager

Roberto Nicastro

Manager charged with preparing the financial reports

Marina Natale

External Auditors

Deloitte & Touche S.p.A.

[1] Appointed by the Shareholders' Meeting of May 13, 2014 to replace Mr. Marco Lacchini, who handed in his resignation in June 2013.

UniCredit S.p.A. – First Half Financial Report as at June 30, 2014

INDEX

Note to the First Half Financial Report

General matters

The first-half Financial Report was prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), including the interpretation documents issued by the SIC and the IFRIC, as endorsed by the European Commission through June 30, 2014, pursuant to the European Union's Regulation 1606 of July 19, 2002, incorporated in Italy by Legislative Decree 38 of February 28, 2005.

The contents of this First Half Financial Report are in line with IAS 34 on interim reporting. In accordance with § 10 IAS 34, UniCredit has opted to provide condensed financial statements.

General principles

The first-half report includes:

- the **interim report on operations**, which shows condensed financial statements in addition to comments on the results of the period and those on other significant events, additional information;
- the **summary condensed first-half financial statements** provided in comparison to those for 2013; specifically, the balance sheet was compared with figures at December 31, 2013, while the income statement, statement of changes in shareholders' equity and cash flow statement were compared with the corresponding period of the previous year (first half of 2013);
- the **notes to the first-half financial statements**, which include information deemed useful for providing an accurate representation of the company's situation stated according to the schemes adopted in the financial statements;
- **First-Half Summary Financial Statements Certification** pursuant to Art. 81-ter of Consob Regulation No. 11971 of May 14, 1999, as amended and supplemented.
- the **Auditor's Report** by Deloitte & Touche S.p.A., as a limited review.

In those cases where the reporting has not fully valued charges that are not accrued using the "pro rata temporis" method, such as in particular administrative expenses, the accounting figure was supplemented by budget-based estimates.

Balance sheet and income statement summary reclassification criteria

The main reclassifications involve:

Balance sheet

- the combination in the "Financial investments" item of the "Financial assets measured at fair value", "Financial assets available for sale", "Financial assets held to maturity" and "Investments" items in the Financial Statements;
- the grouping of a single item called "Hedging", in both the assets and liabilities of the Financial Statements of the "Hedging Derivatives" and "Changes in fair value of portfolio hedged items".
- the combination of the "Deposits from customers" and "Debt securities in issue" items into a single item "Funding from customers and securities";
- the inclusion of the financial statements items "Employee severance pay" into "Other liabilities".

Income Statement

- the exclusion among dividends and other income of dividends from shares held for trading, classified together with the result of trading negotiations, hedging and assets and liabilities measured at fair value in the item Net trading income;

- the exclusion among the other income/expenses balance of the recovery of expenses classified as a separate item with the exception of the so-called “commissione di istruttoria veloce” (CIV) which is classified among Net Commissions;
- the exclusion among the balance of other operating income and charges of the costs for leasehold improvements classified among Other administrative expenses;
- the representation among staff expenses, other administrative expenses, adjustments in value for tangible and intangible assets and provisions for risks and charges net of integration costs relating to the reorganization operations following the integration of the Capitalia Group and the One4C “One for Clients” operation shown under the specific item;
- the inclusion among net trading income of the gains/losses realized on available-for-sale financial assets and on held- to- maturity financial assets;
- the inclusion among net income from investments of write-downs/ write-backs on available-for-sale financial assets and held-to-maturity financial assets, of the net result of the measurement at fair value of tangible and intangible assets.

Other information

As part of the rationalization plan of the support operations for the Parent Company performed by the subsidiary UBIS and in order to centralize the oversight of ITC operations within UniCredit, in line with the recent changes to supervisory regulations, and achieve synergies in operating processes for security, the following business units were transferred from UBIS to UniCredit, effective January 1, 2014:

- “Group ICT and Operations” business unit, pertaining to the activities supporting the Parent Company UniCredit in governing instrumental ICT and Operations services.
- “Security Network Services” business unit, pertaining to the specialized security services performed throughout Italy.

In this regard, please note that, in view of the non-significance, in proportion to the overall figures shown, of the accounting entries for these transactions, it was decided not to “reconstruct” the balance sheet and income statement items for the periods compared.

Lastly it should be noted that, as reported in the “2013 Annual Reports and Accounts”, in October 2013 the European Central Bank and the National Competent Authorities responsible for banking supervision announced the Comprehensive Assessment of Significant Banks in accordance with the Single Supervisory Mechanism, SSM Regulation.

During the first half of 2014 UniCredit S.p.A. was therefore subjected to this Comprehensive Assessment of Asset Quality. As at June 30, the review was still underway and it is expected to be completed in August.

In April 2014 the European Banking Authority started conducting a Stress Test on the major EU banks, including UniCredit S.p.A., which is still underway and will be completed in September.

The outcome of the Asset Quality Review and of the Stress Test will be published jointly by the European Central Bank and the European Banking Authority in October.

Interim report on operations

Highlights

INCOME STATEMENTS (€ million)

	H1 2014	H1 2013	Change in total	Change %
Operating income	5,771	7,308	-1,537	-21.0%
of which: - net interest	*2,172*	*1,942*	+230	+11.8%
- dividends and other income from equity investments	*1,361*	*3,163*	-1,802	-57.0%
- net fees and commissions	*1,959*	*1,790*	+169	+9.4%
Operating costs	-2,846	-2,837	-9	+0.3%
Operating profit (loss)	2,925	4,471	-1,546	-34.6%
Net write-downs of loans and provisions for guarantees and commitments	-1,219	-1,786	+567	-31.7%
Net operating profit (loss)	1,706	2,685	-979	-36.5%
Profit before tax	1,578	2,686	-1,108	-41.3%
Net Profit (loss)	1,058	2,692	-1,634	-60.7%

BALANCE SHEET (€ million)

	Amounts as at 06.30.2014	Amounts as at 12.31.2013	Change in total	Change %
Total assets	397,768	398,307	-539	-0.1%
Financial assets held for trading	15,030	12,254	+2,776	+22.7%
Loans and receivables with customers	223,123	231,171	-8,048	-3.5%
of which: - impaired loans	*24,443*	*24,221*	*+222*	*+0.9%*
Financial liabilities held for trading	10,649	10,804	-155	-1.4%
Deposits from customers and debt securities in issue	280,942	270,751	+10,191	+3.8%
of which: - deposits from customers	*159,179*	*150,840*	*+8,339*	*+5.5%*
- securities in issue	*121,763*	*119,911*	*+1,852*	*+1.5%*
Shareholders' net equity	48,168	46,078	+2,090	+4.5%

STAFF AND BRANCHES

	As at 06.30.2014	As at 12.31.2013	Change in total	Change %
Emoloyees	43,780	43,530	+250	+0.6%
Branches	4,051	4,156	-105	-2.5%
of which: - Italy	*4,044*	*4,149*	*-105*	*-2.5%*
- Other countries	*7*	*7*	-	-

PROFITABILITY RATIOS

	H1 2014	H1 2013	Change
Net interest income / Operating income	37.6%	26.6%	+11.0%
Net fees and commissions / Other administative expenses net of recovery of expenses	161.6%	158.8%	+2.8%
Net fees and commissions / Operating costs	68.8%	63.1%	+5.7%
Operating profit (loss) / Operating income	50.7%	61.2%	-10.5%
Return on assets(*)	0.5%	1.4%	-0.9%

(*) Return on assets: calculated as the ratio of Net profit or loss for the year to Total assets pursuant to art. 90 of CRD IV.

RISK RATIOS

	As at 06.30.2014	As at 12.31.2013	Change
Net non-performing loans to customers / Loans to customers	4.6%	4.0%	+0.6%
Net impaired loans to customers / Loans to customers	11.0%	10.5%	+0.5%

Own Funds and Capital Ratios

(€ million)

	Amounts as at	
	06.30.2014(*)	12.31.2013(**)
Common Equity Tier 1 Capital	44,931	41,766
Tier 1 Capital	46,628	42,989
Total own funds	59,421	57,444
Total RWA	208,852	156,957
Common Equity Tier 1 Capital Ratio	**21.51%**	**-**
Tier 1 Capital Ratio	**22.33%**	**27.39%**
Total own funds Capital Ratio	**28.45%**	**36.60%**

(*)Transitional own funds and capital ratios

(**) Funds and ratios calculated according to the regulation in force as of reference date of calculation (Total Capital, Tier1 Capital and Core Tier 1 Capital)

Condensed Accounts

CONDENSED BALANCE SHEET				(€ million)
	Amounts as at		Change	
	06.30.2014	12.31.2013	Amount	Percent
Assets				
Cash and cash balances	2,755	3,227	-472	-14.6%
Financial assets held for trading	15,030	12,254	+2,776	+22.7%
Loans and receivables with banks	21,442	21,869	-427	-2.0%
Loans and receivable with customers	223,123	231,171	-8,048	-3.5%
Financial investments	103,005	97,716	+5,289	+5.4%
Hedging instruments	9,396	7,858	+1,538	+19.6%
Property, plant and equipment	2,569	2,666	-97	-3.6%
Goodwill	-	-	-	-
Other intangible assets	1	1	-	-
Tax assets	13,882	14,766	-884	-6.0%
Non-current assets and disposal groups classified as held for sale	804	368	+436	*+118.5%*
Other assets	5,761	6,411	-650	-10.1%
Total assets	**397,768**	**398,307**	**-539**	**-0.1%**
Liability and shareholders' equity				
Deposits from banks	32,641	47,379	-14,738	-31.1%
Deposits from customers and debt securities in issue	280,942	270,751	+10,191	+3.8%
Financial liabilities held for trading	10,649	10,804	-155	-1.4%
Financial liabilities designated at fair value	-	-	-	-
Hedging instruments	9,742	8,141	+1,601	+19.7%
Provisions for risks and charges	1,912	2,284	-372	-16.3%
Tax liabilities	720	862	-142	-16.5%
Liabilities included in disposal group classified as held for sale	-	-	-	-
Other liabilities	12,994	12,008	+986	+8.2%
Shareholders' equity:	48,168	46,078	+2,090	+4.5%
- capital and reserves	*46,359*	*57,290*	*-10,931*	*-19.1%*
- available-for-sale assets fair value reserve and cash-flow hedging reserve	*751*	*389*	*+362*	*+93.1%*
- net profit (loss)	*1,058*	*-11,601*	*+12,659*	*-109.1%*
Total liabilities and shareholders' equity	**397,768**	**398,307**	**-539**	**-0.1%**

CONDENSED INCOME STATEMENT (€ million)

	H1		Change	
	2014	2013	amount	percent
Net interest	2,172	1,942	+230	+11.8%
Dividends and other income from equity investments	1,361	3,163	-1,802	-57.0%
Net fees and commissions	1,959	1,790	+169	+9.4%
Net trading, hedging and fair value income	212	405	-193	-47.7%
Net other expenses/income	67	8	+59	n.s.
OPERATING INCOME	**5,771**	**7,308**	**-1,537**	**-21.0%**
Payroll costs	-1,568	-1,640	+72	-4.4%
Other administrative expenses	-1,513	-1,389	-124	+8.9%
Recovery of expenses	301	262	+39	+14.9%
Amortisation, depreciation and impairment losses on intangible and tangible assets	-66	-70	+4	-5.7%
Operating costs	**-2,846**	**-2,837**	**-9**	**+0.3%**
OPERATING PROFIT (LOSS)	**2,925**	**4,471**	**-1,546**	**-34.6%**
Net-write-downs of loans and provisions for guarantees and commitments	-1,219	-1,786	+567	-31.7%
NET OPERATING PROFIT (LOSS)	**1,706**	**2,685**	**-979**	-36.5%
Net provisions for risks and charges	-72	-172	+100	-58.1%
Integration costs	-1	-1	-	-
Net income from investments	-55	174	-229	n.s.
PROFIT (LOSS) BEFORE TAX	**1,578**	**2,686**	**-1,108**	**-41.3%**
Income tax for the period	-520	6	-526	n.s.
Impairment of goodwill	-	-	-	-
NET PROFIT (LOSS) FOR THE PERIOD	**1,058**	**2,692**	**-1,634**	**-60.7%**

Quarterly Figures

CONDENSED BALANCE SHEET						(€ million)
	Amounts as at					
	06.30.2014	03.31.2014	12.31.2013	09.30.2013	06.30.2013	03.31.2013
Assets						
Cash and cash balances	2,755	3,777	3,227	1,781	1,562	2,221
Financial assets held for trading	15,030	14,712	12,254	12,069	12,115	9,904
Loans and receivables with banks	21,442	21,602	21,869	22,528	23,696	23,236
Loans and receivable with customers	223,123	233,679	231,171	245,867	247,441	251,338
Financial investments	103,005	101,373	97,716	101,166	100,132	97,310
Hedging instruments	9,396	8,366	7,858	8,000	8,395	9,677
Property, plant and equipment	2,569	2,637	2,666	2,670	2,708	2,722
Goodwill	-	-	-	2,815	2,815	2,815
Other intangible assets	1	1	1	25	25	26
Tax assets	13,882	14,605	14,766	12,293	12,172	12,308
Non-current assets and disposal groups classified as held for sale	804	367	368	24	3	-
Other assets	5,761	6,242	6,411	6,254	5,649	5,606
Total assets	**397,768**	**407,361**	**398,307**	**415,492**	**416,713**	**417,163**
Liability and shareholders' equity						
Deposits from banks	32,641	50,178	47,379	50,494	51,467	48,889
Deposits from customers and debt securities in issue	280,942	275,278	270,751	270,737	273,711	274,045
Financial liabilities held for trading	10,649	11,370	10,804	10,274	9,609	10,787
Financial liabilities designated at fair value	-	-	-	-	-	-
Hedging instruments	9,742	8,694	8,141	8,545	8,964	10,562
Provisions for risks and charges	1,912	2,020	2,284	2,006	2,002	1,900
Tax liabilities	720	965	862	605	554	2,580
Liabilities included in disposal group classified as held for sale	-	-	-	-	-	-
Other liabilities	12,994	12,467	12,008	13,185	10,352	10,660
Shareholders' equity:	48,168	46,389	46,078	59,646	60,054	57,740
- capital and reserves	*46,359*	*45,640*	*57,290*	*57,354*	*57,389*	*57,920*
- AfS assets fair value reserve, Cash-flow hedging reserve and Defined benefits plans reserve	*751*	*643*	*389*	*93*	*-27*	*-131*
- net profit (loss)	*1,058*	*106*	*-11,601*	*2,199*	*2,692*	*-49*
Total liabilities and shareholders' equity	**397,768**	**407,361**	**398,307**	**415,492**	**416,713**	**417,163**

CONDENSED INCOME STATEMENT						(€ million)
	2014		2013			
	Q2	Q1	Q4	Q3	Q2	Q1
Net interest	1,118	1,054	1,036	1,016	1,004	938
Dividends and other income from equity investments	1,348	13	10	7	3,153	10
Net fees and commissions	979	980	850	847	881	909
Net trading, hedging and fair value income	90	122	16	-66	330	75
Net other expenses/income	57	10	-39	63	27	-19
OPERATING INCOME	**3,592**	**2,179**	**1,873**	**1,867**	**5,395**	**1,913**
Payroll costs	-763	-805	-807	-798	-819	-821
Other administrative expenses	-791	-722	-689	-661	-691	-698
Recovery of expenses	167	134	161	121	149	113
Amortisation, depreciation and impairment losses on intangible and tangible assets	-33	-33	-61	-35	-35	-35
Operating costs	**-1,420**	**-1,426**	**-1,396**	**-1,373**	**-1,396**	**-1,441**
OPERATING PROFIT (LOSS)	**2,172**	**753**	**477**	**494**	**3,999**	**472**
Net-write-downs of loans and provisions for guarantees and commitments	-727	-492	-7,101	-1,028	-1,089	-697
NET OPERATING PROFIT (LOSS)	**1,445**	**261**	**-6,624**	**-534**	**2,910**	**-225**
Net provisions for risks and charges	-53	-19	-434	-59	-152	-20
Intregration costs	-1	-	-151	-1	-	-1
Net income from investments	-35	-20	-6,034	-6	-34	208
PROFIT (LOSS) BEFORE TAX	**1,356**	**222**	**-13,243**	**-600**	**2,724**	**-38**
Income tax for the period	-404	-116	2,258	107	17	-11
Impairment of goodwill	-	-	-2,815	-	-	-
NET PROFIT (LOSS) FOR THE PERIOD	**952**	**106**	**-13,800**	**-493**	**2,741**	**-49**

UniCredit Share

Share Information

	H1 2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Share price (€) (*)											
- maximum	6.870	5.630	4.478	13.153	15.314	17.403	31.810	42.841	37.540	32.770	24.629
- minimum	5.360	3.238	2.286	4.222	9.820	4.037	8.403	28.484	30.968	22.592	21.303
- average	6.171	4.399	3.292	8.549	12.701	11.946	21.009	36.489	34.397	25.649	22.779
- end of period	6.115	5.380	3.706	4.228	10.196	14.730	9.737	31.687	37.049	32.457	23.602
Number of outstanding shares (million)											
- at period end[1]	5,866	5,792	5,789	1,930	19,297.6	16,779.3	13,368.1	13,278.4	10,351.3	10,303.6	6,249.7
- shares cum dividend	5,769	5,695	5,693	1,833	18,330.5	18,329.5	13,372.7	13,195.3	10,357.9	10,342.3	6,338.0
of which: savings shares	*2.45*	*2.42*	*2.42*	*2.42*	*24.2*	*24.2*	*21.7*	*21.7*	*21.7*	*21.7*	*21.7*
- average[1]	5,806	5,791	5,473	1,930	19,101.8	16,637.8	13,204.6	11,071.6	10,345.2	6,730	6,304
Dividend											
- total dividends (€ million)		570	512	(***)	550	550	(**)	3,431	2,486	2,276	1,282
- dividend per ordinary share		0.100	0.090	(***)	0.030	0.030	(**)	0.260	0.240	0.220	0.205
- dividend per savings share		0.100	0.090	(***)	0.045	0.045	(**)	0.275	0.255	0.235	0.220

1. The number of shares is net of Treasury shares and included 96.76 million of shares held under a contract of usufruct.

(*) Following extraordinary corporate operations, which involve the detachment of rights, stock splitting or grouping, demerger operations and distribution of extraordinary dividends, the price of the shares can fluctuate so much that they are no longer comparable. Thus, the time series hereby published are adjusted accordingly to restore the continuity of historical price series.

(**) 2008 dividend was paid with cash to savings shareholders (€0.025 per share, for a total amount of €0.5 million), and with newly issued shares (so called "scrip dividend").

(***) As per Bank of Italy's paper dated March 2, 2012, in keeping with the decision of UniCredit S.p.A.'s Board of Directors and in line with the intention announced to the Shareholders' Meeting in 2012, UniCredit S.p.A. did not pay any dividends with respect to its 2011 financial results.

In 2011 the following operations were carried out:

. the €2.5 billion free capital increase, through the allocation to capital of an equivalent amount transferred from the "Issue-premium reserve";

. the reverse stock split of ordinary and savings shares based on a ratio of 1 new ordinary or savings share for every 10 existing ordinary or savings shares;

. elimination of the per-share nominal value of UniCredit shares.

In the first quarter of 2012 the capital increase of €7.5 billion equal to a number of shares issued of 3,859.602.938 was fully subscribed for.

Figures relating to the 2013 dividend are shown according to the specific Board of Directors' reports on the distribution to Shareholders.

The Shareholders' Meeting of May 13, 2014 approved a scrip dividend scheme under which the holders of ordinary shares and the holders of savings shares will be allocated one new share for every sixty shares held and one new share for every eighty-four shares held, respectively. The new shares were allocated through a free share capital increase, without prejudice to the shareholders' right to opt for a cash payout (€0.10 for each ordinary and savings share) in lieu of the allocation of the new shares.

Macroeconomic and banking scenario

International situation

Macroeconomic scenario

USA/Eurozone

The recovery in global economic activity showed signs of a slowdown in the second quarter of 2014. This slowdown was more marked in the emerging economies, but it also affected some advanced economies.

In the emerging world, after reporting weak GDP figures for the first quarter of the year, which fueled fears of a hard landing in its economy, China saw an acceleration, however marginal, in GDP growth in the second quarter (7.5% y/y compared with 7.4%). This essentially steady – albeit weak – growth suggests a "controlled" slowdown in Chinese economy later in the year. Some economies of central Europe began to suffer the consequences of the ongoing Russian-Ukrainian crisis: Polish exports to the CEE countries (including Russia and Ukraine), in particular, began to show signs of a slowdown.

The biggest negative surprise came from economic activity in the eurozone, which (probably) did not accelerate after a weak first quarter penalized by an exceptionally mild climate that caused a drop in the consumption and production of electricity. Industrial production, in particular, showed signs of continued weakness during the second quarter (in April and May), despite the recovery of the energy sector. This is, however, in contrast to the indications from surveys of confidence in the manufacturing industry which revealed an acceleration in the rate of growth of industrial activity during the second quarter. This dichotomy was essentially the result of particularly unfavorable calendar effects in April and May related to long weekends. Therefore, after (probably) still weak GDP figures for the second quarter of the year, the preconditions are there for a more convincing acceleration in economic activity in the second half of the year.

After a temporary acceleration in April, inflation is back to historically very low levels (0.5%). The main reason for this very low inflation are food prices, although "core" inflation (which excludes the most volatile components such as energy and food) also remains very low.

Against this backdrop of marked weakness, combined with the persistent strength of the euro, the ECB decided to counter the risk of deflation by adopting a new package of measures designed to further ease monetary policy, improve the transmission mechanism and reaffirm its commitment to using unconventional instruments to pursue its mandate of price stability. This package included: 1) a cut in the refinancing and deposit rates by ten basis points to 0.15% and -0.10%, respectively; 2) the extension of fixed-rate full allotment auctions to the end of 2016; 3) the suspension of the sterilization of bond purchases made under the SMP (security market program); 4) the launch of new long-term refinancing operations (TLTRO) conditional, unlike the previous ones, upon resumption of bank lending to the economy.

The growing expectation of a new package of conventional and unconventional measures by the ECB in the first place, and the actual implementation of these measures in the second place led to a further compression of German bund yields and of Government bond spreads in the peripheral countries in the second quarter. At the same time, the continuing risk appetite resulted in a good performance of the equity markets.

In the United States, after a significant decline in the first quarter of the year, economic activity is expected to recover in the second quarter. The rebound in GDP will be driven by consumer spending, as suggested by the solid performance of retail sales for the quarter. The ongoing improvement in the labor market is, and will continue to be for the rest of the year, the main driving force of consumer spending, which is also driven by the decline in the savings rate and the recovery of the real estate market.

Against this backdrop, inflation is gradually accelerating: the core PCE deflator, the Fed's most reliable measure of inflation, continued to rise over the past three months, and core inflation is also expected to rise soon.

Given the macroeconomic environment, the Fed continued to reduce the pace of purchases of mortgage-backed securities and long-term Treasury bonds in line with market expectations, thus getting ready to end the tapering only at the end of October. The first rate hike will not take place until the half of next year.

Banking and financial markets

The fragile macroeconomic environment prevented significant improvement in bank lending. In the second quarter of 2014, bank lending to the private sector in the euro area shrank by around 2.0% on a year-over-year basis. The pace of contraction in loans to businesses continued to ease – albeit gradually (-2.5% y/y in May) –, while loans to households experienced slightly positive growth. As regards the Group's three key countries, lending to the private sector (households and businesses) was in line with the eurozone as a whole. In Germany, loans to the private sector (according to the ECB's monthly statistics) saw a marginal contraction in loans to businesses and a gradual acceleration in loans to households, on the back of a recovery in home loans. In Austria, loans to businesses stabilized in May, while loans to households were recovering, again driven by home loans. In Italy, loans to businesses were still shrinking by 3.0% (albeit they were on an uptrend compared with the low point of around 6.0% hit at the end of 2013), while loans to households continued to be affected by the sharp decline in consumer credit, against a backdrop of still weak domestic demand. As for the banking sector's deposit base in the Group's three key countries, in Italy there was a slight recovery in bank deposits, mainly driven by a solid recovery in demand deposits, while in Germany bank deposits remained weak, continuing to contract. With regard to bank interest rates, in Italy the rise in interest rates on bank loans, which was sharper in the first quarter of the year, appeared to have stopped. This trend was accompanied by a reduction in the bank spread (the difference between the average interest rate on loans and the average interest rate on deposits). By contrast, in Germany and in Austria the cut in interest rates on bank loans continued in line with the cut in interest rates on deposits, thus encouraging the substantial stabilization of the bank spread. In the Group's three key countries, the good performance of the stock markets in the first quarter of the year continued in the second quarter of 2014, with the Italian and Austrian stock markets reporting slightly negative results and the German stock market showing a moderate acceleration.

CEE Countries

The second quarter of 2014 brought a soft patch in EMU economic activity, which led to a deceleration of export growth throughout CEE. The ongoing standoff between Russia and Ukraine and turmoil in the Middle East added to export weakness. Yet over the course of the second half of this year, emerging markets should benefit from the recovery of export of growth from developed markets while recent ECB actions are supportive of risk appetite. But another round of tightening of monetary conditions, at least in the US, is also likely to materialize gradually, generating some renewed focus on differentiation across emerging market economies.

Central Europe is well placed to continue to take advantage of a recovery in external demand while weathering some volatility in foreign capital flows. But the recovery that is materializing in domestic demand contrasts with downside inflation surprises over the past couple of quarters, generating a risk of pro-cyclical monetary policy. We see a further easing of monetary conditions at this stage as unnecessary, but Hungary and Romania are likely to cut rates over the summer and in Poland the expectations for rate cuts will rise as inflation dips below zero. A decision to keep interest rates on hold would help to reduce the risk of a more rapid tightening cycle at a later stage, especially in Hungary.

Structural impediments mean that the Balkans continue to lag Central Europe on growth while fiscal consolidation efforts, in particular in Serbia and Croatia, have fallen short of what is necessary. With the exception of Bulgaria, this renders this part of the region more vulnerable to a tightening of global monetary conditions going forward.

Turkey's adjustment YTD has been impressive. TRY weakness has helped compress private demand while exports benefit from stronger external demand. An improvement in the gold balance has also played a key role. But looking beyond a multi month horizon, we have concerns that the authorities remain unrealistic on growth while fiscal and monetary policies risk cutting the adjustment short of what is required. Such an approach would leave the economy vulnerable to a more abrupt adjustment at a later date.

Events in Ukraine have served to highlight Russia's structural growth challenge as well as its reliance on foreign capital. Aided by CBR policy, the economy is showing some modest signs of re-balancing but there are no easy sources of growth at this stage. Geopolitical risks are likely to persist at least over the course of the next couple of quarters, generating significant downside risks to both the Russian and Ukrainian economy. In our baseline, foreign reserves edge downwards, but at a much more gradual pace that was the case in Q1. Another episode of heightened financial market stress, as in March, would serve only to accelerate foreign reserve loss and risk a further downgrade of the sovereign's rating.

Explanatory Notes to the Balance Sheet and the Income Statement as at June 30, 2014

INCOME STATEMENT

Net operating profit (loss)

Net operating profit for the first half of 2014 totaled €1,706 million, down €979 million on the first half of 2013. The figure was the result of an operating profit of €2,925 million (-€1,546 million year-on-year) and net write-downs on loans of -€1,219 million (down €567 million or -31.7% year-on-year).

The worsening in net operating profit over the first half of 2013 was largely due to the reduction in operating income (-€1,537 million, -21%), and the increase in operating costs (-€9 million, corresponding to +0.3%) which are not offset by the lower net write-downs on loans (+€567 million).

The net operating profit for the second quarter of 2014 was up €1,184 million compared to the first quarter of 2014 thanks to the increase in operating profit, which benefited from higher dividends received (+€1,335 million) higher net interest (+€64 million) and the higher balance of other income and charges (+€47 million) despite greater net impairment losses on loans (-€235 million).

Operating income

In the first half of 2014, operating income totaled €5,771 million, worsening by €1,537 million on the first half of 2013 (-21%). The decrease was due to dividends and other income from equity investments (-€1,802 million) and gains (losses) on financial assets and liabilities held for trading (-€193 million), which were not offset by the improvement in net interest (+€230 million), higher net fees and commissions (+€169 million) and the net balance of other operating income and charges (+€59 million).

Compared to the first quarter of 2014 operating income was up €1,413 million thanks to the contribution of dividends (+€1,335 million) net interest (+64 million) and the higher balance of other income and expenses (+€47 million). In the second quarter, dividends were received from UniCredit Bank AG of €755 million, Bank Pekao SA of €315 million, FinecoBank S.p.A. of €20 million, UniCredit Bank Ireland PLC of €47 million, UniCredit Factoring S.p.A. of €49 million, the Bank of Italy of €84 million and SIA S.P.A. of €24 million.

Net interest income for first half of 2014 amounted to €2,172 million, up €230 million year-on-year and up +€64 million compared to the first quarter of 2014.

This performance confirmed the gradual improvement in the financial market conditions previously seen during 2013. Despite the continuing downturn in loans to businesses and households, net interest reflects the substantial improvement in retail deposits, partly favored by the trend in interest rates.

In the second quarter of 2014, the Bank continued executing the Financial Plan, optimizing accesses to the capital markets by significantly diversifying bond instruments issued. At the end of June, 53% of the Annual Plan had been completed, specifically due to the contribution from senior issues (31% of the Plan) placed with the various classes of investors, both Institutional as well as Retail and Private customers. Funding through issues backed by commercial assets of the Bank remained strong (approximately 10% of the Plan), with a positive impact on overall medium to long-term funding costs.

Fee and commission income and expense in the first half of 2014 amounted to €1,959 million, up €169 million (+9.4%) compared to the previous year. The growth was almost fully attributable to asset management, custody and administration, driven by UCITS and insurance products.

In the second quarter of 2014, fee and commission income and expense stood at 979 million, substantially in line with the previous quarter.

Gains (losses) on financial assets and liabilities held for trading in the first six months of 2014 amounted to +€212 million, and was mainly attributable to the gain from the sale of AFS securities (+€83 million for Atlantia and +€91 million from the sale of government securities), in addition to the gains deriving from the restructuring of the ITR Concession Company position (+€21 million), the gains deriving from the exercise of the conversion option on the Risanamento security (+€27 million) and the gains deriving from the effects of the exchange rate revaluation of the exposure in USD generated by the issue of the Additional Tier 1 (€7 million). In the first half of the year, gains on "ordinary" repurchases of the Bank's bonds in the secondary market (+€15 million) and the Tender Offer in senior retail issues ("Persephone") of +€49.5 million were offset by the negative effect of the buybacks of own liabilities (Fineco -€48.8 million). The valuation of the charge from the contract signed with UniCredit Bank Austria for the sale of CAIB to UniCredit Bank AG generated a negative contribution of €22 million.

The balance of other operating income and charges in the first half of 2014 was €67 million compared to a result of €8 million for the same period of the previous year. The main impacts for the first half of 2014 consisted of -€26.6 million in extraordinary costs mainly related to operations with customer, +€21.4 million in chargebacks for intercompany services (relating to call center operations, management of arrears, front-office operations, rentals, auditing and advisory services), +€7.1 million in non-Group rentals, +€6.1 million in gains from Group Loans&Receivables securities, +€49.2 million in gains from the resale to Fineco of securities it issued, originally subscribed by UniCredit (this effect was offset by -€48.8 million in losses on financial assets and liabilities held for trading), +€1 million from the sale of Unipol receivables, -€3 million from the sale of the Carnival receivable and +€10.9 million for the recovery of charges paid in 2013 for the Compensation Agreement with UniCredit Bank AG.

Based on the comparison with the first quarter of 2014, the balance of other operating income and charges improved by +€47 million, due to the gains deriving from the resale to Fineco of securities it issued, originally subscribed by UniCredit for +€49.2 million (this effect was offset by -€48.8 in losses on financial assets and liabilities held for trading).

OPERATING INCOME						(mil. €)
	H1		Change	2014	Change percent	Change percent
	2013	2014	%	Q2	on Q2 2013	on Q1 2014
Net interest	1,942	2,172	+11.8%	1,118	+11.4%	+6.1%
Dividends and other income from equity investments	3,163	1,361	-57.0%	1,348	-57.2%	n.s.
Net fees and commissions	1,790	1,959	+9.4%	979	+11.1%	-0.1%
Net trading, hedging and fair value income	405	212	-47.7%	90	-72.7%	-26.2%
Net other expenses/income	8	67	n.s.	57	+111.1%	n.s.
Operating income	**7,308**	**5,771**	**-21.0%**	**3,592**	**-33.4%**	**+64.8%**

Operating Costs

Operating costs at June 30, 2014 totaled €2,846 million, showing a year-on-year increase of €9 million

(+0.3%), and of €6 million over the previous quarter. The decrease in variable payroll costs did not offset the increase in intercompany cost due to the increase of the UBIS fee resulting in the extraordinary reversal of intangible assets .

Payroll costs, amounting to €1,568 million, dropped by around €72 million (-4.4%) versus the end of 2013. This performance was mainly due to the reduction in variable payroll costs (decrease in the Long Term Incentive for 2014).

The headcount at June 30, 2014, measured in terms of Full Time Equivalent (FTE) staff, which stood at 41,909, showed an increase of 142 FTE on the previous year and of 78 FTE on the previous quarter. The increase on the previous year was largely due to the insourcing of several IT and Security operations from other group companies, while the increase on the previous quarter was mainly due to the hiring of seasonal workers (who are due to leave in September).

Other administrative expenses in 2014 totaled €1,513 million, up €124 million (+8.9%) compared to the same period of the previous year. This growth was the result of an increase in intercompany costs related to the UBIS fee resulting in the extraordinary reversal of intangible assets (-€89 million), an increase in intercompany cost for management of problem loans (-€7 million) and in direct costs (-€30 million) mainly attributable to duties on current accounts and securities accounts offset by higher recovery of expenses of +€39 million (+14.9%) year-on-year.

Amortization, depreciation and impairment losses on intangible and tangible assets amounted to €66 million, a decrease of 4 million compared to June 30, 2013.

OPERATING COSTS						(mil. €)
	H1		Change	2014	Change percent	Change percent
	2013	2014	%	Q2	on Q2 2013	on Q1 2014
Payroll costs	-1,640	-1,568	-4.4%	-763	-6.8%	-5.2%
Other administrative expenses	-1,389	-1,513	+8.9%	-791	+14.5%	+9.6%
Recovery of expenses	262	301	+14.9%	167	+12.1%	+24.6%
Amortisation, depreciation and impairment losses on intangible and tangible assets	-70	-66	-5.7%	-33	-5.7%	-
Operating costs	**-2,837**	**-2,846**	**+0.3%**	**-1,420**	**+1.7%**	**-0.4%**

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

At June 30, 2014 net write-downs on loans and provisions for guarantees and commitments amounted to €1,219 million, down 31.7% on the previous year. The quarterly performance shows an increase in the aggregate of €235 million, with a cost of risk (measured as a ratio of average loans to customers) which changed year-on-year from 1.41% on June 30, 2013 to 1.06% at the end of June 2014.

Profit (loss) before tax

Profit before tax for the first half of 2014, amounting to €1,578 million, was down €1,108 million over the same period of the previous year, due to net operating profit (+€1,706 million) less provisions for risks and charges (-€72 million), net income from investments (-€55 million), and integration costs (-€ 1 million).

Net income from investments in the first half of 2014 was mainly attributable to the gains from the sale of the investments in SIA (+€86 million) and SW Holding (€14 million) and the impairment losses on the investments in Fenice Holding (-€56 million), Alitalia (-€50 million), Crivelli S.r.l. (-€11 million) and

Burgo (-€12 million).

Profit (loss) before tax improved compared to the previous quarter (+€1,134 million) thanks to the increase in net operating profit (+€1,184 million) partially offset by the decline in net income from investments (-€15 million) and by net provisions for risks and charges (-€34 million).

Net profit (loss) for the period

The net profit for the period amounted to +€1,058 million, worsening by €1,634 million over the same period of the previous year.

Article 2 of Law Decree 66 of April, 24 2014 (converted into Law 89 of June, 23 2014) established a general reduction in IRAP corporate tax rates which, for the banking sector, were set at 0.45%. The same law allowed regional authorities to increase the rate up to a maximum of 0.92%.

The reduction in the tax rate resulted in a recalculation of the stock of deferred tax assets and liabilities recorded in the financial statements as at December, 31 2013, which generated a contingent liability of €116.5 million through profit and loss. At the same time, this reduction resulted in the current IRAP corporate tax bill for the half year being reduced by around €11 million.

Article 4, paragraph 12, of the aforementioned Law Decree 66 raised the tax rate on the mandatory realignment of the taxable value to the new, revalued book value of shares held in the Bank of Italy from 12% (as per Article 1, paragraphs 143, 145, 148 of Law 47 of 27 Dec. 2013 – the 2014 Stability Law) to 26%, net of the tax value already recognized. Payment was made (in accordance with the aforementioned law) on 16 June in the amount of €399.6 million, resulting in the need to expense €215.2 million to the income statement for the first half of 2014 in order to adjust the provisions already made in 2013 to the unforeseeable 14% increase in the tax rate.

The first half of 2014 saw a higher benefit in terms of IRES income tax savings linked to the increase in shareholders' equity (ACE – aid for the economic growth of companies), which stood at €21 million compared to €15 million in the first half of 2013, as a result of the increase from 3% to 4% of the deduction rate of new capital established in the aforesaid 2014 Stability Law, while the distribution of reserves as dividends and contributions to subsidiaries also further reduced the base of the benefit.

The tax item in the income statement includes: IRES income tax (current + deferred) dues of €116.5 million and IRAP corporate tax (current + deferred) consisting of a debit of €89 million; a provision of €3 million for taxation for transparency of black list foreign subsidiaries (CFC); €6 million for taxes due from foreign branches in their respective countries and €0.6 million for non-deductible withholding tax on dividends received.

Finally, when paying the IRES income tax and IRAP corporate tax, there were contingent assets of €25 million following an in-depth analysis of the tax amounts that, when making provision for taxes in the 2013 financial statements, could only be estimated.

NET PROFIT (LOSS) FOR THE PERIOD						(mil. €)
	H1		Change	2014	Change percent	Change percent
	2013	2014	%	Q2	on Q2 2013	on Q1 2014
Operating income	**7,308**	**5,771**	**-21.0%**	**3,592**	**-33.4%**	**+64.8%**
Operating costs	-2,837	-2,846	+0.3%	-1,420	+1.7%	-0.4%
Operating profit (loss)	**4,471**	**2,925**	**-34.6%**	**2,172**	**-45.7%**	**+188.4%**
Net-write-downs of loans and provisions for guarantees and commitments	-1,786	-1,219	-31.7%	-727	-33.2%	+47.8%
Net operating profit (loss)	**2,685**	**1,706**	**-36.5%**	**1,445**	**-50.3%**	**n.s.**
Net provisions for risks and charges	-172	-72	-58.1%	-53	-65.1%	+178.9%
Intgration costs	-1	-1	-	-1	n.s.	n.s.
Net income from investments	174	-55	n.s	-35	+2.9%	+75.0%
Profit(loss) before tax	**2,686**	**1,578**	**-41.3%**	**1,356**	**-50.2%**	**n.s.**
Income tax for the period	6	-520	n.s.	-404	n.s.	+248.3%
Impairment of goodwill	-	-	-	-	-	-
Net profit (loss) for the period	**2,692**	**1,058**	**-60.7%**	**952**	**-65.3%**	**n.s.**

BALANCE SHEET

Loans and receivables with customers

Loans to Customers at June 30, 2014 totaled €223,123 million, a reduction of €8,048 million (-3.5%) compared to December 31, 2013 (€231,171 million).

This decline was substantially attributable to loans disbursed by the units operating in Italy, which decreased by €8,069 million (from €229,612 million at the end of 2013 to €221,543 million at June 30, 2014).

More specifically, in the first half of 2014 the following changes were recorded in the aggregate:

- performing loans decreased by €3,242 million (-1.9%);
- impaired assets increased by €222 million (+0.9%);
- debt securities fell by €393 million (-13.8%);
- reverse repo transactions declined by €4,635 million (-15,4%).

"**Performing loans**" (€170,744 million at June 30, 2014) included €4,149 million due from Special Purpose Vehicles (SPVs), attributable to liquidity which – following the downgrading by the rating agencies Fitch, Standard & Poor's and Moody's in 2012 – UniCredit S.p.A. had to transfer (based on the contractual documentation signed) to other banks still considered "eligible" in favor of the SPVs granting loans as part of transactions originated by UniCredit S.p.A. in relation to securitizations and covered bond issue programs. The above-mentioned sums at the end of 2013 amounted to €3,944 million.

Impaired loans at the end of June 2014 amounted to €24,443 million and came to 10.9% of the total amount of loans to customers, a net increase of €222 million compared to the €24,221 million at December 2013. This increase was mainly due the sale of a portfolio of non- performing loans arising from consumer loans with a nominal amount of around €930 million; the sale took place in the first quarter of 2014 at a price of €45.5 million, essentially in line with the book value of these positions.

Reverse repos amounted to €25,484 million at June 30, 2014 (€30,119 million at the end of 2013), and consisted almost entirely of operations with Cassa di Compensazione e Garanzia.

LOANS AND RECEIVABLES WITH CUSTOMERS (million €)

	Amounts as at		Change	
	06.30.2014	12.31.2013	amount	percent
Performing loans	170,744	173,986	-3,242	-1.9%
Impaired assets	24,443	24,221	+222	+0.9%
Repos	25,484	30,119	-4,635	-15.4%
Debt securities	2,452	2,845	-393	-13.8%
Total loans and receivables with customers	**223,123**	**231,171**	**-8,048**	**-3.5%**
of which:				
units operating in Italy	*221,543*	*229,612*	*-8,069*	*-3.5%*
units operating abroad	*1,580*	*1,559*	*+21*	*+1.3%*

Credit Quality to Customers

As of June 30, 2014, the face value of the impaired assets totaled €45,624 million representing 18.5% of total nominal loans to customers, an increase from 17.9% as of December 31, 2013. At book value (net of write-downs of €21,181 million), impaired loans stood at €24,443 million (€24,221 million as of December 31, 2013), representing 10.9% of total loans (10.5% at the end of 2013).

The careful classification of problem positions continued in the first half of 2014. Within these positions, non-performing loans (at face value) reached 9.2% of the total loans to customers (8.2% at the end of 2013), doubtful loans are equal to 7.3% (7.5% at the end of 2013), restructured loans equal to 1.0% (1.2% at the end of 2013), while impaired past-due loans came to 0.9% of the overall net worth of loans (1.0% at the end of 2013).

The coverage ratio of impaired loans (specific write-downs to face value) came to around 46.4% (46.8% at the end of December 2013), consisting of 55.1% of non-performing loans, 40.6% of doubtful loans, 29.6% of restructured loans, and 24.6% of impaired past due exposures.

Performing loans, which amounted to €200,737 million at face value (€209,046 million at December 31, 2013), have been written down, at June 30, 2014, by a total of €2,057 million, with a coverage ratio of 1.0% (unchanged compared to the end of December 2013).

Overall, therefore, total loans to Customers stood at €246,361 million, with value adjustments €23,238 million, taking the general level of coverage for loans to Customers to 9.4% (from 9.2% at December 31, 2013).

The summary tables below provide additional details:

LOANS TO CUSTOMERS ASSET QUALITY (€ million)

	Non-performing loans	Doubful loans	Restructured loans	Past-due Loans	Total Impaired loans	Performing loans	Total Cust. Loans
As at 06.30.2014							
Face value	22,759	18,039	2,528	2,298	45,624	200,737	246,361
as a percentage of total loans	9.24%	7.32%	1.03%	0.93%	18.52%	81.48%	
Writedowns	12,544	7,323	749	565	21,181	2,057	23,238
as a percentage of face value	55.12%	40.60%	29.63%	24.59%	46.43%	1.02%	
Carrying value	10,215	10,716	1,779	1,733	24,443	198,680	223,123
as a percentage of total loans	4.58%	4.80%	0.80%	0.78%	10.95%	89.05%	

LOANS TO CUSTOMERS ASSET QUALITY (€ million)

	Non-performing loans	Doubful loans	Restructured loans	Past-due Loans	Total Impaired loans	Performing loans	Total Cust. Loans
As at 12.31.2013							
Face value	20,974	19,093	3,034	2,467	45,568	209,046	254,614
as a percentage of total loans	8.24%	7.50%	1.19%	0.97%	17.90%	82.10%	
Writedowns	11,800	8,077	905	565	21,347	2,096	23,443
as a percentage of face value	56.26%	42.30%	29.83%	22.90%	46.85%	1.00%	
Carrying value	9,174	11,016	2,129	1,902	24,221	206,950	231,171
as a percentage of total loans	3.97%	4.77%	0.92%	0.82%	10.48%	89.52%	

Lastly, in the same way as for the management and recovery of problem loans (doubtful loans and non-performing loans), the Bank makes use of the services offered by UniCredit Credit Management Bank S.p.A., the Group bank specialized in loan recovery, whose activities are governed by a special contract and by continually evolving procedures, aimed at the constant improvement of recovery performances and their ongoing monitoring.

Financial investments

Over the first six months of 2014, financial investments showed an increase of €5,289 million (+5.4%) resulting from the combination of the changes in available-for-sale financial assets (+€5,099 million), in held-to-maturity investments (+€82 million), in investments in associates and joint ventures (+€82 million) and in financial assets at fair value through profit or loss (+€26 million).

More specifically:

- Available-for-sale financial assets included €45,806 million in debt and equity securities and units in investment funds – posting an increase of €5,154 million primarily due to purchases of Italian government securities, net of redemption – and €2,245 million in equity interests. Equity interests included in this portfolio posted a decrease of €44 million, attributable to (i) the purchase of shares for €133 million (of which: €50 million in ERG Renew S.p.A., €45 million in Risanamento S.p.A., €26 million in Prelios S.p.A. and €9 million in Gabetti Property Solutions S.p.A.), (ii) the sale of Atlantia S.p.A. for a price of €102 million, which resulted in profits on sale of €83 million (of which €72 million due to the reclassification of the positive valuation reserve); (iii) the changes in fair value, charged to equity - including an increase of €31 million for Tassara S.p.A. and a decrease of €9 million (of which: €8 million for Risanamento S.p.A.), (iv) the Impairment losses posted to the income statement of €72 million, (of which: €50 million for Alitalia S.p.A.,€11 million for Burgo Group S.p.A., €4 million for Prelios Sp.A., €3 million for Eurofidi S.p.A. and €2 million for Gabetti Solutions Properties S.p.A.), (v) the reduction of the carrying value of the equity interest in Istituto per il Credito Sportivo for 72 million and (vi) the transfer to available-for-sale financial assets of the remaining amount, equal to 4%, of SIA S.p.A. That transfer was carried out following the sale of 20.1% of the shares, already posted at the end of 2013 under assets held for sale, for a price of €133 million, which resulted in profits on sale of €72 million, with a value, based on the disposal price of the shares sold, of €26 million, giving rise to gains of €14 million;
- the value of investments in associates and joint ventures equal to €51,432 million rose by €82 million. This was mainly owing to (i) €200 million for the purchase by UniCredit Bank Austria AG of the 31.01% equity interest held in UniCredit Leasing S.p.A. for a price of €222 million, which also resulted in the allocation of a negative reserve of €22 million in equity, (ii)) the capital contribution of €490 million in favor of UniCredit Leasing S.p.A., for the capital strengthening of the subsidiary, also in view of the merger of Fineco Leasing (iii) the sale of the equity interest held in SW Holding S.p.A., following the reduction of the carrying value by €13 million due to the distribution of reserves, for a price of €72 million, which resulted in profits on sale of €14 million, (iv) the reduction of the carrying value of Aviva S.p.A. following the distribution of reserves for €11 million, (v) the transfer to assets held for sale of the entire equity interest held in Lauro Sessantuno S.p.A. for €82 million and of 30% of the share capital of Fineco Bank S.p.A. for €374 million, in anticipation of their sale, which was carried out in July and, (vi) the impairment losses posted to the income statement for €72 million (of which: €56 million for Fenice Holding, €11 million for Crivelli S.r.l. and €4 million for Visconti S.r.l.).

FINANCIAL INVESTMENTS				
	Amounts as at		Change	
	06.30.2014	12.31.2013	amount	percent
Financial assets at fair value through profit or loss	415	389	+26	+6.7%
Available-for-sale financial assets	48,051	42,952	+5,099	+11.9%
of which: equity investments	*2,245*	*2,300*	*-55*	*-2.4%*
debt securities and investments funds units	*45,806*	*40,652*	*+5,154*	*+12.7%*
Held-to-maturity investments	3,107	3,025	+82	+2.7%
Investments in associates and joint ventures	51,432	51,350	+82	+0.2%
Total financial investments	**103,005**	**97,716**	**+5,289**	**+5.4%**
of which:				
units operating in Italy	*102,771*	*97,683*	*+5,088*	*+5.2%*
units operating abroad	*234*	*33*	*+201*	*+609.1%*

Deposits from customers

Deposits from customers and securities amounted to €280,942 million (+3.8%), an increase of €10,191 million compared to the end of 2013 attributable both to units with operations in Italy (+€8,611 million) and to the units with operations in other countries (+€1,852 million).

Deposits from customers stood at €159,179 million, an increase of €8,339 million over year-end 2013.

More specifically:

- current accounts and demand deposits decreased by €2,303 million;

- time deposits decreased by €1,352 million;

- repurchase agreements with customers rose by €7,866 million, mainly as a result of transactions with Cassa e Compensazione e Garanzia;

- other sources of funding declined by € 478 million.

In the first six months of 2014 debt securities in issue, amounting to €121,763 million, posted an increase of €1,852 million, attributable to certificates of deposit (+€2,012 million) for the units operating outside Italy, while for the units operating in Italy posted a decrease of €160 attributable to certificates of deposit (-€3,643 million) against an increase in "Buoni fruttiferi" (+€227 million) and bond issues (+€3,256 million despite the repurchases of loans over the period for € 3,009 million).

DEPOSITS FROM CUSTOMERS AND DEBT SECURITIES IN ISSUE				(€ million)
	Amounts as at		Change	
	06.30.2014	12.31.2013	amount	percent
Deposits from customers	159,179	150,840	+8,339	+5.5%
Debt securities in issue	121,763	119,911	+1,852	+1.5%
Total deposits from customers and debt secur. in issue	**280,942**	**270,751**	**+10,191**	**+3.8%**
of which:				
units operating in Italy	*276,198*	*267,587*	*+8,611*	*+3.2%*
units operating abroad	*4,744*	*3,164*	*+1,580*	*+49.9%*

Interbank position

The Bank recorded, under its financial assets, a net interbank position at the end of June 2014 of assets (€21,442 million) and liabilities (€32,641 million) equal to -€11,199 million. Compared with the corresponding figures at the end of 2013 (net equal to -€25,510 million), the balance showed a significant decrease in net liabilities of +€14,311 million almost completely due to a decrease in deposits from banks (-€14,738 million). Loans and receivables with banks in fact showed a slight decrease of -€427 million.

In the first half of 2014, the Bank's operations with interbank counterparties took place in a stable money market, also thanks to the support from the improvement in the credit quality of bonds issued by Italian sovereigns and good circulation of liquidity on the Euro market.

Against the essentially stable performance of loans and receivables with banks (-€427 million), it should be noted that the significant decrease in deposits from banks of -€14,738 million was primarily generated by the early repayment of the medium-to-long-term refinancing operations entered into by the Bank between December 2011 and February 2012 with the European Central Bank. This early repayment was made as a result of strong generation of liquidity both from business operations and from access to the different markets of institutional investors.

INTERBANK POSITION				(€ million)
	Amounts as at		Change	
	06.30.2014	12.31.2013	amount	percent
Loans and receivables with banks	**21,442**	**21,869**	**-427**	**-2.0%**
units operating in Italy	*21,289*	*21,712*	*-423*	*-1.9%*
units operating abroad	*153*	*157*	*-4*	*-2.5%*
Deposits from banks	**32,641**	**47,379**	**-14,738**	**-31.1%**
units operating in Italy	*30,951*	*46,050*	*-15,099*	*-32.8%*
units operating abroad	*1,690*	*1,329*	*+361*	*+27.2%*
NET INTERBANK POSITION	**-11,199**	**-25,510**	**+14,311**	**-56.1%**
units operating in Italy	*-9,662*	*-24,338*	*+14,676*	*-60.3%*
units operating abroad	*-1,537*	*-1,172*	*-365*	*+31.1%*

Shareholders' equity

Shareholders' Equity at June 30, 2014 was €48,168 million and showed an increase, compared to December 31, 2013, of €2,090 million, made up of:

- +€898 million from the issuance of Additional Tier 1 Notes for USD 1.25 billion, recorded net of transaction cost in item Equity Instrument;
- +€22 million from the increase of the reserve for long-term incentive plans;
- -€4 million from the allocation to the purchase cost reserve of the "free shares" granted to group employees who had subscribed to the broad-based share plan for Group employees;
- -€22 million from the allocation to reserves of the difference between the price paid and the carrying value resulting from the purchase by UniCredit Bank Austria AG of the 31.01% interest held in UniCredit Leasing S.p.A.. UniCredit S.p.A. now holds 100% of UniCredit Leasing S.p.A.;
- -€36 million from the usufruct fee related to financial instruments ("Cashes") involving almost all the shares subscribed by Mediobanca, during the corresponding capital increase in the first few months of 2009. This is the last payment referred to 2012 result;
- -€12 million from allocation to the reserve of the coupon paid to the underwriters of the aforementioned issuance of Additional Tier 1 Notes;
- +€362 million from the net effect of the valuation reserves for available-for-sale financial assets (+€427 million), for cash flow hedges (-€20 million) and defined benefit plans (-€45 million).

- - €176 million for the payment to shareholders that exercised the right, provided as part of the methods for executing the "scrip dividend", to request that the dividend for 2013 be paid in cash in place of the free assignment of shares.
- +€1,058 million from the profit (loss) for the period.

Note the following significant changes in the first half of 2014 which, though reflected among the various components of shareholders' equity, did not change the overall amount thereof:

- the increase of €251 million in share capital following the free capital increases implemented:
  - the resolution of the Board of Directors of March 11, executed through a withdrawal of €28 million from the specifically constituted reserve, for the issue of the shares connected to the medium term incentive plan for Group Personnel;
  - the resolution of the Shareholders' Meeting of May 13 relating to the payment of the "scrip dividend" for 2013, carried out by withdrawing €223 million from the pre-existing "reserve for allocating profits to shareholders through the issuance of new free shares".
- The share premium reserve and other reserves reflect the changes deriving from the resolutions of the Shareholders' Meeting of May 13, which resulted in:
  - coverage of the loss of the financial year 2013 by using €3,818 million from the "reserve related to business combinations within the Group" and €7,783 million from the "share premium reserve";
  - the increase in the "legal reserve" of €120 million through use of the "share premium reserve".

SHAREHOLDERS' EQUITY

	Amounts as at		Change	
	06.30.2014	12.31.2013	amount	percent
Share capital	19,906	19,655	+251	+1.3%
Share premium	15,977	23,879	-7,902	-33.1%
Equity instruments	898	-	+898	n.s.
Reserves	9,303	13,481	-4,178	-31.0%
Reserves for special revaluation laws	277	277	-	-
Treasury shares	-2	-2	-	-
Total capital and reserves	***46,359***	***57,290***	***-10,931***	***-19.1%***
Revaluation reserves	751	389	+362	+93.1%
Net profit or loss	1,058	-11,601	+12,659	-109.1%
Total shareholders' equity	**48,168**	**46,078**	**+2,090**	**+4.5%**

Treasury shares

The treasury share balance was unchanged from year-end 2013 due to the fact that there were no transactions involving treasury in the first half of 2014.

TREASURY SHARES	
Number of ordinary shares as at 06.30.2014	47,600
% on capital stock	n.s.
Carrying amount as at 06.30.2014 €	2,440,001

Other Information

Organizational model

UniCredit Group organization reflects an organizational and business model which maintains a divisional structure for the governance of the Corporate Investment Banking business/products and the business in the CEE Countries, as well as overall control over the Global Banking Services functions, by ensuring the autonomy of the Countries/Banks for specific activities, in order to guarantee increased proximity to the client and faster decision-making processes:

- the **Chief Executive Officer**, while maintaining overall responsibility for all the regional businesses (Italy, Germany, Austria, Poland and CEE) that report to him, carries out direct supervision for Italy and delegates the supervision of Austria, Poland and the CEE Division to the General Manager and the supervision of Germany to the Deputy General Manager responsible for the CIB division.
- The **General Manager** is responsible for some specific cross-Group matters/areas such as: i) overseeing strategic marketing activities ii) assisting Chief Executive Officer in the management of the Internal Control System ("ICS System") in order to ensure its effective functioning and iii) promoting dialog and continuous relations, also through the competent functions, with the Group's Regulatory Authorities and self-regulatory organizations and coordinating the related key projects;
- The **CIB Division** of which is confirmed the role of Global Division, is responsible for the coverage of Italian multinational customers and a select group of Italian Large Corporate customers with high demand for investment banking products and of Financial and Institutional Groups (FIG) customers, as well as the GTB, F&A, and Markets Global Lines with P&L responsibility in the countries (to be implemented in accordance with the Group governance principles set out in the Group Managerial Golden Rules - GMGR).
- The **CEE Division** coordinates the Group's activities in 19 countries of Central and Eastern Europe, aligning them to a single comprehensive business vision in the area.
- Also reporting to the Chief Executive is the **Chief Operating Officer** ("COO"), a role that concentrates responsibility within a single position for all the management levers of the organizational, operating and service functions (including HR Management) such as Organization, ICT, Operations, Security. These functions are responsible for supporting sustainable growth of the Group business, also through the Group's Global Service Factory, guaranteeing the highest quality of services offered and optimizing the Group's cost structures and internal processes.
- With regard to the Italian perimeter, within the scope of the greater responsibility and autonomy assigned to the local countries/banks, **the Italy Country Chairman** (who reports directly to the CEO), is responsible for all the coordination, control and development of the "Individuals" (Mass Market, Personal Banking and Private Banking), Small Business and Corporate (which includes the former Medium Enterprises segment) segments of the Italian perimeter, leveraging on a Network covering 7 Regions, a specific Network for the Private Banking segment, and a Special Italy Network, dedicated to customers experiencing difficulties, with a higher risk profile.

UniCredit's organizational model also provides for coordination and monitoring roles whose goal is to guide, monitor and coordinate, so far as their respective competence is concerned, the management of operations and related risks for the Group as a whole and the individual entities. These functions include:

- **Competence Lines ("CL") for Policy and Control** (*Internal Audit, Planning, Finance & Administration, Risk Management, Legal and Compliance*), responsible for coordinating and monitoring - each for its own competence area - operations and related risks at Group level, by guaranteeing better governance globally (in order to preserve consistency and homogeneity of the Group's governance as well as to ensure integrated control and risk mitigation), and for managing local operations within their competence with regard to the area related to UniCredit S.p.A.;
- **Competence Lines for Policy and Support** (*Organization, Identity & Communications, Human Resources divided into HR Strategy* - reporting to directly the CEO - and *HR Management* - reporting directly to *the Chief Operating Officer*), responsible for coordinating and supporting - each for its own competence area - management of operations at Group level, by defining Group guidelines and policies and supporting the Group's global roles.

Also reporting to the CEO are:

- **Asset Management** Product Line, responsible for developing *asset management* across all geographical areas, by guiding, coordinating and monitoring the growth of business operations globally;
- **Public Affairs,** responsible for developing relationships with institutional counterparts of interest with respect to the operations carried out by the Group and, in particular, providing support to the Group's top management for a proactive role in its relationship with (domestic, multilateral and European Community) institutions.

Commercial network: Operating structure in Italy and the foreign network

In the first half of 2014 UniCredit's domestic territorial structure was redefined by:

✓ **105 closures** of branches;

The structure of the domestic network at June 30, 2014 consists of a total of **4,044** units, broken down as follows:

- **3,803** operating branch offices, of which 784 Branches, 2,680 Agency Branches, 147 Separate Banking Windows, 119 Corporate Centers, 17 Operating Branches and 56 Local Offices.
  The Commercial Bank consists of 77 Sales Areas, which in turn are divided into 784 districts that are hierarchically under the operating branch offices.
- Special Network Italy Division: **68** SN Corporate Centers and **7** Real Estate Areas;
- Private Banking Division**: 164** PB Branches, geared towards medium-to-high net worth private customers and providing consultancy services and wealth management solutions using a 360-degree approach.
- CIB Division: **2** Operational Branches (Rome and Milan) for selected Italian "Multinational" and "Large Corporate" customers with high demand for investment banking products.

At June 30, 2014, the Italian distribution network, following the measures described above and a modest redistribution of offices resulting from the ongoing processes of optimization and streamlining of local units within the country, was broken down as follows:

ITALIAN BRANCH NETWORK		
Regions	**06.30.2014**	**%**
- Piedmont	423	10.5%
- Valle d'Aosta	19	0.5%
- Lombardy	502	12.4%
- Liguria	82	2.0%
- Trentino Alto Adige	78	1.9%
- Veneto	519	12.8%
- Friuli Venezia Giulia	134	3.3%
- Emilia Romagna	503	12.4%
- Tuscany	164	4.1%
- Umbria	85	2.1%
- Marche	92	2.3%
- Lazio	530	13.1%
- Abruzzo	43	1.1%
- Molise	34	0.8%
- Campania	202	5.0%
- Puglia	148	3.7%
- Basilicata	10	0.2%
- Calabria	27	0.7%
- Sicily	393	9.7%
- Sardinia	56	1.4%
Total branches	**4,044**	**100.0%**

Within Italy there are also **76 "Development Centers",** for the local promotion of small and medium businesses in their areas and **48** "**Foreign Trade Centers**" and "**Foreign Trade Offices**", dedicated to technical operations involving the foreign transactions area (documentary credits, documentary transactions, surety bonds and guarantees, import-export portfolio, gold).

As a result, at the end of June 2014, UniCredit S.p.A. had seven Branches abroad, plus a Permanent Establishment in Wien and 5 Representative Offices.

UNICREDIT S.P.A. INTERNATIONAL NETWORK as at 06.30.2014		
OPERATIVES BRANCHES	**PERMANENT ESTABLISHMENT**	**REPRESENTATIVE OFFICES**
PRC - Shanghai	AUSTRIA - Wien	BELGIUM - Brussels
PRC - Guangzhou		BRAZIL - Sao Paulo
GERMANY - Munich		PRC - Beijing
GERMANY - Munich (*)		INDIA - Mumbai
UNITED KINGDOM - London		LYBIA - Tripoli
UNITED STATES - New York		
FRANCIA - Paris		

(*) Formerly Branch of UniCredit Family Financing

Resources: Personnel developments

In the first half of 2014 UniCredit S.p.A.'s headcount is 43,780 compared to 43,530 at December 31, 2013. The increase in personnel is primarily explained by the entry of about 310 resources, due to a reorganization of activities previously carried out by other Group companies and by the hiring of seasonal workers.

CATEGORY	06.30.2014		12.31.2013		Change	
	Total	*of which: outside Italy*	Total	*of which: outside Italy*	in total	percent
Senior Management	1,223	*15*	1,214	17	+9	+0.7%
Management - 3rd and 4th grade	8,283	*89*	8,221	94	+62	+0.8%
Management - 1st and 2nd grade	13,308	*51*	13,300	59	+8	+0.1%
Other Staff	20,966	*87*	20,795	86	+171	+0.8%
Total	**43,780**	***242***	**43,530**	**256**	**+250**	**+0.6%**
of which, Part-time staff	*5,288*	32	*5,172*	*35*	*+116*	*+2.2%*

The composition of the workforce by seniority and by age bracket is shown in the following tables. With respect to educational level, 35% of UniCredit S.p.A. employees have university degrees (mostly in the areas of economics and banking, or law).

Women make up 44,8% of personnel.

BREAKDOWN BY SENIORITY	06.30.2014		12.31.2013		Change	
	Number	Percent	Number	Percent	amount	Percent
Up to 10	8,946	20.4%	10,101	23.2%	-1,155	-11.4%
From 11 to 20 years	10,842	24.8%	10,137	23.3%	+705	+7.0%
From 21 to 30 years	12,617	28.8%	13,114	30.1%	-497	-3.8%
Over 30	11,375	26.0%	10,178	23.4%	+1,197	+11.8%
Total	**43,780**	**100.0%**	**43,530**	**100.0%**	**+250**	**+0.6%**

BREAKDOWN BY AGE	06.30.2014		12.31.2013		Change	
	Number	Percent	Number	Percent	amount	Percent
Up to 30	1,566	3.6%	1,529	3.5%	+37	+2.4%
From 31 to 40 years	10,023	22.9%	10,375	23.8%	-352	-3.4%
From 41 to 50 years	15,399	35.2%	15,539	35.7%	-140	-0.9%
Over 50	16,792	38.3%	16,087	37.0%	+705	+4.4%
Total	**43,780**	**100.0%**	**43,530**	**100.0%**	**+250**	**+0.6%**

Conversion into Tax Credits

During the first half of 2014, a total of €2,530.1 million of IRES deferred tax assets were converted into tax credits, on the basis of the provisions of Article 2, paragraphs 55 to 59 of Law Decree 225/2010.

Capital Strengthening and other transactions concerning share capital

On March 27, 2014, with value date April 3, 2014, UniCredit S.p.A. launched Additional Tier 1 notes, denominated in USD, for a total of USD 1.25 billion, with characteristics compliant with new "CRD IV" regulation in place starting from January 1, 2014.

The securities are perpetual (with maturity linked to corporate duration of UniCredit S.p.A.) and can be called by the Issuer after 10 years and thereafter at any interest payment date. Notes pay fixed rate coupons of 8.00% per annum for the initial 10 years on a semi-annual basis; if not redeemed, coupon will be reset every 5 years to the then 5-Years Mid-Swap rate + 518 bps. In line with the regulatory requirements, the coupon payments are fully discretionary.

Additional Tier 1 contribute to strengthening the Tier 1 ratio of UniCredit S.p.A. The Notes have a 5.125% Common Equity Tier 1 (CET1) trigger - if the Group or Issuer CET1 at any time falls below the trigger level, the instrument will be temporarily written down to cure the breach, taking into consideration other instruments with similar write down triggers.

The transaction represents the inaugural deal for a CRD IV compliant AT1 by an Italian Issuer and the first RegS Perp NC10 USD denominated issue by a European Bank. The offer has encountered exceptional interest from investors, bringing the order book to almost 8 billion USD with approx. 450 investors.

Given the positive feedback, the initial price guidance was set at 8.25% area and has been revised to 8.00%/8.25%. Coupon was finally fixed at 8.00% for the initial 10 years, with an issue price set at 100%. Furthermore, the final size of the deal has increased to USD 1.25 billion from initial target of USD 1 billion.

The Notes were distributed to different institutional investors' categories such as funds (71%), insurance companies/pension funds (10%) and private banks (9%). The demand was mainly coming from the following regions: UK (39%), Italy (20%), Asia (12%) and Switzerland (8%).

UniCredit Corporate & Investment Banking, together with Citi, HSBC, Societe Generale and UBS, has managed the placement acting as joint bookrunners. The assigned rating from Fitch is "BB-". Bonds are listed on the Luxembourg Stock Exchange.

Please note that on March 11, 2014 UniCredit's Board of Directors, pursuant to the powers conferred by the Extraordinary Shareholders' Meeting of April 29, 2011 and the Extraordinary Shareholders' Meeting of May 11, 2012, resolved to increase the share capital by €28,143,498.84 by issuing 8,498,340 ordinary shares to be granted to the employees of UniCredit and of Group banks and companies.

It should also be noted that, following the scrip dividend scheme approved by the Extraordinary Shareholders' Meeting of May 13, 2014, under which newly-issued ordinary and savings shares of the Company were allocated to the shareholders entitled to receive a dividend who did not opt for a cash payout, the share capital increased by €222,774,043.97. Therefore, the share capital of the Bank is now €19,905,773,742.24.

Razionalization of Group operations and other corporate transactions

After focusing, in past years, on the completion of a number of projects to rationalize, in accordance with its organizational model, the operations of some of its subsidiaries, also with the aim of achieving greater synergies and cost reductions, UniCredit has decided to undertake new actions to develop high-growth businesses.

In addition, the divestment of shareholdings no longer considered strategic continued.

Initial Public Offering (IPO) and listing of FinecoBank

In order to accelerate the growth of the subsidiary and enhance its market visibility while optimizing the allocation of capital, in March 2014 the Group decided to initiate the activities relating to the Initial Public Offering (IPO) of the ordinary shares of FinecoBank.

As part of this transaction, in April FinecoBank, in line with the initiatives set out in the Group's 2013-2018 Strategic Plan, applied for admission to listing of its ordinary shares on the Mercato Telematico

Azionario, organized and managed by Borsa Italiana, and filed a request with CONSOB for the approval of the Prospectus relating to the public offering and listing of its shares.

After the full exercise of the over-allotment option in July, the global offering (which was exceeded by demand by 2.9 times) represented 34.5% of FinecoBank's share capital.

The offering price of FinecoBank ordinary shares was set at €3.70 per share, and after full exercise of the over-allotment option the gross proceeds for UniCredit were approximately €774 million, resulting in a capital gain of approximately €399 million inclusive of tax, commissions and expenses. UniCredit will retain control of FinecoBank.

Since July 2, 2014 FinecoBank ordinary shares have been traded on the Mercato Telematico Azionario organized and managed by Borsa Italiana.

The Joint Global Coordinators for the global offering have been UBS Investment Bank and UniCredit Corporate & Investment Banking which, together with Mediobanca, each acted as Joint Bookrunner. In addition, UniCredit Corporate & Investment Banking has acted as Lead Manager for the Italian public offering. Mediobanca has also acted as Sponsor.

Bonelli Erede Pappalardo and Cleary Gottlieb Steen & Hamilton has acted as legal advisors for FinecoBank. Linklaters is acting as legal advisor for the Global Coordinators and the Joint Bookrunners.

"Subito casa" project

In order to develop new business models based on the centrality of the branch network as part of an integrated marketing system, a plan has been developed to offer dedicated and distinctive services for the sale and leasing of real estate (primarily for residential use) owned by customers, the market and builders.

More specifically, the project is based on the highly important role played by the real estate market in the Italian economic system and on expectations of its recovery after the significant decline recorded over the past years.

To implement the project, in March 2014 UniCredit established a new wholly-owned subsidiary called UniCredit Subito Casa S.p.A., which will specialize in real estate brokerage in Italy.

The operational launch of the initiative (which initially involves the major Italian cities – Turin, Milan, Verona, Bologna, Rome, Naples and Palermo) has taken place during the past weeks and will be subsequently extended to the remaining Italian territory.

Search for a strategic partner for UniCredit Credit Management Bank for the management and collection of non-performing loans

UniCredit Credit Management Bank (UCCMB) is the Group's bank dedicated to the management and collection of non-performing loans originated in Italy. Today UCCMB is the largest Italian platform for assets under management and has an excellent track record, as evidenced by the title of high quality platform it was awarded by Standard & Poor's and Fitch Ratings.

The structure of non-performing loans and the strategy implemented to manage them are currently undergoing a reorganization process, as part of which UniCredit is considering selling UCCMB to a specialized operator, which would enable the Group to create added value by encouraging the collection of loans. UCCMB could thus become a national debt collector by strengthening its operations in the non-captive market.

Other transactions involving shareholdings

Shareholding in Lauro Sessantuno S.p.A.

In June 2013 UniCredit, together with Intesa Sanpaolo, became involved as a financial partner (with an 18.43% stake worth €115 million) in the establishment of Lauro Sessantuno S.p.A., an SPV (also owned by Nuove Partecipazioni (NP) and by Clessidra SGR) that, after a series of corporate transactions (including a full takeover bid), acquired 100% of the share capital of Camfin, a company that owns 26.19% of Pirelli.

The transaction was aimed at encouraging the reorganization of Pirelli's shareholding structure and at benefitting, over a period of 3/4 years, from any increases in the value of the Pirelli Group, an example of manufacturing excellence in Italy and in the world.

In May 2014 UniCredit, Intesa Sanpaolo and NP reached an agreement with Long Term Investments S.A. (LTI), a Luxembourgian SPV linked to the pension fund of the Russian group Rosneft (the world's major operator in the oil and gas industry) that resulted, on the one hand, in the exit of Clessidra and a partial divestment of UniCredit and Intesa Sanpaolo from the existing partnership in Lauro Sessantuno/Camfin and, on the other hand, in the formation of a new partnership – which, upon completion of the transactions described below will be owned by LTI (50%) and by a NewCo (50%) in which NP has a controlling stake of 76% and UniCredit and Intesa Sanpaolo a stake of 12% each – aimed at developing Pirelli's activities and business also by strengthening its sales network in Russia thanks to Rosneft's extensive market coverage across the country.

The transaction, conducted by setting at €12 the value of each share held indirectly in Pirelli, will be implemented in various stages (some of which are still ongoing): a) the acquisition by LTI of a shareholding in Lauro Sessantuno (which took place in July 2014), as part of which UniCredit sold LTI approximately 12.97% of Lauro Sessantuno for about €140 million and with a capital gain of about €58 million; b) the merger of Lauro Sessantuno into Camfin; c) the retention of the shareholding in Pirelli through Camfin and the spin-off of the other assets and liabilities of Camfin through its non-proportional partial spin off in favor of a NewCo in which NP, UniCredit and Intesa Sanpaolo own a stake; d) the subsequent transfer to NewCo of the Camfin shares owned by NP, UniCredit and Intesa Sanpaolo.

These transactions are expected to be completed by the end of 2014.

Acquisition of a shareholding in ERG Renew S.p.A.

In January 2014 UniCredit subscribed for a capital increase of ERG Renew, with an investment of €50 million, corresponding to 7.14% of the company's share capital. UniCredit's investment is aimed at supporting ERG Renew's plans to expand into the renewable energy business in Italy and abroad and will enable the Group to benefit from any increases in the value of the investee, also in view of a possible future listing.

Sale of non-strategic shareholdings

Sale of the shareholding in Atlantia S.p.A.

In March UniCredit sold its entire stake (0.67%) in Atlantia S.p.A., realizing a gross capital gain of about €83 million on a consolidated basis.

Sale of 20.1% of Sia S.p.A.

In December 2013 UniCredit, Intesa Sanpaolo, Banca Monte dei Paschi di Siena and BNL signed with Fondo Strategico Italiano, F2i SGR and Orizzonte SGR the agreements for the sale of 59.3% of Sia's share capital, of which 28.9% held by Intesa Sanpaolo Group, 20.1% by UniCredit, 5.8% by Banca Monte dei Paschi di Siena and 4.5% by BNL.

Following the satisfaction of the conditions precedent, the aforementioned sale was completed and resulted in the following shareholding structure:

- the three acquirors, Fondo Strategico Italiano, F2i SGR and Orizzonte SGR own a stake in Sia of 42.3%, 10.3% and 6.7%, respectively;
- UniCredit (and Intesa Sanpaolo) has retained a 4% stake in Sia;
- the other existing shareholders have retained the remaining 32.7% of Sia's share capital.

The sale resulted in a net impact on the income statement of approximately €87 million.

Mediobanca S.p.A. shareholders' agreement

Given the strategic importance of the shareholding in Mediobanca, in 2013 UniCredit renewed the Shareholders' Agreement in respect of the investee. In the light of a similar tendency among other shareholders, the Agreement was renewed for a further two years as of January 1, 2014 (until December 31, 2015), with a reduction in the aggregate percentage syndicated to the agreement (from 38.19% to 30.05% of the company's share capital) after some parties gave notice of their withdrawal by September 30, 2013.

On February 19, 2014 the Meeting of the Parties to the Shareholders' Agreement passed a resolution to reduce – from 30% to 25% – the minimum percentage of the Bank's share capital syndicated to the Agreement, below which the Agreement lapses, and granted Financière du Perguet (Bolloré group) the right to increase its percentage syndicated to the Agreement from 6.0% to 8.0%.

During the first half of 2014 Financière du Perguet S.A. partially exercised the right it was granted on February 19, 2014 and increased its percentage syndicated to the Agreement to 6.46%.

On July 17, 2014, the Meeting of the Parties to the Mediobanca S.p.A. Shareholders' Agreement approved the new text of the Agreement and noted that Financière du Perguet contributed further 4,747,000 Mediobanca shares to the Agreement (of which 1 million with settlement on July 18) in partial exercise of its right to increase its shares; its syndicated percentage increased therefore from 6.46% to 7.01%. The overall percentage of shares syndicated to the Agreement increased from 30.51% to 31.06%.

As at June 30, 2014 UniCredit S.p.A. held a stake of 8.65% in Mediobanca.

The table below shows the assets, liabilities, guarantees and commitments outstanding as at June 30, 2014, for each group of related parties, pursuant to IAS 24.

(€ million)

	ASSETS	LIABILITIES	GUARANTEES ISSUED AND COMMITMENTS
Subsidiaries	40,021	44,278	13,104
Joint venture	2	13	3,891
Companies subject to significant influence	879	683	74
Key Management Personnel	2	7	-
Other related parties	53	99	38
Shareholders (+)	217	684	274

(*) Shareholders and related companies holding a stake in UniCredit with voting right exceeding 2% of share capital.

With reference to paragraph 8 of Art. 5 – "Public information on transactions with related parties" of Consob Regulation containing provisions relating to transactions with related parties (adopted by Consob with Resolution No. 17221 of March 12, 2010, as subsequently amended by Resolution No. 17389 of June 23, 2010), it should be noted that:

a) during the first half of 2014, a transaction of greater importance was conducted with FinecoBank S.p.A – at the transaction date a 100%-owned subsidiary of UniCredit S.p.A. and therefore subject to the exclusions provided for by the Global Policy with respect to intragroup transactions –, anyway subject to the early opinion of the Related-party and Equity Investments Committee and the Board of Directors as part of the activities aimed at the listing of FinecoBank, which, after the listing, has become a related party of the company. Specific disclosure on this transaction was provided in the IPO Prospectus filed with Consob;

b) during the first half of 2014, 2 transactions with related parties as defined by Article 2427, paragraph 22-bis of the Civil Code were conducted, under different conditions from normal market conditions. These transactions did not however significantly impact the Group's Balance Sheet and Income Statement;

c) during the first half of 2014, there were no changes or developments in the individual transactions with related parties already described in the latest annual report that had a material effect on the Group's financial position or results during the reference period.

For more information on related-party transactions please see the Condensed interim Financial Statements – Explanatory notes – Part H.

Subsequent events

In regard to the transactions performed in July 2014 relating the sale of shareholding in Lauro Sessantuno S.p.A. and the Initial Public Offering (IPO) and listing of FinecoBank S.p.A., see previous section "Razionalization of Group operations and other corporate transactions".

At the beginning of August 2014, UniCredit Bank AG and BNP Paribas S.A. signed the agreement for the sale of 81.4% majority shareholding in DAB Bank AG held by UniCredit Bank AG, for a price of €354 million (€435 million for the 100% of DAB Bank AG). Closing of the transaction will be subject to the approval of the relevant authorities.

Outlook

The recovery in economic activity turned out to be weaker than expected in the second quarter of 2014. Though this weakness primarily concerned emerging economies, advanced economies were not immune, particularly certain economies. China was an encouraging factor in the emerging area. Following its weak GDP figure for the first quarter, which fueled fears of a hard landing, in the second quarter it showed growth, though slight, in GDP (7.5% y/y vs. the previous 7.4%). This substantial strength in economic activity, while remaining at relatively low levels, is a sign of a "controlled" slowdown in the Chinese economy over the rest of the year. The figures for several economies in Central Europe were less positive, having been affected by the increasingly harsh impact of the continuing Russia-Ukraine crisis: exports from Poland, one of the leading economies in the area, to Central-Eastern Europe (including Russia and Ukraine) began to show significant signs of difficulty.

However, the biggest negative sign derives from the (probable) lack of growth in economic activity in the Eurozone, following a weak first quarter harmed by exceptionally mild weather which caused the consumption and production of electricity to collapse. Industrial production showed signs of lasting weakness, particularly in the second quarter (in April and May), despite the recovery in the energy component. However, this conflicts with the information deriving from the manufacturing sector confidence surveys, which continue to show an acceleration in the growth rate of industrial activity in the second quarter. This dichotomy is mainly due to the impact of a highly unfavorable calendar in April and May, with holidays resulting in long weekends. Therefore, following GDP figures that will (probably) still be weak in the second quarter of the year, the foundations are in place for a stronger acceleration of economic activity in the second half of the year. In this framework of general weakness in recovery in the Eurozone as a whole, Italy is no exception: although the surveys for both the manufacturing and services sectors remain at relatively high levels, the real figures on industrial activity show a lack of strong acceleration in the second quarter. As a result GDP in the second quarter will probably grow only slightly, following the slight contraction in the first quarter. In this scenario, even though the lowest point has probably already been reached, it is not surprising that lending activity remains fairly weak.

In the general framework of weakness in the recovery, following a temporary rise in April, inflation in the Eurozone returned to record low levels (0.5%). This continuing weak trend in inflation is mainly caused by food prices, even though core inflation (which excludes the more volatile components such as energy and food) also remains quite low.

Due to this significant weakness in the inflation scenario, along with the continued strength in the Euro, and in order to combat the risk of deflation, the ECB adopted a new package of measures to further ease monetary policy, improve its transmission mechanism, and emphasize the ECB's commitment to using unconventional instruments to pursue its price stability mandate. This packaged included: 1) cuts to refi rates and the deposit rate of 10 basis points, to 0.15% and -0.10%, respectively; 2) the extension of full-allotment procedures to the end of 2016; 3) the suspension of the sterilization of purchases of securities under the SMP (security market program); and 4) the launch of new targeted long-term refinancing operations (TLTRO), different from the previous operations, in order for banks to provide credit to the economy.

The growing expectations of a new package of conventional and unconventional measures from the ECB, firstly, and the realization of these expectations, second, resulted in additional compression of returns on German government bonds and the spreads of government bonds in peripheral countries in the second quarter. At the same time, the lasting risk appetite fueled good performance of the equity markets.

During 2015 the Group's results will continue to be impacted by the developments in the international macroeconomic situation. In Italy the slow normalization of the macroeconomic scenario continues, following a long recession. The Bank's results will continue to be affected by low growth, which will impact revenue generation as well as impairment losses on receivables. However, the easing of pressure on sovereign debt and the new ECB measures should improve funding conditions. The Bank will continue to closely pursue the guidelines of its business plan, strongly focusing on the capital and liquidity positions, as well as cost containment.

Milan, August 5, 2014

BOARD OF DIRECTORS

Chairman
GIUSEPPE VITA

Chief Executive Officer
FEDERICO GHIZZONI

Condensed Company Accounts as at June 30, 2014

Financial Statements

Explanatory notes

Annexes

Financial Statements

Company Accounts

Company accounts

(€000)

BALANCE SHEET

	Assets	06.30.2014	12.31.2013
10.	Cash and cash balances	2,754,716	3,226,549
20.	Financial assets held for trading	15,029,921	12,253,519
30.	Financial assets at fair value through profit or loss	414,750	389,198
40.	Available-for-sale financial assets	48,051,667	42,951,975
50.	Held-to-maturity investments	3,106,763	3,025,401
60.	Loans and receivables with banks	21,442,144	21,868,523
70.	Loans and receivables with customers	223,122,695	231,171,220
80.	Hedging derivatives	6,909,964	5,389,230
90.	Changes in fair value to portfolio hedged financial assets (+/-)	2,485,607	2,468,958
100.	Equity investments	51,431,975	51,349,511
110.	Property, plant and equipment	2,569,221	2,666,254
120.	Intangible assets:	1,169	1,339
	of which:		
	- goodwill	-	-
130.	Tax assets:	13,881,523	14,765,983
	a) current tax assets	*2,303,919*	*639,169*
	b) deferred tax assets	*11,577,604*	*14,126,814*
	out of which for purposes of L.214/2011	*10,069,894*	*12,346,591*
140.	Non-current assets and disposal groups classified as held for sale	803,923	368,228
150.	Other assets	5,761,547	6,411,363
	Total assets	**397,767,585**	**398,307,251**

	Liabilities and Shareholders' Equity	06.30.2014	12.31.2013
10.	Deposits from banks	32,640,941	47,378,697
20.	Deposits from customers	159,178,595	150,839,833
30.	Debt securities in issue	121,763,477	119,910,885
40.	Financial liabilities held for trading	10,649,279	10,804,002
60.	Hedging derivatives	6,532,228	5,797,148
70.	Changes in fair value to portfolio hedged financial liabilities (+/-)	3,210,085	2,344,206
80.	Tax liabilities:	720,456	861,959
	a) current tax liabilities	*66,030*	*356,857*
	b) deferred tax liabilities	*654,426*	*505,102*
100.	Other liabilities	11,972,731	11,043,480
110.	Provision for employee severance pay	1,020,531	964,942
120.	Provisions for risks and charges:	1,911,669	2,284,176
	a) post-retirement benefit obligations	*798,697*	*806,371*
	b) other provisions	*1,112,972*	*1,477,805*
130.	Revaluation reserves	1,027,624	666,512
150.	Equity instruments	898,604	-
160.	Reserves	9,303,864	13,480,904
170.	Share premium	15,976,604	23,879,202
180.	Share capital	19,905,774	19,654,856
190.	Treasury shares (-)	(2,440)	(2,440)
200.	Net Profit or Loss for the period (+/-)	1,057,563	(11,601,111)
	Total liabilities and shareholders' equity	**397,767,585**	**398,307,251**

(€'000)

INCOME STATEMENT

	Items	FIRST HALF 2014	FIRST HALF 2013
10.	Interest income and similar revenues	4,592,231	4,773,118
20.	Interest expense and similar charges	(2,420,368)	(2,831,381)
30.	**Net interest margin**	**2,171,863**	**1,941,737**
40.	Fee and commission income	2,099,243	1,941,465
50.	Fee and commission expense	(189,727)	(223,603)
60.	**Net fees and commissions**	**1,909,516**	**1,717,862**
70.	Dividend income and similar revenue	1,360,644	3,163,166
80.	Gains and losses on financial assets and liabilities held for trading	(2,113)	67,406
90.	Fair value adjustments in hedge accounting	5,840	3,276
100.	Gains and losses on disposal of:	248,482	315,300
	a) loans	*36,677*	*(6,948)*
	b) available-for-sale financial assets	*202,217*	*40,052*
	c) held-to-maturity investments	-	-
	d) financial liabilities	*9,588*	*282,196*
110.	Gains and losses on financial assets/liabilities at fair value through profit or loss	(3,396)	12,639
120.	**Operating income**	**5,690,836**	**7,221,386**
130.	Impairment losses on:	(1,281,671)	(1,820,078)
	a) loans	*(1,148,474)*	*(1,731,306)*
	b) available-for-sale financial assets	*(77,352)*	*(35,665)*
	c) held-to-maturity investments	-	-
	d) other financial assets	*(55,845)*	*(53,107)*
140.	**Net profit from financial assets**	**4,409,165**	**5,401,308**
150.	Administrative costs:	(3,066,653)	(3,013,189)
	a) staff expenses	*(1,568,513)*	*(1,641,257)*
	b) other administrative expenses	*(1,498,140)*	*(1,371,932)*
160.	Net provisions for risks and charges	(72,070)	(171,680)
170.	Impairment/write-backs on property, plant and equipment	(73,156)	(69,083)
180.	Impairment/write-backs on intangible assets	(197)	(987)
190.	Other net operating income	351,541	329,985
200.	**Operating costs**	**(2,860,535)**	**(2,924,954)**
210.	Profit (loss) of associates	29,010	202,310
240.	Gain and losses on disposal of investments	359	7,166
250.	**Total profit or loss before tax from continuing operations**	**1,577,999**	**2,685,830**
260.	Tax expenses (income) related to profit or loss from continuing operations	(520,436)	5,921
270.	**Total profit or loss after tax from continuing operations**	**1,057,563**	**2,691,751**
290.	**Net Profit or Loss for the period**	**1,057,563**	**2,691,751**

		2014	2013
	Earnings per share (€)	0.18	0.47
	Diluted earnings per share (€)	0.18	0.47

(€'000)

STATEMENT OF COMPREHENSIVE INCOME			
		FIRST HALF	
		2014	2013
10.	**Net Profit or Loss for the period**	**1,057,563**	**2,691,751**
	Other comprehensive income after tax not to be recycled to income statement	-	-
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Actuarial gains (losses) on definited benefit plans	(45,809)	(23,698)
50.	Non-current assets classified held for sale	-	-
60.	Changes in valuation reserve pertaining to the equity method investments	-	-
	Other comprehensive income after tax to be recycled to P&L	-	-
70.	Hedges of foreign investments	-	-
80.	Exchange differences	-	-
90.	Cash flow hedges	(20,034)	(119,682)
100.	Available-for-sale financial assets	426,955	187,948
110.	Non-current assets classified held for sale	-	-
120.	Changes in valuation reserve pertaining to the equity method investments	-	-
130.	**Total of other comprehensive income after tax**	**361,112**	**44,568**
140.	**Comprehensive income (Item 10+130)**	**1,418,675**	**2,736,319**

(€'000)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 06.30.2014

	BALANCE AS AT 12.31.2013	CHANGE IN OPENING BALANCE	BALANCE AS AT 1.1.2014	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		CHANGES DURING THE PERIOD								SHAREHOLDERS' EQUITY AS AT 06.30.2014
						CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS						COMPREHENSIVE INCOME STATEMENT AT 06.30.2014	
				RESERVES	DIVIDENDS		ISSUE OF NEW SHARES	ACQUISITION OF TREASURY SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS (*)	CHANGE IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES	STOCK OPTIONS		
Share capital:	19,654,856	-	19,654,856	-	-	-	250,918	-	-	-	-	-	-	**19,905,774**
a) ordinary shares	19,646,630	-	19,646,630	-	-	-	250,832	-	-	-	-	-	-	**19,897,462**
b) other shares	8,226	-	8,226	-	-	-	86	-	-	-	-	-	-	**8,312**
Share premium	23,879,202	-	23,879,202	(7,782,903)	-	(119,695)	-	-	-	-	-	-	-	**15,976,604**
Reserves:	13,480,904	-	13,480,904	- 3,818,208	-	46,143	(250,918)	-	(176,392)	-	-	22,335	-	**9,303,864**
a) from profits	8,361,310	-	8,361,310	- 3,818,208	-	-	(250,918)	-	(176,392)	-	-	-	-	**4,115,792**
b) other	5,119,594	-	5,119,594	-	-	46,143	-	-	-	-	-	22,335	-	**5,188,072**
Revaluation reserves:	666,512	-	666,512	-	-	-	-	-	-	-	-	-	361,112	**1,027,624**
Equity instruments	-	-	-	-	-	-	-	-	-	898,604	-	-	-	**898,604**
Treasury shares	(2,440)	-	(2,440)	-	-	-	-	-	-	-	-	-	-	**(2,440)**
Net Profit (Loss) for the period	(11,601,111)	-	(11,601,111)	11,601,111	-	-	-	-	-	-	-	-	1,057,563	**1,057,563**
Shareholders' equity	**46,077,923**	**-**	**46,077,923**	**-**	**-**	**(73,552)**	**-**	**-**	**(176,392)**	**898,604**	**-**	**22,335**	**1,418,675**	**48,167,593**

The amounts disclosed in column "Stock options" represent the effects of the delivery of shares (Stock Options, Performance Shares, Discount and Matching Shares connected with the ESOP Plans and other Group Executive Incentive Plans).The change in equity instruments refers to the issuance of Additional Tier 1 instruments.

Share Capital increased by a total of € 251 million.

. € 223 million, following the scrip dividend approved by the Ordinary Shareholders' Meeting of May 13, 2014 and executed through the assignment of newly-issued ordinary and savings shares of the Company to shareholders entitled to a dividend who did not opt for the cash payment – Shareholders opting for cash payment were paid a total dividend of € 176 million.

. € 28 million for the assignment of performance shares connected to the incentive plan for the Personnel of UniCredit and the Group Banks and Companies. The Share Capital was increased through the use of previously established reserves.

(€'000)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 06.30.2013

	BALANCE AS AT 12.31.2012	CHANGE IN OPENING BALANCE	BALANCE AS AT 1.1.2013	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		CHANGES DURING THE PERIOD								SHAREHOLDERS' EQUITY AS AT 06.30.2013
						CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS						COMPREHENSIVE INCOME STATEMENT AT 06.30.2013	
				RESERVES	DIVIDENDS		ISSUE OF NEW SHARES	ACQUISITION OF TREASURY SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES	STOCK OPTIONS		
Share capital:	19,647,949	-	19,647,949	-	-	-	6,907	-	-	-	-	-	-	19,654,856
a) ordinary shares	19,639,723	-	19,639,723	-	-	-	6,907	-	-	-	-	-	-	19,646,630
b) other shares	8,226	-	8,226	-	-	-	0	-	-	-	-	-	-	8,226
Share premium	32,877,938	-	32,877,938	(219,783)	-	- 8,778,953	-	-	-	-	-	-	-	23,879,202
Reserves:	5,284,519	-	5,284,519	0	-	8,767,325	(6,907)	-	- 512,535	-	-	47,974	-	13,580,376
a) from profits	6,461,114	-	6,461,114	0	-	2,419,122	(6,907)	-	- 512,535	-	-	-	-	8,360,794
b) other	(1,176,595)	-	(1,176,595)	0	-	6,348,203	0	-	-	-	-	47,974	-	5,219,582
Revaluation reserves:	201,965	0	201,965	-	-	3,643	-	-	-	-	-	-	44,568	250,176
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(2,440)	-	(2,440)	-	-	-	-	-	-	-	-	-	-	(2,440)
Net Profit (Loss) for the period	(219,783)	-	(219,783)	219,783	-	-	-	-	-	-	-	-	2,691,751	2,691,751
Shareholders' equity	**57,790,148**	**0**	**57,790,148**	**-**	**-**	**(7,985)**	**-**	**-**	**- 512,535**	**-**	**-**	**47,974**	**2,736,319**	**60,053,921**

Balance amounts as at 12.31.2012 are different from those published at the same date due to the effects of the new principle IAS 19R, which determined a negative impact on Shareholder's equity as at 12.31.2012 (restated) equal to €199 million following the exposure of net actuarial losses (net of tax components related to them) among revaluation reserves, as described in Part A) - Accounting Policies section A2) The Main Items of the Accounts

(*) As approved by the Shareholders' meeting of May 11, 2013.

(€'000)

CASH FLOW STATEMENT (Indirect method)

	FIRST HALF 2014	FIRST HALF 2013
A. OPERATING ACTIVITIES		
1. Operations	**2,042,419**	**1,737,621**
- profit (loss) for the period (+/-)	1,057,563	2,691,751
- capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities at fair value through profit and loss (+/-)	-123,729	-51,676
- capital gains/losses on hedging transactions (+/-)	-5,840	3,276
- net write-offs/write-backs due to impairment (+/-)	1,830,975	2,073,507
- net write-offs/write-backs on tangible and intangible assets (+/-)	73,354	70,070
- provisions and other incomes/expenses (+/-)	-28,757	-58,714
- tax not paid (+/-)	304,593	-45,989
- other adjustements	-1,065,740	-2,938,052
2. Liquidity generated/absorbed by financial assets	**868,645**	**11,166,669**
- financial assets held for trading	-1,265,060	-1,525,125
- financial assets at fair value through profit and loss	-28,849	-732
- available-for-sale financial assets	-4,085,300	-6,624,418
- loans and receivables with banks	427,164	4,239,339
- loans and receivables with customers	6,355,230	11,421,337
- other assets	-534,540	3,656,268
3. Liquidity generated/absorbed by financial liabilities	**-4,775,488**	**-17,010,976**
- deposits from banks	-14,737,756	-4,978,388
- deposits from customers	8,338,762	2,613,500
- debt securities in issue	1,852,592	-7,971,185
- financial liabilities held for trading	-1,539,040	-483,668
- financial liabilities at fair value through profit and loss	-	-
- other liabilities	1,309,954	-6,191,235
Net liquidity generated/absorbed by operating activities	**-1,864,424**	**-4,106,686**
B. INVESTING ACTIVITIES		
1. Liquidity generated by:	**1,985,489**	**5,724,393**
- sales of equity investments	256,579	940,703
- collected dividends on equity investments	1,265,886	3,137,209
- sales of financial assets held to maturity	452,119	1,634,974
- sales of property, plant and equipment	10,904	11,507
- sales of intangible assets	1	-
- disposal of businesses	-	-
2. Liquidity absorbed by:	**-1,279,340**	**-1,716,858**
- purchases of equity investments	-726,350	-386,283
- purchases of financial assets held to maturity	-524,406	1,304,806
- purchases of tangible assets	-28,093	-25,676
- purchases of intangible assets	-43	-93
- purchase of businesses	-448	-
Net liquidity generated/absorbed by investing actvities	**706,149**	**4,007,535**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares	-	-
- issue/purchase of equity instruments	898,604	-
- distribution of dividends and other purposes	-228,129	-553,227
Net liquidity generated/absorbed by financing actvities	**670,475**	**-553,227**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**-487,800**	**-652,378**

LEGEND: (+) generated; (-) absorbed

(€'000)

RECONCILIATION

	FIRST HALF 2014	FIRST HALF 2013
Cash and cash equivalents at the beginning of the year	**3,226,549**	**2,213,412**
Net liquidity generated/absorbed during the period	-487,800	-652,378
Cash and cash equivalents: effect of exchange differences	15,967	524
Cash and cash equivalents at the end of the period	**2,754,716**	**1,561,558**

LEGEND: (+) generated; (-) absorbed

Explanatory notes

Note:

Since these are concise half-year accounts, unlike the annual accounts, certain information is not given in the above sections nor is the information previously provided as G) Business Combinations.

Explanatory notes

Part A) Accounting Policies

A1) General

Section 1 -	Statement of compliance with IFRSs
Section 2 -	Preparation criteria
Section 3 -	Subsequent events
Section 4 -	Other matters

A2) The Main Items of Accounts

A3) Transfers between Portfolios

A4) Disclosure on fair value

Part A) Accounting Policies

A1) General

Section 1 – Statement of Compliance with IFRSs

These Condensed Interim Financial Statements have been prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB), including the interpretation documents issued by the SIC and the IFRIC, and endorsed by the European Commission up to June 30, 2014, pursuant to EU Regulation 1606/2002 which was incorporated into Italy's legislation through the Legislative Decree no 38 dated 28 February 2005 (see Section 4 – Other matters), and as required by §. 154-ter 3 of the Single Finance Act (TUF, Leg. Decree no 58 dated. 24/2/1998).

They are an integral part of the First Half Financial Report as required by art. 154-ter, paragraph 2, of the Single Finance Act (TUF Legislative Decree no. 58 of February 24, 1998).

As required by §. 154-ter 2 TUF, this First Half Financial Report includes the Condensed Interim Financial Statements, the Interim Report on Operations and the Attestation required by §. 154-bis 5 TUF.

The contents of this Condensed Interim Financial Statements are in line with IAS 34 on interim reporting. In accordance with § 10 IAS 34, the Bank has opted to provide Condensed First Half Accounts.

The Condensed Interim Financial Statements are subject to a limited audit of the accounts by Deloitte & Touche S.p.A. pursuant to LD 39/2010 and the resolution passed by the Shareholders' Meeting on May 11, 2012.

Section 2 – Preparation criteria

As mentioned above, these Accounts have been prepared in accordance with the IFRS endorsed by the European Commission. The following documents have been used to interpret and support the application of IFRS, even though not all of them have been endorsed by the European Commission:

- Framework for the Preparation and Presentation of Financial Statements issued by the IASB in 2010;
- Implementation Guidance, Basis for Conclusions, IFRICs and any other documents prepared by the IASB or International Financial Reporting Interpretations Committee (IFRIC) supplementing the IFRS;
- Interpretative documents on the application of IFRS in Italy prepared by the Organismo Italiano di Contabilità (OIC) and Associazione Bancaria Italiana (ABI);
- ESMA (European Securities and Markets Authority) and Consob documents on the application of specific IFRS provisions.

This Condensed Interim Financial Statements comprises the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (compiled using the indirect method), the Notes to the Accounts and Annexes.

These are in line with Banca d'Italia schedules as prescribed by Circular 262 dated 22 December 2005 (second amendment dated January 21, 2014), in that they give comparative figures, as at December 31, 2013 for the balance sheet and as at 30 June 2013 for the profit and loss account, the comprehensive income statement, the statement of changes in equity and the cash-flow statement.

Figures in the schedules and explanatory notes are given in **thousands of euros**, if not otherwise specified.

In their joint Document no. 4 of March 3, 2010, the Bank of Italy, Consob and Isvap made a few observations on the current situation of the markets and businesses and requested that information essential for a better understanding of business trends and outlook be disclosed in financial reports.

In this regard, the Directors identified no symptoms in the capital and financial structure and in the economic performance that could indicate uncertainty about the entity's ability to continue as a going concern and therefore believe with reasonable certainty that the Bank will continue to operate profitably in the foreseeable future; as a result, in accordance with the provisions of IAS 1, the accounts as at June 30, 2014 were prepared on a going concern basis.

The measurement criteria adopted are therefore consistent with the assumption that the business is a going concern and with the principles of accrual based accounting, the relevance and materiality of accounting information, and the prevalence of economic substance over legal form. These criteria have not changed with respect to the previous year, except for the modifications described in section A.2 "The Main Items of the Accounts" relating to the introduction of new standards and interpretations.

RISK AND UNCERTAINTY DUE TO USE OF ESTIMATED FIGURES

Under the IFRS, management provides valuations, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities and income and expenses reported in the accounts, as well as the disclosure concerning potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

Estimated figures have been used for the recognition of some of the largest value-based items in the Accounts at June 30, 2014, as required by the accounting standards and regulations described above.

These estimates are largely based on calculations of future recoverability of the values recognized in the accounts according to the rules laid down in current legislation and have been made on the assumption of a going concern, i.e. without contemplating the possibility of the forced sale of the estimated items.

Valuation is particularly difficult because of the uncertainty in the macroeconomic and market environment, characterized by the significant volatility in the financial parameters defined for the valuation process, signs of deterioration in credit quality and a steady decrease in transactions and in real estate market prices.

The parameters and information used to check the above-mentioned values are therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying values cannot be ruled out.

Estimates and assumptions are regularly reviewed. Any changes resulting from these reviews are recognized in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognized accordingly in both current and future periods.

Uncertainty affecting estimates is generally inherent in the determination of:

- fair value of financial instruments not listed in active markets;
- loans and receivables, investments and, in general, any other financial asset/liability;
- severance pay and other employee benefits;
- provisions for risks and charges and contingent assets;
- deferred tax assets;
- property held for investment;

whose assessment may significantly change over time according to the trend in: domestic and international socio-economic conditions and subsequent impact on the Bank's profitability and customers' creditworthiness; financial markets which affect changes in interest rates, prices and actuarial assumptions; real estate market affecting the value of property owned by the Bank or received as collateral.

With specific reference to future cash flow projections used in the valuation of goodwill and other intangible assets, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation, which may change in unpredictably. For further information see Part B - Balance Sheet - Section 12 - Intangible assets.

With specific reference to valuation techniques, unobservable inputs used in the fair value measurement and sensitivities to changes in those inputs, please refer to Section A.4 Information on fair value.

In October 2013, the European Central Bank and the National Competent Authorities responsible for conducting banking supervision announced a Comprehensive Assessment of the Significant Banks in accordance with the Regulation on the Single Supervisory Mechanism (SSM Regulation).

During the first half of 2014 UniCredit S.p.A. was therefore subjected to this Comprehensive Assessment of Asset Quality. As at June 30, the review was still underway and it is expected to be completed in August.

In April 2014 the European Banking Authority started conducting a Stress Test on the major EU banks, including UniCredit S.p.A., which is still underway and will be completed in September.

The outcome of the Asset Quality Review and of the Stress Test will be published jointly by the European Central Bank and the European Banking Authority in October.

Section 3 – Subsequent events

No material events have occurred after the balance sheet date that would make it necessary to change any of the information given in the Half-Year Financial Report as at June 30, 2014. Please refer to the specific paragraph of the Report on Operations for a description of the significant events after half year end.

Section 4 – Other matters

In 2014 the following principles or accounting interpretations have become effective:

- IAS 27 revised – Separate Financial Statements (EU Regulation 1254/2012);
- IAS 28 revised – Investments in Associates and Joint Ventures (EU Regulation 1254/2012);
- IFRS 10 – Consolidated Financial Statements (EU Regulation 1254/2012);
- IFRS 11 – Joint Arrangements (EU Regulation 1254/2012);
- IFRS 12 – Disclosure of interests in Other Entities (EU Regulation 1254/2012);
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets (EU Regulation 1374/2013);
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (EU Regulation 1375/2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance (EU Regulation 313/2013);
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities (EU Regulation 1174/2013);
- IFRIC 21 – Levies (EU Regulation 634/2014).

The European Commission during 2014 has not endorsed further accounting principles or interpretations that will be applicable in the future.
The new mentioned standards and amendments did not have any impact on balance sheet and income statement.

As of June 30, 2014 the IASB issued the following standards, amendments, interpretations or revisions:

- IFRS 9 Financial Instruments (12 November 2009) and subsequent amendments:
  - amendments to IFRS 9 and IFRS 7: Mandatory Effective Date and Transition - December 2011;
  - Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 - November 2013
- IFRS 14 Regulatory Deferral Accounts (January 2014);
- IFRS 15 Revenue from Contracts with Customers (May 2014);
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants (June 2014);
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (May 2014);
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (May 2014);
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) (November 2013);
- Annual Improvements to IFRSs 2010–2012 Cycle (December 2013);
- Annual Improvements to IFRSs 2011–2013 Cycle (December 2013).

However, the application of these principles by UniCredit S.p.A. is subject to their transposition by the European Commission.

The First Half Financial Report were approved by the Board of Directors meeting of August 5, 2014.

A2) The Main Items of the Accounts

With regard to the classification and valuation of the main items, please refer to Part A.2 of the Notes to the Accounts as at December 31, 2013.

A3) Transfers between Portfolios

The amendments to IAS 39 and to IFRS 7 "Reclassification of financial assets" approved by the IASB in 2008 make it possible to reclassify certain financial assets, after their initial recognition, out of the HfT and AfS portfolios.

In particular, the following may be reclassified:

- those HfT or AfS financial assets that would have satisfied the definition specified by the international accounting standards for the loan portfolio (if such assets were not classified as HfT or AfS respectively on initial recognition) if the entity intends, and is able, to hold them for the foreseeable future or until maturity;
- "only in rare circumstances" those HfT financial assets which, at the time of their recording, did not satisfy the definition of loans.

The following table provides the book value and the fair value as at June 30, 2014 (broken down by type of underlying asset and portfolio) of assets which were reclassified in the second half of 2008 and in the first half of 2009.

The income/expenses that would have been recognized if such reclassifications had not occurred, as well as those effectively recognized through profit or loss or at equity, are also provided.

These income/expenses before tax are broken down into two categories: those arising "from measurement" (including any write-downs) and "other" (including interest and gains/losses on the disposal of the transferred assets).

As a result the overall impact that would have been recognized in the income statement in the first half of 2014 if these assets had not been reclassified, would have been a gain of €8,534 thousand, while the impact actually recognized was a gain of €2,404 thousand.

A.3.1. Reclassified financial assets: book value, fair value and effects on comprehensive income

A.3.1.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

Instruments type	Accounting Portfolio before reclassification	Accounting Portfolio after reclassification	Carrying amount as at 06.30.2014	Fair Value as at 06.30.2014	Income/expenses absent reclassification (before taxes)		Income/expense recognized during the period (before taxes)	
					From measurement	Other	From measurement	Other
Debt securities	Financial assets held for trading	Loans and receivables with banks	13,169	13,114	216	76	-	195
Debt securities	Financial assets held for trading	Loans and receivables with customers	2,783	2,981	1,612	3	-	1,509
Debt securities	Available-for-sale financial assets	Loans and receivables with customers	109,494	108,414	6,029	598	-	700
Total			**125,446**	**124,508**	**7,857**	**677**	**-**	**2,404**

Assets transferred to loans to customers comprise structured credit products (other than derivatives).

No further reclassifications were made during first half 2014, therefore table A.3.2 "Reclassified financial assets: effects on comprehensive Income before reclassification" and information concerning item A.3.4 "Effective interest rate and cash flows expected from reclassified assets" are not provided.

A.3.3 Transfer of financial assets held for trading

In application of the provisions of Article 2 of referenced EC Regulation 1004/2008, pursuant to which "the current financial crisis is considered to be such a rare circumstance which would justify the use of this possibility [reclassification] by companies," during the second half of 2008 and first half of 2009, UniCredit S.p.A. reclassified HfT financial assets and available for sale consisting of structured credit products (other than derivatives) and debt securities issued by governments, public entities, companies and financial institutions other than derivative contracts and financial instruments containing embedded derivatives.

The carrying amount as at June 30, 2014 is shown in table A.3.1

A4) - Information on Fair Value

QUALITATIVE INFORMATION

This section presents a disclosure on fair value as required by IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (i.e. an exit price).

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments listed in active markets, fair value is determined on the basis of official prices in the principal market (most advantageous) to which the Company has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker, agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

If the observable prices in active market or other observable inputs, such as the quoted price of a similar instrument in an active market, the Company should use another valuation techniques, such as:

- a market approach (eg using quoted prices for similar liabilities or equity instruments held by other parties as assets).
- cost approach (eg it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost).
- an income approach (eg a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

The Company uses valuation models (Mark to Model) in keeping with the methods generally accepted and used by the market. Valuation models include techniques based on the discounting of future cash flows and on volatility estimates, and they are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

These methods use inputs based on prices set in recent transactions for the instrument being valued and/or prices/quotations for instruments having similar characteristics in terms of risk profile. Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued. Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified. If, for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs.

As a further guarantee of the objectivity of valuations derived from valuation models, the Company employs:

- Independent price verifications (IPVs);

- fair value adjustments (FVAs).

Independent price verification requires that the prices are verified monthly by Risk Management units that are independent from the units that assume the risk exposure.

This verification calls for comparing and adjusting the daily price in line with valuations obtained from independent market participants.

For instruments not quoted in active markets, the above verification process uses prices contributed by info-providers as a reference, and assigns a greater weighting to those prices that are considered representative of the instrument being valued.

This valuation includes the "executability" of the transaction at the price observed, the number of contributors, the degree of similarity of the financial instruments, the consistency of prices from different sources, and the process followed by the info-provider to obtain the information.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

Hereby we provide IFRS13 disclosure requirements about accounting portfolios measured at fair value on a recurring basis, not measured at fair value, or measured at fair value on a non-recurring basis.

Assets and Liabilities measured at fair value on a recurring basis

Fixed Income Securities

Fixed Income Securities are priced in a two tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to Fair Value Hierarchy under Level 1. Instruments not traded in active markets are marked to model based on implied credit spread curves derived from the former Level 1 instruments. The model maximizes the use of observable input and minimizes the use of unobservable inputs. With this respect, depending on the proximity of the credit spread curve applied, the bonds are disclosed as Level 2 or Level 3 respectively; Level 3 is applied in case credit spread curves used are significantly unobservable. Under fair value accounting, fair value adjustments for liquidity and model deficiencies compensate for the lack of market observables for the Level 2 and Level 3 positions.

In the global bond Independent Price Verification (IPV) process market prices of Level 1 bonds and pricing models for illiquid bonds are regularly verified for accuracy.

Structured Financial Products

The Company determines the fair value of structured financial products not quoted on active markets using the appropriate derivative valuation methodology given the nature of the embedded structure (when this is not to be separated). Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

Asset Backed Securities

Since 2009, UniCredit's enforced the "Structured Credit Bonds Valuation Group Policy", centered on:

- extension and implementation of the new Independent Price Verification (IPV) process suited to the changed market conditions for Structured Credit Bonds;
- integration of current Fair Value Adjustments Policy.

According to the IPV process the quality of a price is assessed based upon the availability of quotes of independent market players for identical assets. The process relies in the first instance on consensus data provider as reliable collector of market quotes.

As a second step, prices are assessed by benchmarking each security to a pool of similar securities with available market quotes. An alternative approach consists in evaluating the instrument through the use of quantitative pricing models, which are applicable every time that information regarding market participants assumptions on model parameters are reasonably made available without excessive costs or efforts.

Derivatives

Fair value of derivatives not traded in an active market is determined using a mark to model valuation technique. In such cases, where active markets exist for its component parts, then fair value is determined on the basis of the relevant market prices for the component parts.

Valuation techniques that are based on significant inputs that are observable are referred to as Level 2 valuations, while those based on techniques that use significant unobservable inputs are referred to as Level 3 valuations.

Equity Instruments

Equity Instruments are assigned to Level 1 when a quoted price is available on a liquid market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. These instruments are classifies as Level 2 only when trading volume on the market where the instrument is quoted has decreased significantly.

For equity instruments measured at cost an impairment is given, if the carrying amount exceeds the recoverable amount significantly and/or over a prolonged period of time.

Investment Funds

The Company holds investments in certain investment funds that publish net asset value (NAV) per share, including mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. The Company's investments include co-investments in funds that are managed by the Group and investments in funds that are managed by third parties and in particular:

Real Estate Funds

Real Estate Funds are mapped to Level 1 when quoted prices are available on an active market; when this condition does not hold, Real Estate Funds are disclosed as Level 3 and they are evaluated through an adequate credit adjustment of the NAV based on the specific features of each fund.

Other Funds

The Company holds investments also in mutual funds, hedge funds and private equity funds.

Funds are usually assigned to Level 1 when a quoted price is available on an active market.

Funds are disclosed as Level 2 or Level 3 depending on NAV availability, portfolio transparency and possible issues related to position write off. When sufficient information for reliable fair value measurements are not available, funds (eg. hedge funds and private equity) are valued at cost and classified as Available for Sale at Level 3.

Private Equity Funds are disclosed as Level 3 since reliable NAV prices are usually not available.

With reference to funds valued at cost, an impairment is applied in case the carrying amount is significantly above the recoverable amount for a prolonged period of time.

Fair Value Adjustments (FVA)

Fair value adjustment is defined as the amount to be added either to the market observed mid-price or to the theoretical price generated by a valuation model with the aim of obtaining a fair value of the position. Therefore FVA are aimed at insuring that the fair value reflects the actual exit price of a certain position.

Below the main adjustments:

- Credit and debit valuation adjustment (CVA/DVA)
- Model Risk
- Close-out Costs
- Other Adjustments

Credit and debit valuation adjustment (CVA/DVA)

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively.

UniCredit CVA/DVA methodology is based on the following inputs:

- EAD derived by simulation techniques. Simulated exposures also take into account Specific Wrong Way Risk that arises for transactions where there is a correlation between counterparty credit risk and the underlying derivative risk factors;
- PD implied by current market default ratess, obtained from credit default swaps.
- LGD based on the estimated level of expected recovery should a counterparty default and implied by current market default rates, obtained from credit default swaps.

Model Risk

Financial models are used for the valuation of the financial instruments if the direct market quotes are not readily available. In general the model risk is represented by the possibility that a financial instrument's evaluation is actually sensitive to the choice of model. It is possible to value the same financial instrument by using alternative models which could provide different results in term of pricing. The model risk adjustments refer to the risk that the actual fair value of the instrument differs from the value produced by the model.

Close-out Costs

It measures the implicit costs of closing an (aggregated) trading position. The position could be closed by a long position (or purchase in the case of a short position), or by entering into a new transaction (or several transactions) that offsets (hedges) the open position. The close-out costs are typically derived from the bid/ask spreads observed on the market. It accounts for the fact that a position is valued at mid but can only be closed at bid or ask. This adjustment is not needed when the position is marked at bid or ask and already represents an exit price. Moreover a close-out adjustment of the NAV is applied when there are some penalties related to position write off in an investment fund.

Other adjustments

Other fair value adjustments, which are not included into the previous categories, could be taken into consideration to align the evaluation to the current exit price, also according to the level of liquidity of the market and valuation parameters, e.g adjustment of equity prices whose quotation on the market are not representative of the effective exit price.

Assets and Liabilities not measured at fair value or measured at fair value on a non-recurring basis

Financial instrument not carried at fair value, for example retail loans and deposit, and credit facilities extended to corporate clients are not managed on a fair value basis.

For these instruments fair value are calculated for disclosure purposes only and do not impact the balance sheet or the profit or loss. Additionally, since these instruments generally do not trade, there is significant management judgment required to determine their fair values as defined by IFRS 13.

Cash and cash balances

Cash and cash balances are not carried at fair value, but they are carried at amounts that approximate fair value, due to their short term nature and generally negligible credit risk.

Held-to-maturity investments

Considering that held to maturity investments are mainly composed by securities fair value for this asset class is determined according to what previously explained in the section A.4.1 with reference to Fixed Income Securities.

Loans and Receivables

Fair value for performing Loans and Receivables from customers and banks, recorded ad amortized cost, is determined using the discounted cash flow model adjusted for credit risk. Some portfolios are valued according to simplified approaches, which however take into account the financial features of the financial instruments.

Property, plant and equipment held for investment purposes

The fair value of property, plant and equipment held for investment purposes is measured for reporting disclosure, and it is determined on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification which perform its valuation mainly on the basis of an indirect knowledge of the assets through the information made available by the owner and relative to the localization, consistency, destination and in consideration of market analysis.

The attribution of fair value levels is based on the level of observability of the significant market parameters used by the valuation technique. Given the current portfolio composition, most of the positions are at level 3.

Debt securities in issue

Fair value for debt securities in issue, recorded ad amortized cost, is determined using the discounted cash flow model adjusted for UniCredit credit risk. The Credit Spread is determined using UCG's subordinated and non-subordinated risk curves.

Other liabilities

Fair value for liabilities, recorded ad amortized cost, is determined using the discounted cash flow model adjusted for UniCredit credit risk. The Credit Spread is determined using UCG's senior and subordinated risk curves.

Description of the valuation technique

Specific valuation techniques are used to value positions for which a market price is not directly observable from market sources. The Company uses well known valuation techniques for determining fair values of financial and nonfinancial instruments that are not actively traded and quoted. The valuation techniques used for Level 2 and 3 assets and liabilities, are described as follows.

Option Pricing Model

Option model valuation techniques are generally used for instruments in which the holder has a contingent right or obligation based on the occurrence of a future event, such as the price of a referenced asset going above or below a predetermined strike price. Option models estimate the likelihood of the specified event occurring by incorporating assumptions such as volatility estimates, price of the underlying instrument and expected rate of return.

Discounted cash flow

Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument. The model requires the estimation of the cash flow and the adoption of market's parameters for the discounting: discount rate or discount margin reflects the credit and / or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a "present value". The fair value of the contract is given by the sum of the present values of future cash flow.

Hazard Rate Model

The valuation of CDS instruments requires the knowledge of the entity's survival probability at future dates. The estimate of this probability curve uses the standard model for survival probabilities and requires as parameters the credit default swap market quotes on standard future dates in addition to the risk free curve and the expected recovery rate. The hazard rate is part of the described process and it indicates the instantaneous probability of default at different future instants.

Market Approach

A valuation technique that uses prices generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities.

Gordon Growth Model

This model is used to determine the intrinsic value of an equity investment, based on a series of future dividends which grow at a constant rate. Given a dividend to be paid in a specific year and the hypothesis that the dividend grows at a constant rate, the model computes the present value of future dividends.

Dividend Discount Model

This model is used to determine the value of an equity investment, based on the series of predicted future dividends. Given a dividend to be paid in a specific year and the hypothesis that the dividend grows at a constant rate, the model computes the fair value of an equity share as the sum of the present value of all future dividends.

Adjusted NAV

Net asset value is the total value of a fund's assets less liabilities. An increase in net asset value would result in an increase in a fair value measurement. Usually for funds classified as Level 3, NAV represents a risk free valuation, therefore in this case the NAV is adjusted so as to consider the issuer's default risk.

Description of the inputs used to measure the fair value of items categorized in Level 2 and 3

Hereby a description of the main significant inputs used to measure the fair value of items categorized in Level 2 and 3 of the fair value hierarchy.

Volatility

Volatility is a measure for variation of price of a financial instrument over time. In particular, volatility measures the speed and severity of market price changes for an instrument, parameter or market index given how much the particular instrument, parameter or index changes in value over time, expressed as a percentage of relative change in price. The higher the volatility of the underlying, the riskier the instrument. In general, long option positions benefit from increases in volatility, whereas short option positions will suffer losses.

There are different types of volatility: volatility of interest rate, inflation volatility, volatility of foreign exchange and volatility of equity stocks, equity or other indices.

Correlation

Correlation is a measure of the relationship between the movements of two variables. When parameters are positively correlated, an increase in correlation results in a higher fair value measurement. On the contrary, given a short correlation position, an increase in correlation, in isolation, would generally result in a decrease in a fair value measurement. Therefore changes in correlation levels can have a major impact, favorable or unfavorable, on the fair value of an instrument, depending on the type of correlation.

Correlation is a pricing input for a derivative product where the payoff is driven by multiple underlying risks. The level of correlation used in the valuation of derivatives with multiple underlying risks depends on a number of factors including the nature of those risks.

Dividends

The derivation of a forward price for an individual stock or index is important both for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price is based on a combination of expected future dividend levels and payment timings and, to a lesser extent, the relevant funding rates applicable to the stock in question. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price.

Interest rate curve

The calculation of the interest rate curve is based on standard bootstrapping techniques relying on the set of quotes of appropriate financial instruments, for each currency.

Less liquid currencies interest curve refer to the rates in currencies for which doesn't exist a market liquidity in terms of tightness, depth and resiliency. The illiquidity of these input data impacts directly the valuation of securities or derivatives expressed in illiquid currencies.

Inflation Swap rate

The determination of forward levels for inflation indexes is based on swap quote over inflation indexes. Swap over inflation may present a low liquidity level whether there is no liquid market in terms of rigidity, deepness and resistance. The illiquidity of those inputs has an indirect impact on the valuation of a debt instrument linked to inflation (inflation-linked note) or in case of a derivative over inflation.

Credit spreads

Different valuation models, especially for credit derivatives require an input for the credit spread which reflects the credit quality of the associated credit name. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either U.S. Treasury or LIBOR/EURIBOR and is generally expressed in terms of basis points. The ranges for credit spreads cover a variety of underlings (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of unobservable inputs.

Loss Given Default (LGD)/Recovery Rate

LGD also known as loss severity (the inverse concept is the recovery rate) represents the percentage of contractual cash flows lost in the event of a default, expressed as the net amount of loss relative to the outstanding balance. An increase in the loss severity, in isolation, would result in a decrease in a fair value measurement. Loss given default is facility-specific because such losses are generally understood to be influenced by key transaction characteristics such as the presence of collateral and the degree of subordination.

Price

Where market prices are not observable, comparison via proxy is used to measure a fair value.

Prepayment Rate (PR)

The PR is the estimated rate at which forecasted prepayments of principal of the related debt instrument are expected to occur. Voluntary unscheduled payments (prepayments) change the future cash flows for the investor and thereby change the fair value of the security.

In general as prepayment speeds change, the weighted average life of the security changes, which impacts the valuation either positively or negatively, depending upon the nature of the security and the direction of the change in the weighted average life.

Probability of Default (PD)

The probability of default is an estimate of the likelihood of not collecting contractual amounts. It provides an estimate of the likelihood that a client of a financial institution will be unable to meet its debt obligations over a particular time horizon. The PD of an obligor not only depends on the risk characteristics of that particular obligor but also the economic environment and the degree to which it affects the obligor.

Early conversion

The early conversion is the estimate of the probability that the liability would be converted into equity earlier than the terms stated.

EBITDA

EBITDA is an indicator of the current operating profitability of the business, that is the income generated by the use of the company's assets and the commercialization of the products manufactured.

Ke

The Ke (cost of capital) represents the minimum rate that the company has to offer to its shareholders as remuneration for the capital received.

Growth rate

It is the constant growth rate used for the future dividends estimate.

Quantitative information on significant unobservable inputs used in the fair value measurement: accounting portfolios measured at fair value categorized as Level 3

The following table shows, for each product category, the amount of Assets and Liabilities measured at fair value and the range of variation of unobservable parameters, across the whole portfolio, as monitored by Risk Management functions.

(€ million)

PRODUCT CATEGORIES			FAIR VALUE ASSETS	FAIR VALUE LIABILITIES	VALUATION TECHNIQUES	UNOBSERVABLE PARAMETERS	RANGE	
Derivatives	Financial							
		Commodities	12.00	9.95	Discounted Cash Flows	Swap Rate (% of used value)	70%	130%
					Option Pricing Model	Volatility	35%	120%
						Correlation	-100%	100%
		Foreign Exchange	42.45	35.18	Option Pricing Model	Volatility	1%	30%
					Discounted Cash Flows	Interest rate	30 bps	1000 bps
		Interest Rate	383.64	317.97	Discounted Cash Flows	Swap Rate (bps)	30 bps	1000 bps
						Inflation Swap Rate	120 bps	230 bps
					Option Pricing Model	Inflation Volatility	1%	10%
						Interest Rate Volatility	5%	100%
						Correlation	20%	100%
	Credit		0.00	0.00	Hazard Rate Model	Credit Spread	10bps	150%
						LGD	5%	95%
Debt Securities and Loans		Corporate/ Government/Other	8.52	0.00	Market Approach	Price (% of used value)	95%	110%
		Mortgage & Asset Backed Securities	6.47	0.00	Discounted Cash Flows	Credit Spread (% of used value)	0bps	35%
						LGD	25%	100%
						Default Rate	0%	7.5%
						Prepayment Rate	0%	30%
Equity Securities		Unlisted Equity & Holdings	1,918.76	0.00	Market Approach	Price (% of used value)	0%	100%
					Gordon Growth Model	Ke	8.8%	11.8%
						Growth Rate	2.5%	3.5%
					Dividend Discount Model	Beta	0.35	0.45
						Risk Premium	5.5%	7.0%
Units in Investment Funds		Real Estate & Other Funds	308.92	0.00	Adjusted Nav	PD	1%	30%
						LGD	30%	40%

Unlisted equity securities classified as Level 3 and valued using a model include the shareholdings in the Bank of Italy (worth €1,659 million as at June 30, 2014 – unchanged over the previous period); for further information see Part E – Section 2.4 – Price Risk: Banking Book.

A.4.2 Valuations processes and sensitivities

The Company verifies that the value attributed to each position reflects the current fair value in an appropriate way. Assets and liabilities subject to fair value measurements are determined using different techniques, among which (but not only) models such as discounted cash flow and internal models. On the basis of the observability of the input used, all the measurements are classified as Level 1, Level 2 or Level 3 of the fair value hierarchy.

When a financial instrument, measured at fair value, is valued through the use of one or more significant inputs non directly observable on the market, a further procedure for the price verification is implemented. These procedures include the revision of relevant historical data, the analysis of profits and losses, the individual valuation of each component for structural products and benchmarking. This approach uses subjective opinions and judgments based on experience and, therefore it could require valuation adjustments which take into account the *bid/ask spread*, liquidity and counterparty risk, in addition to the valuation model type adopted.

According to Group Market Risk Governance guidelines, in order to ensure the right separateness of the functions in charge of the model development and those in charge of the validation processes, all valuation models developed by the company’s front offices are independently tested and validated by the Group Internal Validation functions. The aim of this independent control structure is of evaluating the model risk from a theoretical solidity, calibration techniques eventually applied and appropriateness of the model for a specific product in a defined market point of views.
In addition to the daily mark to market or mark to model valuation, the Independent Price Verification (IPV) is applied with the aim of guaranteeing a fair value which is independent from Market Risk perspective for all illiquid instruments.

Fair value sensitivity to variations in unobservable input used in the fair value computation for instruments categorized as Level 3

The direction of sensitivity for instruments categorized at level 3 of fair value hierarchy to variations in significant unobservable inputs is supplied in the following table. For fair value computations where significant unobservable input are employed (Level 3), the sensitivity analysis is performed using a range of reasonable alternatives for the un-observable parameters.
The Company takes into account the impact of unobservable inputs in the fair value computation of level 3 depends on the correlation among different inputs used in the valuation process. Furthermore, the effect of unobservable input variation has an impact on the amount and the direction of fair value measurement, also according to the instrument nature and sign.

(€ million)

PRODUCT CATEGORIES			FAIR VALUE MOVEMENTS GIVEN REASONABLE POSSIBLE ALTERNATIVES	
Derivatives				
	Financial			
		Commodities	+/- -	0.24
		Foreign Exchange	+/- -	0.84
		Interest Rate	+/-	19.46
	Credit		+/-	-
Debt Securities and Loans				
		Corporate/Government/Other	+/-	0.43
		Mortgage & Asset Backed Securities	+/-	0.00
Equity Securities				
		Unlisted Equity & Holdings	+/-	347.57
Units in investment funds				
		Real Estate & Other Funds	+/-	6.46

A.4.3 Fair value hierarchy

The IFRS 13 principle establishes a fair value hierarchy according to to the observability of the input used in the valuation techniques adopted for valuations.

The fair value hierarchy level associated to assets and liabilities is set as the minimum level among all significant valuation inputs used.

A valuation input is not considered significant for the fair value of an instrument if the remaining inputs are able to explain the major part of the fair value variance itself over a period of three months.

In some specific cases, the significance limit is assessed in relation to the full fair value of the instrument at the measurement date. In particular, three levels are considered:

- level 1: *fair value* for instruments classified within this level is determined according to the quoted prices on active markets;
- level 2: *fair value* for instruments classified within this level is determined according to the valuation models which use observable inputs on active markets;
- level 3: *fair value* for instruments classified within this level is determined according to the valuation models which prevalently use significant unobservable input on active market.

Financial instruments are classified to a certain fair value level according to the observability of the input used for the valuation.

Level 1 (quoted prices in active market): quoted prices (unadjusted) in active markets are available for identical assets or liabilities that the entity has the ability to access at the measurement date. An active market is a market in which orderly transactions for the asset or liability take place with sufficient frequency and volume for pricing information to be provided on an on-going basis.

Level 2 (observable inputs): inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs are observable if they are developed on the basis of publicly available information about actual events or transactions and reflect the assumptions that market participants would use when pricing the asset or liability.

Level 3 (unobservable inputs): inputs other than the ones included in level 1 and level 2, not directly observable on the market for the evaluation of asset and liability, or used for the definition of significant adjustments to fair value. Unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

When Fair Value is measured directly taking into consideration an observable price and quoted on an active market, the hierarchy attribution process will assign Level 1. When Fair Value has to be measured either via Comparable approach or via Mark-to-Model approach, the hierarchy attribution process will assign Level 2 or Level 3, depending on the observability of all the significant input parameters.

Within the choice among various valuation techniques the Company employs the one which maximizes the use of observable inputs.

Transfers between hierarchy levels

All transfers between fair value hierarchy levels are reported through the last day of the reporting period.
The main drivers to transfers in and out the FV levels (both between L1 and L2 and within L3) include changes in market conditions (among which liquidity parameter) and enhancements to valuation techniques and weights for unobservable inputs used for the valuation itself.

A.4.4 Other information

The Company uses the IFRS 13 exception for fair value measurements on a net basis with reference to financial assets and liabilities with off-setting positions of market risk or counterparty credit risk.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

The following tables presents the portfolios breakdown in terms of (i) financial assets and liabilities valued at fair value as well as (ii) assets and liabilities not measured at fair value or measured at fair value on a non recurring basis, according to the above mentioned levels.

A.4.5.1 Assets and liabilities measured at fair value on recurring basis: fair value levels breakdown

The increase in Level 1 financial assets is attributable to the start of primary dealer and market maker transaction on government bond formerly carried out by the subsidiary UniCredit Bank AG through its Milan branch.

Available-for-sale Financial Assets increased due to the growth in investments in Italian government bonds (Level 1).

Transfers between level of fair value occurring between December 31, 2013 and June 30, 2014 mainly reflect the evolution of market of reference in the period and the enhancement of processes for fair value level.

A.4.5.1. Accounting portfolio: division by level of fair value

Financial assets/liabilities carried at fair value	06.30.2014			12.31.2013		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for Trading	6,660,443	7,931,383	438,095	3,913,351	7,999,799	340,369
2. Financial assets at fair value through P&L	1,100	375,074	38,576	1,081	352,687	35,430
3. Available for sale financial assets	44,733,610	676,518	2,641,539	39,775,500	406,838	2,769,637
4. Hedging derivative assets	-	6,909,964	-	-	5,389,230	-
5. Property, plan and equipment	-	-	-	-	-	-
6. Intangibles assets	-	-	-	-	-	-
Total	**51,395,153**	**15,892,939**	**3,118,210**	**43,689,932**	**14,148,554**	**3,145,436**
1. Financial liabilities held for Trading	2,175,664	8,110,516	363,099	2,264,701	8,085,594	453,707
2. Financial liabilities at fair value through P&L	-	-	-	-	-	-
3. Hedging derivative Liabilities	-	6,532,172	57	-	5,797,092	56
Total	**2,175,664**	**14,642,688**	**363,156**	**2,264,701**	**13,882,686**	**453,763**

Legend:

L1= Level 1

L2 = Level 2

L3 = Level 3

A.4.5.2 Annual changes in financial assets at fair value level 3

	Financial Assets				
	Held for trading	At fair value trought P&L	Available for sale	Hedging derivatives	Total
1.Opening balances	**340,369**	**35,430**	**2,193,468**	**-**	**2,569,267**
2. Increases	**231,675**	**3,146**	**153,126**	**-**	**387,947**
2.1Purchases	90,901	2,971	79,842	-	**173,714**
2.2 Profits recognized in	104,836	175	61,880	-	**166,891**
2.2.1Income Statement	104,836	175	28,723	-	**133,734**
- of which Unrealized gains	*65,333*	*175*	-	-	***65,508***
2.2.2 Equity	-	-	33,157	-	**33,157**
2.3 Transfer from other levels	35,938	-	5,143	-	**41,081**
2.4 Other increases	-	-	6,261	-	**6,261**
3. Decreases	**133,949**	**-**	**142,491**	**-**	**276,440**
3.1Sales	230	-	70,202	-	**70,432**
3.2 Redemptions	84,534	-	7,238	-	**91,772**
3.3 Losses recognized in:	49,185	-	4,810	-	**53,995**
3.3.1Income Statement:	49,185	-	1,507	-	**50,692**
- of which Unrealized losses	*49,185*	-	*800*	-	***49,985***
3.3.2 Equity	-	-	*3,303*	-	***3,303***
3.4 Transfer to other levels	-	-	28,445	-	**28,445**
3.5 Other decreases	-	-	31,796	-	**31,796**
4. Closing balances	**438,095**	**38,576**	**2,204,103**	**-**	**2,680,774**

The table does not contains items measured at cost.

The sub-category 2 increases and 3 decreases in financial assets are included in the Profit and Loss in the following items:

- Item 80: Gains and losses on financial assets and liabilities held for trading;
- Item 110: Gains and losses on financial assets/liabilities at fair value through profit or loss;
- Item 90: Fair value adjustments in hedge accounting.

The sub-category 2.2 gains and the sub-category 3.3 losses on *fair value* on financial assets and liabilities available for sale are accounted in item 130. “Revaluation reserves” of shareholder’s equity – with the exception of *impairment* and gains and losses on exchange rates on monetary assets (liabilities) which are reported respectively within item 130. b) “Impairment losses on available-for-sale financial assets” and item 80. “Gains and losses on financial assets and liabilities held for trading” until the financial asset is not sold, instant in which cumulative gains and losses are reported at Profit & loss at item 100. b) “Gains and losses on financial assets and liabilities available for sale”.

Transfers between level of fair value occurring between December 31, 2013 and June 30, 2014 mainly reflect the evolution of market of reference in the period and the enhancement of processes for fair value level attribution.

A.4.5.3 Annual changes in financial liabilities at fair value level 3	Financial Liabilities			
	Held for trading	At fair value trought P&L	Hedging derivatives	Total
1.Opening balances	**453,707**	**-**	**56**	**453,763**
2. Increases	**229,143**	**-**	**1**	**229,144**
2.1Issuance	-	-	-	**-**
2.2 Losses recognized in:	227,189	-	1	**227,190**
2.2.1Income Statement	227,189	-	1	**227,190**
- of which Unrealized losses	*68,172*	-	-	***68,172***
2.2.2 Equity	-	-	-	**-**
2.3 Transfer from other levels	1,954	-	-	**1,954**
2.4 Other increases	-	-	-	**-**
3. Decreases	**319,751**	**-**	**-**	**319,751**
3.1Redemptions	163,306	-	-	**163,306**
3.2 Purchases	-	-	-	**-**
3.3 Profits recognized in:	156,445	-	-	**156,445**
3.3.1Income Statement	156,445	-	-	**156,445**
- of which Unrealized gains	*156,445*	-	-	***156,445***
3.3.2 Equity	-	-	-	**-**
3.4 Transfer to other levels	-	-	-	**-**
3.5 Other decreases	-	-	-	**-**
4. Closing balances	**363,099**	**-**	**57**	**363,156**

The table does not contains items measured at cost.

The sub-category 2 increases and 3 decreases in financial assets are included in the Profit and Loss in the following items:

- Item 80: Gains and losses on financial assets and liabilities held for trading;
- Item 110: Gains and losses on financial assets/liabilities at fair value through profit or loss;
- Item 90: Fair value adjustments in hedge accounting.

The sub-category 2.2 gains and the sub-category 3.3 losses on *fair value* on financial assets and liabilities available for sale are accounted in item 130. "Revaluation reserves" of shareholder's equity – with the exception of *impairment* and gains and losses on exchange rates on monetary assets (liabilities) which are reported respectively within item 130. b) "Impairment losses on available-for-sale financial assets" and item 80. "Gains and losses on financial assets and liabilities held for trading" until the financial asset is not sold, instant in which cumulative gains and losses are reported at Profit & loss at item 100. b) "Gains and losses on financial assets and liabilities available for sale".

Transfers between level of fair value occurring between December 31, 2013 and June 30, 2014 mainly reflect the evolution of market of reference in the period and the enhancement of processes for fair value level attribution.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	12.31.2013				12.31.2012			
	BV	L1	L2	L3	BV	L1	L2	L3
1 Held-to-maturity investments	3,106,763	2,182,338	756,005	199,946	3,025,401	3,028,467	-	-
2. Loans and receivables with banks	21,442,144	-	14,838,150	6,622,178	21,868,523	-	11,992,136	9,971,254
3. Loans and receivables with customers	223,122,695	-	111,952,812	119,887,358	231,171,220	-	94,244,013	140,041,901
4. Property, plant and equipment held for investment	1,066,031	-	-	1,225,060	1,116,129	-	-	1,270,206
5. Non-current assets and disposal groups classified as held for sale	803,923	-	186,753	-	368,228	-	165,175	-
Total	**249,541,556**	**2,182,338**	**127,733,720**	**127,934,542**	**257,549,501**	**3,028,467**	**106,401,324**	**151,283,361**
1 Deposits from banks	32,640,941	-	24,761,700	7,899,829	47,378,697	-	30,880,813	16,310,949
2. Deposits from customers	159,178,595	-	42,778,426	116,000,023	150,839,833	-	35,482,637	114,648,769
3. Debt securities in issue	121,763,477	42,910,818	79,400,797	4,047,963	119,910,885	46,513,462	73,607,381	1,978,896
4. Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-
Total	**313,583,013**	**42,910,818**	**146,940,923**	**127,947,815**	**318,129,415**	**46,513,462**	**139,970,831**	**132,938,614**

Legend
BV=Book Value
L1= Level 1
L2 = Level 2
L3 = Level 3

Between December 31, 2013 and June 30, 2014 changes in the ratio between fair value and book value for loans and receivables to banks and customers reflect the enhancement of the assumptions and the parameters adopted for the fair value calculation for disclosure.

Sub item 5. Non-current assets and disposal groups classified as held for sale contains also Euro 644 million measured at cost.

The fair value as at June 30, 2014 of debt securities in issue reflects a refinement of the related valuation models.

A.5 Day One Profit/Loss Disclosure

The value at which financial instruments are recognized is equal to their fair value on the same date.

The fair value of financial instruments, other than those designated at fair value through profit or loss, at their recognition date is usually assumed to be equal to the amount collected or paid.

For financial instruments held for trading (see sections 1 and 14 of Part A.2 of the Notes to the Consolidated Accounts of 2013 Consolidated Reports and Accounts) and instruments designated at fair value (see sections 5 and 15 of Part A.2 above mentioned), any difference from the amount collected or paid is posted under the appropriate items of the income statement.

The use of conservative valuation models, the processes described above for revising the models used and related parameters and value adjustments to reflect model risk ensure that the amount recognized in the income statement is not derived from the use of valuation parameters that cannot be observed.

More specifically, the calculation of fair value adjustments to reflect model risk ensures that the fair value portion of these instruments relating to the use of subjective parameters is not recognized in the profit and loss account, but recorded as an adjustment to the balance sheet value of these instruments.

Recognition of this portion in the profit and loss account is then made only when objective parameters are applied and therefore the adjustments are derecognized.

The balance of value adjustments to reflect model risk (amount not recognized in the Income Statement) changed from €18,744 thousand at December 31, 2013 to €67,168 thousand at June 30, 2014.

Explanatory notes

Part B) Balance Sheet

Assets

Section 2 – Financial assets held for trading – Item 20

Section 3 – Financial assets at fair value through profit or loss – Item 30

Section 4 – Available-for-sale financial assets – Item 40

Section 5 – Held to maturity investments – Item 50

Section 6 – Loans and receivables with banks – Item 60

Section 7 – Loans and receivables with customers – Item 70

Section 10 – Equity investments – Item 100

Section 11 – Property, plant and equipment – Item 110

Section 12 – Intangible assets – Item 120

Liabilities

Section 1 – Deposits from banks – Item 10

Section 2 – Deposits from customers – Item 20

Section 3 – Debt securities in issue – Item 30

Section 4 – Financial liabilities held for trading – Item 40

Section 12 – Provisions for risks and charges – Item 120

Other information

2. Assets used to guarantee own liabilities and commitments

4. Asset management and trading on behalf of others

Part B) Balance Sheet

(Amounts in thousands of €)

Assets

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: product breakdown						
Item/Values	Amounts as at					
	06.30.2014			12.31.2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A) Financial assets (non-derivatives)						
1. Debt securities	**6,652,691**	**150**	**-**	**3,909,882**	**82**	**-**
1.1 structured securities	-	3	-	2	1	-
1.2 other debt securities	6,652,691	147	-	3,909,880	81	-
2. Equity instruments	**5,073**	**-**	**-**	**33**	**-**	**-**
3. Units in investment funds	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 reverse repos	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	**6,657,764**	**150**	**-**	**3,909,915**	**82**	**-**
B) Derivative instruments						
1. Financial derivatives	**2,679**	**7,931,233**	**438,069**	**3,436**	**7,999,717**	**340,314**
1.1 trading	2,679	7,622,051	354,439	3,436	7,728,206	259,558
1.2 related to fair value option	-	-	-	-	-	-
1.3 other	-	309,182	83,630	-	271,511	80,756
2. Credit derivatives	**-**	**-**	**26**	**-**	**-**	**55**
2.1 trading	-	-	-	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 other	-	-	26	-	-	55
Total (B)	**2,679**	**7,931,233**	**438,095**	**3,436**	**7,999,717**	**340,369**
Total (A+B)	**6,660,443**	**7,931,383**	**438,095**	**3,913,351**	**7,999,799**	**340,369**
Total Level 1, Level 2 and Level 3			**15,029,921**			**12,253,519**

The sub-item "on-balance sheet assets" increased compared to the previous year as a result of the progressive entry into operation of the market making activities for government securities, initiated during the second quarter of 2013 and previously carried out by UniCredit Bank AG-Milan Branch. This led to a significant increase in volumes for "debt securities".

"Financial derivatives: other" comprises: (i) derivatives embedded in structured financial instruments, where the host has been classified in a category other than held-for-trading or fair value option and (ii) derivatives that, for economic purposes, are related to banking book instruments.

Section 3 – Financial assets at fair value through profit or loss – Item 30

3.1 Financial assets at fair value through profit or loss: product breakdown						
Items/Values	Amounts as at					
	06.30.2014			12.31.2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**1,100**	**60,936**	**3,146**	**1,081**	**1**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,100	60,936	3,146	1,081	1	-
2. Equity instruments	**-**	**-**	**35,430**	**-**	**-**	**35,430**
3. Units in investment funds	**-**	**314,138**	**-**	**-**	**352,686**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**1,100**	**375,074**	**38,576**	**1,081**	**352,687**	**35,430**
Total Level 1, Level 2 and Level 3			**414,750**			**389,198**

The item "debt securities", in addition to some Italian government securities, also includes the issues of bonds convertible into ordinary shares of Gabetti and UnipolSai.

The item "Units in investment funds" includes the units of Pioneer funds.

Section 4 – Available for sale financial assets – Item 40

4.1 Available-for-sale financial assets: product breakdown						
Items/values	Amounts as at					
	06.30.2014			12.31.2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**44,611,988**	**636,553**	**11,850**	**39,630,565**	**403,071**	**36,096**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other	44,611,988	636,553	11,850	39,630,565	403,071	36,096
2. Equity instruments	**114,660**	**39,956**	**2,099,929**	**139,171**	**3,616**	**2,219,558**
2.1 Measured at fair value	114,660	39,956	1,883,333	139,171	3,616	1,863,553
2.2 Carried at cost	-	-	216,596	-	-	356,005
3. Units in investment funds	**6,962**	**9**	**529,760**	**5,764**	**151**	**513,983**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**44,733,610**	**676,518**	**2,641,539**	**39,775,500**	**406,838**	**2,769,637**
Total Level 1, Level 2 and Level 3			**48,051,667**			**42,951,975**

At June 30, 2014 available-for-sale financial assets amounted to €48,052 million, up by 11.9% compared to December 2013 (€42,952 million).

The increase was attributable to changes in investments in debt securities, which increased from €40,070 million at the end of 2013 to €45,261 million at the end of June 2014, mainly relating to the increase in value and volumes of investments in, primarily Italian, sovereign instruments.

Equity instruments included the interest held in the Bank of Italy, revalued at December 2013 as a result of the effects of the Law Decree 133 of November 30, 2013.

Available-for-sale financial assets include securities purchased by some of our internal pension funds, which do not have legal status or independent own means.

Section 5 – Held to maturity investments – Item 50

5.1 Held-to-maturity investments: product breakdown

Types of transactions/ Values	Amounts as at							
	06.30.2014				12.31.2013			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	**3,106,763**	**2,182,338**	**756,005**	**199,946**	**3,025,401**	**3,028,467**	**-**	**-**
- Structured securities	-	-	-	-	-	-	-	-
- Other securities	3,106,763	2,182,338	756,005	199,946	3,025,401	3,028,467	-	-
2. Loans	-	-	-	-	-	-	-	-
Total	**3,106,763**	**2,182,338**	**756,005**	**199,946**	**3,025,401**	**3,028,467**	**-**	**-**
Total Level 1, Level 2 and Level 3		**3,138,289**				**3,028,467**		

Valuations at fair value, only in order to meet disclosure requirements, were classified according to a hierarchy of levels reflecting the significance of the valuations input.

For further information see Part A - Accounting Policies - A.4 Information on fair value.

Section 6 – Loans and receivables with banks – Item 60

6.1 Loans and receivables with banks: product breakdown

Type of transactions/Values	Amounts as at							
	06.30.2014				12.31.2013			
	Book Value	FV			Book Value	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to central banks	**1,419,176**	**-**	**-**	**1,419,176**	**1,720,224**	**-**	**-**	**1720224**
1 Time deposits	-	X	X	X	2,269	X	X	X
2. Compulsory reserves	1,418,607	X	X	X	1,717,495	X	X	X
3. Reverse repos	-	X	X	X	-	X	X	X
4. Other	569	X	X	X	460	X	X	X
B. Loans to banks	**20,022,968**	**-**	**14,838,150**	**5,203,003**	**20,148,299**	**-**	**11,992,136**	**8,251,030**
1 Loans	12,331,400	-	7,092,202	5,199,342	11,189,519	-	2,942,114	8,247,404
1.1 Current accounts and demand deposits	4,904,635	X	X	X	5,948,550	X	X	X
1.2 Time deposits	995,211	X	X	X	887,784	X	X	X
1.3 Other loans	6,431,554	X	X	X	4,353,185	X	X	X
Reverse repos	*4,866,177*	X	X	X	*2,942,114*	X	X	X
Financial leases	-	X	X	X	-	X	X	X
Other	*1,565,377*	X	X	X	*1,411,071*	X	X	X
2. Debt securities	7,691,568	-	7,745,948	3,661	8,958,780	-	9,050,022	3,626
2.1 Structured	-	X	X	X	-	X	X	X
2.2 Other	*7,691,568*	X	X	X	*8,958,780*	X	X	X
Total	**21,442,144**	**-**	**14,838,150**	**6,622,179**	**21,868,523**	**-**	**11,992,136**	**9,971,254**

Receivables from banks are not managed on the basis of their fair value, which is shown only in order to meet disclosure requirements. Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input. For further information see Part A - Accounting Policies – A.4 Information on fair value.

Section 7 – Loans and receivables with customers - Item 70

7.1 Loans and receivables with customers: product breakdown

Type of transactions/Values	Amounts as at											
	06.30.2014						12.31.2013					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Others					Purchased	Others			
Loans	**196,227,531**	**62,096**	**24,381,058**	**-**	**109,945,107**	**119,401,273**	**204,105,374**	**68,293**	**24,152,590**	**-**	**91,878,978**	**139,530,151**
1 Current accounts	25,785,012	23,264	5,543,832	X	X	X	27,085,301	17,106	5,336,411	X	X	X
2. Reverse Repos	25,484,225	-	-	X	X	X	30,118,633	-	-	X	X	X
3. Mortgages	80,763,461	13,114	12,972,016	X	X	X	81,658,331	13,985	12,440,839	X	X	X
4. Credit cards and personal loans, including wage assignement loans	8,550,909	26	364,854	X	X	X	8,473,808	31	437,826	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	416,781	-	75,517	X	X	X	311,236	-	5,872,290	X	X	X
7. Other loans	55,227,143	25,692	5,424,839	X	X	X	56,458,065	37,171	5,872,290	X	X	X
Debt securities	**2,452,010**	**-**	**-**	**-**	**2,007,705**	**486,085**	**2,844,963**	**-**	**-**	**-**	**2,365,035**	**511,750**
8.1Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
8.2 Other debt securities	*2,452,010*	-	-	X	X	X	*2,844,963*	-	-	X	X	X
Total	**198,679,541**	**62,096**	**24,381,058**	**-**	**111,952,812**	**119,887,358**	**206,950,337**	**68,293**	**24,152,590**	**-**	**94,244,013**	**140,041,901**

Total carrying amount Performing and Impaired	**223,122,695**		**231,171,220**

Loans to Customers (€223,123 million) fell by €8,048 million compared to December 2013, (€231,171 million) mainly as a result of the reduction in funds used for reverse repos which fell from €30,119 million to €25,484 million at June 2014.

Sub-items 7. "Other loans" and 8.2 "Other Debt Securities" include exposures of €102 million and €269 million, respectively, arising from the "Trevi Finance", "Trevi Finance 2" and "Trevi Finance 3" securitization transactions, in respect of which the underlying assets were not recognized again in the accounts, at the date of first application of the International Accounting Standards, by virtue of the option introduced by IFRS1 applicable to the transactions conducted before January 1, 2004.

In addition, the above-mentioned debt securities are partially collateralized by an Italian Government bond whose market value is €294 million.

Please note that, since January 1, 2014, pursuant to IFRS 10 "Consolidated Financial Statements", the segregated funds of "Trevi Finance", "Trevi Finance 2" and "Trevi Finance 3" have been consolidated line by line in the UniCredit group's accounts.

In addition, in June 2014, "Trevi Finance" and "Trevi Finance 2" sold non-performing loans, which represented their segregated funds, to two other securitization SPVs not belonging to the UniCredit group named "Aurora SPV S.r.L." and "Augustus SPV S.r.L."

Lastly, please note that the exposures to "Trevi Finance" and "Trevi Finance 2" as at June 30, 2014 will be outstanding – and therefore included in the above table – until repaid by the SPVs according to the cash flow waterfall of these transactions. The valuation of these exposures at the end of the first half of the year is based on updated figures, which also take account of the aforementioned payments expected following the sale of the securitized portfolios.

The value of the non-performing loans in the separate financial statements of the SPV "Trevi Finance 3", not involved in the sale described above, amounted to €80 million as at June 30, 2014 compared to a gross amount of €670 million.

It should be noted that lending transactions collateralized by securities or not collateralized were classified under "off-balance sheet" exposures of table A.1.6 of Part E - Section 1 - Credit Risk. See also the section "Other information" of Part B.

Loans and receivables with customers are not carried at fair value, which is shown solely for the purpose of fulfilling financial disclosure requirements. Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input.

The fair value of on-demand items has been valued at their net carrying value using the possibility offered by IFRS 7.29. According to this assumption, demand items were classified as level 3 in the fair value hierarchy.

The fair value of impaired loans has been valued at their net carrying value considering the detailed realizable value as the best estimate of the expected discounted future cash flows at the valuation date. According to this assumption, impaired loans have been assigned a fair value level of 3.

For further information see Part A - Accounting Policies – A.4 Information on fair value.

Section 10 – Equity Investments - Item 100

Equity investments		
	Amounts as at	
	06.30.2014	12.31.2013
A. Subsidiaries	50,041,106	49,729,887
B. Joint ventures	379	379
C. Companies under significant influence	1,390,490	1,619,245
Total	**51,431,975**	**51,349,511**

The investments are individually tested for impairment in accordance with the provisions of IAS 36. When the conditions provided for therein apply, their recovery value is determined, understood as the greater of their “fair value” and “value in use” (the latter determined by discounting the cash flows at a rate that takes account of the current market rates and the specific risks of the asset or using other commonly accepted valuation criteria and methods suitable for the correct valuation of the investment). If the recovery value is less than the carrying amount, the latter is consequently reduced by allocating the corresponding impairment loss to the Income Statement.

On the basis of the above, at June 30, 2014 there were some write-downs, of which the most significant were:

- the subsidiaries Crivelli S.r.l for €11 million and Visconti S.r.l for €4 million
- the associates Fenice Holding S.p.A. for €56 million and Fenice S.r.l. for €1 million.

Section 11 – Property, plant and equipment - Item 110

11.1 Property, plant and equipment assets used in the business: breakdown of assets carried at cost

Assets/Values	Amounts as at	
	06.30.2014	12.31.2013
1 Owned	**1,503,188**	**1,550,125**
a) land	595,257	607,245
b) buildings	633,652	649,000
c) office furniture and fittings	27,574	29,849
d) elettronic systems	132,425	143,963
e) other	114,280	120,068
2 Leased	**-**	**-**
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	-	-
d) elettronic systems	-	-
e) other	-	-
Total	**1,503,188**	**1,550,125**

11.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

Assets'/Values	Amounts as at							
	06.30.2014				12.31.2013			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned	**1,066,033**	-	-	**1,225,060**	**1,116,129**	-	-	**1,270,206**
a) land	517,575	-	-	542,403	538,651	-	-	563,604
b) buildings	548,458	-	-	682,657	577,478	-	-	706,602
2. Leased	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Totale	**1,066,033**	-	-	**1,225,060**	**1,116,129**	-	-	**1,270,206**

Fair value measurements are shown solely for the purpose of fulfilling financial disclosure requirements and are classified according to a hierarchy of levels reflecting the significance of the valuations input.

For further information see Part A - Accounting Policies – A.4 Information on fair value.

Section 12 – Intangible assets - Item 120

12.1 Intangible assets: breakdown				
Assets/Values	Amounts as at			
	06.30.2014		12.31.2013	
	Finite Life	Indefinite Life	Finite Life	Indefinite Life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**1,169**	**-**	**1,339**	**-**
A.2.1Assets carried at cost:	1,169	-	1,339	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	*1,169*	-	*1,339*	-
A.2.2 Assets valued at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**1,169**	**-**	**1,339**	**-**

Total finite and indefinite life	**1,169**	**1,339**

Liabilities

Section 1 – Deposits from banks – Item 10

1.1 Deposits from banks: product breakdown		
Type of transactions/Values	Amounts as at	
	06.30.2014	12.31.2013
1. Deposits from central banks	**5,160,321**	**14,157,684**
2. Deposits from banks	**27,480,620**	**33,221,013**
2.1Current accounts and demand deposits	6,311,296	14,024,316
2.2 Time deposits	10,022,582	9,927,873
2.3 Loans	11,130,428	9,258,955
2.3.1repos	*6,301,592*	*4,916,189*
2.3.2 other	*4,828,836*	*4,342,766*
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	-
2.5 Other liabilities	16,314	9,869
Total	**32,640,941**	**47,378,697**
Fair value - level 1	-	-
Fair value - level 2	*24,761,700*	*30,880,813*
Fair value - level 3	*7,899,829*	*16,310,949*
Total fair value	*32,661,529*	*47,191,762*

The decrease in deposits from central banks is due to the reduction of Bank of Italy's refinancing operations.

The decrease in "Deposits from banks" was mainly due to the reduction in the balance on the current account of the subsidiary Fineco Bank, which was established during the preparations for the its stock exchange listing.

Deposits from banks are not carried at fair value, which is presented solely for the purpose of fulfilling market disclosure requirements. Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input.

For further information see Part A - Accounting Policies – A.4 Information on fair value.

Section 2 – Deposits from customers – Item 20

2.1 Deposits from customers: product breakdown		
Type of transactions/Values	Amounts as at	
	06.30.2014	12.31.2013
1 Current accounts and demand deposits	110,871,600	108,568,278
2. Time deposits	2,031,067	3,382,997
3. Loans	40,615,688	32,809,465
3.1repos	*38,660,311*	*30,794,526*
3.2 other	*1,955,377*	*2,014,939*
4. Liabilities in respect of commitments to repurchase treasury shares	-	-
5. Other liabilities	5,660,240	6,079,093
Total	**159,178,595**	**150,839,833**
Fair value - level 1	-	-
Fair value - level 2	*42,778,426*	*35,482,637*
Fair value - level 3	*116,000,023*	*114,648,769*
Total fair value	*158,778,449*	*150,131,406*

Deposits from customers are not carried at fair value, which is presented solely for the purpose of fulfilling financial disclosure requirements. Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input.

The fair value of demand items was estimated to be equal to their net book value by exercising the option provided for by IFRS7.29. According to this assumption, demand items were classified as level 3 in the fair value hierarchy.

For further information see Part A - Accounting Policies – A.4 Information on fair value.

Section 3 – Debt securities in issue – Item 30

3.1 Debt securities in issue: product breakdown

Type of securities/ Values	Amounts as at							
	06.30.2014				12.31.2013			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Listed securities								
1. Bonds	105,749,516	42,910,818	67,349,846	114	101,033,612	46,513,462	56,580,714	200
1.1 structured	1,283,770	-	1,330,614	-	1,475,685	-	1,522,880	-
1.2 other	104,465,746	42,910,818	66,019,232	114	99,557,927	46,513,462	55,057,834	200
2. Other securities	16,013,961	-	12,050,951	4,047,849	18,877,273	-	17,026,667	1,978,696
2.1 structured	203,907	-	207,036	-	360,956	-	365,288	-
2.2 other	15,810,054	-	11,843,915	4,047,849	18,516,317	-	16,661,379	1,978,696
Total	**121,763,477**	**42,910,818**	**79,400,797**	**4,047,963**	**119,910,885**	**46,513,462**	**73,607,381**	**1,978,896**
Total Level 1, Level 2 and Level 3				**126,359,578**				**122,099,739**

Section 4 – Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: product breakdown

Type of transactions/ Values	Amounts as									
	06.30.2014					12.31.2013				
	Nominal Value	Fair Value			FV*	Nominal Value	Fair Value			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Financial liabilities										
1. Deposits from banks	-	162,946	-	-	-	-	60,291	-	-	60,291
2. Deposits from customers	-	2,005,129	-	-	-	-	2,199,610	-	-	2,199,610
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**2,168,075**	**-**	**-**	**-**	**-**	**2,259,901**	**-**	**-**	**2,259,901**
B. Derivative instruments										
1. Financial derivatives	X	7,589	8,110,516	363,073	X	X	4,800	8,085,594	453,652	X
1.1 Trading	X	7,589	7,762,303	98,233	X	X	4,800	7,796,825	84,427	X
1.2 Related to fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	348,213	264,840	X	X	-	288,769	369,225	X
2. Credit derivatives	X	-	-	26	X	X	-	-	55	X
2.1 Trading derivatives	X	-	-	-	X	X	-	-	-	X
2.2 Related to fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	26	X	X	-	-	55	X
Total B	**X**	**7,589**	**8,110,516**	**363,099**	**X**	**X**	**4,800**	**8,085,594**	**453,707**	**X**
Total A+B	**-**	**2,175,664**	**8,110,516**	**363,099**	**X**	**-**	**2,264,701**	**8,085,594**	**453,707**	**X**
Total Level 1, Level 2 and Level 3				**10,649,279**					**10,804,002**	

Balance-sheet liabilities increased as a result of the recognition of technical overdrafts typical of primary dealer and market maker transactions in government bonds.

“Financial derivatives: other” comprises: (i) derivatives embedded in structured financial instruments, where the host has been classified in a category other than held-for-trading or fair value option and (ii) derivatives that, for economic purposes, are associated with banking book instruments.

Section 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Items/Values	Amounts as at	
	06.30.2014	12.31.2013
1. Pensions and other post retirement benefit obligations	**798,697**	**806,371**
2. Other provisions for risks and charges	**1,112,972**	**1,477,805**
2.1 Legal disputes	368,084	591,850
2.2 Staff expenses	269,659	322,254
2.3 Other	475,229	563,701
Total	**1,911,669**	**2,284,176**

Under provisions for risks and charges, the item 2.1 Legal disputes decreased primarily due to the use of the provision for the Cirio proceedings, details of which are provided in Part E – Section 4 – Operational risk – point B – Legal Risks.

Under provisions for risks and charges, the item 2.3 Other decreased also as a result of the reduction of the sums requested and their subsequent payment by UniCredit S.p.A. following the Compensation Agreement with UniCredit Bank AG, allocated at December 2013 in the amount of €44 million.

12.3 Provisions for defined-benefit company pensions

1. Description of the funds

The obligations arising from defined-benefit plans are determined using the “projected unit credit method”. The assets of financed plans are valued at their fair value at the balance sheet date. The balance sheet is the result of the deficit or surplus (i.e., the difference between defined benefit obligations and assets).

The actuarial assumptions used to determine obligations vary from country to country and from plan to plan in accordance with IAS 19. The discount rate is determined, depending on the currency of denomination of the commitments and the maturity of the liability, on the basis of the market yields at the balance sheet date of a basket of “prime corporate bonds” (high quality corporate bonds). It should be noted that, in order to increase its representativeness on medium- and long-term maturities, the basket contains some "investment grade" bonds whose rating is lower than AA, for which an adjustment is made. In addition, statistical/econometric methods commonly used are applied to extrapolate the yields expressed by the basket of securities for maturities greater than 25 years.

Discount rate as of June 30 2014 for pensions and post-retirement benefits is reduced by 50bps, on average, compared to December,31 2013 (70 bps the reduction for “Trattamento di fine rapporto del personale”) reflecting the yields evolution of the basket of selected securities.

The remeasurement at June 30, 2014 of such commitments (including employee severance pay for so called Trattamento di fine rapporto del personale) leads to an increase in the negative balance of the revaluation reserve referred to actuarial gains/losses on defined benefit plans of €45,8 million, net of tax (balance moves from €147 million at December 31, 2013 to €192,8 million at June 30, 2014).

12.4 Provisions for risks and charges - other provisions - other		
	Amounts as at	
	06.30.2014	12.31.2013
2.3 Other provisions for risks and charges - other		
- Out-of-court settlements, accidents and other claims	19,947	18,529
- Tax disputes	22,672	20,296
- Guarantees and other risks connected with equity investment disposals	45,968	48,520
- Other	386,642	476,356
Total	**475,229**	**563,701**

Following the outcome of the review of contingent assets conducted on the balances in compliance with the requirements of the Bank of Italy's technical note of August 7, 2012, for the purposes of this report contingent assets of €328 million recorded in item 150 Other assets and the related provisions were derecognized.

Other Information

2. Assets used to guarantee own liabilities and commitments		
Portfolios	Amounts as at	
	06.30.2014	12.31.2013
1 Financial assets held for trading	1,651,176	98,610
2. Financial assets designated at fair value	1,100	1,079
3. Financial assets available for sale	27,166,524	17,256,898
4. Financial assets held to maturity	2,866,072	2,652,309
5. Loans and receivables with banks	1,812,767	1,849,998
6. Loans and receivables with customers	34,635,548	34,104,806
7. Property, plant and equipment	-	-

Deposits from banks include €2,028 million related to Bank of Italy's refinancing operations collateralized by securities nominal worth €15,462 million. Of these, the securities not recognized on balance-sheet – since they represent security borrowing transactions and repurchased or retained UniCredit S.p.A.'s financial liabilities – amount to nominal €12,872 million.

4. Asset management and trading on behalf of others		
Type of services	Amount as at	
	06.30.2014	12.31.2013
1. Management and trading on behalf of third parties		
a) Purchases	-	-
1 Settled	-	-
2. Unsettled	-	-
b) Sales	-	-
1 Settled	-	-
2. Unsettled	-	-
2. Segregated accounts		
a) Individual	7,631,373	7,350,554
b) Collective	-	-
3. Custody and administration of securities		
a) Third party securities on deposit: relating to depositary bank activities (excluding segregated accounts)	-	-
1 securities issued by the bank preparing the accounts	-	-
2. other securities	-	-
b) Third party securities held in deposit (excluding segregated accounts): other	153,159,117	161,995,870
1 securities issued by the bank preparing the accounts	*31,650,180*	*36,624,061*
2. other securities	*121,508,937*	*125,371,809*
c) Third party securities deposited with third parties	152,140,598	160,649,451
d) Proprietary securities deposited with third parties	85,206,309	68,572,382
4. Other	**8,616,860**	**8,136,812**

The figure relating to the amount for proprietary securities deposited with third parties (sub-item 3.d.), compared to the figure for 2013, includes the face value of the securities held in the portfolio acquired under “self-securitizations” that are not shown under the balance sheet assets.

Explanatory notes

Part C) Income Statement

Part C) Income Statement

(amounts in thousands of €)

Section 1 – Interest income and expenses - Item 10 and 20

1.1 Interest income and similar revenues: breakdown

Items/Type	FIRST HALF 2014				FIRST HALF 2013
	Debt securities	Loans	Other transactions	Total	Total
1 Financial assets held for trading	30,329	-	-	30,329	11,264
2. Available-for-sale financial assets	515,813	-	-	515,813	452,897
3. Held-to-maturity investments	19,467	-	-	19,467	23,420
4. Loans and receivables with banks	46,749	53,447	-	100,196	134,581
5. Loans and receivables with customers	25,379	3,352,542	-	3,377,921	3,645,065
6. Financial assets at *fair value* through profit or loss	5,376	-	-	5,376	11
7. Hedging derivatives	X	X	540,523	540,523	500,711
8. Other assets	X	X	2,606	2,606	5,169
Total	**643,113**	**3,405,989**	**543,129**	**4,592,231**	**4,773,118**

1.4 Interest expense and similar charges: breakdown

Items/Type	FIRST HALF 2014				FIRST HALF 2013
	Debts	Securities	Other transactions	Total	Total
1 Deposits from Central banks	(15,099)	X	-	(15,099)	(59,477)
2. Deposits from banks	(155,041)	X	-	(155,041)	(220,846)
3. Deposits from customers	(332,380)	X	-	(332,380)	(492,859)
4. Debt securities in issue	X	(1,905,901)	-	(1,905,901)	(2,057,744)
5. Financial liabilities held for trading	-	(3)	(11,795)	(11,798)	(332)
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and funds	X	X	(149)	(149)	(123)
8. Hedging derivatives	X	X	-	-	-
Total	**(502,520)**	**(1,905,904)**	**(11,944)**	**(2,420,368)**	**(2,831,381)**

Section 2 – Fee and commission income and expense - Item 40 and 50

2.1 Fee and commission income: breakdown

Type of services/Values	FIRST HALF 2014	FIRST HALF 2013
a) guarantees given	**188,179**	**163,944**
b) credit derivatives	**-**	**-**
c) management, brokerage and consultancy services:	**920,642**	**801,575**
1 securities trading	4	8
2. currency trading	37,447	38,109
3. portfolio management	41,579	40,116
3.1 individual	35,671	35,178
3.2. collective	*5,908*	4,938
4. custody and administration of securities	6,801	6,491
5. custodian bank	-	-
6. placement of securities	408,685	346,833
7. reception and transmission of orders	92,570	96,515
8. advisory services	8,428	8,169
8.1related to investments	6,551	5,621
8.2 related to financial structure	1,877	2,548
9. distribution of third party services	325,128	265,334
9.1portfolio management	8,254	11,748
9.11 individual	8,254	11,748
9.12. collective	-	-
9.2. insurance products	309,426	246,980
9.3. other products	7,448	6,606
d) collection and payment services	**301,868**	**324,181**
e) securitization servicing	**26,532**	**23,920**
f) factoring	**-**	**-**
g) tax collection services	**-**	**-**
h) management of multilateral trading facilities	**-**	**-**
i) management of current accounts	**502,178**	**478,202**
j) other services	**155,981**	**145,152**
k) security lending	**3,863**	**4,491**
Total	**2,099,243**	**1,941,465**

2.3 Fee and commission expense: breakdown

Type of services/Values	FIRST HALF 2014	FIRST HALF 2013
a) guarantees received	**(33,323)**	**(38,435)**
b) credit derivatives	**(337)**	**(3,419)**
c) management, brokerage and consultancy services:	**(36,324)**	**(33,776)**
1 trading financial instruments	(3,768)	(2,900)
2. currency trading	(482)	(707)
3. portfolio management:	(3,099)	(5,889)
3.1 own portfolio	*(3,099)*	*(5,889)*
3.2. third party portfolio	-	-
4. custody and administration of securities	(21,049)	(20,477)
5. placement of financial instruments	(59)	(394)
6. off-site distribution of financial instruments, products and services	(7,867)	(3,409)
d) collection and payment services	**(57,238)**	**(58,676)**
e) other services	**(59,705)**	**(87,314)**
f) security borrowing	**(2,800)**	**(1,983)**
Total	**(189,727)**	**(223,603)**

Section 3 – Dividend income and similar revenue - Item 70

3.1 Dividend income and similar revenue: breakdown				
	FIRST HALF			
	2014		2013	
Items/Revenues	Dividends	Income from units in investment funds	Dividends	Income from units in investment funds
A. Financial assets held for trading	-	-	-	-
B. Available for sale financial assets	89,710	5,048	20,854	5,103
C. Financial assets at fair value thought profit or loss	-	-	-	-
D. Investments	1,265,886	X	3,137,209	X
Total	**1,355,596**	**5,048**	**3,158,063**	**5,103**

Total dividends and income from units in investments funds	**1,360,644**	**3,163,166**

Section 4 – Gains and losses on financial assets and liabilities held for trading - Item 80

4.1 Gains and losses on financial assets and liabilities held for trading: breakdown					
	FIRST HALF 2014				
Transactions/P&L Items	Unrealized profits	Realized profits	Unrealized losses	Realized losses	Net Profit
1. Financial assets held for trading	**22,580**	**115,173**	**(9,463)**	**(45,680)**	**82,610**
1.1 Debt securities	22,580	115,133	(9,283)	(45,666)	82,764
1.2 Equity instruments	-	17	(180)	(14)	(177)
1.3 Units in investment funds	-	23	-	0	23
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**(30,887)**
4. Derivatives	**1,498,223**	**399,720**	**(1,384,315)**	**(621,401)**	**(53,836)**
4.1 Financial derivatives:	1,498,195	399,706	(1,384,287)	(621,401)	(53,850)
- on debt securities and interest rates	*1,376,030*	*363,398*	*(1,369,421)*	*(456,873)*	*(86,866)*
- on equity securities and share indices	*112,717*	*19,306*	*(5,418)*	*(148,525)*	*(21,920)*
- on currency and gold	*X*	*X*	*X*	*X*	*53,937*
- other	*9,448*	*17,002*	*(9,448)*	*(16,003)*	*999*
4.2 Credit derivatives	28	14	(28)	-	14
Total	**1,520,803**	**514,893**	**(1,393,778)**	**(667,081)**	**(2,113)**

The item 4.1 Financial derivatives on equity securities and share indices includes -€22 million resulting from the Compensation Agreement signed between UniCredit Bank AG, UniCredit S.p.A. and UniCredit Bank Austria under the ReboRa agreement.

Section 5 – Fair value adjustments in hedge accounting - Item 90

5.1 Fair value adjustments in hedge accounting: breakdown		
Profit Component/Values	FIRST HALF	
	2014	2013
A. Gains on:		
A.1Fair value hedging instruments	1,406,555	39,490
A.2 Hedged asset items (in *fair value*)	984,426	237
A.3 Hedged liability items (in *fair value*)	22,060	1,116,789
A.4 Cash-flow hedging derivatives	-	2,486
A.5 Assets and liabilities denominated in currency	166	-
Total gains on hedging activities	**2,413,207**	**1,159,002**
B. Losses on:		
B.1Fair value hedging instruments	(952,650)	(610,178)
B.2 Hedged asset items (in *fair value*)	(437,516)	(542,480)
B.3 Hedged liability items (in *fair value*)	(1,015,015)	(2,884)
B.4 Cash-flow hedging derivatives	(2,186)	-
B.5 Assets and liabilities denominated in currency	-	(184)
Total losses on hedging activities	**(2,407,367)**	**(1,155,726)**
C. Net hedging result	**5,840**	**3,276**

The net hedging for the year also reflected, for the first time, +€7 million resulting from an OIS adjustment in the valuation of the derivatives to take account of the presence of guarantees.

Section 6 – Gains (losses) on disposals/repurchases – Item 100

6.1 Gains and losses on disposals/repurchases: breakdown

Items / P&L Items	FIRST HALF					
	2014			2013		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	78,563	(29,408)	49,155	-	-	-
2. Loans and receivables with customers	48,420	(60,898)	(12,478)	9,742	(16,690)	(6,948)
3. Available-for-sale financial assets	257,196	(54,979)	202,217	70,448	(30,396)	40,052
3.1 Debt securities	145,669	(54,975)	90,694	69,435	(30,396)	39,039
3.2 Equity instruments	111,495	-	111,495	125	-	125
3.3 Units in investment funds	32	(4)	28	888	-	888
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	384,179	(145,285)	238,894	80,190	(47,086)	33,104
Financial liabilities						
1. Deposits with banks	-	-	-	-	-	-
2. Deposits with customers	-	-	-	-	-	-
3. Debt securities in issue	157,686	(148,098)	9,588	302,410	(20,214)	282,196
Total liabilities	157,686	(148,098)	9,588	302,410	(20,214)	282,196
Total financial assets and liabilities			248,482			315,300

Under the gains/losses on disposal of financial assets, the net gains on loans and receivables with banks originated from the resale to Fineco Bank of its issues originally subscribed by UniCredit S.p.A. (+€49 million). At the same time UniCredit S.p.A. repurchased these issues originally subscribed by Fineco Bank realizing a loss of €49 million, recognized under losses on Financial liabilities – 3. Debt securities in issue.

At June 2014 a tender offer was launched on senior retail issues that resulted in the repurchase by UniCredit S.p.A. of all these issues for a nominal amount of around €2.5 billion, realizing a gain of €49 million, recognized under gains on Financial liabilities – 3. Debt securities in issue.

The gains on Available-for-sale Financial Assets, in addition to the effects of the sales of Italian government securities, included the gain from the disposal of Atlantia (€83 million) and the closure of the convertible bonds Risanamento and Prelios (€27 million and €1 million, respectively), recognised under point 3.2 Equity instruments.

Section 7 – Gains and losses on financial assets/liabilities at fair value through profit and loss - Item 110

7.1 Net change in financial assets and liabilities at fair value through profit or loss: breakdown

Transactions/P&L Items	FIRST HALF 2014				
	Unrealized profits	Realized profits	Unrealized losses	Realized losses	Net profit
1. Financial assets	**1,314**	**-**	**(4,611)**	**(99)**	**(3,396)**
1.1 Debt securities	196	-	(4,184)	-	(3,988)
1.2 Equity securities	-	-	-	-	-
1.3 Units in investment funds	1,118	-	(427)	(99)	592
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Deposits from banks	-	-	-	-	-
2.3 Deposits from customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	**-**
4. Credit and financial derivatives	**-**	**-**	**-**	**-**	**-**
Total	**1,314**	**-**	**(4,611)**	**(99)**	**(3,396)**

Section 8 – Impairment losses - Item 130

8.1 Impairment losses on loans and receivables: breakdown

Transactions/P&L Items	FIRST HALF 2014								FIRST HALF 2013 Total
	Write-downs			Write-backs				Total	
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		Interest	Other	Interest	Other		
A. Loans and receivables with banks	**-**	**(735)**	**(5,069)**	**4**	**522**	**-**	**1,476**	**(3,802)**	**(351)**
- Loans	-	(735)	(5,069)	4	522	-	1,476	(3,802)	(351)
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	**(108,604)**	**(2,146,434)**	**(475,784)**	**182,516**	**931,339**	**-**	**472,296**	**(1,144,671)**	**(1,730,955)**
Impaired related to purchase agreements	**(619)**	**(2,537)**	**X**	**656**	**8,533**	**-**	**X**	**6,033**	**(12,129)**
- Loans	(619)	(2,537)	X	656	8,533	-	X	6,033	(12,129)
- Debt securities	-	-	X	-	-	-	X	-	-
Others	**(107,985)**	**(2,143,897)**	**(475,784)**	**181,860**	**922,806**	**-**	**472,296**	**(1,150,704)**	**(1,718,826)**
- Loans	(107,985)	(2,143,897)	(435,449)	181,860	922,806	-	472,296	(1,110,369)	(1,715,244)
- Debt securities	-	-	(40,335)	-	-	-	-	(40,335)	(3,582)
C. Total	**(108,604)**	**(2,147,169)**	**(480,853)**	**182,520**	**931,861**	**-**	**473,772**	**(1,148,473)**	**(1,731,306)**

Section 9 – Administrative costs – Item 150

9.1 Payroll: breakdown

Type of expenses/Sectors	FIRST HALF 2014	FIRST HALF 2013
1) Employees	**(1,568,638)**	**(1,641,222)**
a) wages and salaries	(1,087,484)	(1,093,454)
b) social charges	(290,606)	(303,847)
c) severance pay	(62,963)	(62,497)
d) social security costs	-	-
e) allocation to employee severance pay provision	(17,179)	(16,950)
f) provision for retirement payments and similar provisions:	(12,263)	(13,406)
- defined contribution	*(543)*	*(618)*
- defined benefit	*(11,720)*	*(12,788)*
g) payments to external pension funds:	(43,054)	(54,038)
- defined contribution	*(43,054)*	*(53,692)*
- defined benefit	*0*	*(346)*
h) costs related to share-based payments	(5,182)	(18,862)
i) other employee benefits	(49,907)	(78,168)
2) Other staff in activity	**(2,613)**	**(2,410)**
3) Directors and Statutory Auditors	**(3,460)**	**(3,448)**
4) Early retirement costs	**-**	**-**
5) Recoveries of payments for second employees to other companies	**26,548**	**24,187**
6) Refund of expensives for employees seconded to the company	**(20,350)**	**(18,364)**
Total	**(1,568,513)**	**(1,641,257)**

9.2 Average number of employees by category

	FIRST HALF 2014	FIRST HALF 2013
Employees:	**40,638**	**40,965**
a) Senior managers	1,109	1,139
b) Managers	20,760	20,853
c) Remaining employees staff	18,769	18,973
Other Staff	**500**	**445**
Total	**41,138**	**41,410**

9.5 Other administrative expenses: breakdown		
Type of expenses/sectors	FIRST HALF	
	2014	2013
1) Indirect taxes and duties	**(266,016)**	**(215,983)**
2) Misceilaneous costs and expenses	**(1,232,124)**	**(1,155,949)**
a) advertising marketing and communication	**(50,624)**	**(53,877)**
b) expenses related to credit risk	**(126,665)**	**(130,120)**
c) expenses related to personnel	**(48,175)**	**(50,269)**
d) Information & Communication Technology expenses	**(416,938)**	**(313,397)**
Lease of ICT equipment and software	(7,928)	(10,753)
Software expenses: lease and maintenance	(2,246)	(2,325)
ICT communication systems	(3,462)	(3,260)
ICT services: external personnel/outsourced services	(393,207)	(287,852)
Financial information providers	(10,095)	(9,207)
e) consulting and professionals services	**(69,728)**	**(66,572)**
Consulting	(42,696)	(37,714)
Legal expenses	(27,032)	(28,858)
f) real estate expenses	**(273,996)**	**(267,913)**
Premises rentals	(161,626)	(166,887)
Utilities	(41,509)	(36,239)
Other real estate expenses	(70,861)	(64,787)
g) other functioning costs	**(245,998)**	**(273,801)**
Surveillance and security services	(32,282)	(34,657)
Printing and stationery	(3,750)	(5,251)
Postage and transport of documents	(21,175)	(23,042)
Administrative and logistic services	(155,888)	(177,991)
Insurance	(15,632)	(14,221)
Association dues and fees	(7,585)	(8,204)
Other administrative expences - Other	(9,686)	(10,435)
Total (1+2)	**(1,498,140)**	**(1,371,932)**

Expenses related to personnel include the expenses that do not represent remuneration of the working activity of an employee in compliance with IAS 19.

Section 10 – Provisions for risks and charges – Item 160

10.1 Net provisions for risks and charges: breakdown				
Items/Components	FIRST HALF 2014			FIRST HALF 2013 TOTAL
	Provisions	Reallocation surplus	Total	
1. Other provisions				
1.1 legal disputes	(65,430)	30,185	(35,245)	(88,854)
1.2 staff costs	-	-	-	-
1.3 other	(70,639)	33,814	(36,825)	(82,826)
Total	**(136,069)**	**63,999**	**(72,070)**	**(171,680)**

Section 13 – Other net operating income - Item 190

13.1 Other operating expense: breakdown		
	FIRST HALF	
Type of expense/Values	2014	2013
Impairment losses on leasehold improvements (on non-separable assets)	(14,708)	(17,103)
Other	(43,105)	(34,294)
Total	**(57,813)**	**(51,397)**

13.2 Other operating income: breakdown		
	FIRST HALF	
Type of revenue/Values	2014	2013
Recovery of costs	350,159	333,830
of which: Commissione di istruttoria veloce (CIV)	*49,041*	*72,366*
Revenues for administrative services	9,588	9,127
Rentals	18,513	17,411
Other Revenues	31,094	21,014
Total	**409,354**	**381,382**

Section 21 – Earnings per share

Earnings per share		
	FIRST HALF	
	2014	2013
Net profit (loss) (thousands of euros) (1)	1,022,097	2,656,262
Average number of outstanding shares (2)	5,708,947,128	5,693,983,623
Average number of potential dilutive shares	27,477,294	21,324,162
Average number of diluted shares	5,736,424,422	5,715,307,785
Annualized Earning (Loss) per Share €	**0.36**	**0.94**
Annualized Diluted Earning (Loss) per Share €	**0.36**	**0.94**
Earning (Loss) per share €	**0.18**	**0.47**
Diluted Earning (Loss) per share €	**0.18**	**0.47**

1. €35,466 thousand was deducted from 2014 first half net profit of €1,057,563 thousand due to disbursements charged to equity made in connection with the contract of usufruct on treasury shares agreed under the 'cashes' transaction (€35,489 thousands was deducted from 2013 first half net profit).
2. Net of the average number of treasury shares and of 96,756,406 shares held under a contract of usufruct.

Part D) Other comprehensive Income

Part D) Other comprehensive Income

(amounts in thousands of €)

Other Comprensive Income Statement				
	Voci	Before tax effects	Tax effects	After tax effects
10.	Net Profit or Loss for the period	X	X	1,057,563
	Other comprehensive income not to be recycled to income statement			
20.	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Actuarial gains (losses) on definited benefit plans	(63,185)	17,376	(45,809)
50.	Non-current assets classified held for sale	-	-	-
60.	Changes in valuation reserve pertaining to the equity method investments	-	-	-
	Other comprehensive income to be recycled to P&L			
70.	Hedges of foreign investments:	-	-	-
	a) fair value changes	-	-	-
	b) reclassifications through profit or loss	-	-	-
	c) other variations	-	-	-
80.	Exchange differences:	-	-	-
	a) changes in value	-	-	-
	b) reclassifications through profit or loss	-	-	-
	c) other variations	-	-	-
90.	Cash flow hedges:	(32,773)	12,739	(20,034)
	a) fair value changes	(32,773)	10,661	(22,112)
	b) reclassifications through profit or loss	-	-	-
	c) other variations	-	2,078	2,078
100.	Available-for-sale financial assets	664,902	(237,947)	426,955
	a) fair value changes	841,990	(274,967)	567,023
	b) reclassifications through profit or loss	(178,883)	37,553	(141,330)
	- due to impairment	(315)	49	(266)
	- following disposal	(178,568)	37,504	(141,064)
	c) other variations	1,795	(533)	1,262
110.	Non-current assets classified held for sale	-	-	-
	a) fair value changes	-	-	-
	b) reclassifications through profit or loss	-	-	-
	c) other variations	-	-	-
120.	Changes in valuation reserve pertaining to equity	-	-	-
	a) fair value changes	-	-	-
	b) reclassifications through profit or loss	-	-	-
	- due to impairment	-	-	-
	- following disposal	-	-	-
	c) other variations	-	-	-
130.	Other comprehensive income after tax	568,944	(207,832)	361,112
140.	Comprehensive income (Item 10+130)			1,418,675

Explanatory notes

Part E) Risks and Hedging Policies

Section 1 – Credit risk

Section 2 – Market risks

Section 3 – Liquidity risk

Section 4 – Operational risks

Part E) Risks and Hedging Policies
(amounts in thousands €)

Risk Management in UniCredit S.p.A.

UniCredit S.p.A. monitors and manages its risks through rigorous methodologies and procedures proving to be effective through all phases of the economic cycle.

The control and steering of the risks are exerted by the UniCredit S.p.A.'s Risk Management function which pursues its own steering, coordination and control role in particular through the "Portfolio Risk Managers" which are responsible for the relevant risks, from a Group and cross-divisional perspective. Furthermore the model considers a specific point of reference for Italy through the "CRO Italy" function, to which has been assigned the responsibilities related to credit, operational and reputational risks of the Italian perimeter, as well as the managerial coordination of Risk Management functions in the Italian Legal Entities.

In particular, the Risk Management function is responsible for the following tasks:

- optimizing asset quality, minimizing the cost of risks, consistent with the risk / return targets assigned to each Business Area;
- defining, together with the Planning, Finance & Administration function, the risk appetite and evaluating capital adequacy, within the Internal Capital Adequacy Process (ICAAP), consistently with Basel II, Pillar II requirements;
- defining - in compliance with Basel II and the regulatory updates (CRD IV and CRR) and Bank of Italy requirements - the rules, methodologies, guidelines, policies and strategies for risk management, and, in cooperation with the Organization department, the related processes and their implementation;
- setting up a credit and concentration risk control system both of single counterpart/economic groups and significant clusters (e.g. as industrial areas/economic sectors), monitoring and reporting the limits defined beforehand;
- defining and providing to the Business Areas the valuation, managerial, monitoring and reporting criteria of the risks and ensuring the consistency of systems and control procedures;
- supporting the Business Areas to achieve their targets, contributing to product and business development (e.g. innovation of credit products, competitive opportunities linked to Basel accords, etc.);
- verifying, by means of the initial and on-going validation process, the adequacy of the risk measurement systems adopted, steering the methodological choices towards higher and homogeneous qualitative standards and controlling the coherence in using the above systems within the processes;
- setting up an adequate system of preventive risk analysis, in order to quantify the impacts of a quick worsening of the economic cycle or of other shock factors (i.e. Stress Test) on the economic and financial structure. This holds for single risk types as well as their integration and comparison to available capital;
- creating a risk culture in UniCredit S.p.A. and across the whole Group.

Section 1 – Credit Risk

QUALITATIVE INFORMATION

1. General Aspect

With reference to the risk management model, the streamlining of the governance system initiated through the One4C project continued during 2014 with the aim of achieving higher levels of efficiency and ensuring firm control in relation to risk.

Within the Parent Company a further step was taken in the first half of 2014 in the simplification and streamlining of the organizational structure. With specific reference to the control of credit risk a single competence center is now fully operational for all the activities of steering and coordination that incorporates under its responsibility, in addition to credit risk, the responsibility for the development and validation of rating systems and the integrated risk management.

The “CRO Italy” function has been assigned all the credit and risk management responsibilities for UniCredit S.p.A as well as the overall Italian perimeter and the managerial coordination of the relevant risk management functions in the Italian Legal Entities of the Group.

The organizational structure for the control of credit risk, operational since June 30, 2014, is described in the next section with specific reference to structures and responsibilities.

During the first half of 2014 the Group Credit Risk Strategies were released, consistent with the Group Risk Appetite and Pillar II metrics. Also in accordance with Pillar II, concentration risk was updated in respect of concentration risk at individual economic group level (bulk risk) and at industry level. In addition, in order to further improve the internal validation process, the related internal regulations concerning the validation of the Credit Portfolio Model and ICAAP process were updated.

UniCredit S.p.A. continues its intense effort to extend Basel 2 and subsequent regulatory updates (CRD IV and CRR) to the entire perimeter. With specific reference to credit risk, it is currently authorized to use internal estimates for PD, LGD and EAD parameters for its own loan portfolio (Sovereigns, Banks, Multinational Enterprises and Global Project Finance transactions) and for loan portfolios such as corporate and retail exposures. With regard to the EAD parameter, pending approval for the use of internal models, the parameters defined according to the Foundation approach are currently used, with the exception of Private Mortgage Loans for which an internal EAD model is already being used for regulatory purposes.

Monitoring of the identification of major business groups - those with an exposure exceeding two percent of the consolidated regulatory capital (Top Group) - is carried out by a special dedicated unit within Risk Management. The activity focused on the definition and periodic review of the “Top Group”, which includes both industrial and financial groups. Special support initiatives were also organized by providing methodological and technical assistance aimed at facilitating the above activity in respect of groups not directly supervised by that unit.

Within the scope of the Italian business, we have further strengthened the processes and procedures supporting loan disbursement, monitoring and loan recovery. The process of monitoring the performance of companies have been revised and strengthened by improving the identification of customers with signs of deterioration in their risk profile and the consequent management actions. Numerous other activities, partly still in under way, have also been undertaken to further strengthen the processes and tools to support restructuring, credit recovery for businesses and collection from individuals.

In the area of risk measurement, in order to improve the assessment of counterparties, the measurement model is currently being redeveloped for Probability of Default of individuals. This has been completed for current account overdrafts and cards, and is at the final stage for the other products. Loss Given Default models have also been redeveloped for Residential Mortgages.

The Italian loan disbursement and monitoring units (Credit Operations Italy) have been organized into 7 local units each responsible for the entire local portfolio (Corporate, SME Corporate and Individuals).

In order to continue providing adequate support to the economy the range of financing products has been continuously updated, enhancing the use of instruments such as the SACE guarantees and the Central Guarantee Fund. In addition, particular attention has been paid to households that want to buy a home, both through the range of products launched in the second half of 2013 – with advisory support and customizable features based on the analysis of customers' current and future needs – and through optimization of the management of loan assumptions. We also continued to support customers in the areas affected by events such as floods and earthquakes, both by participating in the initiatives promoted by ministerial decrees and through the Group own initiatives.

In addition, initiatives (“Subito Banca” immediate banking) and high-tech instruments have been developed, aimed at spreading and making the use advanced transactional channels easier and more secure, particularly for current account and consumer credit services.

Lastly, with regard to the management of guarantees, in first part of 2014 work continued on the gathering of paper-based information and the update of the appraisals of mortgage guarantee assets, through extensive use of dedicated IT systems.

2. Credit Risk Management Policy

2.1. Organization

The credit risk organization in UniCredit S.p.A. breaks down into two levels:

- functions with responsibilities at Group level;
- functions with responsibilities at Country level.

The functions with responsibilities at Group level are:

- the Group Credit Risk department which, inter alia, is responsible for:
  - defining the Group regulations on credit risk;
  - defining credit strategies and limits;
  - carry out stress tests and portfolio analysis;
  - monitor the concentration of credit risk through dedicated limits;
  - preparing the reports needed for monitoring the trend of the loan portfolio;
  - monitoring the loan portfolio, by assessing its overall quality and managing the quality of riskier asset buckets;
- the Group Credit Transactions department which - inter alia - is responsible for the evaluation, monitoring and supervision of *Large Credit Transactions*, through the following activities:
  - evaluating credit proposals to be submitted to the "Group Transactional Credit Committee" and/or the "Group Credit Committee" and formulating expert opinions to be submitted to these committees;
  - within its delegated powers, deciding or issuing non-binding credit opinions (NBCO) in respect of credit proposals for Financial Institutions, Banks and Sovereigns (FIBS) and Special Products (e.g. ABS, Securitization, etc.)
  - acting as Group competence team, issuing expert advice on credit proposals submitted by the Legal Entities in relation to structured finance (LPAC[1] and Special Products) and FIBS transactions;
  - monitoring FIBS counterparties, the companies in the CIB portfolio, Structured Finance transactions and Debt-to-Equity positions arising in the course of restructuring activities
  - coordinating and guiding restructuring and workout activities carried out by the Group Legal Entities on the basis of defined areas/thresholds
- the Group Risks Control department which, among other activities, is responsible for:
  - ensuring the development, management and continuous evolution of models, rating tools, credit risk measurement tools for the overall portfolio and credit risk methodologies.
  - coordinating the implementation of the Basel regulation on credit risk and ensuring the relevant disclosure to corporate governance Bodies and Supervisory Authorities.
  - Group level validation of the methodologies for measuring credit risk, the relevant processes and the IT and data quality components, in order to verify their compliance with regulatory requirements and internal standards.
  - assigning the rating to certain types of relevant counterparties (Top Banking and Top Corporate);
  - deciding, within its delegated powers, or submitting proposals to the relevant decision-making Bodies for rating override in respect of Group Wide rating systems.

At Country level, steering and credit risk control activities, as well as the conducting of “operational” activities (e.g. credit delivery, performance monitoring, etc.) falls under the responsibility of CRO controlled subsidiaries.

[1] Acquisition & Leveraged Finance, Project Finance, Aircraft Finance, Commodities Finance

In UniCredit S.p.A., these functions are carried out by the organizational units under “CRO Italy”, reporting to “Group CRO” and specifically:

- the “Risk Management Italy” department responsible - among other activities - for governance and control of credit risk originating in the “Country Chairman Italy” perimeter activities. With respect to credit risk, the department consists of the following units:
  - the Group Risks Portfolio Analytics department which, inter alia, is responsible for:
    - monitoring and predicting the risk composition of the loan portfolio in terms of credit quality, cost of risk, RWA and capital requirement for UniCredit S.p.A. group and for preparing the required reporting.
  - the Credit Policies & Products Italy department which, inter alia, is responsible for:
    - defining the loan process/product rules relating to the disbursement, monitoring, restructuring and workout steps, for UniCredit S.p.A. group.
  - the Credit Risk Methodologies department which, inter alia, is responsible for:
    - defining and managing the methodologies on credit risk management. These methodologies refer to credit risk measurement models for all customer segments.
  - the Rating Desk Italy department which, inter alia, is responsible for:
    - deciding, within its delegated powers, or submitting proposals to the relevant bodies on rating override with respect to local rating systems for the measurement of credit risk of UniCredit S.p.A. business segments.
- the Credit Underwriting department whose responsibilities include the following activities:
  - coordinating the activities of 8 ‘Regional Industry Team Leaders’,
  - ensuring that RIT decision-making activities are properly carried out,
  - management of lending to UniCredit S.p.A. customers (through the Territorial Credit Risk Underwriting department)
  - coordination and management of lending to UniCredit S.p.A. customers in relation to Consumer Finance products,
  - preliminary and administrative activities for transactions to be submitted to the Italian Transactional Credit Committee and the Italian Special & Transactional Credit Committee,
- the Loans Administration department which - inter alia- is responsible for the following activities:
  - monitoring administrative activities after the loan has been granted/disbursed
  - management of subsidized loans,
  - lending and administrative activities relating to mutual guarantee institutions,
  - coordination and management of activities after disbursement of Mortgages by ensuring the quality and integrity of information assets and risk minimization; decisions on loan applications falling within its responsibility.

  The department consists of the following structures:
  - Loan Administration Network
  - Subsidized Loans
  - Credit Advice Italy
  - Collateral and Contracts Administration Services
  - Loan Administration Services, Support and Controls
- the Credit Monitoring department whose responsibilities include the following activities:
  - monitoring trends in credit risk, in the recovery of past-due and unpaid loans (including the classification as doubtful/non-performing loans within the granted authority) and ensuring the applicability and implementation of recovery strategies and actions;
  - overseeing activities aimed at reducing the cost of credit risk of irregular loans.

  The department consists of the following structures:
  - Credit Monitoring Operations and Support;
  - Central Credit Risk Monitoring Italy;
  - Territorial Credit Risk Monitoring Italy;
  - Customer Recovery.

- the Special Credit department whose responsibilities include the following activities:
  - overseeing activities aimed at reducing the cost of credit risk of problem loans;
  - coordinating the lending strategy with the aim of withdrawing from or restructuring doubtful loans;
  - coordinating and restructuring the management of positions under restructuring;
  - making decisions, within its delegated powers, on doubtful loans or workouts;
  - coordinating and supervising the approval activities of the Real Estate 'Regional Industry Team';
  - managing lending to the UniCredit S.p.A. Special Network customers (through the Territorial Credit Risk Underwriting Special Portfolio department);
  - preparatory activities for the files to be submitted to the Italian Special & Transactional Credit Committee;
  - overseeing the administrative and accounting activities under its responsibility.

  The department consists of the following structures:
  - Territorial Credit risk Underwriting Special Portfolio Italy;
  - Restructuring and Workout Italy
  - Special Credit Analysis and Control Management
- Large File Restructuring department, which is assigned the task of managing positions under restructuring, specifically for large counterparties.

In addition, with respect to credit risk, specific committees have been set up:

- the "Group Risk Committee", responsible for advisory, proposal and decision-making in relation to the Group's risk appetite, for the structure of the limits by type of risk and allocation of risk to the business functions and Legal Entities, for guidelines and specific strategies related to risk, and for the policies, methods and systems of control for the measurement and control of Group risk;
- the "Group Credit Committee", in charge of discussing and approving credit proposals within its responsibility, including "restructuring" and "workout" positions, relevant strategies and corrective actions to be taken (including classification of status when applicable) for "watchlist" positions, specific limits for transactions related to debt capital markets on Trading Book, single issuer exposure limits on Trading Book;
- the "Group Credit and Cross-Border Risks Committee", responsible for monitoring credit and cross-border risks at Group level, for submitting credit and cross-border risk strategies, policies, methodologies and limits to the "Group Risk Committee" - for either approval or information - as well as regular reporting on risk portfolio and profile in relation to the above risks;
- the "Group Transactional Credit Committee" which has decision-making functions, within its delegated authority (resolutions and / or non-binding opinions to the Group Entities), and / or advisory functions on matters within the remit of Senior Bodies, with regard to credit proposals, including "restructuring" and "workout" positions; strategies and relevant corrective actions to be taken for "watchlist" files, specific limits for transactions related to debt capital markets, single issuer exposure limits on Trading book;
- the "Italian Transactional Credit Committee", which has decision-making functions within its delegated powers and / or advisory functions for matters within the remit of Senior Bodies, is responsible, with regard to UniCredit S.p.A. counterparties, (excluding FIBS counterparties) for credit proposals (including "restructuring" and "workout" positions), the classification status of positions, strategies and corrective actions for "Watchlist" positions, transactions concerning pawn loans and issue of non-binding opinions to the Italian Legal Entities of the Group;
- the "Group Rating Committee", responsible for taking decisions and/or issuing non-binding opinions to the Group Legal Entities on rating override proposals;
- the "Italian Special & Transactional Credit Committee", which is responsible, within its delegated powers, for the evaluation and approval or, for positions within the remit of Senior Bodies, the issue of advisory opinions on restructuring and workout positions, as well as positions of customers managed by Special Network Italy.

Credit Risk

In the course of its credit business activities UniCredit S.p.A. is exposed to the risk that its loans may, due to the deterioration of the debtor's financial condition, not be repaid at maturity, and thus resulting in a partial or full write-off. This risk is always inherent in traditional lending operations regardless of the form of the credit facility (whether cash or credit commitments, secured or unsecured, etc.).

The main reasons for default lie in the borrower's lacking the autonomous ability to service and repay the debt (due to a lack of liquidity, insolvency, etc.), as well as the occurrence of events that are unrelated to the debtor's operating and financial condition, such as Country risk or the impact of operational risks. Other banking operations, in addition to traditional lending and deposit activities, can expose UniCredit to other credit risks. For example, 'non-traditional' credit risk may arise from:

- entering into derivative contracts;
- purchasing and selling securities, futures, currencies or commodities;
- holding third-party securities.

The counterparties in these transactions or issuers of securities held by UniCredit S.p.A. could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons. Defaults in relation to a large number of transactions, or one or more large transactions, could have a material adverse impact on the operations, financial condition and operating results of UniCredit S.p.A..

UniCredit S.p.A. monitors and manages the specific risk of each counterparty and the overall risk of loan portfolios through procedures, structures and rules, that steer, govern and standardize the assessment and management of credit risk, in line with the Group principles and best practice of Group, and which are capable of extending their effectiveness to all phases of the economic cycle.

Country risk

Country risk is defined as the risk of losses of exposures caused by events in a specific Country which may be under the control of the government but not under the control of a private enterprise or individuals. This may imply that the repayment of assets within a specific Country will be ultimately prevented by actions of the Country's government (e.g. transfer risk, expropriation risk, legal risk, tax risk, security risk, delivery risk) or by a deterioration of the economic and / or political environment (e.g. a sharp recession, currency and / or banking crisis, disaster, war, civil war, social unrest) of a Country. Country risk is managed by determining the appropriate maximum risk levels (country limits), that can be assumed by UniCredit S.p.A. vis-à-vis all counterparties (sovereigns, government entities, banks, financial institutions, corporate customers, small businesses, individuals, project finance, etc.) residing in or related to the Country, for cross-border transactions (from the standpoint of the UniCredit S.p.A. providing the loan) in foreign currency or (from the standpoint of the borrower) in local currency.

Country risk management processes are mainly concentrated at UniCredit S.p.A. in terms of both methodological aspects and the decision-making process, in order to ensure a uniform assessment and monitoring approach, particularly for the rating assignment - PD (probability of default) and LGD (loss given default) - as well as control of concentration risk.

The country rating assignment (both in terms PD and LGD) is performed using the specific internal rating model. The analysis, focused on both qualitative and quantitative factors, is an integral part of the final rating calculation process. In case the rating resulting from the model does not appropriately reflect the credit profile of the country, an override is requested from the competent Body. Both the calculation of PD and LGD values are mandatory and must be assigned before any decision on cross-border credit transactions is taken. The rating has to be updated at least once a year or whenever any material information (both positive and negative) impacting the country creditworthiness becomes available.

Cross border risk plafonds are calculated in a top-down / bottom-up process considering the risk of the Country (rating), the size of the country measured by its share in international trade of goods and services as well as its share in international capital flows, demand of the bank's export customers and business opportunities. Cross border plafonds are renewed at least on a yearly basis.

The risk exposures of UniCredit S.p.A., in particular countries that show signs of significant risk as result of economic or other developments are closely monitored, in terms of counterparty types - Individuals, Corporates, Banks & Financial Institutions, Sovereigns and Central Governments - as well as in terms of product categories - Loans, Bonds, CDS, Derivatives, and Guarantees. In this focused monitoring process, Risk Exposures include both “Domestic Risk” (if the Borrower is located in Italy) and “Cross Border Risk” (if the Borrower is located elsewhere).

The evolution of the macroeconomic and political scenario has been constantly monitored in order to be consistently reflected within the Internal Ratings of the mentioned countries; Internal Ratings have been therefore revised more than on a yearly basis, when needed.

With specific reference to the sovereign risk, direct counterparty risk to sovereigns is managed through the normal counterparty approval process. Limits and exposures to sovereigns - in both the trading and banking books - have been managed in a prudent way to ensure such limits/ exposures are sized primarily by both regulatory and liquidity requirements of UniCredit S.p.A..

Through collateral arrangements, UniCredit S.p.A. has obtained eligible collateral to reduce exposures to OTC derivative counterparties; such collateral includes, in addition to cash, also government bonds issued by countries included in the “eligibility list” (the criteria are defined in the specific “Credit Policy”). This eligibility is however always subject to minimum external rating criteria, and ongoing daily price availability. The rating threshold has therefore seen a reduction in the number of the eligible sovereign issuers from the original name specific eligibility list.

In this area, however, the majority of the guarantees provided or received under such agreements consist of cash.

In regards to repo/reverse repo activity, the recent events have manifested in the form of higher haircuts applied to such paper. Observed volumes for these transactions are low, however, given the eligibility of such paper with central banks.

With reference to loans to local customers (other than Sovereigns and Central Governments), UniCredit S.p.A.’s exposure continues to very low overall in countries classified as requiring “strict monitoring”, especially the countries where there are group branches and banks. Lending activities have mainly focused on corporates less linked to the sovereign risk associated with the Country of origin. For CEE Countries, given the strategic importance of this area for UniCredit S.p.A. and for the Group, loans to local customers were subject to specific credit risk strategies defined and monitored at country level, taking also into consideration the macroeconomic outlook.

2.2 Credit Risk Management, Measurement and Control

2.2.1 Reporting and Monitoring

The fundamental objective of the reporting and monitoring activities performed by the Group Risk Management function is the analysis of the main drivers and parameters of credit risk (exposure at default (“EAD”), expected loss (“EL”), migration, cost of risk etc.) in order to promptly initiate any counter-measures on portfolios, sub-portfolios or individual counterparties.

Group Risk Management function performs credit risk reporting at portfolio level, producing reports both recurring and specific (on demand of Senior Management or external entities, e.g., regulators or rating agencies) with the objective of analyzing the main risk components and their development over time, and thus to detect any signals of deterioration at an early stage and, subsequently, to put in place the appropriate corrective actions. Credit portfolio performance is analyzed with reference to its main risk drivers (such as growth and risk indicators) customer segments, industrial sectors, regions, and impaired credits performance and related coverage.

Portfolio reporting activities are performed in close collaboration with the Chief Risk Officers (CRO) at Legal Entities level and Credit Risk Portfolio Managers who, within their respective perimeters, implement specific reporting activities.

With effect from 2014, reporting and monitoring have been allocated to two different organizational units, within the “Group Credit and Integrated Risks” Department.

The “Group Credit Risk MIS & Reporting” Unit, is responsible for establishing the Group framework for reporting on risks, and producing standard/recurrent reports on credit risk and large files. It acts as a liaison with “PF&A” department for the second-level controls on supervisory reports.

It is also responsible for implementing strategies for unification of the MIS platforms and promoting the use of business intelligence tools at Group level.

The “Risks Assessment & Monitoring” Unit, on the other hand, is responsible for analyzing and monitoring the composition and level of risk of the loan portfolio for the main credit risk metrics at Group/LE/Division level, in order to provide the competent PF&A functions the information needed to identify divergences from the budget/forecast, and producing the periodic analyses aimed at giving Top Management an integrated view of the Group's risk, as well as the analyses for Rating Agencies, Investors and ad hoc requests from external bodies and organizations.

Already starting from 2011 and 2012 the reporting has been refined through the intensive fine-tuning of data collection and consolidation processes. This has led to a significant improvement in terms of quality of the information reported in consolidated reports such as, for example, the ERM - Enterprise Risk Management Report, as well as the Risk Assessment aimed at Senior Management. Furthermore, portfolio and business segment reporting units also helped to monitor credit risk exposure within their areas of responsibility.

All monitoring activities that aim at identifying and reacting in a timely manner to possible deterioration in the asset quality of the Group’s counterparties, instead, have been further enhanced with dedicated functions of the Group Risk Management, that deal with the reporting activities aimed at analyzing the main components of this risk and their temporal evolution, in order to be able to detect promptly any symptoms of deterioration and, therefore, take appropriate corrective actions.

2.2.2 Governance and policies

Relationships between UniCredit S.p.A. and Group Legal Entities carrying out credit-related businesses are defined by specific governance rules, assigning the role of guidance, support and control to UniCredit S.p.A. itself, in respect of the following areas: credit policies, credit strategies, models development, rating systems validation, credit concentration risk, the issuance of credit products, monitoring and reporting portfolio credit risk.

In particular, Group Legal Entities are required to request the Group Risk Management functions of UniCredit S.p.A. a dedicated opinion before granting or reviewing credit lines to individual borrowers or economic groups, whenever they exceed defined thresholds, also with reference to the obligation of compliance with the credit risk concentration limits that have to be measured with respect to the regulatory capital.

In accordance with the role assigned to UniCredit S.p.A. under the Group governance, and specifically to the Group Risk Management function, the “ General Group Credit Policies” relating to the Group lending activities define group-wide rules and principles for guiding, governing and standardizing credit risk assessment and management, in line with the regulatory requirements and Group best practice.

The general rules are supplemented by policies governing defined subjects (business areas, segment activities, type of counterpart / transaction, etc.). Such documents are divided in two categories:

- policies on "Group-wide" issues, developed by UniCredit S.p.A. and addressed to all Entities. Some examples are the policies on FIBS customers (Financial Institutions, Banks and Sovereigns), on Country Limits, on Project Finance and Acquisition & Leveraged Finance transactions, on collateral management for OTC derivatives and Repo and securities lending business, on assessment, monitoring and management of underwriting risk limits for the syndicated loan, on “Commercial Real Estate Financing (CREF)” and on “Structured Trade and Export Finance (STEF)”;
- policies developed at the local level by individual Entities. Such documents provide detailed credit rules for specific regions, subsidiaries, etc., if required by local market peculiarities, and are applicable only within the specific Legal Entity perimeter.

At both Legal Entity and UniCredit S.p.A. (if necessary) level, the policies are further detailed through Operative Instructions, describing specific rules and instructions for the day-by-day activity.

Credit Policies have generally a static approach and are revised when necessary. Therefore they need to be supplemented with Credit Risk Strategies that are updated at least annually and define customers / products, industry segments and geographical areas that will form the target of the Legal Entity / the Group’s relevant credit business.

2.2.3 Management and Measurement Methods

Credit Risk generally represents the risk of losses of the value of a credit exposure arising from an unexpected worsening of the counterparty's credit quality.

For the purpose of credit risk measurement, credit risk is defined as the risk of incurring losses arising from the possibility that a counterparty, either a borrower (e.g. term loan) or an issuer of a financial obligation (bond, note, etc.) is not able to repay interest and/or principal or any other amount due (Default Risk). In a broader sense, credit risk can also be defined as potential losses arising either from a default of the borrower / issuer or a decrease in the market value of a financial obligation due to a deterioration in its credit quality. On this topic UniCredit S.p.A. is exploring new approaches to cover also the market value component of banking book credit risk.

Credit risk is measured by single borrower / transaction and for the whole portfolio. The tools and processes used for lending to single borrowers during both the approval and monitoring phases include a credit rating process, which is differentiated by customer segment / product to ensure maximum effectiveness.

The assessment of a counterpart's creditworthiness, within the credit proposal evaluation, begins with an analysis of the financial statements and the qualitative data (competitive positioning, corporate and organizational structure, etc.), regional and industry factors and counterpart behavior within the banking system (e.g., "Centrale dei rischi"), and results in a rating, i.e. the counterpart's probability of default (PD) on a one-year time horizon.

Regular monitoring focuses on the borrower's performance management, using all available internal and external information in order to arrive at a score representing a synthetic assessment of the risk associated. This score is obtained using a statistical function that summarizes available information using a set of proven significant variables that are predictors of an event of default within a 12 months horizon.

The internal rating, or risk level assigned to the customer / transaction, forms a part of the lending decision calculation. In other words, at a constant credit amount the approval powers granted to the competent Bodies are gradually reduced in proportion to an increased borrower-related risk level.

The organizational model in use includes also a dedicated function, which is separated from loan approval and business functions and is responsible for the management of the so-called rating overrides, i.e. any changes to the automatic rating calculated by the model.

Each borrower's credit rating is reviewed periodically and at least annually on the basis of new information acquired. Each borrower is also assessed in the context of any economic group with which it is affiliated by taking into account, as a general rule, the theoretical maximum risk for the entire economic group.

Besides the methodologies summarized in the rating systems, the risk management function uses portfolio models enabled to measure credit risk on an aggregated portfolio basis and at the same time to identify sub-portfolio, or single obligor contributions to the overall risk position.

There are three fundamental portfolio credit risk measures that are calculated and are evaluated on a one year time horizon:

- *Expected Loss (EL);*
- *Credit Value at Risk (Credit VaR);*
- *Expected Shortfall (ES).*

In order to derive the Credit VaR of the portfolio, the portfolio loss distribution is specified; it is represented by the probabilities of getting different values of the portfolio loss on the given time horizon ("discrete loss case"). The loss associated to a specific probability is the product of the percentage of losses given default (LGD) and exposures at default (EAD) considering the correlations among the defaults.

The Expected Loss (EL) at portfolio level represents the aggregated average loss of the portfolio due to potential defaults of the obligors. The EL of the portfolio is just the sum of the single obligor ones, which can be evaluated as the product of PD x LGD x EAD, and is independent from the default correlations in the portfolio. EL is typically charged as a cost component.

Value at Risk represents the threshold monetary loss overcome only with a given probability level (VaR at 1-α confidence level. In December 2013, UniCredit selected α=0.07% which corresponds to a 99.93% confidence level).

Economic Capital is derived from Value at Risk subtracting the expected loss and it is an input for determining Internal Capital set up to cover potential unexpected losses from risk factors.

VaR is a widely used measure of portfolio risk but it does not provide information on potential losses in case the VaR limit has been exceeded. Such information is provided by the Expected Shortfall (ES) that represents the expected value of losses that exceed the VaR threshold. Portfolio Credit VaR and ES strongly depend on default correlation and can be reduced by portfolio diversification.

The credit portfolio models produce also measures of economic capital reallocated by individual borrowers within each portfolio and are the basis for risk-adjusted performance measures.

The measures of economic capital (Credit VaR based) are also a fundamental input for the design and application of credit strategies, the analysis of credit limits and risk concentration. The economic capital calculation engine is also used for the analysis of stress tests of the credit portfolio, starting from macro-economic variables that affect the various customer segments, by Country, size, etc.

All the above mentioned risk parameters are subject to an initial validation and a regular monitoring process for each rating system in all its components: models, processes, IT architecture and data quality.

The aim is to give evidence of the systems compliance, highlighting improvement areas as well as possible misalignments in the methodologies, which could limit the full comparability among the resulting risk measures.

The internal Credit VaR model is also subject to assessment in the context of Basel 2 - Pillar II validation.

The calculation of economic credit capital is available on a single technology platform (“CPM”), with a common methodology for all the banks of the UniCredit group.

To measure the effectiveness of securitizations in transferring credit risk, an application has been developed (Structured Credit Risk Analyzer) that can simulate the losses on the portfolios underlying the securitizations (collateral portfolios) and allocate them to tranches that constitutes the liabilities of securitization transactions, both for synthetic transactions (where the credit risk is transferred through credit derivatives) and those where there is a disposal of the assets

2.2.4 Credit Risk Strategies

According to Pillar II provisions, credit risk strategies for UniCredit S.p.A.’s credit portfolio are an advanced credit risk management tool. Consistent both with the budget process and with Pillar II / Risk Appetite framework, they are aimed at providing the concrete deployment of risk appetite targets by Division and Legal Entity, considering the expected vulnerability of the credit portfolios to adverse economic downturns as well as the quantification of the sectorial concentration risk.

Credit risk strategies aim to obtain a threefold goal:

- to define the optimal credit portfolio risk profile by minimizing the overall credit risk impact given the expected remuneration, starting from the risk appetite framework, in line with the Group’s capital allocation and value creation criteria;
- to provide support to the competent functions and Divisions of UniCredit S.p.A. and the Legal Entities when the latter take measures to optimize the portfolio reshaping through strategic plans and business initiatives;
- to provide a set of guidelines and support when drafting the business and loan budget, in line with the Group’s strategic vision.

Credit risk strategies are defined by synthesizing the top-down risk analysis with the portfolio view of the business functions, through a strict cooperation among the centralized and local Risk Management Departments.

Loan strategies are defined by using all available measurements related to credit risk. In particular, results from the "Credit VaR" model ensure a proper and conservative management of portfolio risk through the application of advanced methods and tools. In parallel a set of qualitative information, taking into account the different divisional / territorial characteristics, are incorporated and transformed in input variables for the credit portfolio optimization models.

Portfolio risk management pays special attention to credit risk concentration in light of its importance within total assets.

Such concentration risk, according to the Basel II definition, consists of a single exposure or of a group of correlated exposures with the potential to generate losses of such magnitude as to prejudice UniCredit S.p.A. ability to carry on its normal business.

In order to identify, manage, measure and monitor concentration risk, the UniCredit S.p.A.'s competent functions define and monitor credit limits to cover two different types of concentration risk:

- significant credit exposures to a single counterparty or to a set of economically connected counterparties ("bulk risk" for Multinationals, Financial Institutions and Banks);
- credit exposures to counterparties belonging to the same economic sector ("sectorial risk").

More generally, as part of credit risk strategy, vulnerability and Capital Adequacy support analysis are performed through the credit risk stress test (Pillar I and Pillar II).

Stress test simulations are a comprehensive part of credit risk strategies definition. With stress test procedure it is possible to re-estimate some risk parameters like PD, Expected Loss, economic capital and RWA under the assumption of "extreme but plausible" macroeconomic and financial stressed scenario. Stressed parameters are used not only for regulatory purposes (Pillar I and Pillar II requirements), but also as managerial indicators about the portfolio vulnerability of single business lines, industries / regional areas, customer groups and other relevant clusters, conditioned to a downturn of economic cycle.

In compliance with regulatory requirements, stress tests are performed on an on-going basis on updated stressed scenarios and are communicated to the senior management as well as to the Supervisory Authority. In addition to the regular stress test, ad hoc stress test simulations are performed on specific request by the Supervisory Authority.

In accordance with the Pillar II provisions, credit risk strategies for the entire UniCredit S.p.A. loan portfolio constitute an effective instrument for the governance of credit risk, contributing to the setting of budget objectives in line with the Group Risk Appetite, of which they are integral part. They are also management instrument because they translate the metrics established within the Risk Appetite into concrete form.

Taking into account the macroeconomic and credit scenario, the outlook at economic sector level, and the business initiatives/strategies, the Credit Strategies provide a set of guidelines and operational targets aimed at the business segments in which UniCredit S.p.A. operates, in order to identify the risk profile and enable growth consistent with that profile.

With regard to risk management for the UniCredit S.p.A. loan portfolio, particular importance is given to credit concentration risk. Such concentration risk, according to the Basel II definition, consists of a single exposure or of a group of correlated exposures with the potential to generate losses of such magnitude as to prejudice the Group's ability to carry on its normal business.

In accordance with the regulatory framework established by the Basel Committee (Pillar II), UniCredit S.p.A. has adopted policies and control systems to identify, measure and monitor the credit concentration risk:

- towards individual counterparties or associated groups of counterparties (Individual Borrowers/Economic Groups);
- towards counterparties belonging to the same industry.

2.2.5 Acquisition of impaired loans

The Bank usually does not acquire impaired loans. Positions reported in the tables of the Explanatory Notes in relation to item 70 "Loans to customers" are part of larger transactions involving the acquisition of loan portfolios, whose objectives cannot be classified among those relating to a specific acquisition of impaired positions.

2.3 Credit Risk Mitigation Techniques

UniCredit S.p.A. uses various credit risk mitigation techniques to reduce potential credit losses in case of the obligor default. Consistently with the "International Convergence of Capital Measurement and Capital Standards - A Revised Framework" (Basel II), UniCredit S.p.A. is firmly committed to satisfy the requirements for recognition of Credit Risk Mitigation techniques for regulatory capital purposes, according to the different approaches adopted (Standardized, Foundation IRB or Advanced IRB) both for internal use in operations and for the purposes of calculating the credit risk capital requirements.

With specific reference to Credit Risk Mitigation, general guidelines are in force, issued by UniCredit S.p.A., to lay down Group-wide rules and principles that should guide, govern and standardize the credit risk mitigation management, in line with Group principles and best practice, as well as in accordance with the relevant regulatory requirements.

In addition to the general guidelines on risk mitigation techniques, UniCredit SpA has issued internal regulations, specifying processes, strategies and procedures for the management of collateral. In particular, these regulations detail the rules on the eligibility, valuation and management of collateral, ensuring that the guarantee is valid, legally enforceable and can be promptly recovered in accordance with the local legal system of each country.

UniCredit S.p.A. also performed assessment activities on the management of guarantees and compliance checks on risk mitigation techniques, in particular with respect to the application of internal rating systems, in order to verify that adequate documentation and formal procedures are in place for the use of risk mitigation techniques for the purpose of calculating regulatory capital.

According to credit policy, collaterals or guarantees can be accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. For this reason, in addition to the overall analysis of the credit worthiness and of the repayment capacity of the borrower, they are subject to specific evaluation and analysis of the support role for the repayment of the exposure.

Collaterals accepted in support of credit lines primarily include real estate, both residential and commercial, financial collateral (including cash deposits, debt securities, equities, and units of Undertakings for Collective Investment in Transferable Securities - UCITS). Other types of collateral (pledged goods or pledged loans and life insurance policies) are less common. The Group also makes use of bilateral netting agreements for derivative transactions (by means of ISDA and CSA agreements), Repos and securities lending.

The management system of credit risk mitigation techniques is embedded in the credit approval process and in the credit risk monitoring process, which widely support the evaluation and data quality checks of collaterals / guarantees and their appropriate linking to the categories defined for LGD estimates purposes. Controls and related responsibilities are duly formalized and documented in internal rules and job descriptions. Furthermore processes are implemented to monitor all the relevant information regarding the identification and evaluation of the credit protection and to ensure it is correctly registered in the system.

When accepting a credit risk mitigation technique, UniCredit S.p.A. gives particular importance to processes and controls of the legal certainty requirements of the protection, as well as the assessment of the suitability of the collateral or guarantee. In case of personal guarantees, the protection provider (or the protection seller in case of credit default swap) has to be assessed in order to measure his/her solvency and risk profile.

In case of collaterals, the process of valuation is based on precautionary principles, with reference to the use of "market values" and to the application of adequate haircuts in order to prevent unexpected losses on secured receivables in the event of collection.

Monitoring processes of credit risk mitigation techniques ensure that general and specific requirements established by credit policies, internal and regulatory rules are met over the time.

2.4 Impaired financial assets

With reference to the *"non-performing"* portfolio, UniCredit S.p.A. activities are mainly focused on the following:

- prompt action. With a solid and effective monitoring and reporting process, the early identification of possible credit quality deterioration allows to perform the necessary restrictive management measures aimed at risk reduction in the early phases prior to the potential default;
- proper assessment of impaired loans, in order to define the strategies/actions to be taken and the applicable default classification;
- initiating recovery procedures on the basis of the type and amount of exposure and the specific borrower involved;
- adequate impairment losses are recognized, in line with the credit recovery prospects and timing, and the type of exposure. This activity is in line with IAS 39 and "Basel II" rules;
- accurate and regular reporting in order to monitor aggregate portfolio risk over time.

Each Legal Entity's classification of positions into the various default categories takes place in accordance with the local legal and regulatory dispositions issued by the Supervisory Authority.

Since UniCredit S.p.A., in its role as Holding Company, is required to comply with instructions issued by the Italian Supervisory Authority, suitable measures are taken vis-à-vis the Group's foreign Legal Entities to link and align classifications which would otherwise not be consistent with the appropriate default categories.

In general, the main goal of managing the non-performing portfolio is to recover all, or as much exposure as possible, by identifying the best strategy for maximizing the Net Present Value (NPV) of the amounts recovered, or rather minimizing the loss given default.

This activity is managed internally within the group by specially qualified staff or externally through a mandate given to specialized companies or through the sale of non-performing assets to external companies.

In order to determine the impairment losses, on a periodic basis or if significant operational events occur, specialized units use an analytical approach to assess the loss projections for loans at default in accordance with the Group's accounting policies and Basel II.

With reference to the Italian business of UniCredit S.p.A., new assessment methods are used for doubtful and non- performing loans, which were introduced in the last quarter of 2013 to improve the set of existing methods and enhance the effectiveness and efficiency of the work of the staff of the CRO Italy functions involved, who are responsible for the assessment and approval of loan loss projections. In particular, in the last quarter of 2013 statistical or automatic methods were introduced for assessing loans to companies with group exposure below a set limit and for assessing mortgage loans to individuals.

Impaired assets acquired.

Impaired loans acquired were recognized under item 70 "Loans to customers" for €62,096 thousand as of June 30, 2014, down by €6,197 thousand (-9.1%) compared to December 31, 2013 (€68,293 thousand).

These loans were acquired as part of the following transactions:

- the acquisition of a loan portfolio from Banca MB S.p.A. (total face value of €414,543 thousand for a price of €246,052 thousand, including impaired loans totalling a face value of €229,222 thousand for a price of €152,511 thousand). The loans deriving from the financing disbursed by Banca MB under administrative compulsory liquidation were acquired;
- the acquisition of a loan portfolio from Società Oney S.p.A. (global face value of €21,143 thousand for a price of €19,041 thousand, including impaired loans totalling €148 thousand for a price of €121 thousand). The loans were acquired as part of the acquisition of a credit card portfolio from Oney S.p.A.

- the acquisition, in 2013, of a portfolio of non-performing loans from Island Refinancing S.r.l. (global face value of €88,532 thousand for a price of €27,766 thousand). The loans were acquired as part of a Settlement Agreement relating to previous agreements/contracts concluded by the merged company Banco di Sicilia S.p.A.

The above loans were measured in compliance with the measurement criteria used for all impaired loans to customers recognized in the Accounts.

The table below shows the changes in "Impaired loans acquired" (face value, purchase price, carrying amount), broken down by single transaction:

Impaired assets acquired	Purchase date		06.30.2013		12.31.2013		06.30.2014		Change in total 06.30.14-12.30.13	
	Nominal Value	Purchase Price	Nominal Value	Book Value	Nominal Value	Book Value	Nominal Value	Book Value	Nominal Value	Book Value
Banca MB S.p.A.	299,222	152,512	207,758	94,410	195,309	53,260	178,924	47,188	-16,385	-6,072
Oney S.p.A.	148	121	99	40	106	31	64	26	-42	-5
Island Refinancing S.r.l	88,532	27,766	-	-	63,169	15,002	61,530	14,882	-1,639	-120
Total	**387,903**	**180,399**	**207,857**	**94,450**	**258,584**	**68,293**	**240,518**	**62,096**	**-18,066**	**-6,197**

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of the disclosure of quantitative information about credit quality, the term "credit exposures" does not include equity instruments and units in investment funds

A. 1 DOUBTFUL AND PERFORMING FINANCIAL INSTRUMENTS

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying value)

Portfolio/Quality	Non-performing loans	Doubtful assets	Restructured exposures	Past-due	Other assets	Others	Total
1. Financial assets held for trading	14,929	209,847	3,742	11,239	20,867	14,764,224	**15,024,848**
2. Available-for-sale financial assets	1	4,957	-	6,533	-	45,248,898	**45,260,389**
3. Held-to-maturity financial instruments	-	-	-	-	-	3,106,763	**3,106,763**
4. Loans and receivables with banks	157	10	-	6,947	5	21,435,024	**21,442,143**
5. Loans and receivables with customers	10,214,779	10,716,476	1,778,743	1,733,156	6,761,960	191,917,581	**223,122,695**
6. Financial assets at fair value through profit or loss	-	-	3,146	-	1	62,035	**65,182**
7. Financial instruments classified as held for sale	-	-	-	-	-	-	**-**
8. Hedging derivatives	-	-	-	-	-	6,909,964	**6,909,964**
Total 06.30.2014	**10,229,866**	**10,931,290**	**1,785,631**	**1,757,875**	**6,782,833**	**283,444,489**	**314,931,984**
Total 12.31.2013	**9,186,461**	**11,178,035**	**2,135,405**	**1,912,835**	**6,968,657**	**282,397,280**	**313,778,673**

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)							
Portfolio/Quality	Impaired assets			Performing			Total (Net Exposure)
	Gross Exposure	Specific writedowns	Net exposure	Gross Exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	321,922	82,165	239,757	X	X	14,785,091	15,024,848
2. Available-for-sale financial assets	12,484	993	11,491	45,248,898	-	45,248,898	45,260,389
3. Held-to-maturity financial instruments	-	-	-	3,106,763	-	3,106,763	3,106,763
4. Loans and receivables with banks	9,068	1,954	7,114	21,442,685	7,656	21,435,029	21,442,143
5. Loans and receivables with customers	45,625,431	21,182,277	24,443,154	200,736,400	2,056,859	198,679,541	223,122,695
6. Financial assets at fair value through profit or loss	3,146	-	3,146	X	X	62,036	65,182
7. Financial instruments classified as held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	6,909,964	6,909,964
Total 06.30.2014	**45,972,051**	**21,267,389**	**24,704,662**	**270,534,746**	**2,064,515**	**290,227,322**	**314,931,984**
Total 12.31.2013	**45,907,838**	**21,495,101**	**24,412,737**	**273,997,222**	**2,099,938**	**289,365,937**	**313,778,674**

As required by Banca d'Italia in its letter dated February 22, 2011 in the section "*Bilancio e segnalazioni di vigilanza*" (Accounts and supervisory reporting), the table below provides a breakdown of credit exposures being renegotiated, i.e. whose installment payment (both principal and interest) has been temporarily suspended in compliance with the general agreements entered by Banking Association or with regulations prevailing in Italy.

As at June 30, 2014 there are no such positions in the portfolios of financial assets other than loans to customers.

Customer Loans - Exposures renegotiated under collective agreements										
Portafolio / Quality	Performing									Total (Net Exposure) 06.30.2014
	Other performing exposure			Not impaired past due (1-90 days)			Not impaired past due (91-180 days)			
	Gross Exposure	Portfolio adjustments	Net Exposure	Gross Exposure	Portfolio adjustments	Net Exposure	Gross Exposure	Portfolio adjustments	Net Exposure	
5. Loans and receivables with customers	**193,617,967**	**1,700,385**	**191,917,582**	**3,504,713**	**132,078**	**3,372,635**	**3,613,721**	**224,396**	**3,389,325**	**198,679,542**
- Exposures renegotiated in application of collective agreements	2,535,569	10,253	2,525,316	212,835	4,829	208,006	328,139	15,541	312,598	3,045,920
- Other exposures	191,082,398	1,690,132	189,392,266	3,291,878	127,249	3,164,629	3,285,582	208,855	3,076,727	195,633,622

A.1.3. On - balance sheet credit exposure to banks: gross and net values				
Exposure types / amounts	Amounts as at 06.30.2014			
	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure
A. Balance sheet exposure				
a) Non-performing loans	534	376	X	158
b) Doubtful loans	726	717	X	9
c) Restructured exposures	-	-	X	-
d) Past due	7,808	861	X	6,947
e) Other assets	26,517,244	X	7,656	26,509,588
Total A	**26,526,312**	**1,954**	**7,656**	**26,516,702**

On-balance sheet exposures include all balance-sheet assets, including held-for-trading, available-for-sale, held-to-maturity assets, loans, assets at fair value through profit or loss and assets held for sale.

A.1.6. On Balance sheet credit exposure to customers: gross and net values				
Exposure types / amounts	Amounts as at 06.30.2014			
	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure
A. Balance sheet exposure				
a) Non-performing loans	22,759,444	12,544,665	X	10,214,779
b) Doubtful loans	18,045,345	7,323,912	X	10,721,433
c) Restructured exposures	2,531,474	749,585	X	1,781,889
d) Past due	2,304,796	565,107	X	1,739,689
e) Other assets	250,732,382	X	2,056,859	248,675,523
Total A	**296,373,441**	**21,183,269**	**2,056,859**	**273,133,313**

On-balance sheet exposures include all balance-sheet assets, including held-for-trading, available-for-sale, held-to-maturity assets, loans, assets at fair value through profit or loss and assets held for sale.

Information on forborn exposures

In relation to ESMA document no. 2012/853 of December 20, 2012 for disclosure on IFRS financial statements of financial institutions on renegotiated exposures and subsequent ESMA recommendations on the subject, it should be noted that the identification of the portfolio is relevant to allow the following:

- prompt action: with a solid and effective process for monitoring and reporting, the timely identification of possible credit quality deterioration enables to promptly put in place either the necessary activities aimed at an eventual renegotiation or the restrictive measures at a stage prior to the potential "default" aimed at reappraising the level of risk; any activity aimed at a possible renegotiation has as objective the timely identification and consequently the proper management of exposures with an increased credit risk, when the bank has not yet launched legal enforcement actions still in presence of a full repayment capacity of the customer;
- proper evaluation of impaired loans, in order to define the actions and classification within the "default" classes;
- start of recovery actions depending on the type, the amount of exposure and the customer characteristics;
- appropriate provisioning in the income statement, consistent with the outlook and recovery time of credit and type of exposure. This activity is in line with IAS 39 and " Basel II" rules;
- accurate and regular reporting to monitor over time the risk of the portfolio at the aggregate level.

As for the evaluation and the provisioning of the 'Forborne' exposures, the accounting policies follow the general principle in line with the provisions of IAS 39, i.e. whether there are objective evidences that it has incurred a loss for impairment of loans or financial assets held to maturity (booked at amortized cost), the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet incurred) discounted at the original effective interest rate of the financial asset. The amount of the loss is recognized in item 130. of the income statement under "Impairment losses" and the carrying amount of the asset is reduced accordingly.

ESMA disposals and provisions of IAS 39 are complemented by the instructions for financial reporting FINREP, issued by the European Banking Authority (EBA)[1], which introduced two new classifications for loans and debt securities in the financial statements: *Forborne exposures* and *Non-performing exposures*.

- *Forborne exposures* are defined as exposures containing measures of renegotiation (Forbearance), i.e. concessions in respect of a debtor who has faced - or is about to face - difficulty in meeting its financial commitments ("financial difficulties")
- Non-performing exposures under the new EBA definitions are those that meet one or both of the following criteria:
    - material exposures overdue by more than 90 days;
    - the bank assesses unlikely that the debtor can fulfill entirely to its credit obligations, without proceeding with the enforcement and realization of collateral, regardless of whether exposures are past due and/or overdue and regardless of days past due.

These two new classifications introduced by EBA are effective as of the financial reporting FINREP to supervisory authority of December 2014 (first transmission related to the September 2014 figures).

The project activities aimed at implementing in the management and accounting systems the classification rules introduced by EBA are underway. The new processes will allow to improve the compliance of the rules to the above legislation, monitor the dynamics of these exposures and report to the supervisory authority.

In line with the implementation plan, with reference to the balance sheet at June 30, 2014, the methods of classification of loans into risk categories remained unchanged compared to the presentation in the financial statements as at December 31, 2013 and reflect the regulations issued by the Bank of Italy.

Regarding Forborne exposures, the full implementation of the new processes will lead to a precise identification of the Forborne performing exposures and to a subsequent verification, on the new identified portion of the portfolio, of any adjustments as may be appropriate in the internal rating systems and credit rating.

The disclosure on forbearance practices is an approximation of the outcome of the new EBA definition, based on the information currently available. Since the implementation of the processes that will lead to the application of the new definition is still underway, the following proxies and limitations were used in preparing this disclosure:

- With reference to the proxy adopted for the Forborne non performing category, please note that according to the Bank of Italy classification, with specific reference to forbearance practices, a position is classified as “restructured loan” when a restructuring agreement includes a the concession of a moratorium on payments of the loan or the renegotiation at interest rates below market, the conversion of part of a loan into shares and/or reduction of principal. Measurement of restructured loans is on a loan-by-loan basis, including in the provisions the discounted cost due to renegotiation of the interest rate at a lower level than the original contractual rate. Restructured exposures may be reclassified to “performing loans” when at least two years have elapsed from the closing of the restructuring agreement and a resolution has been taken by the competent corporate bodies stating that the borrower is again able to service the debt and no overdue amount is outstanding. In addition, in February 2014 the Bank of Italy prescribed that forborne exposures also include the homologation of an arrangement with creditors on a going concern basis and the homologation of a debt restructuring agreement (art. 182-bis of the Bankruptcy Law). In the below tables the "Restructured Loans" classified according to the Bank of Italy classification have been reported as Forborne non performing exposures and the impaired exposures relating to the homologation mentioned above are not included in "Restructured Loans".

[1] see EBA/ITS/2013/03 of October 21, 2013.

- As for the forborne performing exposures, pending the establishment of measurement procedures harmonized at Group level, for UniCredit S.p.A. the following categories were considered relevant for approximating the EBA definition of forborne performing exposures:
   A. loans to customers subject to renegotiation under collective agreements1 entered into by Banking Associations/Unions or in compliance with the regulations in force;
   B. other loans to customers subject to renegotiation in the context of internal initiatives relating to the suspension of payments for specific subgroups of debtors (e.g initiatives aimed at retail customers designed to cope with adverse events such as job loss, etc.).

The approach used for identifying forborne performing loans, primarily involves the identification of the positions that meet the definitions of the above-mentioned items A. and B., which were granted a moratorium on payments in the last two years from the reporting date. These initiatives, in fact, take the form either of collective agreements or of unilateral offers of the Bank that the customer, potentially able to pay the installment, accepts on a voluntary basis. The features of these operations do not always have a direct link between the renegotiation and the financial difficulties of the debtor, that is instead required by the EBA definition of Forbearance (which implies a "concession" that the Bank would not have taken into consideration if the customer had not been in or close to financial difficulty). Therefore, given the perimeter as defined above, the objective financial difficulties ("troubled debt") of the debtor before the concession are assumed when at least one of the following conditions is met:

- the customer was "past due" for over 30 days at least once in the previous three months, with respect to the effective date of the suspension;
- the customer had been recorded as watch in the monitoring systems at least once in the previous three months, with respect to the effective date of the suspension.

These criteria were used for both the identification of *Forborne Performing* and *Non Performing* exposures at December 31, 2013 and at June 30, 2014 – please note that the homologation of an arrangement with creditors on a going concern basis and the homologation of agreement for the restructuring of doubtful or non-performing loans were taken into account only with respect to the June 2014 figures. Here below the resulting actual figures (in Euro million).

FORBORNE EXPOSURE - Loans and receivable with customers

	Amounts as at 06.30.2014									Amounts as at 12.31.2013								
	IMPAIRED			IN BONIS			TOTAL			IMPAIRED			IN BONIS			TOTAL		
	Gross exposure	Writedowns	Net exposure	Gross exposure	Write downs	Net exposure	Gross exposure	Writedowns	Net exposure	Gross exposure	Writedowns	Net exposure	Gross exposure	Write downs	Net exposure	Gross exposure	Writedowns	Net exposure
General governments	59	14	44	0	0	0	59	14	44	0	0	0	0	0	0	0	0	0
Financial corporations	2,664	844	1,820	0	0	0	2,664	844	1,821	43	25	18	0	0	0	43	25	18
Non-financial corporations	35	9	26	515	22	493	549	31	519	2,956	871	2,085	485	20	465	3,441	891	2,550
Households	0	0	0	3,250	120	3,130	3,250	120	3,130	35	9	26	2,950	121	2,829	2,985	130	2,855
Total	**2,757**	**867**	**1,890**	**3,765**	**142**	**3,624**	**6,522**	**1,008**	**5,514**	**3,034**	**905**	**2,129**	**3,435**	**141**	**3,294**	**6,469**	**1,046**	**5,423**
Coverage ratio			**31.4%**			**3.8%**			**15.5%**			**29.8%**			**4.1%**			**16.2%**
% Forborne on total customer loans			**0.85%**			**1.62%**			**2.47%**			**0.92%**			**1.42%**			**2.35%**

The amount of net loans forborne at June 30, 2014 (€5,514 million) is €91 million higher than at the end of 2013 (€5,423 million), representing an increase of 1.7% in the half year. The same exposures gross of write downs, at the end of June 2014, amount to €6,522 million, essentially stable compared to the end of 2013 (+0.8%). In terms of mix the following trend is observed:

- a decrease of €277 million (-9.1% in the half year) in impaired exposures (from €3,034 million at December 31, 2013 to €2,757 million at the end of June 2014);
- an increase of €330 million (+9.6% in the half year) in performing exposures (up from €3,435 million at the end of 2013 to €3,765 million at June 30, 2014).

The major causes of the decrease of the Forborne impaired exposures - primarily connected to the "restructured loans" - are mainly attributable to the usual monitoring activity and updating of the positions, which in the half year triggered classifications to greater risk classes.

The coverage ratio on forborne impaired exposures was 31.4% at the end of June 2014 (29.8% at December 12, 2013).

The increase in forborne performing exposures is primarily concentrated in Households segment (+€300 million gross compared to end of December 2013) and is essentially due to concessions in 2014 on initiatives already in place vs private clients (also not linked to

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[1] See for example, the ABI-MEF Framework Agreement.

specific collective agreements), as well as new initiatives. The coverage ratio on forborne performing positions at June 30, 2014 was 3.8%, slightly lower than the figure at the end of 2013 (4.1%), in line with the level of risk associated with those positions.

Information on Sovereign Exposures

In accordance with CONSOB Notice DEM/11070007 of August 5, 2011 (which in turn refers to ESMA document 2011/266 of July 28, 2011) concerning information to be disclosed in the financial reports on exposures held by listed companies in debt securities and sovereign financing as well as the current trend in global markets, details are provided on Sovereign Exposures[4] held by the UniCredit S.p.A. as of June 30, 2014.

Altogether, the book value of Sovereign Exposures represented by "debt securities" as of June 30, 2014 was € 46,536 million, of which nearly 97% in connection with Italy.

This exposure is shown in the table below:

Breakdown of Sovereign Debt Securities by Country and Portfolio			(€ '000)
Country / portfolio	Amounts as at 06.30.2014		
	Nominal value	Book value	Fair Value
- Italy	**41,366,742**	**45,208,421**	**45,235,271**
financial assets/liabilities held for trading (net exposures[1])	4,423,925	4,563,796	4,563,796
financial assets at fair value through profit or loss	1,096	1,100	1,100
available for sale financial assets	33,782,396	37,492,835	37,492,835
loans and receivables	241,831	243,873	239,426
held to maturity investments	2,917,494	2,906,817	2,938,114

(1) net of short positions

The remaining 3% of total Sovereign Exposures to debt securities, equal to 1,328 million, still in connection with the relative book value as of June 30, 2014, is spread over 12 countries, of which 552 million to Poland and 303 million to the Czech Republic and 230 million to France. Note that there are no Sovereign Exposures to Greece.

Said exposures have not been subject to impairment as of June 30, 2014.

The table below ranks debt securities and their percentage share over their related total portfolio.

Breakdown of Sovereign Debt Securities by Porfolio					(€'000)
	Amounts as at 06.30.2014				
	Financial assets at fair value	Available for sale finacial assets	Loans	Held to maturity investments	Total
Book Value	**4,485,724**	**38,878,812**	**264,374**	**2,906,817**	**46,535,727**
% Portfolio	29.04%	80.91%	0.12%	93.56%	16.06%

"Financing[5]" granted to central and local governments, and government entities must also be added to Sovereign Exposures in debt securities, as shown in the table below:

[4] Sovereign Exposures means debt obligations issued by central and local governments, and government bodies as well as loans granted to them. For purposes of the current risk exposure any positions held through ABSs are excluded.
[5] Excluding tax items.

Breakdown of Sovereign Loans by Country	(€000)
Country	Amounts as at 06.30.2014 Book value
- Italy	4,912,162
- Brazil	148,323
- Turkey	86,771
- Panama	9,348
- United Arab Emirates	8,722
- Indonesia	24
- Haiti	2
- Austria	2
- Egypt	2
- Denmark	2
- Latvia	2
- Saudi Arabia	1
Total on-balance sheet exposures	**5,165,361**

For more details on the analysis of sensitivity to credit spreads and the outcome of stress tests, please see the "Greece default", "Sovereign Debt Tension" and "Widespread Contagion" scenarios described under Section 2 - Market risks below. For details regarding liquidity management policies, please see the following Section 3 - Liquidity risk.

Other transactions

With reference to the instructions in the Bank of Italy/Consob/IVASS document no. 6 of March 8, 2013 – Booking of "long-term structured repos", there are no transactions of this kind to report.

In addition, with reference to an investment of UniCredit S.p.A. in a debt security issued by the Italian Republic maturing on August 30, 2019 (ITALY 19EUR FRN), subscribed for during placement for a nominal amount of €750 million and with a book value of €739 million including accrued interest at June 30, 2014 (classified into the held-to-maturity portfolio in accordance with the economic purpose), a term repo (conducted in two stages) for a total nominal amount of €750 million, with a book value (liability) of €761 million at June30, 2014, was completed in June 2012.

At the same time, a 4.25% BTP maturing in September 2019 was purchased under a term reverse repo (conducted in 2 stages) for a total nominal value of €750 million and a book value of €760 million at June 30, 2014, with the economic purpose of obtaining the availability of more liquid securities (compared with the security ITALY 19EUR FRN) – with the same maturity and similar underlying risks – that can be therefore used more easily for refinancing operations.

The term repo and the term reverse repo are subject to netting (whose value is collateralized by cash) in the event of the default of one of the two counterparties or of the Italian Republic. This clause is accounted for as a financial guarantee issued, in accordance with the nature of the commitments of the parties. The fair value at trade date, €22 million, was initially recorded in other liabilities and is amortized on a pro-rata basis according to the current accounting rules.

Information on Structured Credit Products and OTC Derivatives

The deterioration of US subprime loans was one of the main causes of the financial markets crisis, which started in the 2007 second half.

This deterioration caused a general widening of credit spreads and a gradual transformation of the securitized credits market into an illiquid market characterized by forced sales.

Given this situation the market's need for information on the exposures held by banks increased with structured credit products being traded directly or through SPVs.

This need was advocated also by several international and Italian organisms and regulators (viz., the Financial Stability Board, the CEBS - Committee of European Banking Supervisors, Banca d'Italia and CONSOB) which asked banks to increase their disclosure based on a proposal deriving from the analysis of the best practices on disclosure and reporting.

Starting with its Consolidated First Half 2008 Report, the UniCredit Group therefore provided this information, which has been updated to June 30, 2014 in Part (E) of the Notes to the Consolidated Accounts, which please see for details.

The Company does not hold either other exposures towards SPEs in addition to those reported in the section mentioned above or financial instruments having as underlying US residential mortgages, either prime, subprime or Alt-A.

Information on OTC derivatives with Customers follows.

Information on Structured Credit Products and OTC Derivatives

The business model governing OTC derivatives trading with customers provides for centralization of market risk in the CIB Division, while credit risk is assumed by the Group company which, under the divisional or geographical segmentation model, manages the relevant customer's account.

The Group's operational model provides for customer trading derivatives business to be carried on, as part of each subsidiary's operational independence:

- by the commercial banks and divisions that close transaction in OTC derivatives in order to provide non-institutional clients with products to manage currency, interest-rate and price risk. Under these transactions, the commercial banks transfer their market risks to the CIB Division by means of equal and opposite contracts, retaining only the relevant counterparty risk. The commercial banks also place or collect orders on behalf of others for investment products with embedded derivatives (e.g., structured bonds);
- by the CIB Division operating with large corporate and financial institutions, in respect of which it assumes and manages both market and counterparty risk;
- by CEE Banks, which transact business directly with their customers.

The UniCredit group trades OTC derivatives on a wide range of underlyings, e.g.: interest rates, currency rates, share prices and indexes, commodities (precious metals, base metals, petroleum and energy materials) and credit rights.

OTC derivatives offer considerable scope for personalization: new payoff profiles can be constructed by combining several OTC derivatives (for example, a plain vanilla IRS with one or more plain vanilla or exotic options). The risk and the complexity of the structures obtained in this manner depend on the respective characteristics of the components (reference parameters and indexation mechanisms) and the way in which they are combined.

Credit and market risk arising from OTC derivatives business is controlled by the Chief Risk Officer competence line (CRO) in the Parent and/or in the Division or subsidiary involved. This control is carried out by means of guidelines and policies covering risk management, measurement and control in terms of principles, rules and processes, as well as by setting VaR limits.

This business with non-institutional clients does not entail the use of margin calls, whereas with institutional counterparties (dealt with by the CIB Division) recourse may be made to credit risk mitigation techniques, for example "netting" and/or collateral agreements.

Write-downs and write-backs of derivatives to take account of counterparty risk are determined in line with the procedure used to assess other credit exposure, specifically:

- performing exposure to non-institutional clients is valued in terms of PD (Probability of Default) and LGD (Loss Given Default), in order to obtain a value in terms of 'expected loss' to be used for items designated and measured at fair value;
- non-performing positions are valued in terms of estimated expected future cash flow according to specific indications of impairment (which are the basis for the calculation of the amount and timing of the cash flow).

Here follows the breakdown of balance-sheet asset item 20. “Financial assets held for trading” and of balance-sheet liability item 40. “Financial liability held for trading”.

To make the distinction between customers and banking counterparties, the definition contained in Banca d’Italia Circular No. 262 as lastly updated on January 21, 2014 (which was used for the preparation of the accounts) was used as a reference.

Structured products were defined as derivative contracts that incorporate in the same instrument forms of contracts that generate exposure to several types of risk (with the exception of cross currency swaps) and/or leverage effects.

The balance of item 20 “Financial assets held for trading” with regard to derivative contracts totaled €8,372 million (with a notional value of €206,448 million) including €4,315million with customers. The notional value of derivatives with customers amounted to €62,767 million including €59.345 million in plain vanilla (with a fair value of €4,024 million) and €3,422 million in structured derivatives (with a fair value of €291 million). The notional value of derivatives with banking counterparties totaled €143,681 million (fair value of €4,057 million) including €1,462 million related to structured derivatives (fair value of €34 million).

The balance of item 40 “Financial liabilities held for trading” of the consolidated accounts with regard to derivative contracts totaled €8,481 million (with a notional value of €210,780 million) including €3,025 million with customers. The notional value of derivatives with customers amounted to €51.242 million including €49,566 million in plain vanilla (with a fair value of €2,990 million) and €1,676million in structured derivatives (with a fair value of €34 million). The notional value of derivatives with banking counterparties totaled €159,538million i (fair value of €5,457million) including €4,913 million related to structured derivatives (fair value of €491 million).

Credit Risk Measurement Models

At the end of the first half 2014 the expected loss on the credit risk perimeter was 0.92% of total Bank credit exposure. This trend is mitigated by the exposures which migrate to default and therefore do not enter in the calculation of expected loss. Besides, since risk measurement systems tend to be anti-cyclical, this may result in a smaller elasticity to the swift changes of the macroeconomic scenario. As of March 31, 2014, the Bank economic capital (for more detail see part E “Qualitative Information – Crediti Risk”) on the credit portfolio totaled 4.16% of total Bank credit exposures. The decrease compared to December 2013 (4.86%) was mainly due both to the increase of the exposure and the reduction of PD and LGD.

Section 2 – Market risks

Generally speaking, banks’ market risks are due to price fluctuations or other market risk factors affecting the value of positions on its own books, both the trading book and the banking book, i.e. those arising from business operations and strategic investment decisions. UniCredit Group’s market risk management includes, therefore, all activities relating to cash and capital structure management, both in the Parent and in the individual Group companies.

The Parent monitors risk positions at the Group level. The individual Group companies, Unicredit S.p.A. included, monitor their own risk positions, within the scope of their specific responsibilities, in line with UniCredit Group supervision policies.

The individual companies produce detailed reports on business trends and related market risks on a daily basis, forwarding market risk documentation to the Parent company.

The Parent’s Group Market Risk unit is responsible for aggregating this information and producing information on overall market risks.

Organizational Structure

The Parent’s Board of Directors lays down strategic guidelines for taking on market risks by calculating capital allocation for the Parent company and its subsidiaries, depending on propensity for risk and value creation objectives in proportion to risks assumed.

The Parent’s Risks Committee provides advice and recommendations in respect of decisions taken by the Chief Executive Officer and in drawing up proposals made by the Chief Executive Officer to the Board of Directors with regard to the following:

- the Group's risk appetite, including capitalization objectives, capital allocation criteria, risk-taking capacity, cost of equity and dividends policy, as well as internal capital limits;
- general strategies for the optimization of risks, general guidelines and general policies for Group risk management;
- internal models for measuring all types of risks to calculate regulatory capital;
- structure of limits by type of risk;
- strategic policies and funding plans.

Similarly, it decides on the following:

- the definition of guidelines relative to Group financial policies (asset and liability management strategies, including the Group-wide duration profile);
- the allocation of risk to the Business Units and to the Entities (Unicredit S.p.A. included), specific risk-related guidelines and strategies and consequently setting of limits for achieving objectives in terms of risk appetite and limits by type of risk;
- methods for the measurement and control of the Group's aggregate risks (deriving from the aggregation of individual types of risk);
- guidelines, policies and strategies for real estate risk, financial investment risk and business risk;
- intervention plans in the event of critical aspects shown in the initial validation reports and over time;
- topics involving the implementation of Basel 2 standards, as well as the respective project and process activities.

The Risk Committee comprises the following members: the Chief Executive (Chair of the Committee), the Deputy General Managers, the Chief Risk Officer (chairs the Committee in the absence of the Chief Executive) and the Chief Financial Officer, the Legal &Compliance Officer, the CEE Division Program Officer, and the Human Resources Officer. The Head of the Group Internal Audit Department also attends meetings of the Risk Committee, but is not entitled to vote.

During the second quarter of 2013, in order to create a single reference point for the management of UniCredit Group financial risks and to ensure a more efficient steering, coordination and control through a single organizational structure, the "Group Financial Risk" department has been created, with direct report to "Group Risk Management" department.

The "Group Financial Risk" is responsible for the government and control of Group financial risks (liquidity, interest rate, market, counterparty and trading credit[1] risks) through the evaluation of strategies and the proposal to relevant Bodies of risk limits and Global/Local rules. The department is also responsible for the managerial coordination of the corresponding functions of Regional Centers (RCs), according to "GMGR[2]" and "GMGR Evolution", and for providing decisions and Non Binding Opinions (NBO), when specifically required, for all financial risks of the Group.

In addition, the "Group Financial Risk" department is responsible for the definition, set up and maintenance of Group methodologies and architectures for the measurement and control of financial risks and practices for Market Data Reference and Fair Value of financial instruments. The department ensures the compliance of the Financial Risk Management framework with regulatory requirements.

In order to effectively manage Group financial risks, the new organizational structure includes the following units:

- "Group Market & Trading Credit Risk Management" department, responsible for the governance and control of Group's market, trading credit and collateral risks, in charge of the following activities:
    - define Group market and trading credit risk management framework to be implemented by RCs;

1 I.e. Pre-settlement, Settlement, Money Market and Issuer Risk
2 Group Managerial Golden Rules

- ensure that counterparty and issuer risk strategies are integrated in the Group credit risk strategy and into the daily credit risk management processes of the RCs;
- verify the sound implementation of market, counterparty and issuer risk framework and processes in the RCs;
- steer the market and traded credit risk management of the RCs and ensuring a consistent Group-wide approach;
- monitor the coherence of business strategy with the market risk strategy.

The department includes:

- "Market Risk Management" unit, responsible for market risk management at consolidated level and in charge of these activities:
  - coordinate the market risk identification process of the RCs and ensure the consistency with regulatory standards;
  - propose the Group market risk strategy and translate the strategy into the set up and allocation of global and granular limits at Group and RCs level;
  - assess market risk for new products and formulate NBOs on the issuance of such products for RCs;
  - control risks not included in internal models in cooperation with "Group Risk Methodologies & Architecture" unit;

verify the compliance of front office activity with Group market risk strategy through the analysis of P&L explanation and attributions and the daily supervision of the limits monitoring activity performed by RCs' market risk control functions, with the activation, in case of limit breach, of the escalation process and the definition of correct mitigation actions to be taken

- "Portfolio Market Risk Management" unit, responsible for stress testing, monitoring and reporting of market risk profiles and limits, with the following activities:
  - coordinate the Group market risk stress test program to be implemented by RCs and ensure that it includes all material market risks of the Group;
  - perform stress testing for market risk at Group level, evaluating Group capacity to absorb market risk losses and opportunities to reduce risk;
  - produce market risk reports in order to provide an updated view of market risks at Group level, both in normal and stressed scenarios, in compliance with the requirements set by the "Group Financial Risk Standard & Practice" unit;
  - provide the relevant functions with the adequate information on Group market risk and ensure they are consistently integrated in Group capital planning and in all regulatory disclosures (ICAAP, Basel II Pillar III disclosures, notes to Financial Statements).

- "Group Price Control" team, responsible for Group-wide Market Data Reference and Fair Value framework for marking books and records. In particular, the team is responsible for the following activities:
  - define, set up and update Market Data Reference framework for the end-of-day market data assignment and Fair Value framework for the valuation of financial instruments for marking purposes, the latter in cooperation with "Group Risk Methodologies & Architecture" unit;
  - define the Group-wide Independent Price Verification (IPV) and Fair Value Adjustments (FVA) activities (for example: cooperation with competence centers and PF&A department, reporting);
  - verify the correct implementation and output quality of the above mentioned frameworks in the RCs and the congruity of the valuation criteria;
  - define, set up and update market conformity checks;
  - perform second level controls, for its area of competence, on money market rates contribution and FTP and end of day market data validation, market conformity checks, IPV and FVA processes for the RC Italy;
  - support UniCredit S.p.A, for the Country Chairman Italy perimeter, in the activities related to the enforcement of the MiFID application;
  - define and monitor risk limits and autonomy levels on portfolio models and building blocks used for management of segregated accounts and verify their allocation with respect to the investment strategies;
  - deliver the results of the monitoring activity to the Group Investment Committee and to the Board of Directors/CEO;

- assess portfolio models and building blocks' performance data calculated by "Global Investment Strategy (GIS)" department;
- provide, or approve if proposed by "Global Investment Strategy" (GIS) or "Investment Products Italy" department, the asset classification for financial instruments in the "Common Instrument Classification" (CIC) Management System.

- "Group Risk Methodologies & Architecture" unit, responsible for the methodologies and architecture at Group level for market, counterparty, interest rate and liquidity risks, through the following activities:
  - define, set up and update the financial risk measurement, management and stress testing methodologies (e.g. VaR, SVaR, IRC, CCR, EPE, CBC);
  - analyze and review of the models developed by "Planning, Finance & Administration" department, used for management and control of the balance sheet and liquidity risk;
  - develop prototypes for new financial risk management models and financial risk management and reporting applications;
  - define, set up and update the methodologies for Independent Price Verification (IPV) and Fair Value Adjustments (FVA), in cooperation with "Group Price Control" team;
  - manage the regulatory approval and review process for financial risks management models, addressing "Group Internal Validation" department and "Internal Audit" department recommendations related to such models;
  - coordinate the Group-wide models' and architectures rollout and maintenance within the various RCs, verifying their correct implementation and output quality;
  - develop risk metrics for those risks not correctly captured by internal models in cooperation with the "Market Risk Management" unit;
  - support the competent functions in the measurement and analysis of counterparty, liquidity, interest rate and market risk economic capital for regulatory ICAAP process, strategic planning and budgeting process;
  - support, in cooperation with the "CIB Division" and "PF&A" department, the competent functions in order to identify and exploit capital optimization opportunities;
  - analyze Front Office developed models used for marking P&L, review their adequacy on an on-going basis and assess, in cooperation with "Group Price Control" team, the related model risk to quantify Fair Value Adjustments;
  - define, set up and update the Group-wide financial risks management and Front Office reference market data (i.e. EOD, IPV, FVA, conformity checks) architectures;
  - source, validate and supply market parameters for financial risks management models;
  - support the "Group Market & Trading Credit Risk Management" department by configuring Group-wide stress test scenarios into the Group-wide risk measurement systems;
  - maintain and monitor the performance of the Group-wide financial risks models, including back testing results carried out by the RCs and at a consolidated level, in cooperation with "Market Risk Validation" unit.
- "Financial Risk Italy" unit, responsible for the independent control of liquidity, interest rate, market, counterparty, trading credit and collateral risks at RC Italy level as well as for carrying out the stress tests required. In particular, the unit is responsible for the following activities:
  - propose, in cooperation with the Group function, the setting and allocation for the RC Italy of market, interest rate and liquidity risk limits, monitoring breaches and evaluating also countermeasures/mitigation actions to be taken;
  - verify the consistency of Front Office activity with the market risk strategy;
  - perform exposure validation, credit lines monitoring, overnight and intra-day overdraft management for RC Italy trading credit and collateral risks, on FIBS counterparties;
  - produce relevant reporting at RC Italy level;
  - perform stress test program defined at Group level on RC Italy level for market, liquidity, trading credit and collateral risks and relevant internal models maintenance and back-testing for the RC Italy;
  - monitor collateral management relating to derivative products and securities financing transactions with FIBS counterparties at RC Italy level;

- assess financial risks pertaining to new products in RC Italy and provide an opinion on the issuance of such products;
    - limit monitoring in terms of mark up and hedging cost for corporate treasury sales business;
    - perform largest 50 exposure plausibility checks on exposure data for RC Italy according to the required data model, for weekly and monthly official reporting to the Bank of Italy, for trading credit and collateral risks;
    - perform second level controls, for its area of competence, on money market rates contribution and FTP, as indicated by internal processes and regulation in force.
- "Group Financial Risk Standard & Practice" unit, responsible for Global Policies and for the financial risk reporting coherence and coordination across the Group. In detail, the unit is in charge of the following activities:
    - issue Global Policies in cooperation with the "Group Financial Risk" department;
    - monitor the approval and the implementation of Global Policies on financial risks at local level with the cooperation of Legal Entities competent functions; these functions guarantee the implementation of local Policies in accordance to Global Policies;
    - verify the approval and the implementation at local level of the Global Operational Instructions (GOI) leveraging on Legal entities' competent functions;
    - set the reporting standards for the "Group Financial Risk" department, managing documentation to Group Committees identifying roles and responsibilities;
    - track and coordinate activities related to "Group Financial Risk" department Audit findings;
    - act as interface with Regulators/Management/relevant Bodies for the "Group Financial Risk" department, in coordination with Group and department's structures.
- "Group Interest Rate Risk Management" unit, responsible for the independent control of interest rate risks at Group level. Responsibilities include these activities:
    - propose to the competent Bodies the limits for managing balance sheet interest rate risks at Group level and review the limits proposal at Regional Centre level;
    - perform controls, analysis and limits monitoring for balance sheet relevant risk factors;
    - verify the correct implementation of balance sheet risks management processes in the Regional Centers;
    - define and coordinate scenario analysis for interest rate risk;
    - produce relevant reporting at Group level to competent Bodies and to Regulators when required, in accordance to the standards and requirements set by the "Financial Risk Standard & Practice" unit.

Internal Model for Price, Interest Rate and Exchange Rate Risk of the Regulatory Trading Book

During 2013, UniCredit Group continued to improve market risk models in order to properly measure, represent and control the Group risk profile. In the last three years, in compliance with Basel Committee regulations and guidelines, state-of-the-art models for market risk measurement, such as Stressed VaR and Incremental Risk Charge, have been developed for both capital charge calculation and managerial purposes.

The main tool used to measure market risk on trading positions is Value at Risk (VaR), calculated using the Historical simulation method (new IMOD).

The Historical simulation method provides for the daily revaluation of positions on the basis of trends in market prices over an appropriate observation period. The empirical distribution of profits/losses deriving there from is analyzed to determine the effect of extreme market movements on the portfolios. The distribution value at the percentile corresponding to the fixed confidence interval represents the VaR measurement. The parameters used to calculate the VaR are as follows: 99% confidence interval; 1 day time horizon; daily update of time series; observation period of 500 days. Use of a 1-day time-horizon makes it possible to make an immediate comparison between profits/losses realized.

New IMOD is in use for risk steering purposes and starting from end of September 2013 it is used for calculating capital requirements regarding trading positions, after Bank of Italy formal approval.

In addition to VaR and Basel II 2.5 risk measures (Stressed VaR and Incremental Risk Charge), stress tests represent an important risk management tool that provides UniCredit with an indication of how much capital might be needed to absorb losses in case of large financial shocks. Stress testing forms an integral part of the Internal Capital Adequacy Assessment Process (ICAAP), which requires UniCredit to undertake rigorous, forward-looking stress testing that identifies possible events or changes in market conditions that could adversely impact the bank

Within the organizational context described above, the policy implemented by the UniCredit Group within the scope of market risk management is aimed at the gradual adoption and use of common principles, rules and processes in terms of appetite for risk, ceiling calculations, model development, pricing and risk model scrutiny.

As for internal scenario analysis policies and procedures (i.e. "stress testing"), these procedures have been entrusted to the individual legal entities. Overall, however, a set of scenarios common to the Group as a whole, is applied to all positions in order to check on a monthly basis the potential impact that their occurrence could have on the global trading portfolio.

In April 2013, following Markets Business Model change a new trading book activity started in UniCredit Spa on market making and primary dealership mainly on Italian and Spanish governmental bonds, increasing trading book exposure.

Shown below are the VaR data on the market risk for the trading book in UniCredit S.p.A.

30.06.2014

Daily VaR on Trading Book					(€ mln)
		2014			2013
	30.06.2014.	MEDIO	MAX	MIN	MEDIO
UniCredit Spa	7.95	9.9	14.0	5.3	5.8

Shown below are the SVaR data on the market risk for the trading book in UniCredit S.p.A.

26.06.2014

SVaR on Trading Book					(€ mln)
		2014			2013
	26.06.2014	MEDIO	MAX	MIN	MEDIO
UniCredit Spa	17.69	21.97	29.83	12.66	11.50

Shown below are the IRC data on the market risk for the trading book in UniCredit S.p.A.

26.06.2014

IRC on Trading Book					(€ mln)
		2014			2013
	26.06.2013	MEDIO	MAX	MIN	MEDIO
UniCredit Spa	161	232	299	129	72

2.1 Interest Rate Risk – Regulatory trading book

Qualitative Information

A. General information

Interest rate risk arises from financial positions taken by specialist desks holding assigned market risk limits within certain levels of discretion. Apart from use of internal models in calculating capital requirements on market risks, risk positions are monitored and subject to limits assigned to the portfolios on the base of managerial responsibilities and not purely on regulatory criteria.

B. Risk Management Processes and Measurement Methods

For both a description of internal processes for monitoring and managing risk and an illustration of the methodologies used to analyze exposure, please refer also to introduction on internal models.

2.2 Interest Rate and Price Risk – Banking Book

Interest Rate Risk

Qualitative Information

A. General aspects, operational processes and methods for measuring interest rate risk

Interest rate risk consists of changes in interest rates that are reflected in:

- interest income sources, and thus, the bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk).

The Group daily measures and monitors this risk within the framework of a banking book interest rate risk policy that establishes consistent methodologies and models and limits or thresholds to focus on with regard to the sensitivity of net interest income and the Group's economic value.

Interest rate risk has an impact on all owned positions resulting from business operations and strategic investment decisions (banking book).

At June 30, 2014, the sensitivity of interest income to an immediate and parallel shift of +100bps was 82 million (and 16.6 million for a shift of -100bps).

The sensitivity of the economic value of shareholders' equity to an immediate and parallel change in interest rates ("parallel shift") of +200 bp was € 265,5 million at June 30, 2014.

The above managerial figures include modeled sensitivity estimates for assets and liabilities with well not defined maturities, such as sight and savings deposits.

The main sources of interest rate risk can be classified as follows:

- repricing risk - the risk resulting from timing mismatches in maturities and the repricing of the bank's assets and liabilities; the main features of this risk are:
  - yield curve risk - risk resulting from exposure of the bank's positions to changes in the slope and shape of the yield curve;
  - basis risk - risk resulting from the imperfect correlation in lending and borrowing interest rate changes for different instruments that may also show similar repricing characteristics;
- optionality risk – risk resulting from implicit or explicit options in the Group's banking book positions.

Some limits have been set out, in the above described organization, to reflect a risk propensity consistent with strategic guidelines issued by the Board of Directors. These limits are defined in terms of VaR (calculated using the methodology described above in relation to the trading portfolio), Sensitivity or Gap Repricing.

Unicredit S.p.A., like each of the Group's banks or companies, assumes responsibility for managing exposure to interest rate risk within its specified limits. Both micro- and macro-hedging transactions are carried out for this purpose.

At the consolidated level, Group HQ's Asset Liability Management Unit takes the following measures:

- It performs operating sensitivity analysis in order to measure any changes in the value of shareholders' equity based on parallel shocks to rate levels for all time buckets along the curve;
- Using static gap analysis (i.e., assuming that positions remain constant during the period), it performs an impact simulation on net interest income for the current period by taking into account different elasticity assumptions for demand items;
- It analyses interest income using dynamic simulation of shocks to market interest rates;
- It develops methods and models for better reporting of the interest rate risk of items with no contractual maturity date (i.e., demand items).

Group Risk Management performs second-level controls on the above mentioned analyses.

Financial Risk Italy sets interest rate risk limits using VaR methodologies and verifies compliance with these limits on a daily basis.

B. Fair value hedging operations

Hedging strategies aimed at complying with interest rate risk limits for the banking portfolio are carried out with listed or unlisted derivative contracts, and the latter, which are commonly interest rate swaps, are the type of contracts used the most.

Macro-hedging is generally used, meaning hedges related to the amounts of cash contained in asset or liability portfolios. Under certain circumstances, the impact of micro-hedges related to securities issued or individual financial assets are recognized (especially when they are classified in the available-for-sale portfolio).

C. Cash flow hedging operations

In certain instances, cash flow hedging strategies are also used as an alternative to fair value hedging strategies in order to stabilize income statement profits in the current and future years. Macro-hedging strategies are mainly used and they may also refer to the interest rate risk of the core portion of financial assets “on demand.”

Price Risk

Qualitative Information

A. General Aspects, Price Risk Management Processes And Measurement Methods

Banking Book price risk primarily originates from equity interests held by UniCredit Spa. as a stable investment, as well as units in mutual investment funds not included in the trading book in so far as they are also held as a stable investment.

In the whole aggregated banking and trading book portfolio assessment of UniCredit S.p.A. this kind of risk is also considered.

For both a description of internal processes for monitoring and managing risk and an illustration of the methodologies used to analyze exposure, please refer to introduction on internal models.

Information about the shareholding in the Bank of Italy

UniCredit S.p.A. holds 22.114% of the Share Capital of the Bank of Italy, classified in Balance Sheet item 40 – Available-for-sale financial assets.

<u>Accounting treatment adopted in the financial statements as at December 31, 2013</u>

Following the issuance of D.L. no. 133 of November 30, 2013 (hereinafter “D.L. 133” – converted with amendments into Law no. 5 of January 29, 2014) and the subsequent resolutions passed by the Extraordinary Shareholders’ Meeting on December 23, 2013, the Bank of Italy increased its capital by €7.5 billion (using pre-existing reserves), replacing the existing shares (that were cancelled) with new shares with a nominal value of €25,000 each.

The D.L. 133 introduced a series of changes to the Statute that led to significant discontinuity in the regulations governing the shares, in turn resulting in a dramatic change in the contents and features of the shares and their related rights and in the characteristics of the expected future cash flows.

In the light of the exceptional and unique nature of the legal framework governing the shareholding in the Bank of Italy, of D.L. 133, of the changes to the Statute passed by the Extraordinary Meeting of the Bank of Italy, and of the lack of clear instructions within IFRS about how to treat this transaction, the accounting treatment adopted in the 2013 financial statements (derecognition of the old shares and initial recognition of the new shares at their fair value, with the gain recorded in the Income Statement) was the result of an interpretation process. This accounting treatment was therefore analyzed by the competent national and international bodies, in particular by the IFRS Interpretation Committee, which on July 16, 2014 provisionally decided that the issue raised is not of general interest because of its unique nature and the fact that it did not result in differences in the accounting treatments applied in the financial statements of the companies involved (prepared on the basis of the same interpretation process), and will therefore not be the subject of a technical resolution. The decision of the IFRS Interpretation Committee is currently subject to public consultation.

With respect to the above-mentioned analyses, currently being performed, it should be noted that on March 10, 2014 Consob issued a recommendation highlighting the need – with reference to the interpretation issues arisen at international level and pending the ongoing investigation on the application of the regulations and their consistency with IAS/IFRS – to provide detailed information in the financial statements regarding the accounting approach adopted. Detailed information is therefore included in these accounts pursuant to Consob recommendation.

In the preparation of UniCredit S.p.A.'s Separate and Consolidated Financial Statements as at December 31, 2013, the Directors decided that the most appropriate accounting treatment was to recognize the revaluation of Bank of Italy shares in the Income Statement. According to this interpretation, also confirmed by influential experts, the capital increase is an actual exchange of shares, as the transaction fulfills the conditions of IAS 39 (paragraph 17) for the derecognition. In more detail:

- expiry of the rights incorporated in the original shares and their replacement with different rights embedded in the new shares; or
- discontinuity from the perspective of the shareholders' expected cash inflows (and therefore the risk related to these cash flows) before and after the reform.

In accordance with this interpretation, in UniCredit S.p.A.'s separate and consolidated Financial Statements as at December 31, 2013:

- the existing shares were derecognized and the new shares were initially recognized at their nominal value, which is considered to represent their fair value for the reasons set out in the following paragraphs;
- in light of the characteristics of the instrument and the parameters used in the valuation, the shares were categorized as Level 3 in the fair value hierarchy as required by IFRS 13;
- the difference between the fair value of the initial recognition of the new shares (€1,659 million) and the book value of the cancelled shares (€285 million) was recognized in the Income statement (item 100 - Gains and losses on disposal of available-for-sale financial assets). This resulted in a positive effect on the net result of the year of €1,190 million (net of €184 million taxes). Taxes were determined using the 12% tax rate as required by the Stability law of December 27, 2013; the transaction had no impact on the Regulatory Capital as at December 31, 2013.

A different interpretation from the approach adopted would have resulted in the recognition, in 2013, of the above-mentioned gain in Shareholders' Equity and not in the Income Statement.

<u>Accounting treatment as at June 30, 2014 and determination of fair value</u>

Legislative Decree no. 66 of April 24, 2014, then converted into Law no. 89/2014, introduced an increase in the tax rate to be applied to the higher value of the new Bank of Italy shares (from 12% to 26%), resulting in an additional cost of €215 million recorded in the Income Statement - Tax Expenses in the first half of 2014.

The new shares are designated at fair value, determined using a fundamental Level 3 valuation process that confirmed a book value in line with the values of December 31, 2013, without resulting in valuation impacts in the first half of 2014. The valuation took into consideration the amount by which the capital was increased, which in turns takes account of the result of the valuation carried out in November 2013 by the group of high-level experts on behalf of the Bank of Italy, and the results of an assessment based on the model.

Please note that the new Statute of the Bank of Italy set a limit of 3% possess for each shareholding in the Bank of Italy to facilitate the circulation of its shares, specifying that no voting rights or dividends shall be assigned to shares exceeding this limit, after an adjusting period (during which the excess shares shall be sold) not exceeding 36 months, during which the excess shares will not be assigned voting rights but will still have rights to dividends. Although the reform has laid the foundations to get out of the aforementioned standstill, at the current state there is no obligation for the Bank of Italy to buy back or to intermediate the disposal of the exceeding shares, nor the terms and conditions for any buybacks have been decided.

For the purposes of the financial statements as at June 30, 2014, as it was the case for the 2013 financial statements, the Directors decided that the conditions to reliably determine a fair value of the shares were met. Specifically, the fair value of the shares (corresponding to a valuation of 100% of the shares worth €7.5 billion) was confirmed by an internal valuation, based on a long-term Dividend Discount Model and adjusted by a liquidity discount that reflects a limited circulation of the shares. This valuation, as it is the case for any valuations of a non-listed financial instrument based on the use of models and non-observable variables, includes a certain level of uncertainty and professional judgment.

It is clear that any transactions involving the shares in the coming months will qualify as a factor of uncertainty with respect to the determination of their fair value and its forward-looking sustainability.

With reference to the Regulatory Capital and Capital ratios treatment:

- a weighting factor of 100% has been applied at the carrying amount of the investments, measured as at June 30, 2014 to derive RWA (in accordance with Article 133 "Exhibitions equity" of CRR);
- the revaluation recognized in the 2013 Income Statement is not covered by any filter

2.3 Exchange Rate Risk

Qualitative Information

A. General Aspects, Exchange Rate Risk Management Processes and Measurement Methods

Exchange risk originates from currency trading activities, for both trading and banking book, performed through the negotiation of the various market instruments is constantly monitored and measured by using internal models developed by group companies.

B. Hedging Exchange Rate Risk

UniCredit Spa. performs hedge strategies for profits and dividends arising from its subsidiaries not belonging to the euro zone. The hedging strategies takes into account market circumstances.

- ## *Credit Spread Risk*

Qualitative Information

A. General Information

As described above, risk relating to credit spreads included in both trading book and banking book, originates from positions taken by UniCredit S.p.A. holding assigned market risk limits within certain levels of discretion.

B. Risk Management Processes and Measurement Methods

For both a description of internal processes for monitoring and managing risk and an illustration of the methodologies used to analyze exposure, please refer to introduction on internal models.

Credit spread sensitivity is calculated by assuming a worsening of creditworthiness seen in a parallel shift of +1bp in the credit spread curves.

These sensitivities are calculated both inclusively, assuming a parallel shift of all the credit spread curves, and in respect of specific rating classes and economic sectors.

- ***Stress testing***

Stress tests complement the sensitivity analysis and VaR results in order to assess the potential risks in a different way. A stress test performs the evaluation of a portfolio under both simple scenarios (assuming change to single risk factors) and complex scenarios (assuming simultaneous changes in a number of risk factors).

What follows contains the description of complex scenarios, which combine changes in interest rate, price, exchange-rate and credit spread risk factors. For the description of simple scenarios, please refer to the previous paragraphs. As far as complex scenarios are concerned, different scenarios have been applied to the whole Group Trading Book on a monthly basis and reported to top management.

Greece Exit first

This scenario, introduced in June 2012 and updated in December 2013, assumes that Greece exits from the EMU without however bringing the Eurozone to a collapse. While recent developments have greatly reduced the near-term probability of such an event, Greece remains in a difficult situation and exit from EMU in the medium term remains a non-negligible possibility. The exit of Greece from the EMU would negatively affect GDP growth in the Eurozone through several channels, mainly related to financial markets. Rising volatility and the generalized increase in risk premia would make it harder for businesses to plan investment decisions. Credit for the real economy would be more expensive as a consequence of the severe intensification of funding difficulties in the banking system (including via renewed deposit outflows and tensions in the inter-bank market). This would strengthen the negative feedback loop between sovereign risk, banks and the real economy.

On the fixed income side, a flight-to-quality demand would be observed, with the focus on German and US bonds, for which we expect a significant richening vs swap (20 bp).

As for peripheral countries, spreads would come under pressure. The Italian swap spread would widen 300bp, reaching the 500bp area, while Spain would widen 250bp.

Equity markets would plunge and, at the same time, a steady increase in volatility is expected.

With respect to FX rates, EUR is expected to sharply depreciate across the board as a Greek exit would clearly undermine confidence in the common currency. The most serious losses are expected to be against the USD (with an approximate 30% depreciation), as the USD will likely continue to be perceived as the reference safe-haven currency in the case of escalating turmoil in the eurozone. However, EUR would also probably lose ground to a significant extent vs. JPY and CHF. On the other hand, EUR fall against sterling should be less significant (-20%), since the UK economy would also be heavily affected by developments in the EMU.

Widespread Contagion

In this scenario, updated in December 2013, we assume that debt crisis escalates again, with high pressures hitting Spain and Italy. The recent step-up in government commitment towards building a credible firewall against contagion and the ECB's introduction of the OMT (Outright Monetary Transactions) should provide some cushion against spread widening. However, market volatility and the ensuing financial market disruption would still lead to a severe tightening in financial conditions euro-wide. Due to the important trade links between eurozone countries, the financial shock would be amplified and cause a deeper recession. Such an escalation in tensions would lead Spain to tap EFSF/ESM. Tensions in Italy would call for a more radical and systemic response from European authorities. This should avert a sovereign default or an EMU break-up in the following two years.

The shock originated in financial markets would have a severe impact on GDP growth in EU periphery. As for as Financial markets are concerned:

on the Fixed Income side, we would initially observe a flight-to-quality-style demand, with focus on German and US bonds. Credit Spreads would fall by around 20/30 bp for these issuers. All other government bonds would come under pressure due to credit risk repricing, Italian and Spanish bonds would widen around 180/230 bp vs Bund. Spread widening is expected also for corporate bonds; the shift in credit risk preference would lead to strong pressure on high-yield bonds;

Equity markets would experience a moderate downturn, coupled with an increase in volatility;

Contagion spreading across the eurozone should weight on EUR-USD even though Fed would keep rates on hold. GBP-USD would be less affected then EUR-USD, while EUR-GBP would suffer as well as sterling may be perceived as an EMU hedge. In CEE, as response to lower growth and deteriorating fundamentals, we would expect policy-makers to favor some local currency devaluation to promote growth.

Sovereign Debt Tension Scenario

In this scenario, introduced in June 2010 and updated in December 2011, we envisage the occurrence of an escalation of the sovereign debt crisis, with no systemic contagion. This is motivated by the fact that, while the setup of the European Financial Stabilization Fund and the liquidity injection by the ECB seem to have ruled out the possibility of an outright default, market tensions still persist. Such tensions may create a challenging environment at a time in which many European countries are consolidating their public finances. In such a scenario, the EMU sovereign debt crisis would have spillover effects on the US economy as well and the flight-to-quality would lead to a further bond rally on both sides of the Atlantic. In terms of financial market variables, this scenario assumes:

credit spreads: higher risk aversion would imply a tightening of core issuers versus swap. Periphery would be under pressure: Italy spreads would widen further while Spanish bonds would be less under pressure; all credit spreads, in the corporate bond universe, would come under pressure;

world stock markets to plunge (fall); this would combine with an increase in equity volatilities;

USD and EUR interest rate curve are expected to flatten. In this scenario, an increase in interest rate volatilities is also assumed;

USD is expected to appreciate, mostly against EUR; depreciation of CEE currencies against EUR.

Emerging Markets Slowdown

This scenario, introduced in June 2011, covers the period 2011, 2012 and 2013. It assumes a shock coming from the real economy, namely a sharp slowdown in the growth rate of emerging economies starting in 2011 and intensifying during 2012. This would negatively affect EMU GDP growth and, to a lesser extent, the US, where the weight of the manufacturing sector and trade openness is lower. As a result of weaker economic activity and lower oil prices, inflation would slow down. The combination of weaker GDP growth and lower inflation would lead to a considerable slowdown in the normalization of monetary policy rates.

In terms of macro-economic variables, this scenario assumes:

credit spreads: as for European sovereign spreads the deterioration is not severe compared to the Sovereign Tensions scenario because the shock would affect credit-risk premium only indirectly. The shock would reflect more on oil companies which are not included in the “iTraxx main”. The widening of the iTraxx Financial Senior and Sub is also important;

the shock has no impact on the Japanese yield curve. The impact on the US, EU and UK curves is that of a fall in yields which will bull flatten as the time bucket increases. This reflects the worsening growth outlook and the resulting more positive inflation outlook. The Euribor curve is the most reactive of the three as the risk aversion gives further support to Bunds;

the performance of stock markets will lower and equity volatilities will increase;

the EUR is expected to depreciate against the US Dollar, Japanese Yen and Swiss Franc (because of the demand for safe-havens) and to appreciate versus the other European currencies and Turkish Lira.

Shown below are the Stress Test data on the market risk for the trading book in UniCredit S.p.A.

Scenario				(€ mln)
26.06.2014	**2013**			
	Sovereign Tensions	**Emerging Market Slowdown**	**Grexit**	**Widespread Contagion**
UniCredit Spa	1	35	-4	10

Section 3 – Liquidity risk

QUALITATIVE INFORMATION

Liquidity risk is defined as the risk that the Bank may find itself unable to fulfil its expected or unexpected payment obligations (by cash or delivery) current and future without jeopardizing its day-to day operations or its financial condition.

The key principles

The Liquidity Centres

The Bank aims to maintain liquidity at the level enabling to conduct safe operations, to fund its operations at the best rate conditions under normal operating circumstances, and to remain always in a position to meet payment obligations.

To this end, the Bank complies accurately with the legal and regulatory provisions imposed by the national Central Banks and by the national authorities of each country where it operates.

In addition to local legal and regulatory requirements the Bank, under the responsibility of its Risk Management, defines policies and metrics to ensure a sound liquidity position.

The Group defines Liquidity Centres those Legal Entities that have, through their operative treasury, the responsibility for:

- managing the payment systems on a centralized basis for a specific Legal Entities that do not have a direct access to the payment system and/or the wholesale/interbank markets;
- managing the liquidity mismatches of these Legal Entities through a direct access to the wholesale/interbank markets;
- coordinating specific Legal Entities with an operative treasury and with a direct access to the relevant local wholesale/interbank markets, optimizing their funding activity.

The Legal Entities which refer to a common Liquidity Centre are consolidated and form a liquidity subgroup. Each Liquidity Centre monitors and has oversight over the liquidity positions of its own subgroup and ensures that each Legal Entity falling within its perimeter has a sufficient level of liquidity to meet its individual and joint obligations as they come due.

Moreover, within each liquidity subgroup, different managerial subsets of Legal Entities may be identified, according to their peculiarities and materiality, for liquidity risk indicators' estimation purposes.

HC Finance and Liquidity Risk Control functions are responsible for the definition of the organizational framework in terms of Liquidity Centres and liquidity subgroups, as well as for the identification of the managerial subsets for the calculation of each relevant indicator.

A particularly important role is played by the Parent Company, as a "supervisory and overarching liquidity centre" with its role of steering, coordinating, and controlling all the aspects regarding liquidity for the whole Group. This role is played by Financial Risk Italy. UniCredit S.p.A., moreover, acts as the Liquidity Centre Italy, therefore manages and runs in an integral manner the liquidity risk of all the other legal entities belonging to its perimeter (UniCredit S.p.A., UniCredit Bank Ireland PLC, UniCredit Luxembourg, Fineco Bank, UniCredit Factoring, UniCredit Leasing, UniCredit Credit Management Bank).

The principle of "self-sufficiency"

This kind of organization allows self-sufficiency of the Group by accessing the local and global markets for liquidity in a controlled and coordinated way. According to Group policies, structural liquidity excesses generated in a Regional Liquidity Centre should be upstreamed to the Holding Company unless legal requirements prevent it.

The so called "Large Exposure Regime", applied throughout Europe, along with specific national laws like the "German Stock

Corporation Act", are examples of legal constraints to the free circulation of funds within a cross-border banking Group[1].

For these reasons, the Group Liquidity Policy provides for a further principle in order to enhance a sound liquidity risk management; that is, each Legal Entity (in particular those located in a country different from the one of its Liquidity Centre of reference), has to increase its liquidity self-sufficiency in an on-going basis and under stressed conditions, fostering each Legal Entity to exploit its strengths, in term of products and markets, in order to optimize the cost of funds of the Group.

This type of organization allows the Group that the Legal Entities are self-sufficient by accessing the local and global markets for liquidity in a controlled and coordinated way, whilst optimizing: i) the liquidity surpluses and deficits within the Group's legal entities ii) the overall costs of funding across the Group.

Roles and responsibilities

Three main functions are identified in the management of the liquidity: the Group Risk Management competence line (through the Financial Risk Italy unit), the "Finance" function (within Planning, Finance & Administration competence line), and the "Treasury" function (within the "Markets" Business Unit), each with different roles and responsibilities. In particular, the operational responsibilities reside in the Finance and the Treasury functions, while the Risk Management function has responsibilities of independent controls and independent reporting compared to the operational functions (in line with the requirements of Bank of Italy 263 Circular).

HC Treasury function is responsible for the financial stability and solvency of the Group, having as primary objective the capacity to fulfill ordinary and extraordinary payment obligations on the short term period, managing the liquidity risk generated by possible unbalances in the Group financial structure, as well as settlement, rate and FX risks, accessing to money markets and coordinating the treasury functions within HC international branches, Liquidity Centres and Legal Entities, also for the purpose of refinancing transactions with the European Central Bank. Moreover, HC Treasury function act also as the sole party in the management of the intra-group financial flows linked to net liquidity requirements/surpluses of the banks and companies in the Group.

HC Finance function is responsible for the coordination of the overall financial planning process at Group, Liquidity Centres and relevant LEs level, aiming to efficiently ensure the stability and the sustainability of the financial structure through time, addressing assets and liabilities composition and maturities, in compliance with the limits and triggers set for liquidity and balance sheet metrics, both regulatory and internal.

Optimisation of liquidity risks is pursued through the setting of specific limits on the standard banking activity of transforming short, medium and long-term maturities. This is implemented in accordance with legal and regulatory framework and internal rules and policies, through management.

Such models are subject to analyses carried out by Group Liquidity Risk Management to ensure that they comply with the metrics and the objectives of the Group's Liquidity Framework.

Risk measurement and reporting systems

Techniques for risk measurement

Liquidity risk, for its particular nature, is addressed by means of gap analyses, liquidity stress testing, and complementary measures (mainly through a calculation of ratios/indices: e.g. loan to deposit, leverage). In particular, gap analyses are performed within two distinct time horizons:

- liquidity imbalance mismatch approach on a daily basis, which controls for the short term liquidity risk arising from the overnight up to a 3 months maturity;

[1] Also the Bank of Italy Rules, Circolare 263, foresees that the liquidity reserves are placed in each Legal Entity in order to minimize the transfers of cash reserves (Title V, chapter 2, Section III. 7 before last paragraph).

- gap ratios on a monthly basis, which control the medium to long term risk (structural liquidity) from the 1Y maturity onwards.

The liquidity metrics

The Group's Liquidity Framework is based upon the Liquidity Risk Mismatch Model which is characterized by the following fundamental principles:

1. Short-term liquidity risk management (operational liquidity), which considers the events that will impact upon the Bank's liquidity position from 1 day up to one year. The primary objective is to maintain the Bank's capacity to fulfill its ordinary and extraordinary payment obligations while minimizing the relevant costs.
2. Structural liquidity risk management (structural risk), which considers the events that will impact upon the Bank's liquidity position over one year. The primary objective is to maintain an adequate ratio between medium/long term liabilities and medium to long-term assets, with a view to avoiding pressures on short-term funding sources (both current and future), while in the meantime optimizing the cost of funding.
3. Stress tests: Liquidity risk is a low probability, high impact event. Therefore stress testing is an excellent tool to reveal potential vulnerabilities in the Balance Sheet. The Bank uses several scenarios ranging from general market crisis to idiosyncratic crisis, and combinations hereof.

In this context, UniCredit S.p.A. takes into account all of the assets, liabilities, off-balance sheet positions and present and future events which generate certain or potential cash flows, thereby protecting the Bank from risks related to the transformation of maturity.

Short term liquidity management

Short-term liquidity management aims at ensuring that the Bank remains in a position to fulfill its cash payment obligations always, whether expected or unexpected, focused on the exposure for the first 12 months.

The standard measures taken for such purposes are the following:

- management of the access to payment systems (operational liquidity management);
- management of cash payments to be made and monitoring of the level of liquidity reserves and the extent of their utilization (analysis and active management of the maturity ladder).

The Bank calculate also the indicator "Cash Horizon" which is a synthetic indicator of the short term liquidity risk levels; this indicator is monitored through the Operative Maturity Ladder, which measures the cash-in and outflows affecting the monetary base, with details of the main temporal buckets. The Cash Horizon identifies the number of days after which the Bank is no longer able to meet its liquidity obligations as expressed in the operative Maturity Ladder, after having exhausted the available Counterbalancing Capacity. The objective of the Bank is to guarantee a cash horizon of at least 3 months.

The Cash Horizon is one of the liquidity metrics included in the Group's Risk Appetite Framework. At the same time, different sensitivity analysis are performed, for example to verify the impact of 1 and 2 bln Euro inflows or outflows on the Cash Horizon or to estimate the additional liquidity needed in the event of downgrades by rating agencies.

Structural liquidity management

The Bank's structural liquidity management aims to limit refinancing long term exposures with liabilities with short maturities, avoiding an higher pressure on the short term funding sources (therefore financing the medium long term assets with liabilities with same or longer term maturities). The structural Liquidity Ratio over 1 year is one of the liquidity metrics included in the Group's Risk Appetite Framework. The maintenance of an adequate ratio between medium to long-term liabilities and assets aims to avoid pressures on short-term sources, whether present or future.

The standard measures taken for such purposes are the following:

1. the spreading of the maturity of funding operations in order to reduce the usage of less stable funding sources, while in the

meantime optimizing the cost of funding (integrated management of strategic liquidity and tactical liquidity);

2. the financing of growth through strategic funding activities, setting the most appropriate maturities (Yearly Funding Plan);
3. the balancing of medium- to long-term wholesale funding requirements with the need to minimize costs, by diversifying sources, national markets, currencies of issuance and instruments used (realization of the Yearly Funding Plan).

Liquidity Stress Test

Stress testing is a risk management technique used to evaluate the potential effects on an institution's financial condition of a specific event and/or movement in a set of financial variables. As a forward looking tool, liquidity stress testing diagnostics the institution's liquidity risk. In particular the results of the Stress tests are used to:

- assess the adequacy of liquidity limits both in quantitative and qualitative terms;
- plan and carry out alternative sourcing transactions for purposes of off-setting liquidity outflows;
- structure/modify the liquidity profile of the Bank's assets;
- provide support to the development of the liquidity contingency plan.

In order to execute Stress tests that are consistent across the Liquidity Centres, the Group has a centralised approach to stress testing, requiring each local Liquidity Centre to run the same scenario set under the coordination of the Group Liquidity Risk Management.

At the Liquidity Centre level the use of statistical/quantitative behavioural models are accepted, provided they are validated by the local Risk Management or equivalent structure with same responsibilities.

UniCredit S.p.A. can use statistical/quantitative behavioural models, provided they are validated by Risk Management.

The Group runs liquidity scenarios and sensitivity analyses on a regular basis, the latter by assessing the impact on an institution's financial condition of a move in one particular risk factor, the source of the shock not being identified, whereas scenario tests tend to consider the impact of simultaneous moves in a number of risk factors, based on a hypothetical, well defined and consistent stress scenario.

Liquidity scenarios

At macro level the Bank identifies three basic different classes of potential liquidity crisis:

1. market (systemic, global o sector) related crisis: Market Downturn Scenario. This scenario consists of a sudden turmoil in a monetary and capital market, which may be caused by closure (or limited access) to market/settlement system, critical political events, country crisis, credit crunch, etc.;
2. specific to the Bank: name crisis, and downgrade scenarios; the assumption could be operational risk, event related to the worsen perception of the Bank reputation risk and a downgrade in UniCredit S.p.A. rating;
3. a combination of market and specific crisis: combined scenario. The survival period of the combined liquidity stress test scenario is one of the liquidity metrics included in the Group's Risk Appetite Framework.

The results of the stress test may highlight the needs of setting up specific limits concerning, for instance, unsecured funding, the ratio between cash-in/cash-out flows and counterbalancing capacity, the ratio between eligible and non-eligible securities, among others.

Behavioral modeling of Asset and Liabilities

UniCredit Group developed specific behavioral models to estimate the maturity profile of those assets and liability which do not have a defined contractual due date. Indeed, what is perceived to be sight maturing in reality shows some stickiness.

Asset and liability modeling aims to build a replicating profile that best reflects the behavioral features. Examples include loans with embedded option and sight items. For loans with embedded options like mortgages the amortisation profile takes into account projected prepayments. For sight items the maturity projections reflects the perceived stickiness. This estimate taken into account factors as historical volume stability.

Monitoring and reporting

The short term liquidity limits and the Cash Horizon are monitored and reported on a daily basis. The structural liquidity ratios and its exposure against limits are monitored and reported on a monthly basis. The survival period and the result of the liquidity Stress test are reported and monitored on a weekly basis.

Risk mitigation

Mitigation factors

It is generally accepted that liquidity risk cannot be mitigated by capital. As such liquidity risk does not add to the economic capital usage, nevertheless it is considered as an important risk category also for the risk appetite determination of the Bank.

The main liquidity mitigation factors for UniCredit S.p.A. are:

- an accurate short term and medium to long term liquidity planning monitored monthly;
- an effective Contingency Liquidity Policy (CLP) with feasible and up-to-date Contingency Action Plan (CAP) to be executed in case of crisis;
- a liquidity buffer to face unexpected outflows;
- robust and regular up to date stress testing performed on a high frequency.

Funding Plan

The Funding Plan plays a fundamental role in the overall liquidity management influencing both the short term and the structural position. The Funding Plan is developed consistently with a sustainable uses and sources analysis both on short term and structural position. One of the objectives of accessing the medium and long term channels is to avoid also the pressure on the short term liquidity position. The Funding Plan is updated at least on a yearly basis and is approved by the Board of Directors. Moreover, it is aligned with the Budgeting process and the Risk Appetite framework.

UniCredit S.p.A., through the Planning Finance and Administration (PFA) function, coordinates the market access of the Liquidity Centres and Legal Entities, while the Liquidity Centres coordinate the access of the Legal Entities falling within their perimeter.

Planning Finance and Administration (PFA) can access the markets for medium and long term funding, in order to increase its self-sufficiency, exploit market opportunities and functional specialization, safeguarding the optimization of cost of funds of the Bank.

PFA is responsible for the elaboration of the Funding Plan. Risk Management function is responsible for providing an independent assessment of the Funding Plan. Financial Risk Italy unit is responsible for providing an independent assessment on the Funding Plan related to LC Italy perimeter.

UniCredit Group considers the metrics requested by the Regulator, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), as integral part of the overall liquidity management process. The necessity to meet Basel 3 ratios is effectively managed within the Group Funding Plan as well as within the Group Risk Appetite Framework by the means of a dedicated metric: The Core Banking Book Funding Gap[1].

Contingency Liquidity Policy

A liquidity crisis is a high impact, low probability event. Therefore, a crisis-mode governance model that can be activated effectively in case of crisis according to an approved procedure has to be defined. In order to be able to proceed timely, a set of mitigating actions

[1] Defined as Customer loans and customer deposits net of (reverse) repos but including Network Bonds net issues and other Commercial Securities (eg. CDs).

have to be pre-defined. Depending on the situation some of these actions can then be approved for execution.

The ability to act in time is essential to minimize the potentially disruptive consequences of a liquidity crisis. The analytics of the Stress tests will form a valuable tool to identify the expected consequences and to define up front the most suitable actions in a certain crisis scenario. In combination with the analysis of specific liquidity risk indicators the Bank may even be able to reduce the liquidity effects in the initial stages of a crisis.

Liquidity crises usually develop quickly and the relevant signals may be either difficult to interpret or may even be lacking; it is, therefore, important to identify clearly players, powers, responsibilities, communication and reporting criteria, in order to increase significantly the probability of overcoming the state of emergency successfully. A liquidity crisis could be classified as systemic (e.g. overall capital and money market disruption) or specific (e.g. specific within the sphere of the bank), or a combination of both.

The Contingency Liquidity Policy (CLP) has the objective of ensuring effective interventions starting from the very outset (initial hours) of the liquidity crisis, through the clear identification of individuals, powers, responsibilities, communication, and reporting criteria, with a view of increasing significantly the probability of successfully overcoming the state of emergency. This is achieved through:

- activation of extraordinary liquidity governance and operating model;
- consistent internal and external communication;
- a set of available standby mitigating liquidity actions;
- a set of specific liquidity risk indicators that may point towards a developing crisis.

A fundamental part of the Contingency Liquidity Policy is the Contingency Funding Plan. Such a plan consists of a set of potential but concrete management actions. Such actions should be described in terms of a menu of actions together with sizes, instruments, and timing of execution aimed at improving the bank’s liquidity position mainly during times of crisis. The Contingency Funding Plan has to be developed on the basis of the annual Funding Plan.

Section 4 – Operational risks

QUALITATIVE INFORMATION

A. General aspects, operational processes and methods for measuring operational risk

Operational risk definition

Operational risk is the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk.

For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, client claims, products distribution, fines and penalties due to regulation breaches, damage to the company’s physical assets, business disruption and system failures, process management.

Group operational risk framework

UniCredit Group sets the operational risk management framework as a combination of policies and procedures for controlling, measuring and mitigating the operational risk of the Group and controlled entities.

The operational risk policies, applying to all Group entities, are common principles defining the roles of the company bodies, the operational risk management function as well as the relationship with other functions involved in operational risk monitoring and management.

The Parent company coordinates the Group entities according to the internal regulation for operational risk control and management. Specific risk committees (Risk Committee, Operational & Reputational Risk Committee) are set up to monitor risk exposure, mitigating actions and measurement and control methods.

The methodology for data classification and completeness verification, scenario analysis, risk indicators, reporting and capital at risk measurement is set by the Group Operational & Reputational Risks department of the Holding company.

The operational risks management and control of Unicredit S.p.A. is set by the Unit "Operational Risk Management Italy (collocated within the department "Risk Management Italy" – CRO Italy)

The compliance of the Group Operational risk control and measurement system with external regulations and Group standards is assessed through an internal validation process under the responsibility of the Group Internal Validation department of the Holding company and independent from the Group Operational & Reputational Risks department.

In March 2008, UniCredit Group received authorization to use the AMA model (Advanced Measurement Approach) for calculating operational risk capital.

Organizational structure

Senior Management is responsible for approving all aspects relating to the Group operational risk framework and verifying the adequacy of the measurement and control system and is regularly updated on changes to the risk profile and operational risk exposure, with support from the appropriate risk committees if required.

The Group Operational & Reputational Risk Committee, chaired by the Group Chief Risk Manager, is made up of permanent and guest members. The list of participants of the Committee has been updated in 2014.

The mission of the Group Operational & Reputational Risk Committee relative to operational risk, is to define proposals and opinions for the Group Risk Committee, for:

- the Group risk appetite including capitalization targets and capital allocation criteria for Group operational risks;
- the structure and definition of warning levels for Group operational risk for achieving risk allocation targets across Business Functions, Legal Entities and portfolios;
- initial approval and fundamental modifications of risk control and measurement systems and applications for operational risk, including possible action plans, processes, IT and data quality requirements, supported by the related internal validations;
- overall strategies for operational risk optimization, "Governance Guidelines" and general "Policies" for the management of Group operational risk;
- action plans to address possible critical findings related to risk control and measurement system resulting from "Group Internal Validation" and Internal Audit activities, with regard to internal control system and risk measurement;
- status update of relevant Basel II project activities and processes on operational risk topics;
- ICAAP topics for operational risks;
- yearly Regulatory Internal Validation Report on operational risk.
- advice on matter of operational risk, upon request of the Holding Company functions/Bodies and Legal Entities.

The Group Operational & Reputational Risk Committee, relative to operational risk, meets with approval functions instead for the following topics:

- special operational and reputational risk "Policies";
- corrective actions for balancing the Group operational risk positions, including the planned mitigation actions, within the warning levels defined by the competent Bodies;
- Group insurance strategies, including renewals, limits and franchises;
- initial approval and fundamental modifications of the methodologies for the measurement and control of operational risk, supported by the related internal validations.

The Group Operational & Reputational Risks department reports to Group Risk Management (Group CRO) and supervises and manages the overall profile of the operational and reputational risks (including operational risks bordering on credit risk and

market risk) in the Group by defining the strategies, methodologies and warning levels, thus granting the compliance to regulatory requirements.

The department is structured in three units.

- Operational and Reputational Risk Oversight unit , responsible for defining the principles and rules for identification, assessment and control of operational risk and reputational risk (including operational risks bordering on credit risk and market risk), and monitoring their correct application by the Legal Entities.
- Operational and Reputational Risk Strategies & Mitigation unit, responsible for defining operational risk strategies, defining and controlling warning levels, as well as proposing mitigation actions and monitoring their effectiveness.
- Operational and Reputational Risk Analytics unit, responsible for defining risk capital measurement approaches, calculating operational risk capital and the corresponding economic capital, as well as conducting quantitative analysis of the Group's exposure to operational risk and reputational risk, and providing suitable reporting to the functions concerned.

The Operational & Reputational Risk Management Italy Unit depends on CRO Italy and is responsible for the evaluation of the operational and reputational risks exposure of Unicredit S.p.A., for granting on those risks a continuous and independent presidium, for defining strategies aiming the mitigation and loss control, complying to Global Rules defined by Group Operational & Reputational Risks department.

In the matter of the operational risks measurement, management and mitigation, the Unit is structured in three Teams.

- "Operational & Reputational Data Quality Italy", is responsible of data quality concerning operational risks entered in the Group database, using both the General Ledger analysis, and the accounting reconciliation of operational losses with accounting items entered by Unicredit S.p.A.
- "Operational & Reputational Risk Analysis and Reporting Italy", is responsible of losses data analysis entered by UniCredit S.p.A and of risk indicators trend. The team is also responsible for the periodical reporting on the operational risk exposure.
- Operational & Reputational Risk Strategies and Mitigation Italy", is responsible of strategies planning due to operational risks mitigation and to related losses of UniCredit S.p.A, consistent with strategies and Group Rules defined by "Group Operational & Reputational Risk", identifying any mitigation action, monitoring the implementation and the effectiveness, in cooperation with "Internal Controls Italy" and "Organization Italy" units.

Internal validation process

In compliance with regulations, an internal validation process for the operational risk control and measurement system has been set up in order to verify the conformity with regulations and Group standards. This process is responsibility of the Market, Operational & Pillar II Risks Validation unit, within the Group Internal Validation department.

Group methodologies for measuring and allocating the capital at risk are validated at Holding company level by the abovementioned Unit, while the implementation of the operational risk control and management system within the relevant entities is validated by the local ORM functions following the Technical Instructions and policies issued by the Group Internal Validation Department.

The results of the local assessments are annually verified by the Group Internal Validation department which also performs additional analysis on data and documentation. Detailed reports are then submitted to the Group CRO for the release of specific Non Binding Opinions to the relevant subsidiaries. The local validation report, together with the opinion of the Holding company and the Internal Audit report is submitted to the entities' competent Governing Bodies for approval.

All the validation outcomes on the operational risk control and measurement system, both at Holding Company and controlled entities level, are annually consolidated within the Group Validation report which, along with the annual Internal Audit report, is presented to the UniCredit Board of Directors.

Periodical reporting on validation activities is submitted also to the Group Operational & Reputational Risk Committee.

Reporting

A reporting system has been developed by ORM function to inform senior management and relevant control bodies on the operational risk exposure and the risk mitigation actions.

In particular, quarterly updates are provided on operational losses, capital-at-risk estimates, the main initiatives undertaken to mitigate operational risk in the various business areas, operational losses suffered in the credit linked processes (“cross-credit” losses).

The ORM function, on a monthly basis, analyses operational risk indicators and, by the mean of a dedicated report, informs senior management upon the results of the above mentioned assessment.

The results of the main scenario analyses carried out at Group level and the relevant mitigation actions undertaken are also submitted to the attention of the Group Operational & Reputational Risk Committee.

Operational risk management

Operational risk management exploits process reengineering to reduce the risk exposure and insurance policies management, defining proper deductibles and policies limits. Regularly tested business continuity plans assure sound operational risk management in case of interruption of main business services.

Compliant to Group Guidelines on operational risk matters, UniCredit SpA set up a permanent work group – PWG composed by relevant functions for the operational risk monitoring (ORM function, Organization, Security, Compliance and Internal Controls); this PWG regularly meets in order to detect critical areas the company is exposed and, consequently, implements specific mitigating actions.

Risk capital measurement and allocation mechanism

UniCredit developed an internal model for measuring the capital requirements. The system for measuring operational risk is based on internal loss data, external loss data (consortium and public data) scenario loss data and risk indicators.

Capital at risk is calculated per event type class. For each risk class, severity and frequency of loss data are separately estimated to obtain the annual loss distribution through simulation, considering also insurance coverage. The severity distribution is estimated on internal, external and scenario loss data, while the frequency distribution is determined using only the internal data. An adjustment for key operational risk indicators is applied to each risk class. Annual loss distributions of each risk class are aggregated through a copula functions based method. Capital at risk is calculated at a confidence level of 99,9% on the overall loss distribution for regulatory purposes and at a confidence level of 99,97% for economic capital purposes.

Through an allocation mechanism, the individual legal entities’ capital requirements are identified, reflecting the entities’ risk exposure.

QUANTITATIVE INFORMATION

Detailed below is the percentage composition, by type of event, of operational risk sources as defined by the New Basel Capital Accord and acknowledged by the New Regulations for the Prudential Supervision of Banks issued by the Bank of Italy in December 2006 (Circular No. 263) and in successive updates.

The major categories are as follows:

- internal fraud: losses owing to unauthorized activity, fraud, embezzlement or violation of laws, regulations or business directives that involve at least one internal member of the bank;
- external fraud: losses owing to fraud, embezzlement or violation of laws by subjects external to the bank;
- employment practices and workplace safety: losses arising from actions in breach of employment, health and workplace safety laws or agreements, from personal injury compensation payments or from cases of discrimination or failure to apply equal treatment;
- clients, products and professional practices: losses arising from non-fulfillment of professional obligations towards clients or from the nature or characteristics of the products or services provided;
- damage from external events: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- business disruption and system failures: losses owing to business disruption and system failures or interruptions;
- process management, execution and delivery: losses owing to operational or process management shortfalls, as well as losses

arising from transactions with commercial counterparties, sellers and suppliers.

DISTRIBUTION PER RISK EVENT TYPE	PERCENTAGE
Clients	56,05 %
Executions	23,25 %
External fraud	9,84 %
Internal fraud	7,06 %
Employment practices	3,39 %
IT systems	0,38%
Asset damages	0,03 %
Total	100,0%

In the first half 2014 , the main source of operational risk was "Clients, products and professional practices", a category which includes losses arising from the non-fulfillment of professional obligations towards clients or from the nature or characteristics of the products or services provided. The second largest contribution to losses came from execution.

In decreasing order of total impact, losses for external fraud, internal fraud, legal and labour disputes have been booked. Losses on asset damages and It failures represents the residual part of operational risk.

B. Legal Risks

UniCredit S.p.A. is involved in numerous legal proceedings (which include commercial disputes, adversarial regulatory matters and investigations). From time to time, past and present directors, officers and employees may be involved in civil and/or criminal proceedings, the details of which the UniCredit S.p.A. may not lawfully know about or communicate.

UniCredit S.p.A. is also required to deal appropriately with various legal and regulatory requirements in relation to issues such as conflicts of interest, ethical issues, anti-money laundering laws, US and international sanctions, client assets, competition law, privacy and information security rules and others. Actual or alleged failure to do so may lead, and in certain instances has led, to additional litigation and investigations and subjects UniCredit S.p.A. to damages claims, regulatory fines, other penalties and/or reputational damage. In addition, one or more UniCredit Group companies is subject to investigations by the relevant supervisory authority in a number of countries in which it operates. These include investigations relating to aspects of systems and controls and instances of actual and potential regulatory infringement by the relevant Group companies and/or its clients. Given the nature of the Group's business and the reorganization of the Group over time there is a risk that claims or matters that initially involve one Group company may affect or involve other Group entities.

In many cases, there is substantial uncertainty regarding the outcome of the proceedings and the amount of any possible losses. These cases include criminal proceedings, administrative proceedings brought by the relevant supervisory or prosecution authority and claims in which the petitioner has not specifically quantified the penalties requested (for example, in putative class action in the United States). In such cases, given the impossibility of predicting possible outcomes and estimating losses (if any) in a reliable manner, no provisions have been made. However, where it is possible to reliably estimate the amount of possible losses and the loss is considered likely, provisions have been made in the financial statements based on the circumstances and consistent with international accounting standards IAS.

To protect against possible liabilities that may result from pending legal proceedings (excluding labour law, tax cases and credit recovery actions), UniCredit S.p.A. has set aside a provision for risks and charges of €292,2 million as at June 30, 2014. The estimate for reasonably possible liabilities and this provision are based upon currently available information but, given the numerous uncertainties inherent in legal proceedings, involve significant elements of judgment. In some cases it is not possible to form a reliable estimate, for example where proceedings have not yet been initiated or where there are sufficient legal and factual uncertainties to make any estimate purely speculative. Therefore, it is possible that this provision may not be sufficient to entirely meet the legal costs and the fines and penalties that may result from pending legal actions, and the actual costs of resolving pending matters may prove to be substantially higher.

Consequently it cannot be excluded that an unfavourable outcome of such legal proceedings or such investigations may have a negative impact on the results of UniCredit S.p.A. and/or its financial situation.

Set out below is a summary of information relating to matters involving UniCredit S.p.A. which are not considered groundless or in the ordinary course.

This section also describes pending proceedings against UniCredit S.p.A. and/or employees (even former employees) that UniCredit S.p.A. considers relevant and which, at present, are not characterised by a defined claim or for which the respective claim cannot be quantified.

Labour law, tax and credit recovery claims are excluded from this section and are described elsewhere in the notes.

In accordance with IAS 37 information which would seriously prejudice the relevant company's position in the dispute may be omitted.

Madoff

Background

In March 2009 Bernard L. Madoff ("**Madoff**"), former chairman of the NASDAQ Exchange and owner of Bernard L. Madoff Investment Securities LLC ("**BLMIS**"), pled guilty to operating what has been described as a Ponzi scheme, for which he was sentenced to 150 years in prison. In December of 2008, a bankruptcy administrator (the "**SIPA Trustee**") for the liquidation of BLMIS was appointed in accordance with the U.S. Securities Investor Protection Act of 1970.

As at the date of Madoff's arrest in December 2008, the Alternative Investments division of Pioneer ("**PAI**"), an indirect subsidiary of UniCredit S.p.A., acted as investment manager and/or investment adviser for the Primeo funds (including the Primeo Fund Ltd (now in Official Liquidation),"**Primeo**") and various funds-of-funds ("**FoFs**"), which were non-U.S. funds that had invested in other non-U.S funds with accounts at BLMIS. PAI also owned the founder shares of Primeo since mid-2007. Previously, the investment advisory functions had been performed by BA Worldwide Fund Management Ltd ("**BAWFM**"), an indirect subsidiary of UniCredit Bank Austria AG ("**BA**"). For a period of time, BAWFM performed investment advisory functions for Thema International Fund plc, a non-U.S. fund that had an account at BLMIS.

UniCredit Bank AG (then HypoVereinsbank) 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. Some BA customers purchased shares in Primeo funds that were held in their accounts at BA. BA owned a 25 percent stake in Bank Medici AG ("**Bank Medici**"), a defendant in certain proceedings described below. Bank Medici is alleged to be connected, inter alia, to the Herald Fund SPC, a non-U.S. fund that had an account at BLMIS.

Proceedings in the United States

Purported Class Actions

UniCredit S.p.A., BA, PAI and Pioneer Global Asset Management S.p.A. ("**PGAM**"), a UniCredit S.p.A. subsidiary, were named among some 70 defendants in one or more of three putative class action lawsuits filed in the United States District Court for the Southern District of New York (the "**Southern District**") between January and March 2009, purporting respectively to represent investors in three investment fund groups (the "**Herald**" funds, the "**Primeo**" and the "**Thema**" funds) which were invested, either directly or indirectly, in BLMIS. It was principally alleged that the defendants breached common law duties misrepresenting the monitoring that would be done of Madoff and plaintiffs' investments, and disregarding purported "red flags" of Madoff's fraud, failing to exercise due care in connection with the plaintiffs' investments, and, in the Herald case, that the defendants, including UniCredit S.p.A., violated the United States Racketeer Influenced and Corrupt Organizations Act ("**RICO**"), causing the class some $2 billion in damages, which plaintiffs sought to treble under RICO. Plaintiffs sought damages in unspecified amounts (other than under RICO, as noted above) and other relief.

On November 29, 2011, the Southern District dismissed, all three purported class action complaints on grounds, with respect to UniCredit S.p.A., PGAM, PAI and BA, that the United States is not the most convenient forum for resolution of plaintiffs' claims. On September 16, 2013, the United States Court of Appeals for the Second Circuit (the "**Second Circuit**") affirmed the dismissal of the cases brought by the Thema and Herald investors (the Primeo litigants did not appeal and agreed to follow the results of Herald appeal). On September 30, 2013, the plaintiffs in the Thema and in the Herald action requested that the decision to affirm the dismissal be reviewed again by the plenary court – a rehearing en banc. That request remains pending.

Claims by the SIPA Trustee

In December 2010, the SIPA Trustee ("**SIPA**") filed two cases (the "**HSBC**" and the "**Kohn**" case, respectively) in the United States Bankruptcy Court in the Southern District of New York (the "**Bankruptcy Court**") against several dozen defendants. Both cases were later removed to the non-bankruptcy federal trial court, i.e., the Southern District.

In the HSBC case, the SIPA Trustee sought to recover from some 60 defendants, including UniCredit S.p.A., BA, BAWFM, PAI, certain current or formerly affiliated persons, and Bank Medici amounts to be determined at trial, allegedly representing so-called avoidable transfers to initial transferees of funds from BLMIS, subsequent transfers of funds originating from BLMIS (including alleged management, performance, advisory, administrative and marketing fees, said to exceed $400 million in aggregate for all defendants), and compensatory and punitive damages against certain defendants on a joint and several basis, including the abovementioned, alleged to be in excess of $2 billion. In addition to avoidable transfers, the SIPA Trustee sought to recover in the HSBC case unspecified amounts (said to exceed several billion dollars) for common law claims, including aiding and abetting BLMIS's breach of fiduciary duty and BLMIS's fraud, and contribution. The common law and contribution claims were dismissed on July 28, 2011, while certain claims (primarily avoidance claims) remained pending in the Bankruptcy Court. On June 20, 2013, the Second Circuit affirmed the Southern District's dismissal.

Although the SIPA Trustee petitioned the United States Supreme Court to review this decision, on June 30, 2014, this Court rejected the SIPA Trustee's petition for review.

In the Kohn case, the SIPA Trustee seeks to recover from more than 70 defendants, including UniCredit S.p.A., BA, PGAM, BAWFM, Bank Austria Cayman Islands, certain current or formerly affiliated persons, and Bank Medici unspecified avoidable transfers from BA as initial transferee from BLMIS, and from UniCredit S.p.A., BA and other affiliated individual defendants as subsequent transferees of funds likewise originating from BLMIS. The complaint further asserts common law claims and RICO violations, and seeks under RICO three times the reported net $19.6 billion losses allegedly suffered by all BLMIS investors, as well as fees received, compensatory, exemplary and punitive damages, and costs of suit as against the defendants on a joint and several basis.

On February 21, 2012, the Southern District dismissed the RICO and common law claims in respect of UniCredit S.p.A., BA, PGAM, and the former CEO of UniCredit (who had also been named as a defendant), while certain claims (primarily avoidance claims) remained pending in the Bankruptcy Court. On March 21, 2012, the SIPA Trustee appealed the Southern District's dismissal of the RICO and common law claims to the Second Circuit. On May 15, 2014, the SIPA Trustee procedurally withdrew his appeal to the Second Circuit, but reserved the right to reinstate the appeal when the remainder of the case concludes in the lower court.

On July 6, 2014, the Southern District ruled, at the request of a number of defendants, including UniCredit, PGAM and PAIML, that avoidance claims based on subsequent transfers made abroad between a foreign transferor and a foreign transferee could not be maintained because the provisions of the United States law on which the Trustee relied may not be applied extraterritorially. The Southern District directed that the proceedings be returned to the Bankruptcy Court so that this ruling could be applied to all relevant cases, including the Kohn and HSBC cases.

The current or formerly affiliated persons named as defendants in the HSBC and Kohn cases, who had not been previously served, have now been served. The current or formerly affiliated persons may have similar defenses to the claims as UniCredit S.p.A. and its affiliated entities, and may have rights to indemnification from those parties.

Proceedings Outside the United States

On July 22 2011, the Joint Official Liquidators of Primeo (the "**Primeo Liquidators**") issued proceedings against PAI in the Grand Court of the Cayman Islands, Financial Services Division. PAI and the Primeo Liquidators have agreed to settle the claims on confidential terms.

Numerous civil proceedings (with the claimed amount totalling about €150 million) have been initiated in Austria by numerous investors related to Madoff's fraud in which BA, among others, has been named as defendant; different types of claims are asserted, including prospectus liability claims. The plaintiffs invested in investment funds that, in turn, invested directly or indirectly with Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff Securities LLC (collectively referred to as "**BMIS**"). Several judgments have been issued in favour of BA in various instances, some are already legally binding. Other judgments have been handed down against BA, but none of them is final so far as appeals are pending. With respect to those cases currently on appeal no estimate can be made as to their potential outcomes nor the effects, if any, which the appeal decisions may have on other cases pending against BA. In four recent Supreme Court cases, different senates of the Austrian Supreme Court have held in favour of Bank Austria and rejected claims based on various theories of liability and related to prospectus liability. At this stage, it is not possible to forecast what effect these decisions may have on other cases.

In respect of the Austrian civil proceedings pending as against BA, which relates to Madoff's fraud, BA has made provisions for an amount considered appropriate to the current risk.

BA has been named as a defendant in criminal proceedings in Austria which concern the Madoff case. These proceedings were initiated by a complaint filed by the FMA (the Austrian Financial Market Authority) to the Austrian prosecutor. Subsequently complaints were filed by purported investors in funds which were invested, either directly or indirectly, in BMIS.

These complaints allege, amongst other things, that BA breached provisions of the Austrian Investment Fund Act as prospectus controller of the Primeo Fund. These criminal proceedings are still at the pre-trial stage. In addition, the fee structure and the prospectuses themselves have been examined by an expert appointed by the prosecution.

UniCredit Bank AG ("**UCB AG**") 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 UniCredit Bank AG is around €27 million. Legal proceedings have been commenced in Germany in connection with the issuance of said Primeo-linked notes, which also named UniCredit Bank AG as a defendant. One case has been decided in favour of UniCredit Bank AG at first instance and one case in favour of UniCredit Bank AG also at second instance; both rulings are not final and binding as of today. One case has been abandoned by the plaintiff.

Subpoenas and Investigations

UniCredit S.p.A. and several of its subsidiaries have received subpoenas orders and requests to produce information and documents from the United States Securities Exchange Commission ("**SEC**"), the U.S. Department of Justice and the SIPA Trustee in the United States, the Austrian Financial Market Authority, the Irish Supervisory Authority for financial markets and BaFin in Germany related to their respective investigations into Madoff's fraud.

Similar such subpoenas, orders and requests may be received in the future by UniCredit S.p.A. its affiliates, and some of their employees or former employees, in the foregoing markets or in places where proceedings related to Madoff investments are pending.

Certain Potential Consequences

In addition to the foregoing proceedings stemming from the Madoff case against UniCredit S.p.A., its subsidiaries and some of their respective employees and former employees, additional Madoff-related actions have been threatened and are in the process of being and may be filed in the future in said countries or in other countries by private investors or local authorities. The pending or future actions may have negative consequences for the UniCredit group.

UniCredit S.p.A. and its subsidiaries intend to defend themselves vigorously against the Madoff-related claims and charges.

Save as described above, for the time being it is not possible to estimate reliably the timing and results of the various actions, nor determine the level of responsibility, if any responsibility exists. Presently, and save as described above, in compliance with international accounting standards, no provisions have been made for specific risks associated with Madoff disputes.

Proceedings arising out of the purchase of UCB AG by UniCredit SpA and the related group reorganization.

Proceedings in Germany challenging the validity of UCB AG shareholder resolutions

By resolutions adopted at UCB AG's Extraordinary Shareholders' Meeting of October 25, 2006 (the "**2006 EGM**"), various sale and purchase agreements were approved (the "**2006 Resolutions**"). Those agreements transferred (1) the shares held by UCB AG in BA and in HVB Bank Ukraine to UniCredit S.p.A. (2) the shares held by UCB AG in International Moscow Bank and AS UniCredit Bank Riga to BA and (3) the Vilnius and Tallin branches of UCB AG to AS UniCredit Bank Riga. In 2008, these resolutions were confirmed by a UCB AG Shareholders' Meeting (the "**2008 Resolutions**").

The validity of the 2006 Resolutions, as well as of the 2008 Resolutions, was challenged by several of UCB AG's former minority shareholders in two sets of proceedings in the German courts against UCB AG (the "**2006 Proceedings**" and the "**2008 Proceedings**") on the basis, inter alia, that the price paid for the various transactions was too low.

The 2008 Proceedings have now settled. The 2006 proceedings, which were stayed pending the resolution of the 2008 proceedings, are expected to revive. The 2006 Resolutions, like the 2008 Resolutions, are valid and binding unless and until found void by a court of final instance. It is not possible to say when a final decision can be expected in the 2006 Proceedings.

Squeeze-out of UCB AG minority shareholders (Appraisal Proceedings)

Approximately 300 former minority shareholders of UCB AG filed a request to have a review of the price paid to them when they were squeezed out (Appraisal Proceedings). The dispute mainly concerns the valuation of UCB AG.

The first hearing took place on April 15, 2010. The proceedings are still pending in Germany and are expected to last for a number of years.

Squeeze-out of Bank Austria's minority shareholders

Certain former minority shareholders in Bank Austria initiated proceedings before the Commercial Court of Vienna claiming that the squeeze-out price paid to them was inadequate, and asking the Court to review the adequacy of the amount paid (Appraisal Proceedings).

The Commercial Court of Vienna has referred the case to a panel, called the "**Gremium**", to investigate the facts of the case in order to review the adequacy of the cash compensation. UniCredit, considering the nature of the valuation methods employed, continues to believe that the amount paid to the minority shareholders was adequate. Should the parties fail to settle the matter, the Commercial Court will issue a decision (which is appealable), which could result in UniCredit S.p.A. having to pay additional cash compensation to the former shareholders.

Cirio and Parmalat criminal proceedings

Between the end of 2003 and the beginning of 2004, criminal investigations of some former Capitalia group (now UniCredit group) officers and managers were conducted in relation to the insolvency of the Cirio group. This resulted in certain executives and officers of the former Capitalia S.p.A. (now UniCredit S.p.A.) being committed to trial.

Cirio S.p.A.'s extraordinary administration and several bondholders/shareholders joined the criminal proceedings as civil complainants without quantifying the damages claimed. UniCredit S.p.A., also as the universal successor of UniCredit Banca di Roma S.p.A., was subpoenaed as "legally liable".

On December 23, 2010, UniCredit S.p.A.– without any admission of responsibility – proposed a settlement to approximately 2,000 bondholders.

In March 2011, Cirio S.p.A.'s extraordinary administration filed its conclusions against all defendants and against UniCredit S.p.A. as "legally liable"– all the defendants jointly and severally – requesting damages in an amount of €1.9 billion. The officers involved in the proceedings in question maintain that they performed their duties in a legal and proper manner.

On July 4, 2011 the Court of Rome ordered UniCredit, together with the individuals involved, to pay CIRIO S.p,A.'s extraordinary administration €200 million as provisional payment and to pay the bondholders and the shareholders – civil complainants in the criminal proceedings – an amount equal to 5% of the nominal value of the securities owned.

Taking into account the settlement with the investors, this decision only applies to a limited number of investors.

UniCredit, as "legally liable", and the other defendants appealed the decision and requested a stay of execution.

Following the settlement in January 2014 between UniCredit and the companies in extraordinary administration of the Cirio Group, such companies have withdrawn the claim against UniCredit.

With regard to the insolvency of the Parmalat group, from the end of 2003 to the end of 2005, investigations were conducted against certain executives and officers of the former Capitalia S.p.A. (now UniCredit S.p.A.), who had been committed for trial within the scope of three distinct criminal proceedings known as "Ciappazzi", "Parmatour" and "Eurolat".

Companies of the Parmalat group in extraordinary administration and numerous Parmalat investors are the claimants in the civil suits in the aforementioned proceedings.

Upon execution of the settlement of August 1, 2008 between UniCredit group and Parmalat and Parmalat group companies in extraordinary administration, all civil charges were either waived or revoked.

The officers involved in the proceedings in question maintain that they performed their duties in a legal and proper manner.

On June 11, 2010, UniCredit S.p.A. reached an agreement with the Association of Parmalat Bondholders of the Sanpaolo IMI group (the "Association") aimed at settling, without any admission of responsibility, the civil claims brought against certain banks of the UniCredit group by the approximately 32,000 Parmalat bondholders who are members of the Association. In October 2010, that agreement has been extended to the other bondholders who had joined the criminal proceedings as civil complainants (approximately 5,000).

On October 4, 2011 UniCredit S.p.A.reached a settlement agreement with the trustee of Cosal S.r.l.

On November 29, 2011 (Ciappazzi) and on December 20, 2011 (Parmatour) the Court of Parma issued a judgment ordering UniCredit, severally with other involved parties, a provisional payment, in favor of the investors of Parmalat – civil complainants in the criminal proceedings – in an amount equal to 4% of the nominal value of the securities owned.

Both UniCredit and the individuals involved appealed the decisions.

Taking into account the settlements with the investors, these decisions apply only to a limited number of them.

On 7 June 2013 the Court of Appeal of Bologna confirmed the decision of the Court of Parma of 29 November 2011 (Ciappazzi). The defendants filed an appeal to the Court of Cassation.

With the decision of 25 June 2014 (Parmatour) of the Court of Appeal of Bologna, the employee of ex Capitalia was acquitted.

The "Eurolat" proceeding is in the trial phase.

For the Parmalat and Cirio cases provisions have been made for an amount consistent with what currently appears to be the potential risk of liability for UniCredit S.p.A. as legally liable, currently towards a limited number of investors only.

Derivatives Litigation

In the years preceding the 2007 financial crisis, financial institutions, including the companies of the UC group, entered into numerous derivatives contracts both with institutional and non-institutional investors. In Germany and Italy such derivative contracts have been challenged most notably by non-institutional investors where those contracts are out of the money. This affected the financial sector generally and is not specific to UniCredit and its group companies. It is impossible to assess the full impact of such legal challenges on the Group.

New Mexico CDO-Related Litigation

Claims brought or threatened by or on behalf of the state of New Mexico or any of its agencies or funds

In August 2006, the New Mexico Educational Retirement Board (ERB) and the New Mexico State Investment Council (SIC), both US state funds, invested $90 million in Vanderbilt Financial, LLC (VF), a vehicle sponsored by Vanderbilt Capital Advisors, LLC (VCA). The purpose of VF was to invest in the equity tranche of various collateralized debt obligations (CDOs) managed primarily by VCA. The equity investments in VF, including those made by the ERB and SIC, became worthless. VF was later liquidated.

Beginning in 2009, several lawsuits were threatened or filed on behalf of the state of New Mexico, including by private parties who claimed a right to sue in a representative capacity. The suits relate to losses suffered by the ERB and/or SIC on their VF investments, with additional claims threatened in relation to further losses suffered by SIC on its earlier investments in other VCA-managed CDOs. The lawsuits allege fraud and kickback practices. Damages claimed in the filed lawsuits are computed based on multiples of the original investment, up to a total of $365 million. In 2012, VCA reached an agreement in principle with the ERB, SIC and State of New Mexico to settle all claims brought or threatened by or on behalf of the state of New Mexico or any of its agencies or funds. The settlement is contingent on the court's approval, but that process is temporarily on hold pending the determination of a legal question in a lawsuit brought against a different set of defendants in other proceedings. A decision is expected in 2014. In the interim, one suit has been dismissed and the others are either stayed or held in abeyance.

Other litigation

In November 2011, Bruce Malott, the former chairman of the ERB, brought suit in New Mexico state court against persons allegedly involved with "pay to play" or kickback practices at the ERB, alleging damages to his reputation in earning capacity as a result of his association with the challenged practices. Among the defendants are VCA, VF, PIM US and two former officers of VCA. No damages amount is specified, but Malott seeks treble damages and punitive damages (as applicable) in addition to any actual damages he might prove. In June 2013, Malott's claims were dismissed without prejudice. Malott filed a further amended complaint in August 2013 which, in October 2013, the defendants once again moved to dismiss.

Divania S.r.l.

In the first half of 2007, Divania S.r.l. (now in bankruptcy) ("**Divania**") filed a suit in the Court of Bari against UniCredit Banca d'Impresa S.p.A. (then UniCredit Corporate Banking S.p.A. and now UniCredit S.p.A.) alleging violations of law and regulation in relation to certain rate and currency derivative transactions created between January 2000 and May 2005 first by Credito Italiano S.p.A. and subsequently by UniCredit Banca d'Impresa S.p.A. (now UniCredit S.p.A.).

The petition requests that the contracts be declared non-existent, or failing that, null and void or to be cancelled or terminated and that UniCredit Banca d'Impresa S.p.A. (then UniCredit Corporate Banking S.p.A. and now UniCredit S.p.A.) pay the claimant a total of

€276.6 million as well as legal fees and interest. It also seeks the nullification of a settlement the parties reached in 2005 under which Divania S.r.l had agreed to waive any claims in respect of the transactions.

UniCredit S.p.A. rejects Divania S.r.l.'s demands. Without prejudice to its rejection of liability, it maintains that the amount claimed has been calculated by aggregating all the debits made (for an amount much larger than the actual amount), without taking into account the credits received that significantly reduce the claimant's demands.

In 2010 the report of the Court named expert witness submitted a report which broadly confirms UniCredit's position stating that there was a loss on derivatives amounting to about €6,400,000 (which would increase to about €10,884,000 should the out-of-court settlement, challenged by the claimant, be judged unlawful and thus null and void). The expert opinion states that interest should be added in an amount between €4,137,000 (contractual rate) and €868,000 (legal rate). A hearing was held on December 10, 2012, a decision of the Court was then expected, but, instead, the Court ordered with decision of May 20, 2013 the expert witness to supplement his opinion.

Another two lawsuits have also been filed by Divania, one for €68.9 million (which was subsequently increased up to Euro 80,5 million ex art 183 c.p.c.) and the second for €1.6 million; the first one was adjourned for the trial and the second one was adjourned for the conclusions.

UniCredit S.p.A. has made a provision for an amount consistent with the risk of the lawsuit.

Brontos – criminal proceeding

With regard to the transactions known as "Brontos" there is a criminal proceeding which concerns the conduct of, *inter alia*, present and former officers/employees of UniCredit.

On October 10, 2013, the Court of Cassation found that the Court of Rome has jurisdiction to try the case; all court documents were therefore transferred from the Public Prosecutor's office at the Court of Bologna to the Court of Rome.

MATERIAL DEVELOPMENTS AFTER JUNE 30, 2014

Certain events have occurred after June 30, 2014 in relation to the above matters. These events, which concern Madoff, for ease of reference are included directly in the disclosure under B. Legal Risks.

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Following the outcome of the review of contingent assets conducted on the balances in compliance with the requirements of the Bank of Italy's technical note of August 7, 2012, for the purposes of this report contingent assets of €328 million recorded in item 150 Other assets and the related provisions were derecognized.

C. Risks arising from employment law cases

UniCredit is involved in employment law disputes. In general, for all employment law disputes provisions have been made in order to meet any disbursements incurred and in any case UniCredit does not believe that any liabilities related to the outcome of the pending proceedings could have a significant impact on its economic and/or financial standing.

Lawsuits filed against UniCredit by certain members of the former Cassa di Risparmio di Roma Fund

Time limits are pending for the appeal of lawsuits settled in first instance in favour of the Bank in relation to lawsuits in the context of which the main claim is the reconstitution of the former Cassa di Roma' Fund assets and the assessment and calculation of the individual social security positions attributable to the members. With reference to the main claim, the main object of the claim is the sum of €384 million. No provisions were made as these actions are considered to be unfounded.

Lawsuit filed against UniCredit by certain members of the former Credito Romagnolo's Supplementary Pension Fund

Time limits are pending for the filing of an appeal against a judgement in first instance rendered in favour of the Bank in relation to the request of 16 members of the former Credito Romagnolo's Supplementary Pension Fund (FIA) for the courts to verify the subsistence of a breach of art. 2117 of the Civil Code by the Bank by virtue of its having reduced the funds of the aforementioned FIA former Credito

Romagnolo and, as a result, to order the Bank to pay €48,243,825 plus interest into the Fund. No provisions were made as this action is considered to be unfounded.

D. Tax disputes

In the Annual Reports for the previous years, disclosure on several notices of assessment was provided, for IRES income tax and IRAP corporate tax, served on UniCredit S.p.A. – both in its own name and as holding company of Capitalia S.p.A., UniCredit Banca S.p.A., UniCredit Banca di Roma S.p.A. and Banco di Sicilia S.p.A. – by the Italian Revenue Agency (Liguria, Emilia Romagna, Lazio and Sicily Regional Divisions) in relation to structured finance transactions conducted by certain UniCredit Group companies during the 2005 tax year.

The disputes are based on the notion of "abuse of rights", for the purposes of the reclassification, solely for tax effects, of the above-mentioned transactions.

With regard solely to UniCredit Banca S.p.A., the Emilia Romagna Regional Division and the Liguria Regional Division had served notices of assessment for IRES income tax and IRAP corporate tax, for the 2004 tax year, for a total of €136.3 million. In April 2014 the dispute was settled via settlement before the court pursuant to article 48 of Legislative Decree 546/1992. As a result of said settlement, the total amount due to the Italian Financial Authorities came to €35.0 million.

D.1 Pending cases arising during the period

During the first half of 2014, UniCredit S.p.A., on its own behalf and in its capacity as the holding company of various group companies, was served several notices of payment and two notices of assessment for alleged taxes and related interest and penalties totaling around €23.7 million.

The company decided to appeal to the competent Provincial Tax Commissions against these notices, except for the notice of assessment served on Unicredit Bank A.G. for transfer pricing and the notice of assessment served on UniCredit Real Estate S.C.p.A. for substitute tax, for which a tax settlement proposal has been submitted.

The matters of particular significance include those served with regard to:

1) substitute tax on medium and long-term loans and registration tax, for a total of €18.1 million, taxes and ancillary expenses, relating to loan agreements entered into outside of Italy;
2) higher IRES income tax and IRAP corporate tax for 2009 relating to UniCredit Bank Austria A.G. – Milan Branch, for disputes pertaining to alleged differences in transfer pricing, for a total claim, for taxes and ancillary expenses, of €4.2 million;
3) higher IRES income tax for 2008 for UniCredit Real Estate S.C.p.A. as a result of claims that a total amount of €0.9 million should be subject to substitute taxation following an audit of the transfers of properties to real estate funds;

Though the Company considers the risk represented by these potential liabilities, it has made additional provisions of around €10.6 million for them.

D.2 Updates on pending disputes and tax audits

The Annual Report as at December 31, 2013 disclosed notices of assessment served on UniCredit S.p.A. as the consolidating entity of Pioneer Investment Management SGR for the financial years 2006 and 2007, for around €33.0 million and €35.5 million, respectively. These notices regard IRES income tax and essentially claim alleged differences in transfer pricing applied with several group companies resident in Ireland, Luxembourg and the U.S.A. Nonetheless, no penalties were imposed for this, as the documentation relating to said pricing, drawn up pursuant to and in accordance with the provisions of Decree Law 78/2010, was deemed valid.

The appeals submitted, for both years, before the competent Tax Commissions, are still pending. However, for the tax year 2007, administrative suspension of tax collection was ordered in 2012, pending the initiation of an amicable dispute resolution pursuant to the European Arbitration Convention no. 90/436/EEC.

With regard to the higher IRES income tax allegedly due by Capitalia S.p.A. on structured finance transactions – DB Vantage – autonomously implemented by Capitalia in 2004, in April 2014 the dispute was settled through a tax settlement proposal. The total amount due as a result of the tax settlement came to €6.4 million.

The previous year's Annual Report also provided disclosure on the tax audit report served on December 28, 2012 on conclusion of the tax audit by the Italian Revenue Agency of Genoa against the former UniCredit Real Estate S.C.p.A.(URE) for the year 2009.
On December 30, 2013, the tax audit report was settled through a tax settlement proposal pursuant to Italian Legislative Decree 218/1997, by paying a total amount of €3.7 million for taxes and ancillary expenses.
Moreover, on November 6, 2013, the Liguria Regional Division served a tax audit report for 2008 equivalent to the one previously served for 2009, for a total amount of €0.8 million. Subsequently, the related notice of assessment was served.

Also for that year, the tax claim was settled through a tax settlement proposal, by paying a total amount of €0.6 million for taxes and ancillary expenses.

Lastly, the notice of settlement served on the business transfer carried out in 2011 between UniCredit S.p.A. and UGIS (now UBIS) S.C.p.A. was settled through a tax settlement proposal. Against a claim of €6.5 million, the amount due for the settlement totaled €1.7 million. All expenses shall be borne by the transferee UBIS S.C.p.A.
As regards the notice of settlement served on the transfer carried out with UniCredit Bank A.G. - Italy Branch, the company decided to appeal before the tax court.
The above-mentioned provisions of €10.6 million, offset by uses and releases of €1.3 million, resulted in total provisions at the end of the half year of €94.6 million for risks relating to pending tax disputes and sundry operational risks.

Lastly, as regards the other group companies in Italy, the tax audits recently concluded and the related pending situations are shown below:

1) For Unicredit Bank Austria AG – Milan Branch, in relation to the audit of 2010, which concluded with a tax audit report served on July 31, 2013, the Company opted for out-of-court settlement through a tax settlement proposal. After the notice of assessment for tax year 2009 was served, claiming higher taxes of €2.0 million and penalties of the same amount, a tax settlement proposal was submitted which resulted in the settlement of said notice of assessment. The amount due totals €0.5 million.
2) With regard to the tax audit of 2008 conducted on PIM SGR, which concluded with a tax audit report served on December 18, 2013, the notice of assessment has not yet been served. For the tax years 2009 to 2013 the audits are currently suspended.
3) For UniCredit Bank AG – Milan Branch - on February 28, 2014, on conclusion of a tax audit which began on December 11, 2013, a tax audit report was served concerning two loan agreements signed outside of Italy in 2011 and 2012. However, no other tax payment orders have been served to date.
4) Also for UniCredit Bank AG, the Report at December 31, 2013 mentioned the notice of assessment for 2008 concerning IRES income tax, IRAP corporate tax and withholding tax, for a total of €50 million, including higher taxes, penalties and interest. That order was settled through a tax settlement proposal: the greater amounts due totaled €16.0 million (including higher taxes, penalties and interest).

With regard to the tax audit of FinecoBank S.p.A. (tax years 2008–2011), followed in part by notices of assessment, two notices of assessment were served solely for the tax year 2008. One of these refers to the amortization of goodwill, for a total of €1.2 million, and the other to allegedly non-deductible expenses, for a total of €0.6 million. The former was appealed before the Milan Provincial Tax Commission, in line with the decisions taken for the previously audited tax years. Conversely, the latter was settled through a tax settlement proposal, by paying a total amount of €0.4 million.

E. Extrajudicial procedures

With reference to the extrajudicial procedure relating to Istituto per il Credito Sportivo (ICS), about which disclosure was provided in the financial statements as at December 31, 2012 and as at December 31, 2013, please note that the Regional Administrative Court of Lazio, with a judgment dated May 16, 2014, rejected the private shareholders' request for the annulment of the interministerial order of March 6, 2013 concerning the annulment of the ICS Statute of 2005; the private shareholders appealed to the Council of State to suspend and then nullify this ruling.

It should also be noted that in March 2014, following the approval of the new ICS Statute, issued by interministerial order of January 24, 2014 (published in the Official Gazette of April 19, 2014), in which UniCredit's shareholding in the company has been significantly diluted (from 10.81% to 1.264%), it was considered appropriate to adjust the shareholding held and its book value to the new statutory provisions.

F. Carlo Tassara S.p.A. restructuring process

On December 23, 2013 Carlo Tassara ("Tassara") and the creditor banks signed the third amendment agreement on the moratorium on debt payments.

The purpose of this transaction is to allow the company to better enhance certain assets under disposal, whose proceeds will be used to pay its financial debts.

The main terms and conditions of the Amendment Agreement include:

1. the postponement of the final expiry of the agreements to December 31, 2016;
2. the appointment of the 9 members composing the Board of Directors, with 6 independent members in accordance with the new corporate governance;
3. the conversion of the creditor banks' exposures into Strumenti Finanziari Partecipativi ("SFP") for a total amount of €650 million. The SFP, which can be traded once the restructuring agreement expires, have no maturity date and have a priority over any classes of shares with respect to distribution of net income and reserves, as well as in case of liquidation of Carlo Tassara. The criteria to split the SFP among the banks was calculated taking into account the amount and the distribution of the unsecured debt and, for the difference, the uncovered portion of the secured debt. The value of the listed securities was determined on the basis of the 6-month average share price before the closing of the restructuring agreement;
4. the commitment of the creditor banks to subscribing additional SFP on a pro-rata basis if in the course of the plan material losses occur pursuant to article 2447 of the Italian Civil Code;
5. the commitment of the creditor banks to converting into SFP the residual credits that should remain in place after the disposal of all the available-for-sale assets of Carlo Tassara;
6. the business continuity of Carlo Tassara will be ensured by enterprises with historical links with the Valcamonica area.

The existing collateral (pledge on Intesa Sanpaolo, Eramet and Cattolica Assicurazioni shares) remained in place after the signing of the above-mentioned agreements.

On December 27, 2013, following the fulfillment of the conditions precedent to the effectiveness of the third amendment agreement, the banks subscribed the SFP worth €650 million.

UniCredit subscribed for 63,131,974 SFP with a nominal value of €1.00 each and totaling €63 million, issued by Tassara pursuant to the resolution of the Extraordinary Meeting of December 23, 2013, and agreed to contemporaneously pay up these SFP by voluntarily offsetting a portion of its loans (nominal value) to Tassara totaling €63 million, reducing the Bank's overall exposure to Tassara.

As a result of the above-mentioned offsetting, part of the Bank's loans to Tassara (€63 million) was paid off and the Company's outstanding debts to the Bank decreased, with effect from December 27, 2013, by €63 million.
On December 23, 2013, in compliance with the governance provisions, the members of Carlo Tassara S.p.A.'s new Board of Directors were appointed.

In the first half of 2014 Tassara sold listed securities (pledged and not pledged as collateral) and collected dividends worth approximately €772 million, which includes the proceeds from the sale of the Intesa Sanpaolo shares (totaling €589 million, of which €580 million arising from securities put up as collateral) pledged as collateral for the loans granted by the creditor banks.
As a result of the above-mentioned sale, and according to the agreement of December 23, 2013:

- the credit lines granted by UniCredit S.p.A. collateralized by the above-mentioned securities (€316 million) were repaid, together with the interest due;
- UniCredit S.p.A. shall transfer 31,666,758 SFP with nominal value of €1.00 each to the other banks that entered the agreement and at the same time acquire 833 934 SFP (with same nominal value).

The credit exposure of UniCredit S.p.A., which amounted to €463 million and against which €91 million write-downs were recorded as at December 31, 2013, decreased to approximately €132 million as at June 30, 2014. At the same date, €28 million write-downs were recorded against this exposure.

G. Restructuring of Alitalia's debt

During the first half of 2014, UniCredit actively participated in the restructuring of Alitalia's debt – also contributing €70 million to the syndicated loan of €165 million granted in February – aimed at the acquisition of a stake in the national airline company by Etihad, flag carrier of the United Arab Emirates that should acquire 49% of the new company resulting from the industrial spin-off from the current Alitalia.

Against this backdrop, the involvement of UniCredit also includes the conversion of most short-term borrowings from Alitalia into equity instruments, the participation - along with the main stakeholders involved in the transaction - in the equity commitment aimed at covering any future liabilities of the old Alitalia and the participation - along with the relationship banks that granted the new loan in February – in the granting of new commercial loans to the new Alitalia.

The negotiations for the transaction are still underway and at an advanced stage, their finalization is expected in the coming weeks, the closing by the end of this year.

Explanatory notes

Part F) Shareholders' Equity

Notes:
Figures as at March 31, 2014 shown in this section may, in some cases, differ from those disclosed with reference to March 31, 2014 due to adjustments connected with the difference between the timing of the approval of the interim financial report and the transmission – on June 30, 2014 – of Regulatory Reports referring to March 31, 2014

Part F) Shareholders' Equity

(amounts in thousands of €)

Section 1 – Shareholders' Equity

A. Qualitative information

In order to create value for shareholders, UniCredit S.p.A. attributes a crucial role to capital management and allocation on the basis of the risk assumed for the Group operational development in order to create value. These activities are part of the Bank planning and monitoring process and comprise:

- planning and budgeting processes:
- proposals to risk propensity and capitalisation objectives;
- analysis of risk associated with value drivers and allocation of capital to business areas and units;
- assignment of risk-adjusted performance objectives;
- analysis of the impact on the Group's value and the creation of value for shareholders;
- preparation and proposal of the capital plan and dividend policy;
- monitoring processes:
- analysis of performance achieved at Group and business unit level and preparation of management reports for internal and external use;
- analysis and monitoring of limits;
- analysis and performance monitoring of the capital ratios of the Group and individual companies.

The Group's strategic guidelines are aimed at optimizing the composition of its business portfolio. This goal is pursued through a process of capital allocation to each business line in relation to its specific risk profile and ability to generate extra income measured as EVA, which is the main performance indicator related to TSR (Total Shareholder Return).

The Group capital plays a crucial role in the main corporate governance processes that drive to strategic decisions. It is considered the key factor of the planning process as, on one hand it represents the shareholders' investment which needs to be adequately remunerated, and on the other hand it is a scarce resource subject to external constraints set by banking regulation.

The process of capital allocation is based on a "dual track" logic, considering both economic capital, measured through the full evaluation of risks by risk management models, and regulatory capital, quantified applying internal capitalization targets to regulatory capital requirements.

The purpose of the capital management function, performed by the Capital Management unit within Planning, Strategy and Capital Management Department, is to define the target level of capitalisation for the Group and its companies in line with regulatory requirements and the risk appetite.

Capital is managed dynamically: the Capital Management unit prepares the capital plan, monitors capital ratios for regulatory purposes.

On the one hand, monitoring is carried out in relation to capital , both according to accounting and regulatory definition (Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital), and on the other hand, in relation to the planning and performance of risk-weighted assets (RWA).

The dynamic management approach aims at identifying the capital instruments (ordinary shares and other capital instruments) most suitable for achieving the defined targets. If there is a capital shortfall, the gaps to be filled and capital generation measures are indicated, and their efficiency are measured using RAPM methodology (Risk Adjusted Performance Management).

B. QUANTITATIVE INFORMATION

B.1 Company Shareholders' Equity: breakdown

Items/Values	06.30.2014	12.31.2013
1. Share capital	**19,905,774**	**19,654,856**
2. Share premium reserve	**15,976,604**	**23,879,202**
3. Reserves	**9,303,864**	**13,480,904**
- from profits	4,115,792	8,361,310
a) legal	1,517,514	1,517,514
b) statutory	1,195,845	1,195,845
c) treasury shares	-	-
d) other	1,402,433	5,647,951
- other (*)	5,188,072	5,119,594
4. Equity instruments	**898,604**	**-**
5. Treasury shares	**(2,440)**	**(2,440)**
6. Revaluation reserves	**1,027,624**	**666,512**
- Available-for-sale financial assets	644,183	217,228
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	306,312	326,346
- Exchange differences	-	-
- Non-current assets classified held for sale	-	-
- Actuarial gains (losses) on definited benefit plans	(199,891)	(154,082)
- Changes in valuation reserve pertaining to equity method investments:	-	-
- Special revaluetion loans	277,020	277,020
7. Net profit (loss)	**1,057,563**	**(11,601,111)**
Total	**48,167,593**	**46,077,923**

(*) "Reserves - other" include the "Reserve of treasury shares" (€2,440 thousand), originally formed with the withdrawal from the "Share premium reserve", as well as a part of the "Legal reserve" (€2,533,152 thousand) also constituted, as resolved by the Ordinary Shareholders' Meetings of May 11, 2013 and May 13, 2014, with the withdrawal from the Share premium reserve.

During the first half of 2014 share capital – which at December 31, 2013 was represented by 5,789,209,719 ordinary shares and 2,423,898 savings shares, both categories with no per-share face value – changed due to the reasons illustrated in the paragraph "Capital Strengthening and other transactions concerning share capital" of the "Report on Operations".

Specifically, share capital rose from €19,654,856 thousand at the end of 2013 to €19,905,774 thousand following the free share capital increases of:

- €28,144 thousand, resolved by the Board of Directors' meeting of March 11, 2014, executed through the concurrent withdrawal from the specifically constituted "reserves related to the medium-term incentive program for Group staff", which resulted in the issue 8,498,340 ordinary shares;
- €222,774 thousand, resolved by the Shareholders' Meeting of May 13, 2014 for the payment of the "scrip dividend" for 2013, through the concurrent withdrawal from the existing "reserves for allocating profits to shareholders through the issuance of new free shares", which resulted in the issue of 65,621,091 ordinary shares and 25,415 savings shares.

As a result, at June 30, 2014, the share capital is represented by 5,863,329,150 ordinary shares and 24,449,313 savings shares.

At the end of June 2014, the number of treasury shares outstanding was 47,600 ordinary shares, unchanged compared to the end of 2013 as no transactions in respect of treasury shares were carried out in the first half of 2014.

The Shareholders' Meeting held to approve UniCredit S.p.A.'s financial statements as at December 31, 2013 approved the distribution of a dividend of €570,332,795.10 to shareholders through withdrawal from retained earnings. Specifically, the Meeting approved a scrip dividend scheme under which the holders of UniCredit ordinary shares and the holders of UniCredit savings shares will be allocated 1 new share for every 60 shares held and 1 new share for every 84 shares held, respectively, without prejudice to the shareholders' right to opt for a cash payout in lieu of the allocation of the new shares.

The scrip dividend, which took place on June 6, 2014, resulted in:

- with respect to the shareholders who decided to exercise the option to receive a cash dividend, the payment of €176,392,131.40;
- with respect to the shareholders who did not opt for a cash payout, the issue of 65,621,091 new ordinary shares and 25,415 new savings shares, allocated according to the ratios mentioned above. Each new ordinary and savings share issued was recognized in the Shareholders' Equity at approximately €3.39.

Shareholders' Equity at June 30, 2014 also reflected the changes resulting from the Ordinary Shareholders' Meeting resolutions of May 13, which resulted in:

1. coverage of the loss for the financial year 2013 by using €3,818,208,503 from the "reserve related to business combinations within the Group" and €7,782,902,133 from the "share premium reserve";
2. an increase in the legal reserve by €119,695,259 using the "share premium reserve".

On March 27, 2014, with value date April 3, 2014, UniCredit S.p.A. launched Additional Tier 1 notes, denominated in USD, for a total of USD 1.25 billion, with characteristics compliant with new "CRD IV" regulation in place starting from January 1, 2014. For further details please refer to Section 2, part 2.1 Banking Own Funds.

Balance as at June, 30 2014 equal to €899.6 million (already deducted €9.1 million of transaction costs).

Section 2 – Own funds and banking regulatory ratios

2.1 Banking Own Funds

A. QUALITATIVE INFORMATION

For details of the major transactions conducted during the period see the "Interim Report on Operations" of this document. On March 27, 2014, with value date April 3, 2014, UniCredit S.p.A. launched Additional Tier 1 notes, denominated in USD, for a total of USD 1.25 billion, with characteristics compliant with new "CRD IV" regulation in place starting from January 1, 2014.

The securities are perpetual (with maturity linked to corporate duration of UniCredit S.p.A.) and can be called by the Issuer after 10 years and thereafter at any interest payment date. Notes pay fixed rate coupons of 8.00% per annum for the initial 10 years on a semi-annual basis; if not redeemed, coupon will be reset every 5 years to the then 5-Years Mid-Swap rate + 518 bps. In line with the regulatory requirements, the coupon payments are fully discretionary.

Additional Tier 1 instruments contribute to strengthening the Tier 1 ratio of UniCredit S.p.A. The Notes have a 5.125% Common Equity Tier 1 (CET1) trigger - if the Group or Issuer CET1 at any time falls below the trigger level, the instrument will be temporarily written down to cure the breach, taking into consideration other instruments with similar write down triggers.

The transaction represents the inaugural deal for a CRD IV compliant AT1 by an Italian Issuer and the first RegS Perp NC10 USD denominated issue by a European Bank. The offer has encountered exceptional interest from investors, bringing the order book to almost 8 billion USD with approximately 450 investors.

Given the positive feedback, the initial price guidance was set at 8.25% area and has been revised to 8.00%/8.25%. Coupon was finally fixed at 8.00% for the initial 10 years, with an issue price set at 100%. Furthermore, the final size of the deal has increased to USD 1.25 billion from initial target of USD 1 billion.

The Notes were distributed to different institutional investors' categories such as funds (71%), insurance companies/pension funds (10%) and private banks (9%). The demand was mainly coming from the following regions: UK (39%), Italy (20%), Asia (12%) and Switzerland (8%).UniCredit Corporate & Investment Banking, together with Citi, HSBC, Societe Generale and UBS, has managed the placement acting as joint bookrunners. The assigned rating from Fitch is "BB-". Bonds are listed on the Luxembourg Stock Exchange.

1. Additional Tier 1

Additional Tier 1 instruments included in Additional Tier 1 Capital

SUBJECT TO TRANSITIONAL RULES (GRANDFATHERING)	ISSUER	UNIQUE IDENTIFIER (1)	COMPUTABLE CRR AMOUNT (€ mln)	NOMINAL AMOUNT IN ORIGINAL CURRENCY (mln)	CURRENCY	MATURITY DATE	OPTIONAL CALL DATE	FIXED OR FLOATING DIVIDEND / COUPON	COUPON RATE AND ANY RELATED INDEX	CONVERTIBLE OR NON-CONVERTIBLE	WRITE-DOWN FEATURES	POSITION IN SUBORDINATION HIERARCHY IN LIQUIDATION (2)
yes	UNICREDIT SPA	N/A	62	300	GBP	10.27.2025	10.27.2015	Fixed to Floating	5.296% from issue date to 10/27/2015, equivalent to MS +0.66%; Libor 3M + 1.66% from 10/27/2015	Non convertible	yes	Tier 2
yes	UNICREDIT SPA	N/A	121	750	EUR	10.27.2025	10.27.2015	Fixed to Floating	3.878% from issue date to 10/27/2015, equivalent to MS +0.61%; Euribor 3M + 1.61% from 10/27/2015	Non convertible	yes	Tier 2
yes	UNICREDIT SPA	N/A	43	210	GBP	12.31.2050	06.27.2018	Fixed to Floating	8.6125% from issue date to 06/27/2018 equivalent to MS + 2.95%; Libor 3M + 3.95% from 06/27/2018	Non convertible	yes	Tier 2
yes	UNICREDIT SPA	N/A	68	250	EUR	12.31.2050	12.10.2019	Fixed to Floating	8.145% from issue date to 12/10/2019, equivalent to MS + 5.650%; Euribor 3M + 6.650% from 12/10/2019	Non convertible	yes	Tier 2
yes	UNICREDIT SPA	XS0527624059	325	500	EUR	12.31.2050	07.21.2020	Fixed to Floating	9.375% from issue date to 07/21/2020, equivalent to MS + 6.49%; Euribor 3M + 7.49% from 07/21/2020	Non convertible	yes	Tier 2
no	UNICREDIT SPA	XS1046224884	899	1,250	USD	no maturity	06.03.2024	Fixed	8% p.a. until 03/06/2024; therafter fixed every 5 years for 5-Year Mid-Swap Rate + 518 bps	Non convertible	yes	Tier 2

Notes:

1. Please note that ISIN Guidelines (paragraph 7) states that "banking instruments or facilities such as bank loans are outside of the scope of the ISO-6166 standard and should not be identified by ISIN codes". Hence, the present section shows "NA" (Not Applicable) for those instruments classified as Loans.
2. The write-up mechanisms described are aligned with the original Final Terms & Conditions; therefore, the classification of instruments is coherent with the regulatory framework in force at the issuance date.

2. Tier 2 Capital

Tier 2 instruments included in Tier 2 Capital

SUBJECT TO TRANSITIONAL RULES (GRANDFATHERING)	ISSUER	UNIQUE IDENTIFIER (1)	COMPUTABLE CRR AMOUNT (€ mln)	NOMINAL AMOUNT IN ORIGINAL CURRENCY (mln)	CURRENCY	MATURITY DATE	OPTIONAL CALL DATE	FIXED OR FLOATING DIVIDEND / COUPON	COUPON RATE AND ANY RELATED INDEX	CONVERTIBLE OR NON-CONVERTIBLE	WRITE-DOWN FEATURES	POSITION IN SUBORDINATION HIERARCHY IN LIQUIDATION (2)
yes	UNICREDIT SPA	XS0200676160	416	500	EUR	09.22.2019	09.22.2014	Fixed to Floating	4.5% from issue date to 09/20/2014, equivalent to MS + 0.35%; Euribor 3M + 0.95% from 09/22/2014	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0003866412	70	400	EUR	06.30.2015	06.30.2010	Fixed to Floating	3% first year, max between minimum rate and 75% of swap Euro 10 y from second year to maturity	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0241369577	283	900	EUR	02.01.2016	-	Fixed	3.95% p.a.	Non Convertible	yes	Lower Tier 2
no	UNICREDIT SPA	XS0241198315	177	450	GBP	02.01.2016	-	Fixed	5% p.a.	Non Convertible	yes	Lower Tier 2
no	UNICREDIT SPA	IT0004012552	55	170	EUR	03.30.2016	03.30.2011	Fixed to Floating	4% first year, max between 3.2% and 65% of swap Euro 10 y from second year to maturity	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004012586	73	230	EUR	03.30.2016	03.30.2011	Fixed to Floating	3.5% first year, max between minimum rate and 75% of swap Euro 10 y from second year to maturity	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	367	750	USD	10.31.2017	-	Fixed	6% p.a. payable in arrear + 0.02%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0322918565	625	1,000	EUR	09.26.2017	-	Fixed	5.75% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0332831485	117	171	EUR	12.04.2017	-	Floating	Max between 5.14% and 100% of swap Euro 10 y	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0334815601	69	100	EUR	12.11.2017	-	Floating	Minimum between 11% and 113.5% of swap Euro 10 y	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0348222802	118	125	EUR	03.03.2023	-	Fixed	6.04% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0356063940	11	15	EUR	04.10.2018	-	Floating	Max between 5.535% and 10 y Euro CMS	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0356629369	76	100	EUR	04.24.2018	-	Floating	Max between 5% and 10 y Euro CMS + 0.67%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0367777884	553	1,000	EUR	06.05.2018	-	Fixed	6.70% p.a.	Non Convertible	yes	Lower Tier 2
no	UNICREDIT SPA	XS0372227982	75	125	EUR	06.25.2018	-	Floating	Euribor 6M + 1.7%	Non Convertible	yes	Lower Tier 2
no	UNICREDIT SPA	XS0503612250	50	50	EUR	04.21.2021	-	Fixed	5% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0504566414	50	50	EUR	04.25.2022	-	Fixed	5.05% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0503708280	50	50	EUR	04.26.2020	-	Fixed	4.75% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004605074	333	333	EUR	05.31.2020	-	Fixed	05/31/2011: 3.00%; 05/31/2012: 3.25%; 05/31/2013: 3.50%; 05/31/2014: 3.75%; 05/31/2015: 4.00%; 05/31/2016: 4.40%; 05/31/2017: 4.70%; 05/31/2018: 5.07%; 05/31/2019: 5.40%; 05/31/2020: 6.00%.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0515754587	50	50	EUR	06.14.2020	-	Fixed	5.16% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004615305	193	327	EUR	06.14.2017	-	Fixed	06/14/2011: 3.00%; 06/14/2012: 3.25%; 06/14/2013: 3.50%; 06/14/2014: 3.80%; 06/14/2015: 4.10%; 06/14/2016: 4.40%; 06/14/2017: 4.70%.	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004698418	348	464	EUR	03.31.2018	-	Fixed to Floating	5.00% p.a. from 06/30/2011 to 03/31/2013; from 06/30/2013 Euribor 3M + 1% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004698426	569	759	EUR	03.31.2018	-	Fixed	03/31/2012: 4.10%; 03/31/2013: 4.30%; 03/31/2014: 4.50%; 03/31/2015: 4.70%; 03/31/2016: 4.90%; 03/31/2017: 5.05%; 03/31/2018: 5.10%	Non Convertible	no	Senior

continued: Tier 2 instruments included in Tier 2 Capital

SUBJECT TO TRANSITIONAL RULES (GRANDFATHERING)	ISSUER	UNIQUE IDENTIFIER (1)	COMPUTABLE CRR AMOUNT (€ mln)	NOMINAL AMOUNT IN ORIGINAL CURRENCY (mln)	CURRENCY	MATURITY DATE	OPTIONAL CALL DATE	FIXED OR FLOATING DIVIDEND / COUPON	COUPON RATE AND ANY RELATED INDEX	CONVERTIBLE OR NON-CONVERTIBLE	WRITE-DOWN FEATURES	POSITION IN SUBORDINATION HIERARCHY IN LIQUIDATION (2)
no	UNICREDIT SPA	XS0618847775	745	750	EUR	04.19.2021	-	Fixed	6.125% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004723927	315	394	EUR	06.30.2018	-	Fixed to Floating	5% p.a. until 06/30/2013; from 09/30/2013 Euribor 3M + 1% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004740368	16	20	EUR	07.05.2018	-	Floating	Euribor 3M + 2.50% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0849517650	1,491	1,500	EUR	10.31.2022	-	Fixed	6.95% p.a	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004854870	539	539	EUR	12.05.2019	-	Fixed to Floating	6.00% p.a. till 12/05/2015, Euribor 3M + 2.15% p.a. from 03/05/2016	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004747330	130	157	EUR	08.19.2018	-	Fixed	08/19/2012: 4.40%; 08/19/2013: 4.60%; 08/19/2014: 4.80%; 08/19/2015: 5.00%; 08/19/2016; 5.30%; 08/19/2017: 5.65%; 08/19/2018: 6.00%	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004748882	8	10	EUR	07.21.2018	-	Floating	Euribor 3M + 2.637% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004764004	359	414	EUR	10.31.2018	-	Fixed	10/31/2012: 5.60%; 10/31/2013: 5.90%; 10/31/2014: 6.10%; 10/31/2015: 6.30%; 10/31/2016: 6.50%; 10/31/2017: 6.80%; 10/31/2018: 7.20%	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004780562	475	518	EUR	01.31.2019	-	Fixed	01/31/2013: 6.50%; 01/31/2014: 6.90%; 01/31/2015: 7.30%; 01/31/2016: 7.80%; 01/31/2017: 8.10%; 01/31/2018: 8.30%; 01/31/2019: 8.50%	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004883689	189	189	EUR	02.28.2020	-	Fixed	02/28/2014: 3.60%; 02/28/2015: 3.80%; 02/28/2016: 4.00%; 02/28/2017: 4.20%; 02/28/2018: 4.40%; 02/28/2019: 4.60%; 02/28/2020: 5.00%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0878681419	173	300	SGD	07.30.2023	07.30.2018	Fixed	1-5.5Y 5.5% p.a., 5.5-10.5Y SOR + 4.47% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004907785	240	241	EUR	06.30.2020	-	Fixed to Floating	4.50% p.a. payable on 03/30, 06/30, 09/30 and 12/30 each year till 06/30/2016; Euribor 3M + 2.00% p.a. payable on 03/30, 06/30, 09/30 and 12/30 each year from 09/30/2016	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004907850	338	338	EUR	06.30.2020	-	Fixed	06/30/2014: 3.25%; 06/30/2015: 3.50%; 06/30/2016: 4.00%; 06/30/2017; 06/30/2018: 5.00%; 06/30/2019: 5.50%; 06/30/2020: 6.50%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0925177130	547	750	USD	05.02.2023	05.02.2018	Fixed to Floating	1-5Y 6.375%. 6-10Y USD MS + 5.51%	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004917917	543	554	EUR	07.15.2020	-	Fixed to Floating	3.35% p.a payable on 01/15, 04/15, 07/15 and 10/15 until 06/15/2016; Euribor 3M + 2.65% p.a payable on 01/15, 04/15, 07/15 and 10/15 from 10/15/2016	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004917867	400	400	EUR	07.15.2020	-	Fixed	07/15/2014: 3.25%; 07/15/2015: 3.50%; 07/15/2016: 4.00%; 07/15/2017: 4.50%; 07/15/2018: 5.00%; 07/15/2019: 5.50%; 07/15/2020: 6.50%	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004941412	297	297	EUR	10.13.2020	-	Fixed	1Y 3.20%; 2Y 3.40%; 3Y 3.65%; 4Y 4.00%; 5Y 4.40%; 6Y 4.80%; 7Y 5.20%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0986063864	995	1,000	EUR	10.28.2025	10.28.2020	Fixed	5.75% p.a.. after the call. 5Y Swap + 410 bps	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0004982200	267	267	EUR	03.31.2021	-	Fixed	1Y 2.50%. 2Y 2.80%. 3Y 3.20%. 4Y 3.50%. 5Y 4.30%. 6Y 4.70%. 7Y 5.50%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS1070428732	182	185	EUR	05.21.2024	05.21.2019	Fixed	3.125% from issue date to 05/21/2019; fixed rate equivalent to 5Y MS + 2.50% from 05/21/2019	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	7	10	EUR	10.30.2017	-	Fixed	5.45% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	7	10	EUR	10.30.2017	-	Fixed	5.45% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	7	10	EUR	11.13.2017	-	Fixed	5.54% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	3	5	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	3	5	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	14	20	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	14	20	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	0	1	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	27	40	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	3	5	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	14	20	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	3	5	EUR	11.27.2017	-	Fixed	5.7% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	7	10	EUR	01.30.2018	-	Fixed	5.74% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	N/A	7	10	EUR	01.30.2018	-	Fixed	5.74% p.a.	Non Convertible	no	Senior

Notes:

1. Please note that ISIN Guidelines (paragraph 7) states that "banking instruments or facilities such as bank loans are outside of the scope of the ISO-6166 standard and should not be identified by ISIN codes". Hence, the present section shows "NA" (Not Applicable) for those instruments classified as Loans.
2. The write-up mechanisms described are aligned with the original Final Terms & Conditions; therefore, the classification of instruments is coherent with the regulatory framework in force at the issuance date.

B. QUANTITATIVE INFORMATION [1]

BANKING OWN FUNDS

(€ '000)

OWN FUNDS	30.06.2014	31.03.2014
A. Common Equity Tier 1 Capital (CET1) before prudential filters	**46,359,371**	**45,082,717**
of/w grandfathered CET1 instruments	-	-
B. CET1 Prudential Filters (+/-)	**(709,830)**	**(646,898)**
C. CET1 gross of deductions and transitional adjustments (A +/- B)	**45,649,541**	**44,435,818**
D. Items to be deducted from CET1	**861,665**	**490,574**
E. Transitional adjustments – Effect on CET1 (+/-)	**143,196**	**(57,086)**
F. Common Equity Tier 1 Capital (C – D +/- E)	**44,931,072**	**43,888,158**
G. Additional Tier 1 Capital (AT1) gross of deductions and transitional adjustments	**2,021,552**	**1,122,948**
of/w grandfathered AT1 instruments	1,122,948	1,122,948
H. Items to be deducted from AT1	**3,200**	**17,410**
I. Transitional adjustments – Effect on AT1 (+/-)	**(321,563)**	**(132,778)**
L. Additional Tier 1 Capital (G - H +/- I)	**1,696,788**	**972,759**
M. Tier 2 (T2) Capital gross of deductions and transitional adjustments	**13,217,692**	**13,432,480**
of/w grandfathered T2 instruments	537,935	547,390
N. Items to be deducted from T2	**748,298**	**751,560**
O. Transitional adjustments – Effect on T2 (+/-)	**324,326**	**497,038**
P. Tier 2 Capital (M - N +/- O)	**12,793,720**	**13,177,957**
Q. Total Own Funds (F + L + P)	**59,421,580**	**58,038,875**

Description of main capital items[2] and transitional adjustments as of June 30th, 2014

A. Common Equity Tier 1 Capital (CET1) before prudential filters.

The item includes:

- paid up instruments for €/mln 19.288;
- share premium for €/mln 15.966;
- other reserves included retained earnings for €/mln 10.076, also including net profit of the 1st half of the year equal to €/mln 1.058, included in Own Funds according to CRR article 26, net of Group foreseeable dividends, equal to €/mln 285;
- accumulated other comprehensive income, negative for €/mln 1.027; such item includes reserves for actuarial losses (IAS19) and reserves on available for sale (AFS) securities, whose regulatory treatment is outlined below:
    - o reserves for actuarial losses (IAS19)[3]:
        - amount of the negative reserve: €/mln 200;

[1] For the sake of consistency and comparability, in the light of the introduction of the new regulatory framework Basel 3 as of January 1, 2014, the table referred to Banking Own Funds shows the period of March 31, 2014 as the comparative period, rather than the information as of December 31, 2013.
[2] With reference to the regulatory treatment of the UniCredit's stake in Bank of Italy, it is worth mentioning that: (I) the carrying value as of June 30th, 2014 is risk weighted at 100% (according to the CRR article 133 "Equity exposure"; (II) the revaluation recognized at P&L as of December 31st, 2013 is not filtered out.
[3] As of January 1, 2013, following the entry into force of the amendments to IAS 19 (IAS 19R), the elimination of the corridor method – requiring recognition of present value of defined benefit obligations – will result in an impact on the Group's net equity related to the recognition in the revaluation reserves of actuarial net losses not previously recognized in line with such method.

        - amount of the positive transitional filter included in section "*E. Transitional adjustments – Effect on CET1 (+/-), including minority interests subject to transitional adjustments*"): €/mln 139;
    - reserves on available for sale (AFS) securities:
        - amount of the positive reserve: €/mln 644;
        - amount of the negative transitional adjustment for unrealized gains on fair value items included in section "E. Transitional adjustments – Effect on CET1 (+/-), including minority interests subject to transitional adjustments"): €/mln 644, of/w €/mln 430 referred to securities issued by UE Central Administrations[4].

The item does not include:

- €/mln 609 related to Cashes[5] reclassified in the Item "G. Additional Tier 1 Capital (AT1) gross of deductions and transitional adjustments";
- €/mln 8 related to Saving Shares;
- €/mln 10 related to share premium and referred to Saving Shares.

B. Common Equity Tier 1 Capital (CET1) before prudential filters.

The item includes:

- filters required by CRR including, of/w mainly:
    - negative filter on cash flow hedge reserve of financial instruments (CRR art. 33), equal to €/mln 306;
    - negative filter on gains on liabilities of the institutions related to changes in own credit standing (CRR art. 33), equal to €/mln 21;
    - additional value adjustments (CRR art. 34), equal to €/mln 25;
- national filters as required by Bank of Italy Circular n° 285, referred to:
    - multiple goodwill redemption ("affrancamenti mutipli"), equal to €/mln 279;
    - gain on sale of properties mainly used in operations ("cessione in blocco"), equal to €/mln 78.

D. Items to be deducted from CET1

The item includes the following main elements:

- excess of expected losses compared to provisions related to IRB positions, equal to €/mln 810;
- deductions for securitizations, equal to €/mln 27.

E. Transitional adjustments – Effect on CET1 (+/-)

The item includes the following elements:

- exclusion of unrealized gains on AFS securities, equal to €/mln 644 (-);
- positive filter on negative acturial reserves (IAS19), equal to €/mln 139.(+);
- positive filter for the 80% of the deduction related to excess of expected losses compared to provisions related to IRB position, for €/mln 648 (+);

[4] With reference to the contents of Bank of Italy Bollettino di Vigilanza n° 12 issued on December 2013 related to the transitional provisions on Own Funds for unrealized gain and losses associated to exposures towards Central Administrations classified in the IAS 39 category "Available For Sale – AFS", UniCredit SpA exercised the option contained in the Bank of Italy Circular 285 ("Disposizioni di vigilanza per le banche", Part 2, Chapter 14, Section II, Paragraph 2) for the calculation of its Consolidated Supervisory Capital (as well as for the calculation of Individual Supervisory Capitals of all banks belonging to UniCredit Banking Group supervised by the Bank of Italy). Accordingly, starting from 03.31.2014 reporting period and in coherence with previous periods, UniCredit SpA (for those securities issued by EU Central Administration classified in the portfolio "Available for Sale – AFS") excludes by any element of its Own Funds unrealized gains and losses related to exposures towards EU Central Administration classified in the IAS 39 category "Available for Sale – AFS", taking into account the provisions contained in the CRR Article n° 467.

[5] The CASHES are equity-linked instruments, issued for a counter value of €2,983,000 thousand in February 2009 by The Bank of New York (Luxembourg) SA, with a maturity on December 15, 2050 and convertible, under certain conditions, into n° 96,756,406 ordinary shares of UniCredit S.p.A. (reduced from n° 967,564,061 after the reverse split occurred on December 23, 2011) underwritten by Mediobanca in the context of the capital increase approved by the UniCredit Extraordinary Shareholders' Meeting on November 14, 2008. Therefore, since such shares are legitimately issued, they are fully loss absorbing as any other ordinary share.

I. Transitional adjustments – Effect on AT1 (+/-)

The item includes the following transitional adjustments:

- positive filter for €/thousand 2,560, equal to 80% of the amount of the deduction (€/thousand 3,200) related to direct, indirect and synthetic positions in AT1 instruments issued by financial sector entities (FSE), in which a significant investment is held;
- deduction of 50% of the residual amount (€/mln 648) related to the excess of expected losses compared to provisions referred to IRB position, equal to €/mln 324 (-);

O. Transitional adjustments – Effect on T2 (+/-)

The item includes the following transitional adjustments:

- deduction of 50% of the residual amount related to the excess of expected losses compared to provisions referred to IRB position, equal to €/mln 324 (-);
- positive filter allowing the inclusion of 80% of indirect and synthetic positions (€/mln 703) held in Tier 2 instruments issued by FSE in which a significant investment is held, equal to €/mln 562(+);
- national positive filter as regulated by Bank of Italy Circular n° 285, equal to 80% of 50% of unrealised gains on AFS, equal to €/mln86 (+).

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

See the above "Section 1 – Shareholders' Equity" for qualitative information on the procedures adopted by the Banking Group to assess the adequacy of own funds supporting current and future activities.

B. QUANTITATIVE INFORMATION

Capital Adequacy

CATEGORIE/VALORI	UNWEIGHTED ASSETS		WEIGHTED ASSETS / REQUIREMENTS	
	06.30.2014	12.31.2013 (4)	06.30.2014	12.31.2013 (4)
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	**453,340,358**	**424,104,235**	**186,348,592**	**164,550,155**
1. Standardized approach	224,637,480	218,511,740	115,669,877	96,052,625
2. IRB approaches	226,604,018	201,705,219	69,932,670	67,572,479
2.1 Foundation				
2.2 Advanced	226,604,018	201,705,219	69,932,670	67,572,479
3. Securitizations	2,098,859	3,887,276	746,046	925,050
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**14,907,887**	**13,164,012**
B.2 Credit valuation adjustment risk (1)			**12,642**	
B.3 Settlement risk (2)			**5,031**	
B.4 Market Risk			**643,423**	**479,100**
1. Standardized approach				4,582
2. Internal Models			643,423	474,518
3. Concentration Risk				
B.5 Operational Risk			**1,139,145**	**1,237,896**
1. Basic indicator approach			19,799	19,799
2. Traditional standardized approach				
3. Advanced measurement approach			1,119,346	1,218,098
B.6 Other calculation elements (3)				**-2,324,434**
B.7 Total capital requirements			**16,708,127**	**12,556,575**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk Weighted Assets			**208,851,591**	**156,957,184**
C.2 Common Equity Tier 1 Capital / Risk weighted assets (CET1 capital ratio)			**21.51%**	**-**
C.3 Tier 1 Capital / Risk weighted assets (Tier 1 capital ratio)			**22.33%**	**27.39%**
C.4 Total Own Funds / Risk weighted assets (Total capital ratio)			**28.45%**	**36.60%**

Notes:

1. Credit valuation adjustment risk is calculated starting from 01.01.2014 (Basel III adoption).
2. Included in credit and counterparty risk as of December 31st, 2013.
3. As of December 31st, 2013, according to Bank of Italy Circular n° 263, banks belonging to a banking group may benefit from a reduction of 25% in their individual total capital requirement, if the capital requirement was met on a consolidated basis. Such reduction is no more allowed according to the EU Regulation n° 575/2013 (CRR).
4. Figures as of December 31, 2013 are calculated in coherence with regulatory rules in force at that time.

Part H) Related-Party Transactions

2 – Related-Party Transactions

Part H) Related-Party Transactions

(amounts in thousands of €)

As required by Commission Regulation (EU) No. 632/2010 of July 19, 2010, the revised IAS 24 – which simplifies and clarifies the definition of related party and the criteria aimed at identifying correctly the nature of the relationship with the reporting entity – applies to financial reporting for annual periods beginning on or after January 1, 2011. Pursuant to IAS 24, UniCredit S.p.A.'s related parties include:

- companies belonging to the UniCredit group and companies controlled by UniCredit but not consolidated;
- associates and joint-ventures;
- UniCredit's key management personnel;
- close family members of key management personnel and companies controlled (or jointly controlled) by key management personnel or their close family members;
- post-employment benefits plans for employees of the UniCredit group.

Key management personnel are persons having authority and responsibility for planning, directing, and controlling UniCredit's activities, directly or indirectly. Key management personnel include the Chief Executive Officer and the other members of the Board of Directors, the Standing Auditors, the General Manager and the other members of UniCredit's Executive Management Committee, as well as the Head of Internal Audit, in office during the period.

Details are provided below on the related-party transactions carried out pursuant to IAS 24.

1. Related-Party Transactions

The Company's well-established operating policy is to consistently comply with principles of transparency and material accuracy and to follow fair procedures in conducting related-party transactions in line with the legal and regulatory provisions applicable from time to time.

In particular UniCredit, as a listed issuer, has adopted the "Global Policy for the management of transactions with persons in conflict of interest" that is designed to define preliminary and conclusive rules with respect to transactions initiated by UniCredit, including those conducted through subsidiaries, with related parties (CONSOB) and associated persons (Bank of Italy), and the manner in which information is disclosed to corporate bodies and the market. This Policy - which is published on the UniCredit website (www.unicredit.eu) - identifies, inter alia, in compliance with the "Regulations on related-party transactions" issued by Italy's CONSOB resolution 17221 of March 12, 2010 (as amended/supplemented) and Bank of Italy Circular no. 263/2006 (Title V, Chapter 5 - "Procedures for the management of risk activities and conflicts of interest with associated persons"):

the independence of UniCredit's Directors who may be asked to express their opinions on related-party transactions (CONSOB) and transactions with associated persons (Bank of Italy); the scope of related parties (CONSOB) and associated persons (Bank of Italy), together defined as the "Combined Perimeter";

- transactions with significant parties included in the Combined Perimeter;
- instances of exemption and exclusion utilized by UniCredit;
- the manner in which transactions with parties included in the Combined Perimeter are started and approved, even when they are initiated by Italian or foreign subsidiaries;
- the manner and timing information on related-party transactions is conveyed to Independent Directors as well as Administration and Regulatory Bodies;
- transparency obligations towards Management, Regulatory Authorities and the market.

The above-mentioned provisions also require that documents containing internal control policies be communicated to the Shareholders' Meeting and kept available for any requests from the Bank of Italy. In relation to the above, please note that on December 18, 2012 the

Board of Directors of UniCredit, upon recommendation of the Related-Parties and Equity Investments Sub-Committee and the Board of Statutory Auditors, approved the Internal policies on controls for risk activities and conflicts of interests with associated persons, which are made available to the Shareholders.

Subject to compliance with the principle set forth in Article 2391 of the Italian Civil Code regarding Directors' interests, the provisions of Article 136 of Legislative Decree 385/93 (Consolidated Banking and Lending Act) also necessarily apply to the Bank, according to which corporate officers may directly or indirectly take on obligations towards the bank they manage, direct or control, only upon unanimous approval by the bank's management body, passed by vote in favor of all members of the controlling body. To that end, the aforesaid members are required to disclose persons with whom relationships may take root that would give rise to the type of material obligation provided for by Article 136 of Legislative Decree 385/93 (intervening individuals or legal entities).

Please note that during the reporting period no transactions with parties included in the Combined Perimeter that would qualify as major according to the "Global Policy for the management of transactions with persons in conflict of interest" referred to above were carried out. In the first half of 2014 some transactions were carried out with Italian and foreign related parties that do not fall within the ordinary course of business and related financial activity and/or performed on different terms and conditions as those applied to transactions entered into with independent third parties – see the report on operations for further information.

All intra-group transactions were carried out based on assessments of mutual economic benefit, and the applicable terms and conditions were established in accordance with fair dealing criteria, with a view to the common goal of creating value for the entire UniCredit Group. The same principle was applied to intra-group services, as well as the principle of charging on a minimal basis for these services, solely with a view to recovering the respective production costs.

For the purposes of financial disclosure, in accordance with the Commission Regulation (EU) 632/2010 of July 19, 2010, the text of IAS 24 applies, which defines the concept of related party and identifies the relations between that party and the entity producing the financial statements. IAS 24 also explains that the disclosure must include transactions entered into with subsidiaries of associates and subsidiaries of joint ventures.

Accordingly, the table below provides the additional information required by IAS 24 at June 30, 2014:

RELATED-PARTY DISCLOSURE

	AMOUNTS AS AT 06.30.2014								
	Subsidiaries	Joint venture	Associates	Key Management Personnel	Other related parties	TOTAL	% on Company accounts	Shareholders (*)	% on Company accounts
Financial assets held for trading	3,008,762	-	1,560	-	1,099	3,011,421	20.04%	-	-
Avalaible-for-sale-financial assetd	9,313	69	107,116	-	-	116,498	0.24%	21,628	0.05%
Loans and receivables with banks	13,884,228	39	236,940	-	-	14,121,207	65.86%	578	0.00%
Loans and receivables with customers	22,120,411	86	531,183	2,402	44,917	22,698,999	10.17%	188,468	0.08%
Other assets	998,363	1,962	2,138	-	6,732	1,009,195	17.52%	6,618	-
Total assets	**40,021,077**	**2,156**	**878,937**	**2,402**	**52,748**	**40,957,320**	**10.30%**	**217,292**	**0.05%**
Deposits from banks	11,021,664	12,527	135,824	-	-	11,170,015	34.22%	163,701	0.50%
Deposits from customers	709,011	-	480,990	6,712	78,504	1,275,217	0.80%	469,096	0.29%
Securities and financial liabilities	31,605,033	-	-	-	20,104	31,625,137	23.88%	48,687	0.04%
Other liabilities	942,785	199	66,114	2	10	1,009,110	8.43%	2,804	0.02%
Total liabilities	**44,278,493**	**12,726**	**682,928**	**6,714**	**98,618**	**45,079,479**	**11.33%**	**684,288**	**0.17%**
Guarantees issued and commitments	**13,103,725**	**3,891,332**	**73,580**	**-**	**37,659**	**17,106,296**	**21.61%**	**273,891**	**0.35%**

(*) Shareholders and related companies holding a stake with voting right in the Bank's share capital exceeding 2%.

With regard to the aforesaid transactions, and separately by type of related party, the impact on income statement items are also detailed below.

	FIRST HALF 2014								
	Subsidiaries	Joint venture	Associates	Key Management Personnel	Other related parties	TOTAL	% on Company accounts	Shareholders (*)	% on Company accounts
Interest income and similar revenues	814,450	233	1,893	29	595	**817,200**	17.80%	**1564**	0.03%
Interest expenses and similar chages	(317,548)	(40)	(292)	(22)	(186)	**(318,088)**	13.14%	**(1,477)**	0.06%
Fee and commission income	436,836	655	281,863	14	716	**720,084**	34.30%	**4431**	0.21%
Fee and commission expenses	(50,333) -	3	(4,596)	(3)	(9)	**(54,944)**	28.96%	**(322)**	0.17%
Gains and losses on financial assets and liabilities held for trading	(454,979)	-	462	-	-	**(454,517)**	n.s.	-	-
Fair value adjustments in hedge accounting	399,507	-	-	-	-	**399,507**	n.s.	-	-
Net write-downs of loans and provisions for guarantees and commitments	25	-	5,319	-	(689)	**4,655**	-0.38%	**(403)**	-
Staff expenses	6,796	667	320	-	-	**7,783**	n.s.	-	-
Other administrative expenses	(851,273)	-	(5,650)	-	-	**(856,923)**	57.20%	-	-
Other expenses income	(1,860) -	19	-	-	-	**(1,879)**	3.25%	-	-
Other operating income	38,813	1,122	(1,326)	-	5	**38,614**	9.43%	**3**	-

(*) Shareholders and related companies holding a stake with voting right in the Bank's share capital exceeding 2%.

Operating costs related to key management personnel do not include the remuneration paid.

Note that the "Senior Management" category refers to UniCredit's "key management personnel", i.e. those persons holding powers and responsibility - directly and indirectly - for planning, directing and monitoring UniCredit's operations (this means members of the Board of Directors, including the Chief Executive Officer, the Standing Auditors, members of the Executive Management Committee and the Head of Internal Audit in office during the reporting period).

On the other hand, the category "Other related parties" consists of information on:

- close family members of key management personnel (i.e., relatives who could be expected to influence, or be influenced by, the party involved);
- companies controlled (also jointly) by "key management personnel" or their close family members;
- post-employment benefit plans for employees of the UniCredit group.

Specifically, below are some observations on major related-party transactions:

In 2012 the subsidiary UniCredit Business Integrated Solutions S.C.p.A. (UBIS) assumed the role of operating sub-holding to provide the Group's support services both in Italy and abroad and remained the Group's reference point with respect to the acquisition and development of applications (e.g. software, including internally generated software).

Against this backdrop, in the two year period 2012/2013 the Board of Directors of UBIS approved the executive plans relating to the formation of three joint ventures with industrial partners, which control these joint ventures and to which certain services were outsourced.

More in detail:

- in May 2012 a corporate partnership was entered into with the strategic partner Hewlett Packard (HP) to carry out activities related to the management of administrative support services for the Human Resources processes ("HR administrative services") through the company "ES Shared Service Center S.p.A.", whose share capital is held by UBIS (49%) and HP, which is the controlling shareholder (51%);
- the "Invoice Management" transaction, aimed at the formation of a joint venture with the partner Accenture S.p.A. (Accenture) for the provision of back office services with respect to the "active and passive cycle" (issuance, receipt, verification, recording and payment of invoices). In this regard, UBIS transferred its "active and passive cycle" business unit to the company formed by Accenture and called "Accenture Back Office and Administration Services S.p.A." and sold to Accenture some of the

shares resulting from the transfer. Following the transaction, UBIS holds 49% of Accenture Back Office and Administration Services S.p.A.'s share capital; the remaining 51% is held by Accenture;

- on September 1, 2013 the project became effective aimed at the formation of a joint venture with another major player in the industry, IBM Italia S.p.A. (IBM), for the provision of technological infrastructure services (hardware, data center, etc.) to Commercial Banking. The transaction was completed when UBIS transferred its "Information Technology" business unit to the company formed and controlled by IBM Italia S.p.A. and called "Value Transformation Services S.p.A." (V-TServices). Following the transaction, UBIS holds 49% of V-TServices's share capital; the remaining 51% is held by IBM.

The services provided to the UniCredit group by the above-mentioned companies involve an exchange of consideration (administrative costs); in particular, the most significant item relates to the services outsourced for the provision of services by the associate V-TServices.

In order to ensure compliance with the commitments undertaken by UniCredit S.p.A. during the "squeeze-out" process, under the "ReboRa Agreement", in 2010, following the sale of UniCredit CAIB AG by Bank Austria to UCB AG, UniCredit S.p.A. and Bank Austria entered into a "Compensation Agreement", a derivative contract valid from January 1, 2010 to a date between January 1, 2015 and March 31, 2016 (at the discretion of the parties) which includes a commitment by UniCredit S.p.A. to pay 14.5% of Profit Before Tax of the CIB Division - Markets Segment (excluding Poland) of Bank Austria in return for the commitment by the latter to pay 12 month Euribor + 200bps recorded annually on a notional value of €1.28 billion. UniCredit S.p.A. has made a commitment to paying, upon expiry of the agreement, any increase attributable to 14.5% of the CIB Markets perimeter with respect to the value established at the time of sale, up to a maximum of €384 million. This agreement was recognized in the financial statements under trading derivatives and valued using a valuation model which takes account of all the flows described.

With reference to the relationships with Mediobanca S.p.A. ("Mediobanca"), in addition to the transactions falling within the ordinary course of business and financial activity, UniCredit S.p.A. has entered into a thirty-year usufruct agreement on UniCredit shares with Mediobanca, under which Mediobanca gives back to UniCredit S.p.A., in return for a consideration (recorded as a reduction in Shareholders' Equity), the right to vote and receive dividends on the UniCredit S.p.A. shares subscribed for by Mediobanca in January 2009, as part of the capital increase approved by UniCredit in November 2008. These shares were concomitantly used in support of the issuance of convertible securities denominated "CASHES".

Following the resolutions of UniCredit S.p.A.'s Extraordinary Meeting of December 2011, the number of shares underlying the usufruct agreement and the formula for calculating the remuneration fees in favor of Mediobanca were adjusted to reflect (i) the reverse split of UCI S.p.A. shares and (ii) the free capital increase of December 2011 carried out through the allocation to capital of an equivalent amount transferred from the issue-premium reserve recorded in January 2009. In the first half of 2014 the last payment was made relating to the 2012 results (€35 million). No payment is due for the year 2013.

Within the "CASHES" transaction, Mediobanca also acts as custodian of the shares issued by UniCredit S.p.A.

At June 30, 2014, since the conditions for an impairment test were met, the value in use of the equity investment in Mediobanca was determined, according to the methods described in Part A of the Notes to the Consolidated Accounts. The impairment test confirmed the carrying value of the equity investment.

For further information on the events occurred in the first half of 2014 and the Mediobanca S.p.A shareholders' agreement see the Other information section of the Interim Report on Operations.

At June 30, 2014 the Group's exposure to Italpetroli Group, considered part of the intragroup transactions, consisted mainly of the credit exposure. In 2013 NEEP ROMA HOLDING S.p.A. ("NEEP") acquired control of the companies already belonging to the "Media" division of the Italpetroli group (A.S. Roma S.p.A., ASR Real Estate S.r.l. and Brand Management S.r.l.).

According to Article 311 par. 2 and Article 317 of the German Stock Corporation Act (Aktiengesetz, AktG), applicable to groups with a German company in the absence of domination agreements, that provide for:

(i) the obligation of the parent company to compensate the subsidiary, or make a commitment to that effect, for the disadvantages arising from measures or transactions (or lack thereof) requested by the parent company and that would not have been carried out by the subsidiary if it had not belonged to the Group

(ii) the obligation of the subsidiary to request reimbursement to the parent company and, in the absence of compensation, to prepare a report (the so-called "dependency report") on the status of all negative measures and outstanding requests for compensation,

in December 2013, UniCredit S.p.A. entered into an agreement with UniCredit Bank AG to compensate the disadvantages. These disadvantages were identified in 2013 in relation to certain specific activities carried out by UniCredit Bank AG concerning (i) Loan Syndication, (ii) Global Account Management, (iii) guarantees given and (iv) secondment of human resources - in favor of UniCredit S.p.A. and other Group companies (primarily including UniCredit Bank Austria, Pekao and other companies of the CEE Area). The agreement also provides for the guarantee from UniCredit S.p.A. concerning requests for compensation to other Group companies if the parties do not reach a remuneration/compensation agreement.

At December 31, 2013, UniCredit S.p.A. had expensed a total of €89 million in its individual financial statements against that commitment. During the first quarter of 2014, a revision was made to the amount required by the agreement, resulting in a new quantification of €61 million. That amount, which includes the claims for compensation from other Group companies, was settled by UniCredit in the second quarter of 2014, thereby extinguishing the contractual obligations of all the parties involved.

In April 2013, within the scope of the start up in UniCredit S.p.A. of “primary dealer” and “market maker” transactions on Italian, Portuguese, Spanish and Greek government bonds (formerly carried out by UniCredit Bank AG), in view of the fact that the established organizational model provides for the continuous provision by UniCredit Bank AG of services to support the activities now performed by UniCredit S.p.A., an agreement (“cooperation agreement”) was entered into for the remuneration of those services.

In the two year period 2008/2009 UniCredit S.p.A. (on its own behalf and in its capacity as the holding company of banks subsequently merged with) and Aspra (subsequently merged with UniCredit Credit Management Bank - UCCMB) entered into receivables sales agreements which included guarantees and compensation in favor of UniCredit Credit Management Bank, subsequently extended and partially modified in 2011, changing the operating conditions for the implementation of those guarantees and the compensation. The original sales agreements signed by the individual seller banks contain a number of representations and guarantees, whose non-fulfillment leads to the downgrading of the receivables in question or activation of indemnification with resulting compensation claims from UCCMB to UniCredit S.p.A. on the basis of the original sale values. In the light of the rights and obligations in the current contractual situation, assessment of the risks related to such guarantees and compensation at December 31, 2013, put in place as best estimates calculated based on the information supplied by UniCredit Credit Management Bank (which is responsible for the management of the loans sold at the time), resulted in the allocation of a provision for risks and charges in the individual financial statements of UniCredit S.p.A.

This provision was made in the individual financial statements of UniCredit S.p.A. after having determined that a request for compensation from the subsidiary UCCMB to UCI S.p.A. would be likely (IAS 37). The item was therefore eliminated from the Group consolidated financial statements, where the individual valuation of the receivables in question performed by UCCMB prevails over the original acquisition value (IAS 39). The provision made in December 2013 was confirmed in June 2014.

Please note that the shareholding in Public Joint Stock Company Ukrosostbank, worth €141 million, was classified, as in December 2013, in item 140 of assets “Non-current assets and disposal groups classified as held for sale”; its revaluation confirmed the carrying amount of the investee.

In June 2013, UniCredit S.p.A., together with Intesa Sanpaolo, participated as a financial partner, in the establishment of Lauro Sessantuno S.p.A., which, following a series of corporate transactions, acquired an overall interest of 60.99% in Camfin (a listed company that holds 26.19% of Pirelli). This acquisition led to the requirement for Lauro Sessantuno to make a full public tender offer for the Camfin shares not already held by it.

In this regard, under the above-mentioned public offer, UniCredit S.p.A. and Intesa Sanpaolo undertook to irrevocably and unconditionally issue a cash confirmation in accordance with Article 37 of the Issuer Regulations up to a maximum of €245 million. As a result, at December 31, 2013 the investment made by UniCredit S.p.A. amounted to a holding of 18.85% in the share capital of Lauro Sessantuno with a value of €115 million.

At June 2014 a significant part of the interest in Lauro Sessantuno (€81 million) was classified under assets held for sale in view of the sale completed in July 2014.

For further information on the shareholding structure of Lauro Sessantuno S.p.A. see the the “Other information” section of the “Interim Report on Operations”.

As part of the reorganization of the structure of the Group's leasing operations, in the first quarter of 2014 UniCredit S.p.A. purchased 31.01% of UniCredit Leasing S.p.A. from UniCredit Bank Austria, resulting in its total ownership of the UniCredit Leasing S.p.A. shares. The purchase was made by paying a consideration equal to the “mid” amount quantified by the appraisal by independent experts performed at the beginning of 2014 (and used for the purposes of the valuations in the 2013 annual financial statements). In the second quarter, Fineco Leasing S.p.A. was merged into UniCredit Leasing S.p.A. Both these transactions involved companies belonging to the Group and therefore qualify as business combinations under common control and as such it took place at book values. The transaction also included a capital strengthening of UniCredit Leasing S.p.A. through subscription of a capital increase for €490 million.

As part of the activities related to the "Initial Public Offering (IPO) and the listing diFinecoBank" during the first half of 2014 an accord was finalized for recognition of a license agreement for the use free-of-charge of the Fineco trademarks and the other Fineco distinguishing marks, owned by UniCredit, in favor of FinecoBank. For more details see the description provided under other information in the Interim Report on Operations, section “Development of Group operations and other corporate transactions”.

In May 2014 the sale was initiated of 100% of Cordusio SIM S.p.A. by Cordusio Fiduciaria S.p.A. to UniCredit S.p.A.

Following a number of debt-to-equity swaps, UniCredit S.p.A. holds controlling interests in Compagnia Italpetroli S.p.A. and Le Cotoniere S.p.A. (both fully written down) and associate interests in Bluvacanze S.p.A., Accadiesse S.p.A. and Fenice Holding (both fully written down).

Distribution agreements concerning insurance products are in place with the following associates:

1. Aviva S.p.A.
2. CNP UniCredit Vita S.p.A.
3. Creditras Assicurazioni S.p.A.
4. Creditras Vita S.p.A.

Relationships with other related parties include those in place with external pension funds (for UniCredit employees) as these funds have their own legal personality. These transactions are undertaken at the same conditions as those applied to transactions undertaken with independent third parties. The relationships with those funds mainly consist of transactions included under Deposits from customers (and related interest).

Explanatory notes

Part I) Share Based Payments

Part I) Share Based Payments

A. QUALITATIVE INFORMATION

1. Description of payment agreements based on own equity instruments

1.1 Outstanding instruments

Group Medium & Long Term Incentive Plans for selected employees include the following categories:

- **Equity-Settled Share Based Payments;**
- **Cash Settled Share Based Payments[1].**

The first category includes the following:

- **Stock Options** allocated to selected Top & Senior Managers and Key Talents of the Group;
- **Performance Stock Options & Performance Shares** allocated to selected Top & Senior Managers and Key Talents of the Group and represented respectively by Options and free UniCredit ordinary shares that the Parent Company undertakes to grant, conditional upon achieving performance targets approved by the Parent Company's Board;
- **Employee Share Ownership Plan (ESOP)** that offers to eligible Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares (so called "Free Shares" or rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Shares") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions (other than market conditions) stated in the Plan Rules;
- **Group Executive Incentive System** that offer to eligible Group Executive a variable remuneration for which payment will be made within five years. For the first two years the beneficiary will receive the payment by cash and for the next years they will receive the payment by Unicredit shares; the payment are related to the achievement of performance condition (other than marked conditions) stated in the Plan Rules;
- **Share Plan for Talent** that offer free UniCredit ordinary shares that the Parent Company undertakes to grant, conditional upon achieving performance targets approved by the Parent Company's Board.
- **Group Executive Incentive System 2014 (Bonus Pool)** that offer to eligible Group Executive and relevant employee identified following regulatory rules, a bonus structure composed by upfront (following the moment of performance evaluation) and deferred payments in cash and in shares, to be paid over a period of up to6 years (first year upfront and 5 years deferred). This payment structure will guarantee the alignment to shareholder interest and will be subjected to malus (which applies in case specific profitability, capital and liquidity thresholds are not met at both Group and Country/Division level) and claw back conditions (as legally enforceable) as defined in Plan Rules (both non-market vesting conditions).

The second category includes synthetic "Share Appreciation Rights" linked to the share-value and performance results of some Group-Companies[2].

1.2 Measurement model

1.2.1 Stock Options and Performance Stock Options

The Hull and White Evaluation Model has been adopted to measure the economic value of Stock Options.

This model is based on a trinomial tree price distribution using the Boyle's algorithm and estimates the early exercise probability on the basis of a deterministic model connected to:

- reaching a Market Share Value equals to an exercise price- multiple (M);
- probability of beneficiaries' early exit (E) after the end of the Vesting Period.

Any new Stock Options' Plans haven't been granted during 2014.

[1] Linked to the economic value of instruments representing a subsidiaries Shareholders' Equity.
[2] Pioneer Global Asset Management at the end of reference period.

1.2.2 Other equity instruments (Performance Shares) – Share Plan for Talent

The plan offers three “Free Unicredit Shares” installments, having subsequent annual vesting, to selected beneficiaries.

The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the performance period. Parameters are estimated by applying the same model used for Stock Options measurement.

Any new Performance Shares’ Plans haven’t been granted during 2014.

1.2.3 Group Executive Incentive System

The amount of the incentive will be determined on a basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation of the Employee’s relevant Manager shall be expressed as a percentage, from a minimum of 0% to a maximum of 150% (non market vesting conditions).

This percentage, adjusted by the application of a risk/opportunity factor - Group Gate – at first payment, multiplied by the Bonus Opportunity will determine the effective amount that will be paid to the beneficiary.

The Economic and Equity effects will be receipt on a basis of instrument vesting period.

Group Executive Incentive System 2013 – Shares

The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the vesting period.

	Shares Granted Group Executive Incentive System 2013		
	1st Installment (2016)	2nd Installment (2017)	3rd Installment(1) (2018)
Date of granting Board resolution (*Grant Date*)	29-Jan-2013	29-Jan-2013	29-Jan-2013
Date of Board resolution	11-Mar-2014	11-Mar-2014	11-Mar-2014
Vesting Period Start-Date	1-Jan-2013	1-Jan-2013	1-Jan-2013
Vesting Period End-Date	31-Dec-2015	31-Dec-2016	31-Dec-2017
UniCredit Share Market Price [€]	5.862	5.862	5.862
Economic Value of Vesting conditions [€]	-0.200	-0.299	-0.427
Performance Shares’ Fair Value per unit @ Grant Date [€]	5.662	5.563	5.435

(1)referred only to Executive Vice President assignations.

Group Executive Incentive System 2014 (Bonus Pool)

New Group Incentive system 2014 is based on a bonus pool approach, aligned with regulatory requirements and market practices, it defines:

- sustainability, through direct link with entity results and alignment with relevant risk categories, utilizing specific indicators linked to risk appetite;
- link between bonuses and organization structure, defining the pool on a country/division level with further consolidation at Group level;
- bonuses allocated to Executives and other relevant employee, on a basis of European Bank Association rules and local regulations;
- payment structure has been defined in accordance with Regulatory provisions; payments will be divided in a period of six years (first one immediately and the other in residual 5 years) and will be in shares and cash.

All Profit and Loss and Net Equity effects related to the plan will be booked during the vesting period

1.2.4 Employee Share Ownership Plan (Let’s Share 2014)

The following tables show the measurements and parameters used in relation to Free Shares (or rights to receive them) connected to the “Employee Share Ownership Plan” approved in 2013.

Measurement of Free Shares ESOP 2014

	Free Shares 1st Election Window	Free Shares 2nd Election Window
Date of Free Shares delivery to Group employees	5-Feb-2014	To be defined
Vesting Period Start-Date	1-Jan-2014	31-Jul-2014
Vesting Period End-Date	1-Jan-2015	31-Jul-2015
Discount Shares' Fair Value per unit [€]	**5.774**	To be defined

All Profit and Loss and Net Equity effects related to free shares will be booked during the vesting period (except adjustments, according to Plan Rules, that will be booked during the next closing after vesting period).

B. QUANTITATIVE INFORMATION

Effects on Profit and Loss

All Share-Based Payment granted after November 7, 2002 which vesting period ends after January 1, 2005 are included within the scope of the IFRS2.

Financial statement presentation related to share based payments (€ '000)

	1° HALF 2014		1° HALF 2013	
	Total	**Vested Plans**	**Total**	**Vested Plans**
Costs	**-5,182**		**18,862**	
- connected to Equity Settled Plans[(1)]	*-5,182*		*18,862*	
- connected to Cash Settled Plans[(2)]			-	
Debts for Cash Settled Plans[(2)]	**31,182**	**-**	**11,173**	**-**

(1) Costs reversal in first half 2014 is principally due to the not achievement of performance conditions related to incentive plans.
(2) Debts increase in first half 2014 is mainly due to the new plans issued by Pioneer.

Explanatory notes

Part L) Segment Reporting

Part L) Segment Reporting

Segment reporting of UniCredit S.p.A., Parent Company of the UniCredit Banking Group, is provided in Part L of the consolidated notes to the accounts, in accordance to the IFRS 8.

Annexes

Reconciliation of Condensed Account to Mandatory Reporting Schedule

A reconciliation of the reclassified balance sheet and profit and loss account to the mandatory reporting schedules, is provided below.

BALANCE SHEET			(€million)
	AMOUNTS AS AT		SEE NOTES
	06.30.2014	12.31.2013 Historical	TO THE ACCOUNTS
Assets			**Part B) Assets**
Cash and cash balances = item 10	2,755	3,227	
Financial assets held for trading = item 20	15,030	12,254	Table 2.1
Loans and receivables with banks = item 60	21,442	21,869	Table 6.1
Loans and receivables with customers = item 70	223,123	231,171	Table 7.1
Financial investments	103,005	97,716	
30. Financial assets at fair value through profit or loss	*415*	*389*	Table 3.1
40. Available-for-sale financial assets	*48,051*	*42,952*	Table 4.1
50. Held-to-maturity investments	*3,107*	*3,025*	Table 5.1
100. Investments in associates and joint ventures	*51,432*	*51,350*	
Hedging instruments	9,396	7,858	
80. Hedging derivatives	*6,910*	*5,389*	
90. Changes in fair value of portfolio hedged items	*0*	*2,469*	
Property, plant and equipment = item 110	2,569	2,666	Tables 11.1 and 11.2
Goodwill = item 120 - intangible assets net of which: goodwill	0	0	Table 12.1
Other intangible assets = item 120 Intangible assets net of goodwill	1	1	Table 12.1
Tax assets = item 130	13,882	14,766	
Non-current assets and disposal groups classified as held for sale = item 140	804	368	
Other assets = item 150	5,761	6,411	
Total assets	**397,768**	**398,307**	
Liabilities and shareholders' equity			**Part B) Liabilities**
Deposits from banks = item 10	32,641	47,379	Table 1.1
Deposits from customers and debt securities in issue	280,942	270,751	
20. Deposits from customers	*159,179*	*150,840*	Table 2.1
30. Debt securities in issue	*121,763*	*119,911*	Table 3.1
Financial liabilities held for trading = item 40	10,649	10,804	Table 4.1
Hedging instruments	9,742	8,141	Table 5.1
60. Hedging derivatives	*6,532*	*5,797*	
70. Changes in fair value of portfolio hedged items	*0*	*2,344*	
Provisions for risks and charges = item 120	1,912	2,284	Table 12.1
Tax liabilities = item 80	720	862	
Liabilities included in disposal group classified as held for sale = item 90	-	-	
Other liabilities	12,994	12,008	
100. Other liabilities	*11,973*	*11,043*	
110. Provision for employee severance pay	*1,021*	*965*	
Shareholders' equity	48,168	46,078	**Part F) Shareholders'**
- Capital and reserves	46,359	57,290	**Equity**
130. Revaluation reserves, of which: Special revaluation laws	*277*	*277*	Table B.1
150. Equity Instruments	*898*		Table B.1
160. Reserves	*9,303*	*13,481*	Table B.1
170. Share premium	*15,977*	*23,879*	Table B.1
180. Issued capital	*19,906*	*19,655*	Table B.1
190. Treasury shares	*-2*	*-2*	Table B.1
- Available-for-sale assets fair value reserve and cash-flow hedging reserve	751	389	
130. Revaluation reserves, of which: Available-for-sale financial assets	*644*	*217*	Table B.1
130. Revaluation reserves, of which: Cash-flow hedges	*306*	*326*	Table B.1
130. Revaluation reserves, of which: Defined-benefit company pensions	*-199*	*-154*	Table B.1
- Net profit = item 200	1,058	-11,601	Table B.1
Total liabilities and shareholders' equity	**397,768**	**398,307**	

INCOME STATEMENT				(€million)
		1HALF		SEE NOTES
		2014	2013 Historical	TO THE ACCOUNTS
				Part C)
Net interest = item 30. Net interest margin		2,172	1,942	Tables 1.1and 1.4
Dividends and other income from equity investments		1,361	3,163	
70.	*Dividend income and similar revenue*	*1,361*	*3,163*	Table 3.1
	less: dividends from held for trading equity investmens included in item 70	-	-	Table 3.1
Net fees and commissions		1,959	1,790	
Net fees and commissions = item 60		1,910	1,718	Tables 2.1and 2.3
	+ Other operating income - of which: recovery of costs - Commissioni di istruttoria veloce (CIV)	*49*	*72*	Table 13.2
Net trading, hedging and fair value income		212	405	
80.	*Gains and losses on financial assets and liabilities held for trading*	*-2*	*67*	Table 4.1
	+dividends from held for trading equity investments included in item 70	-	-	Table 3.1
90.	*Fair value adjustments in hedge accounting*	*6*	*3*	Table 5.1
100.	*Gains and losses on disposal of b) available-for-sale financial assets*	*202*	*40*	Table 6.1
100.	*Gains and losses on disposal of: d) financial liabilities*	*9*	*282*	Table 6.1
110.	*Gains and losses on financial assets and liabilities at fair value through profit or loss*	*-3*	*13*	Table 7.1
Net other expenses/income		67	8	
190.	*Other net operating income*	*351*	*330*	Tables 13.1and 13.2
	position (from item 100)	*51*	*-5*	
	less: Other operating income - of which: recovery of costs	*-350*	*-334*	Table 13.2
	less: Write-dsowns on leashold improvements	*15*	*17*	Table 13.1
OPERATING INCOME		**5,771**	**7,308**	
Payroll costs		-1,568	-1,640	
150.	*Administrative costs - a) staff expenses*	*-1,569*	*-1,641*	Table 9.1
	less: integration costs	*1*	*1*	
Other administrative expenses		-1,513	-1,389	
150.	*Administrative costs - b) other administrative expenses*	*-1,498*	*-1,372*	Table 9.5
	less: integration costs	-	-	
	+: Write-dsowns on leashold improvements	*-15*	- *17*	Table 13.1
Recovery of expenses = item 190. Other net operating income		301	262	
	- of which: Operating income - recovery of costs	*350*	*334*	Table 13.2
	less :commissioni istruttoria veloce (CIV)	*-49*	- *72*	Table 13.2
Amortisation, depreciation and impairment losses on intangible and tangible assets		-66	-70	
170.	*Impairment/Write-backs on property, plant and equipment*	*-73*	*-69*	
	less:Impairment losses/write backs on property owned for investment	*7*		
180.	*Impairment/Write-backs on intangible assets*	-	*-1*	
Operating costs		**-2,846**	**-2,837**	
OPERATING PROFIT		**2,925**	**4,471**	
Net impairment losses on loans and provisions for guarantees and commitments		-1,219	-1,786	
100.	*Gains and losses on disposal of a) loans*	*37*	*-7*	Table 6.1
	impaired position (from item 100)	*-51*	*5*	
130.	*Impairment losses on a) loans*	*-1,149*	*-1,731*	Table 8.1
130.	*Impairment losses on d) other financial assets*	*-56*	*-53*	
NET OPERATING PROFIT		**1,706**	**2,685**	
Net provisions for risks and charges		-72	-172	
160.	*Net provisions for risks and charges*	*-72*	*-172*	Table 10.1
Integration costs		-1	-1	
Net income from investments		-55	174	
130.	*Impairment losses on: b) available-for-sale financial assets*	*-77*	*-35*	
	+impairment losses/write backs on property owned for investment	*-7*		
210.	*Profit (loss) of associates*			
	- of which: Write-backs (write-downs) of equity investments	*-71*	*-21*	
210.	*Profit (loss) of associates*			
	- of which: gains (losses) on disposal of equity investments	*100*	*223*	
240.	*Gains and losses on disposal of investments*	-	*7*	
NET PROFIT BEFORE TAX		**1,578**	**2,686**	
Income tax for the period = item 260. Tax expense (income) related to profit or loss from continuing operations		-520	6	
230. Impairment of goodwill		-	-	
NET PROFIT (LOSS) FOR THE PERIOD		**1,058**	**2,692**	

Condensed First Half Financial Statements Certification pursuant to Art.81-ter of Consob Regulation no. 11971 of May 14, 1999, as amended

1. The undersigned Federico Ghizzoni, (as Chief Executive Officer) and Marina Natale, (as the Manager Charged with preparing the financial reports), of UniCredit S.p.A., also in compliance with Art. 154-bis, (paragraphs 3 and 4) of Italian Legislative Decree no. 58 of February 24, 1998, do hereby **certify:**

• the adequacy in relation to the Legal Entity's features, and
• the actual application

of the administrative and accounting procedures employed to draw up the 2014 Condensed Interim Financial Statements.

2. The adequacy of the administrative and accounting procedures employed to draw up the 2014 Condensed Interim Financial Statements has been evaluated by applying a model devised by UniCredit S.p.A., in accordance with "*Internal Controls - Integrated Framework (CoSO)*" and "*Control Objective for IT and Related Technologies (Cobit)*," which represent generally accepted international standards for internal control system and , specifically, for financial reporting .

3. The undersigned also **certify** that:

3.1 The 2014 Condensed Interim Financial Statements:

a) were prepared in compliance with applicable international accounting standards recognized by the European Community pursuant to European Parliament and Council Regulation no. 1606/2002, of July 19, 2002;

b) are consistent with accounting books and records;

c) are suitable to provide a fair and correct representation of the economic and financial situation of the issuer;

3.2 the Interim Report on Operations includes a reliable analysis of the most significant events in the first six months of the financial year and their impact on the Condensed Interim Financial Statements, together with a description of the main risks and uncertainties concerning the remaining six months of the year. The First Half Financial Report also contains a reliable analysis of information on significant related party transactions.

Milan- August 5, 2014

Federico Ghizzoni

Marina Natale