HypoVereinsbank
UniCredit Group

Bayerische Hypo-und Vereinsbank AG 2008 Annual Report

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

Published by:
Bayerische Hypo- und Vereinsbank
Aktiengesellschaft
Head Office
D-80311 Munich
www.hvb.de
Registrar of companies: Munich HRB 421 48
Layout: Mercurio S.r.L., Milan
Typesetting: Layoutsatz GmbH & Co. KG, Munich
Printed by: Mediahaus Biering
Print deadline: March 17, 2009
Publication date: April 2, 2009
Printed in Germany

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Business Situation and Trends

Underlying conditions and general comments on the business situation

The development of the global economy in 2008 was overshadowed by the significant deterioration of the financial crisis. The US economy got rapidly caught up in the maelstrom of this crisis with a slump in the real estate sector, higher unemployment and negative asset and income effects for private households, and collapsing banks. The financial crisis has again deteriorated severely since mid-September 2008, triggering a serious global economic crisis with effects on many key industries in the real economy. The macroeconomic indicators point to recessive scenarios in Europe, the United States and Asia to varying degrees. With exports making up 25% of industrial output, Germany was not able to escape these influences either. Despite surprisingly stable consumer demand in 2008, GDP growth fell by half to 1.3% in 2008 after 2.5% in the previous year. In the fourth quarter, GDP was already 2.1% lower than the figure recorded for the previous quarter. Inflation is now on the decline and the price trend is showing deflationary tendencies. The lack of confidence amongst investors has risen to levels never seen in the history of the Federal Republic of Germany.

In the banking sector, 2008 was dominated by the unparalleled dramatic market conditions which deteriorated yet further in the fourth quarter of the year. The profound crisis of confidence resulted in huge liquidity bottlenecks throughout the finance system, most notably on the money market, which practically came to a standstill. At the same time, the risk premiums of funding costs rose sharply. Stock markets were hit by collapsing prices and a major crisis of confidence amongst investors. Central banks and governments responded to these negative developments to an unprecedented extent with internationally coordinated sets of measures and with national programmes consisting of rescue, stabilisation and economic packages for the financial sector and real economy. Even though HVB has managed without state support to date, we welcome the German government's decisive, comprehensive and fast response to the financial crisis. The measures are essential to stabilise the situation and create trust.

HVB AG was also unable to evade the external pressure of the markets in this extremely difficult environment. HVB AG has recorded a loss before tax of €2,181 million for 2008 as a whole. In 2007, HVB AG generated a profit before tax of €8,491 million in a much more favourable market environment and benefiting strongly from non-recurring effects.

A net loss of €2,351 million accrued after tax in 2008 (2007: profit of €8,146 million). €3 million was transferred to the reserve for own shares compliant with Section 272 (4) 4 of the German Commercial Code (HGB). The net loss was offset by a withdrawal of €2,354 million from other retained earnings. Nevertheless, its strong capital base and diversified business model give HVB AG a solid foundation, which is essential in this critical environment. The core capital ratio (Tier I ratio) compliant with Basel II amounted to 14.3% at year-end 2008, an excellent level by both national and international standards.

The liquidity ratio of HVB AG compliant with Section 11 of the German Banking Act (KWG) stood at 1.19 at December 31, 2008 (after 1.21 at year-end 2007). Despite the turmoil on the money and capital markets, HVB AG enjoyed adequate liquidity. Funding risk has been low to date thanks to our wide funding base in terms of products, markets and investor groups so that adequate funding of our lending operations was ensured even in difficult market phases. Further comments on liquidity risk are contained in the Risk Report.

Thanks to our business model coupled with a solid capital and funding base and a good market position in our core business activities, we remain a reliable partner for all customers and investors.

Operating performance

2008 income statement
and important events in the 2008 financial year

	2008	2007	CHANGE	
	€ millions	€ millions	€ millions	in %
Income statement				
Net interest income	4,616	4,658	(42)	(0.9)
Net fees and commissions	1,210	1,522	(312)	(20.5)
Net income from financial operations	(3,149)	(85)	(3,064)	> (100.0)
General administrative expenses	(3,271)	(3,348)	+ 77	(2.3)
Payroll costs	(1,734)	(1,813)	+ 79	(4.4)
Other administrative expenses[1]	(1,537)	(1,535)	(2)	+ 0.1
Other operating income less other operating expenses	62	86	(24)	(27.9)
Operating result before provisions for losses on loans and receivables	**(532)**	**2,833**	**(3,365)**	
Provisions for losses on loans and receivables	(1,468)	(1,087)	(381)	+ 35.1
Operating result	**(2,000)**	**1,746**	**(3,746)**	
Other income less other expenses	(181)	6,745	(6,926)	
Profit before tax	**(2,181)**	**8,491**	**(10,672)**	
Taxes	(170)	(345)	+ 175	(50.7)
Net income	**(2,351)**	**8,146**	**(10,497)**	
Transfer to reserve for own shares	(3)	—	(3)	
Withdrawal from reserve for own shares	—	1	(1)	(100)
Withdrawal from other retained earnings	2,354	—	+ 2,354	
Transfer to other retained earnings	—	(4,073)	+ 4,073	+ 100
Profit available for distribution	**—**	**4,074**	**(4,074)**	**(100)**

1 including standard depreciation on property, plant and equipment

Business Situation and Trends (Continued)

The loss of €2,181 million before tax in the year under review is attributable primarily to the negative effects arising from the financial crisis. In 2007, the gains totalling around €6,565 million realised on the sale of the Bank Austria Creditanstalt AG (BA-CA), Closed Joint Stock Company International Moscow Bank (IMB), AS UniCredit Bank and Joint Stock Commercial Bank Ukraine (HVB Bank Ukraine) subsidiaries and the HVB AG branches in Tallinn and Vilnius were included in the profit before tax of €8,491 million.

Net interest income

Net interest income declined by a slight 0.9%, or €42 million, year-on-year.

Interest payments on purchase prices relating to the sale of discontinued operations included in 2007, lower income from profit-pooling agreements, profit-and-loss transfer agreements, partial profit-and-loss transfer agreements, investments and affiliated companies, which can be attributed primarily to the gain on the disposal of Indexchange Investment AG included in 2007, and lower dividend payouts from private equity funds had a negative impact on the total. Despite the positive development in net interest, it was not possible to fully offset the effects described above in the year under review.

Net fees and commissions

Net fees and commissions declined sharply in the challenging environment caused by ongoing turmoil on the capital markets, to €1,210 million after €1,522 million in 2007. The main factors contributing to this decrease was the lower income from both the revenue-dependent and the portfolio-dependent securities and depositary business. At the same time, there was also a decline in income from lending operations and income from advisory services.

Net loss from financial operations

The net loss from financial operations recorded by HVB AG in 2008 was aggravated by the extreme turmoil on the markets, which worsened further in the fourth quarter of 2008. This gave rise to a net loss of €3,149 million.

The net trading loss was mainly caused by the negative effects of ABS products despite the reclassifications made, losses and sharp declines in the Structured Equity Derivatives, Global Credit and Relative Value Arbitrage business lines, as well as negative effects arising from the bankruptcy of the US investment bank Lehman Brothers and from trading positions of Icelandic counterparties.

General administrative expenses

General administrative expenses declined by 2.3%, or €77 million, year-on-year to €3,271 million, despite the incorporation of UBM's investment banking activities which served to increase costs (transferred at April 1, 2007, which means that costs only accrued for nine months in 2007). Eliminating the cost-increasing effect from the transfer of UBM's investment banking activities gives rise to a decrease of 3.5%. The vast majority of this results from payroll costs, which fell by 4.4%, notably attributable to much lower profit-related bonus payments in the Markets & Investment Banking division.

Other administrative expenses, including standard depreciation on property, plant and equipment, remained almost unchanged year-on-year, rising 0.1%; if the cost-increasing effect of incorporating the investment banking activities of UniCredit Banca Mobiliare S.p.A. (UBM) were eliminated, there would even have been a slight decline, of 1.3%, as a result of strict cost management.

Other operating income less other operating expenses

Net income of €62 million accrued for other operating income less other operating expenses in 2008 (2007: €86 million). Among other things, this decline results from the non-recurrence of the reversal of provisions for rental guarantees recognised in 2007.

Operating result before provisions for losses on loans and receivables

The operating result more than halved year-on-year due to the extremely high net loss from financial operations. An operating loss of €532 million was recorded (2007: profit of €2,833 million) with a slight decline in general administrative expenses.

Provisions for losses on loans and receivables

The cost of provisions for losses on loans and receivables, including the net income from securities held for liquidity purposes, amounts to €1,468 million and is thus €381 million higher than the 2007 figure. At the same time, the charges arising from lending operations decreased by €221 million to €759 million. The net loss from securities held for liquidity purposes widened to €709 million (2007: €107 million), which can be attributed notably to write-downs on our holdings of fixed-income securities as a result of the financial crisis.

Other income less other expenses

The net expense of €181 million shown in this item includes expenses of €51 million in losses absorbed from subsidiaries; €59 million in write-downs and impairments in participating interests and shares in affiliated companies; and €60 million in impairments on our investment securities. The net gain of €6,745 million in 2007 notably included the gains realised on the sale of our BA-CA, IMB, AS UniCredit Bank and HVB Bank Ukraine subsidiaries and the HVB AG branches in Tallinn and Vilnius.

Loss before tax

The loss before tax of €2,181 million is shaped by the high net loss on financial operations resulting from the ongoing financial crisis. At the same time, the profit for 2007 benefited especially from the described gains on disposal of our subsidiaries and a pleasing operating performance.

Taxes

Despite the loss before tax, taxes on income amounting to €149 million accrued, due primarily to foreign branches with taxable profits. Other taxes amounted to €21 million.

Loss after tax

The loss after tax totalled €2,351 million (2007: profit of €8,146 million). €3 million was transferred to the reserve for own shares. The loss after tax was offset by making a withdrawal of €2,354 million from retained earnings.

Business Situation and Trends (Continued)

Balance sheet

HVB AG's total assets amounted to €373.5 billion at December 31, 2008. Compared with the 2007 year-end total, this represents a decline of a marginal €0.5 billion or 0.1%. On the assets side, a major increase was recorded in bonds and other fixed-income securities, up €20.2 billion to €114.8 billion, alongside rises of €1.8 billion in cash and cash balances and €6.4 billion in other assets. Holdings classified as liquidity reserve increased by €12.6 billion. Investment securities rose by €15.9 billion, whereas a decrease of €8.3 billion was recorded for assets held for trading purposes. This development results primarily from the reclassification of certain securities held for trading purposes to investment securities with a total volume of €13.1 billion. The increase of €6.4 billion in other assets stems in part from capitalised premiums for FX and securities options.

On the other hand, loans and receivables with banks and loans and receivables with customers declined by €7.0 billion and €4.5 billion, respectively. The decrease in equity securities and other variable-yield securities was even more marked, falling by more than half, by €17.2 billion to €12.7 billion. This development is attributable to the decline of €17.3 billion in assets held for trading purposes measured at fair value included in this item.

On the liabilities side, deposits from customers rose by a significant €31.1 billion, 25.2%, to €154.4 billion; this stems primarily from rises of €9.6 billion in demand deposits and €19.0 billion in securities repurchase agreements, whereas savings deposits and pfandbriefs both declined slightly.

At the same time, deposits from banks and debt securities in issue both decreased sharply, by €15.1 billion and €10.9 billion respectively. With regard to debt securities in issue, the decline essentially stems from mortgage bonds and other bonds.

Shareholders' equity declined by €2.8 billion year-on-year to €19.3 billion. This decrease was caused by the withdrawal from retained earnings of €2.4 billion to offset the net loss for the year and the dividend of €0.4 billion paid for the 2007 financial year.

Risk assets compliant with Basel II totalled €114.1 billion at December 31, 2008 (compliant with KWG/Principle I 2008: €144.4 billion/2007: €127.3 billion). Market risk positions total €12.2 billion; the risk equivalents for the operational risks amount to €7.2 billion.

At December 31, 2008, our core capital (compliant with the German Banking Act) in accordance with adopted financial statements totalled €19.1 billion. Equity funds, which include both liable equity of €24.6 billion and Tier III capital, amounted to €24.9 billion. This gives rise to a core capital ratio of 14.3% compliant with Basel II (12.2% compliant with KWG/Principle I) and an equity funds ratio of 18.7% compliant with Basel II (15.9% compliant with KWG/Principle I).

A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 of the German Banking Act. This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if the ratio is at least 1.00. At HVB AG, the figure at December 31, 2008 was 1.19 (December 31, 2007: 1.21). Please refer to the Risk Report for more information about liquidity risk.

Offices

HVB AG maintained 629 bank offices in Germany and 28 offices abroad in the 2008 financial year.

Offices, broken down by region

		ADDITIONS	REDUCTIONS		
	2007	NEW OPENINGS	CLOSURES	CONSOLI-DATIONS	2008
Germany					
Baden-Wuerttemberg	25	—	—	—	25
Bavaria	370	1	—	—	371
Berlin	8	1	—	—	9
Brandenburg	8	—	—	—	8
Bremen	—	—	—	—	—
Hamburg	27	—	—	—	27
Hesse	13	1	—	—	14
Lower Saxony	25	—	—	—	25
Mecklenburg-Western Pomerania	8	—	—	—	8
North Rhine-Westphalia	20	1	(4)	—	17
Rhineland-Palatinate	22	—	—	—	22
Saarland	9	—	—	—	9
Saxony	10	1	—	—	11
Saxony-Anhalt	12	—	—	—	12
Schleswig-Holstein	68	—	(6)	—	62
Thuringia	9	—	—	—	9
Subtotal	**634**	**5**	**(10)**	**—**	**629**
Other regions					
Europe	11	1	(1)	—	11
Americas	6	—	—	—	6
Asia	11	—	(1)	—	10
Africa	1	—	—	—	1
Australia	—	—	—	—	—
Subtotal	**29**	**1**	**(2)**	**—**	**28**
Total	**663**	**6**	**(12)**	**—**	**657**

Business Situation and Trends (Continued)

Structure and business operations

Legal structure
Bayerische Hypo- und Vereinsbank Aktiengesellschaft (HVB AG) was formed in 1998 through the merger of Bayerische Vereinsbank Aktiengesellschaft and Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft. HVB AG has been an affiliated company of UniCredit S.p.A. (UniCredit), Rome, Italy, since November 2005.

On September 15, 2008, the Registration Court of Munich entered the transfer of the shares held by minority shareholders of HVB AG to UniCredit S.p.A. compliant with Section 327a of the German Stock Corporation Act, as adopted at the Annual General Meeting of Shareholders in June 2007, in the Commercial Register maintained by Munich Local Court. Since that date, 100% of the capital stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich, has been held by the majority shareholder, UniCredit S.p.A., Rome; UniCredit S.p.A. had already held 95.4% of HVB AG's capital stock since January 2007. The HypoVereinsbank shares in free float were transferred to UniCredit against a cash settlement of €38.26 per share.

Delisting of HVB shares
Upon completion of the squeeze-out (which took effect when entered in the Commercial Register), official trading in the common bearer stock of HVB AG ceased on all German stock exchanges as well as the Vienna Stock Exchange, Euronext in Paris and the SWX Swiss Exchange, and the admission to listing was revoked. Trading in American Depositary Receipts (ADRs) on the New York Stock Exchange has also now ceased. The payments to be made to the minority shareholders were posted to the respective accounts on September 18, 2008. Thus, trading in HVB AG shares has officially ceased. HVB AG does, however, remain listed on securities exchanges as an issuer of debt instruments such as pfandbriefs, bonds and certificates.

Business segments
HVB AG consists of the following divisions: Markets & Investment Banking, Corporates & Commercial Real Estate Financing, Retail, and Wealth Management. Also shown is a segment called "Other" that covers the Global Business Services and Group Corporate Centre activities. The Group Corporate Centre activities include the former Real Estate Restructuring segment as well as the Special Credit Portfolio.

Main products, sales markets, competitive position and facilities
HVB AG offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, and international companies. Our range extends, for example, from mortgage loans, consumer loans and banking services for private customers, business loans and foreign trade finance for corporate customers through to funds products for all asset classes, advisory and brokerage services, securities transactions, liquidity and financial risk management, advisory services for affluent customers and investment banking products for corporate customers.

HVB AG is well positioned in the sophisticated German banking market, benefiting from the highly diversified operating business models in the Corporates & Commercial Real Estate Financing, Retail, Wealth Management and Markets & Investment Banking divisions.

In corporate banking, we have a strong market position built on long-term customer relationships. This enables us to launch successful projects and tools geared to specific target groups on behalf of our customers and tailor products to changing market trends. Our claim of being a leading corporate bank in Germany cannot be maintained without customer-oriented investment banking with direct access to the capital market. The future of investment banking is closely related to corporate banking. Investment banking is also indispensible for the area of capital investments in today's wealth management and retail operations.

The wealth management activities introduced to serve our private customers who have been doing business with the Bank for many years leverages the expertise available at HVB and also benefits from the international market presence of Pioneer Investments, the fund company of the UniCredit Group. Based on a clear strategic orientation, our individualised approach and focus on attractive customer segments in the difficult retail business in Germany has already met with initial success.

As a fundamental reorientation is under way in investment banking as a result of the financial and economic crisis, the Markets & Investment Banking division has defined measures to refocus our business model on the core markets of Germany, Italy and Austria with customer-oriented products and to selectively serve other markets. At present, we are adjusting the Markets & Investment Banking business model to cater for the changes in market conditions. In so doing, certain successful business areas will continue to be reinforced, others redefined and resources selectively deployed. For example, we will significantly reduce proprietary trading and focus even more strongly on our customers in the core countries of UniCredit Group in which large customers of the UniCredit Group and HVB Group are given the best possible service. In the new positioning, investment banking will also be well set up to profit from a recovery in the markets.

After the Markets & Investment Banking division bolstered its position last year absorbing the investment banking activities of the former UniCredit Banca Mobiliare S.p.A. (UBM) at HVB AG as part of the pooling of investment banking activities, HVB AG acquired the investment banking activities of Capitalia S.p.A. in 2008.

HVB AG is part of an international banking group which offers its financial services on the European market in particular. This will enable us to combine our regional and divisional strength and local competence with the additional potential and know-how provided by an international banking group. Our integration into UniCredit Group is an ideal basis for swiftly and effectively exploiting market opportunities and cushioning risks. Our future lies in consistently leveraging the advantages gained from economies of scale and the strategic assets resulting from our integration into UniCredit. UniCredit Group has a well-balanced business model in divisonal and regional respects with bases in 22 countries. Apart from the domestic markets of Germany, Austria and Italy, it is one of the leading banking groups in the countries of central and eastern Europe. Ultimately, it is our customers who benefit from this international diversification.

A breakdown of our offices by region is shown in the section entitled “Offices” in the Management Report.

Organisation of management and control, and internal management

The Management Board of HVB AG is directly responsible for managing the Company. It develops the strategic orientation of the company and is responsible for putting it into practice. The matters reserved for the Management Board and the respective segment responsibilities on the Management Board of HVB AG are specified in a schedule of responsibilities as well as in the internal regulations, which also specify the requirements for adopting resolutions and the required majorities.

The segment responsibilities on the Management Board of HVB AG match the organisational structure of HVB AG, which is divided into customer groups (business divisions) and functions. In deviation to this rule, in the period from May 1 to December 31, 2008 the responsibilities on the Management Board for the Retail and Wealth Management operating divisions were assumed by the Board Spokesman, and for Corporates & Commercial Real Estate Financing by the Board member responsible for Markets & Investment Banking. Since January 1, 2009, the Management Board of HVB AG has consisted of seven members. Dr Theodor Weimer was appointed to the Management Board of HVB AG and elected to succeed Dr Wolfgang Sprissler as Board Spokesman of HVB AG with effect from January 1, 2009. In addition to the Board Spokesman, who is also responsible for the Markets & Investment Banking division, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the Chief Human Resources Manager, who is also responsible for the Global Banking Services division and acts as Director of Labour Relations, the Management Board also consists of the heads of the Retail, Wealth Management and Corporates & Commercial Real Estate Financing divisions.

The Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning, strategic development, the course of business and the state of HVB AG, including the risk situation as well as compliance issues.

The Supervisory Board of HVB AG has 20 members and includes equal numbers of representatives of the shareholders and employees. The task of the Supervisory Board is to monitor and advise the Management Board as it conducts business. Other tasks of the Supervisory Board are the appointment and dismissal of members of the Management Board. To support its work, the Supervisory Board permanently set up three committees in the year under review: the Remuneration & Nomination Committee, the Audit Committee and the Negotiating Committee. The five-year term of all the seats on the Supervisory Board ended at the close of the Annual General Meeting

Business Situation and Trends (Continued)

on July 29/30, 2008. All of the shareholder representatives were re-elected by the Annual General Meeting to serve on the Supervisory Board until the end of the Annual General Meeting which decides on the approval for the 2012 financial year. On the employee representatives' side, five members resigned from the Supervisory Board due to the previous elections conducted in compliance with the Co-Determination Act; five new employee representatives have been members of the Supervisory Board since 2008. Three shareholder representatives resigned their positions on the Supervisory Board with effect from the end of the Extraordinary Shareholders' Meeting on Feburary 5, 2009; three new shareholder representatives were elected to the Supervisory Board for the remaining term of their mandates. Sergio Ermotti, Deputy CEO of the UniCredit Group, was elected the new Chairman of the Supervisory Board of HVB AG at the subsequent Supervisory Board meeting of HVB AG on February 5, 2009. He thus succeeds Alessandro Profumo, CEO of the UniCredit Group, at the top level of HVB AG's Supervisory Board. Dr Wolfgang Sprissler, former Board Spokesman of HVB AG, was appointed to the Supervisory Board by the Extraordinary Shareholders' Meeting on February 5, 2009 and elected additional Deputy Chairman of the Supervisory Board by the Supervisory Board.

HVB AG conducts risk monitoring and risk management on a Group-wide basis. The monitoring systems are geared to identifying risks at an early stage. In 2008, risk control and risk management were combined under the area of responsibility of the Chief Risk Officer, who reported to the Audit Committee of the Supervisory Board on a regular basis. Please refer to the Risk Report for further details.

A list showing the names of all the members of the Management Board and Supervisory Board of HVB AG is given in the section entitled "List of executives and outside directorships" in the notes to the annual financial statements.

HVB AG's objective is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the dual management principle. This is explained in depth in the "Overall bank management" section of the Risk Report.

Relations with related parties

We have prepared a separate report on our relationships with related parties in the 2008 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act:

"We declare that, based on the circumstances known to us at the time in which the legal transactions mentioned in this report were entered or the measures mentioned in this report were taken or omitted, Bayerische Hypo- und Vereinsbank AG received appropriate consideration for each legal transaction and that the Bank was not put at a disadvantage by these measures having been taken or omitted".

Events after December 31, 2008

The changes made in the Management Board and Supervisory Board at the outset of 2009 have already been described in the section entitled "Organisation of management and control, and internal management".

At the beginning of February 2009, the Management Board of HVB AG announced that HVB Group would be eliminating 2,500 jobs by 2010 compared with the workforce at the end of 2007. These reductions will primarily take place in HVB AG and will affect all areas of the Bank. 1,200 jobs will be cut in Retail, 400 in Markets & Investment Banking during the restructuring programme already announced last year, 150 in Corporates & Commercial Real Estate Financing, and 50 in Wealth Management. Likewise, about 400 posts will be eliminated in Global Banking Services and about 550 in the Corporate Centre.

Since the end of 2007, it has been possible to reduce the headcount by over 1,000. In view of the almost 1,500 posts that still have to be eliminated, the Bank will prepare an appropriate package of measures to make the job reductions as socially responsible as possible. To this end, the Bank has started talks with employee representatives.

Outlook

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

General economic outlook for 2009

The global recession will in all probability continue as it will take a while for the global imbalances to reverse. On top of this, there are persistent problems on real estate markets, rising unemployment levels, a general crisis of confidence on the part of investors and effects on the real economies in the United States, Europe and Asia. This, in turn, could adversely affect consumer demand despite the relief provided in the meantime by lower oil prices. For 2009 as a whole, therefore, we anticipate a growth rate of only 0.3% for the global economy (2007: 3.3%). This would be the lowest rate since the formation of the Federal Republic of Germany. A deflationary scenario with a sharp tumble in prices over a longer period can no longer be completely ruled out. Thus companies throughout the world would increasingly be forced to lower their prices. While commodity prices have fallen, large production capacities were created in recent years, notably in Asia. Consequently, quite a number of companies may seek to utilise their capacities to a greater extent by making price concessions. In the course of what remains a persistent recession, we expect the ECB to continue to reduce its key interest rates. By mid-2009, they might stand at 1%. A rise in inflation is expected in the medium term due to the monetary policy of the central banks.

It is still not yet possible to forecast how the global financial and economic crisis will continue to develop. Although governments all over the world are working on global and local stabilisation and economic programmes, fiscal programmes in particular should help to end the recession. A rapid, strong recovery is, however, improbable. This year, the German economy will probably shrink by around 3.5%, which represents the biggest decline in the history of the Federal Republic. The main factor triggering the unparalleled weakness is exports. But companies' inclination to invest will probably continue to slacken. As a result of the rise in unemployment, consumer spending, which has remained comparatively robust to date, will scarcely increase despite the relief granted by lower taxes and social security contributions and declining energy costs. A somewhat stronger economic recovery is anticipated during 2010 at the earliest, when the Federal Government's economic stimulus package takes full effect in the form of higher public spending (expected GDP growth for 2010: 1%).

Even though it is difficult to reliably forecast the further course of the financial and economic crisis, it appears to be relatively obvious that the global finance system has to renew itself in order to achieve new stability and safety as well as to create new opportunities. This will require more realistic targets for returns and the renaissance of simple, understandable products as well as market rules that take account of global connections. But an economic world with close international connections cannot exist only with a few, simple finance products. It also requires innovative and sophisticated solutions to finance world trade across borders, legal systems and customer requirements at reasonable margins and adequate risk costs.

Business Situation and Trends (Continued)

Sector development 2009

The financial and economic crisis will continue to adversely affect German banks this year in many respects. A slowdown in lending and the restructuring of balance sheets will probably lead to a decline in interest-related earnings. At the very most, a relative improvement over the previous year is expected for non-interest-related earnings, depending on the financial market development, but it is also possible for these to be adversely affected further. Provisioning rates are set to rise in response to more defaulting private and corporate customers. Likewise, additional expenses are anticipated as a result of the required operational restructuring of banks' business models. The sector will find relief through the aid provided by the Federal Government in the form of the Financial Market Stabilisation Fund (SoFFin). A general improvement in the situation is, however, only expected after the fiscal stimulus has had a positive impact and the financial and economic crisis has started to recede. To achieve this, the confidence of international investors, which has been severely damaged by the crisis, must be regained.

Development of HVB AG

HVB AG expects the economic conditions to remain very difficult in Germany and elsewhere and the financial sector to again be confronted with severe challenges in 2009. That said, HVB AG assumes in its plan adopted at the beginning of 2009 that the extreme market turmoil that occurred in connection with the financial crisis in 2008 and the related consequences will not continue with the intensity experienced particularly in the second half of 2008.

Again in 2009, the result will depend crucially on the development of the Markets & Investment Banking division and the further development in provisions for losses on loans and receivables.

Provided that financial markets return to a certain degree of normality in 2009, we expect a significant improvement in net income from financial operations over 2008. With general administrative expenses remaining constant, this would lead to a substantial improvement in the cost-income ratio and the operating result before provisions for losses on loans and receivables of HVB AG.

With regard to risk-provisioning levels in 2009, we expect that the persistently difficult economic conditions looming ahead will lead to a sharp rise in the number of bankruptcies and that our risk provisioning levels will therefore significantly surpass those of 2008, which benefited from the success in reducing the special portfolios allocated to the Other/consolidation segment (former Real Estate Restructuring segment and Special Credit Portfolio).

It remains unclear, however, whether the financial markets will return to normal in the course of 2009 and the current economic programmes will prove to be effective, or whether the financial and economic crisis will continue for longer. Should our planning assumptions not be confirmed, it cannot be assumed that we will post the results as described. This is why the performance over the year as a whole remains heavily dependent on the further course of the financial crisis and the adverse economic effects on the real economy, and is impossible to definitively forecast for this reason.

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

HVB AG is an important part of one of the largest, top-performing and strategically very well-positioned banking groups in Europe: the UniCredit Group. It is one of the largest financial institutions in Germany and has responsibility within the UniCredit Group for the Germany business with a well-balanced, specialised business model. In addition, it is the competence centre for the international investment banking activities of the entire UniCredit Group. HVB AG operates in a domestic market, which is the largest in the whole of Europe in terms of economic power, population and the number of up-market companies and customers. Hence, HVB AG like no other German bank can offer its customers regional strength coupled with the exciting opportunities that arise from the extended network of a leading European banking group with a good competitive profile. With its well-balanced business model focusing on sustainability and its excellent capital base, HVB AG stands for reliability, stability and safety, and can fully leverage the opportunities that arise from a revamped financial system:

- Exploiting opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany.
- Converting the Markets & Investment Banking division into a regional European specialist combined with a reorientation to a purely customer-oriented business model as a product factory for corporate customers. In the new positioning, Investment Banking will also be well equipped to benefit from a recovery of the markets.
- Leveraging the advantage from HVB AG's strong capital base and liquidity to swiftly and flexibly respond to expansion opportunities arising on the market.
- Leveraging the advantage arising from the organisation of HVB AG which fits seamlessly into the structure of the UniCredit Group to exploit cross-border synergies and thereby benefit from best-practice solutions throughout the Group without delay.
- Realising cost and earning synergies by optimising all production capacities, rationalising overlapping functions, enhancing processing flows and boosting efficiency by centralising IT functions, including the introduction of a core banking system across the entire UniCredit Group.
- Further improving total revenues by creating and using new products for all customer segments through product factories with tailored solutions.
- Seizing opportunities to support customers demanding cross-border financial services in central and eastern European markets.
- Further optimising operating costs by applying strict cost management in Germany.
- Improving the cross-selling potential in all customer groups.
- Reducing risk by disposing of individual non-strategic assets.

The opportunities stated above are associated with HVB employees seeing themselves as oriented to the specific requirements of customers and acting as entrepreneurial bankers whilst maintaining a consistent sustainability focus. In this connection we pursue the goal of creating value in the long term for customers, employees and for the common weal. In addition, loyalty-based banking is rated just as highly as the ethical values stated in the groupwide Integrity Charter which the entire UniCredit Group has undertaken to comply with. We are convinced that a value-based orientation creates significant opportunities, especially in complex markets and difficult times.

Risk Report

HVB AG as a risk-bearing entity

As a rule, it is not possible to earn income in the banking business without incurring risk. By definition, risk entails the possibility of a negative future development of the economic state of HVB AG as part of the UniCredit Group. Consequently, the conscious handling, active management and ongoing monitoring of risk are core elements of the profit-oriented management of business transactions by HVB AG.

We therefore regard it as one of our core tasks to apply these considerations in order to achieve a consistent integration of profitability and risk criteria in all divisions and functions of the Bank.

Management and monitoring of risks in HVB AG

1 Risk management
For risk management purposes, the Bank defines its overall risk strategy at HVB Group level. In particular, this means determining, on the basis of the available capital cushion, the extent and manner of permissible risk exposure for the various divisions. This means that whenever risk is taken, it must be determined whether it is possible to do so, based on risk cover calculations, and whether it is worth doing so in terms of risk/reward calculations.

Through the targeted and controlled assumption of risk, the various divisions implement – with profit responsibility – the risk strategies defined for them. In doing so, they utilise the regulatory and economic capital allocated to them within the framework of limit systems.

2 Risk monitoring
The risk management process is accompanied by comprehensive risk monitoring, which is functionally and organisationally independent and encompasses the following tasks:

Risk analysis
Risk analysis involves the identification and analysis of risks from business activities and the development of methods for measuring them. Parallel to these activities, the available capital cushion is defined and quantified.

Risk control
In addition to the quantification and validation of the risks incurred and the monitoring of the allocated limits, the subsequent risk control process involves risk reporting, which at the same time provides management with recommendations for action when making future risk-related decisions.

The functional segregation of risk management and risk monitoring is also taken into account in organisational structures.

3 Divisions and committees
Risk management
The divisions are responsible for performing the risk management functions within the framework of the competencies defined by the Management Board of HVB AG. Important bodies operating at the overall bank level are the Strategic Credit Committee and the Asset Liability Committee.

Strategic Credit Committee (SCC)
Strategic issues are discussed and decided on by the Strategic Credit Committee (SCC) in its capacity as a management and decision-making body with responsibility for all areas. The role of the SCC has no effect on the final decision-making authority of the Management Board on matters that cannot be delegated or those related to the Minimum Requirements for Risk Management (MaRisk).

The issues addressed by the SCC are primarily the risk strategy of HVB Group and division-related risk strategies, credit portfolio reviews and measures, the specification of risk tolerance, risk classification processes, credit organisation principles, risk-related aspects with regard to process/processing standards in the credit business, major changes or updates in the product range in the lending business, and the amount of risk premiums (transfer prices) and country limits.
The SCC is chaired by the Chief Risk Officer, and has representatives from all the divisions and, from the back office side, Risk Control, Recovery Management and Credit & Risk Management.

Effective as of 2009, the responsibilities and tasks of the SCC will be transferred to the Risk Committee (RC). Alongside the issues related to credit risks, the Risk Committee has additional responsibilities as compared with the SCC. For instance it also covers market risk and operational risk issues. At its monthly meetings, reports on the various divisions and portfolios are presented. The Management Board of HVB AG takes part in the meetings of the Risk Committee four times a year.

Asset Liability Committee

The Asset Liability Committee makes decisions at its monthly meetings on asset/liability management of HVB AG and sets guidelines for HVB Group. The committee pursues the following key goals:

– establishment of uniform methods for asset/liability management for the entire HVB Group,
– optimum utilisation of liquidity and capital resources,
– coordination between the requirements of the divisions for financial resources and the business strategy.

Risk monitoring

The Chief Risk Officer is responsible for monitoring and coordinating important risk-policy activities. The activities of the Chief Risk Officer in the year under review were supported by the Audit Committee of the Supervisory Board, various units under the Chief Financial Officer and the Audit department.

Audit Committee of the Supervisory Board

In 2008, the Management Board provided the Audit Committee of the Supervisory Board with information on the entire risk situation and risk management of the Bank at five meetings. The Supervisory Board received timely, detailed reports on all risks relevant to the Bank and on the performance of the loan portfolios and risk strategies. This reflects the vital importance for the continuing existence of the company of comprehensive early recognition of all risks and the feasibility of achieving business development targets.

Chief Risk Officer (CRO)

We expect the further development of the Chief Risk Officer (CRO) organisation in 2008 to yield additional gains in efficiency. The approval process in the senior risk manager organisation was simplified by introducing six global industry team leaders at the UniCredit Group level and the regional industry team leaders at the HVB Group level as of November 2008. At the same time, the non-operational CRO units are being grouped within the new Strategic Risk Management and Control department. Moreover, the operational credit units responsible for the Retail division were transferred to CRO effective December 1, 2008 and combined with the units already positioned there to form a new department named Risk Officer Retail.

At the end of 2008, the following departments, which perform tasks for HVB Group as well as HVB AG, are under the responsibility of the Chief Risk Officer (CRO):

– Strategic Risk Management and Control includes operational and strategic risk controlling units strongly focused on credit risk. The main tasks related to credit risk involve methods and instruments for rating/scoring, risk measurement, early identification of risk and the controlling of loan-loss provisions. Other tasks include real estate valuation in the lending business, the identification of concentration risks, risk analysis and risk reporting. In addition to credit risk, other important activities relate to operational risk and the calculation of economic capital. The unit also creates the common risk strategy encompassing all risk types and monitors the Bank's risk-bearing capacity. In the future, in addition to identifying, measuring and limiting risks, greater emphasis will be placed on the assessment of future market trends, risks and the possible courses of action resulting from them.

– Market Risk Control is concerned with market risk as well as issuer and counterparty risk in HVB AG. Its tasks and competencies include ongoing, independent risk measurement and monitoring, responsibility for risk measurement methods and their ongoing development, as well as reporting to the Chief Risk Officer, the Management Board of HVB Group and the Audit Committee of the Supervisory Board.

– Regional Industry Risk Management is based on the Bank's time-tested, industry sector structured risk management (Senior Risk Management [SRM]). Key responsibilities of the regional industry teams are the lending decisions for exposures from the assigned industry segments and the presentation of these decisions at the credit meeting as well as industry-oriented risk management. These risk management signals are a part of the risk strategy in the Corporates subdivision. Other important areas of responsibility include business analysis of corporate customers and staff training.

Risk Report (Continued)

– The Corporate Customers and Wealth Management Lending department pools the operational functions of the lending decision and monitoring processes for the risk-bearing lending business for the customer segments covering small and mid-sized companies and wealthy retail customers. In particular, the core tasks of these units consist of the systematic rating analysis based on segment-specific rating processes, the auditing and valuation of the collateral provided and the preparation of structured reasons and documentation of lending decisions, including all administrative lending functions. In addition, these units are responsible for ongoing monitoring of the credit exposures. In the case of exposures larger than €5 million, they are supported by Regional Industry Risk Management, which is closely involved in the lending decision process for exposures in excess of that amount.

– The Retail Lending unit of the CRO Back Office department makes lending decisions and handles the processing for the lending business of the Retail division unless the approval authority rests with the front office (Retail). The regional credit teams prepare credit requests and make lending decisions for credit exposures with an approval limit of up to €5 million, if necessary with the involvement of other approval authorities. This means determining the rating, making the lending decision, including documentation, drawing up contracts, valuation of collateral, disbursing the loan and the ongoing processing of the loan portfolio. For exposures with an approval limit above €5 million, the decision is made by the regional industry teams as the responsible approval authorities.

– Markets & Investment Banking Credit Operations (CRM) is responsible for the credit risk associated with the following departments: Financial Institutions, Banks and Country Risk, Structured Finance – Special Products, Structured Finance – Acquisition and Leverage Finance, Project Finance, Commodity Trade Finance and Collateral Management. Along with the approval of credit requests, this also includes the ongoing monitoring of individual loans and portfolios. The credit risk strategies and policies for this part of our lending portfolio are defined in close cooperation with the other areas.

– Portfolio Analysis and Transactions (SCA) is responsible in particular for developing measures to increase the transparency of the Special Credit Portfolio (SCP) and, through the analysis of the market environment, designing and implementing potential portfolio transactions. SCA recommends and implements processes and measures to reduce the level of tied risk-weighted assets. In addition, this unit is responsible for the after-sale management of guarantee claims from the loan portfolios disposed of by the Restructuring unit with the goal of minimising claims and reputation risk.

– The Restructuring unit is responsible for restructuring activities with the goal of minimising the risk of losses to the Bank and re-integrating exposures into the divisional credit processes. Depending on the extent to which restructuring is deemed possible and worthwhile, service provided to customers includes support with the continual improvement of their economic and financial situation. If it is apparent during the restructuring phase that there is no prospect of success despite the risk-reducing measures taken, collateral is realised at optimum terms during the workout phase.

Chief Financial Officer
The following departments under the Chief Financial Officer provide support in risk monitoring alongside the Tax Affairs and Financial Shareholdings departments:

Accounting
– The Accounting department is able to identify unfavourable trends by analysing the income statements which it produces on a monthly basis. This provides an important contribution to compliance with the risk management process. In addition, the Accounting department is responsible for key reporting obligations to regulatory bodies with jurisdiction over the banking sector such as Principle II (governing the liquidity of credit institutions) or the report pursuant to the German Liquidity Ordinance that has replaced that report, and in particular the evidence of large exposures, loans in excess of €1.5 million and loans to directors.

Planning and Controlling
– The Planning and Controlling department, whose tasks include budgeting, cost controlling, HR controlling and the segment report, is also responsible for Principle I regulatory reporting obligations (backing of risk assets and market risk positions with own funds) and the German Solvency Regulation replacing it.

Asset Liability Management
– The Asset Liability Management department controls the short-term and long-term liquidity to ensure that the Bank has adequate liquidity at all times and to optimise the funding costs. It keeps track of the current situation on the money markets and capital markets and the liquidity and refinancing requirements. The internal costs of funds for the lending and deposit business are continually reviewed for appropriateness and regularly adjusted to reflect the market situation. The measures implemented in connection with these functions serve to support our rating and return targets.

Audit

– As a management instrument, the Audit department is an independent organisational unit that reports directly to the Board Spokesman. Although it primarily performs the internal audit function for HVB AG, it also has auditing responsibilities for selected companies within HVB Group. Its duties range from a control and advisory function based on a standardised system of reporting, to the implementation of standardised auditing standards, through to complete execution of internal auditing for the subsidiaries. The implementation of uniform auditing standards (Group audit standard/policies) in the audits of the subsidiaries of the HVB subgroup takes place through an ongoing dialogue with those companies. This primarily takes the form of the regular audit conferences attended by the heads of auditing with the various subsidiaries and representatives of the HVB AG Audit department.

  The Minimum Requirements for Risk Management (MaRisk) stipulate that all operational and business processes must be audited at least every three years – if useful or appropriate – and all processes subject to especially high levels of risk must be audited at least once a year.

  In addition to the individual audit reports, an annual review is prepared to provide the Management Board with a comprehensive overview of all significant deficiencies pursuant to MaRisk and the measures taken, as well as their current status. In addition, the head of the Audit department reports on current trends and results of auditing activities on behalf of the Management Board member responsible for auditing at the regular sessions of the Supervisory Board's Audit Committee.

The departments and committees described here reflect the status of the organisational structure at December 31, 2008.

Risk types and risk measurement

1 Relevant risk types

At HVB AG, we distinguish the following risk types:
– default risk
– market risk
– liquidity risk
– operational risk
– business risk
– risks arising from our own real estate portfolio
– risks arising from our shareholdings/financial investments
– strategic risk

2 Risk measurement methods

With the exception of liquidity and strategic risk, we measure all risk types using a value-at-risk approach under which potential future losses are measured on the basis of a defined confidence level.

The individual risk types are aggregated at HVB Group level as part of the economic capital calculation, applying a uniform one-year holding period and a 99.97% confidence level across all risk types.

This aggregation takes into account risk-reducing diversification effects, which encompass both the correlations within the individual risk types between business units of HVB Group and the correlations across the risk types.

Liquidity risk and strategic risk are measured separately. The methods applied to the measurement of these risk types are described in the relevant sections of this Risk Report.

3 Development of risk measurement and monitoring methods

The methods used to measure and monitor risks are subject to an ongoing development and improvement process. This is the result of our own quality standards as well as a response by HVB AG to the more stringent statutory requirements and, to an even greater extent, the more stringent regulatory requirements (especially the German Solvency Regulation and the Minimum Requirements for Risk Management). In addition, we continued in 2008 with the harmonisation of methodologies initiated in the course of integration into the UniCredit Group. For the identification of business, real estate and financial investment risk and their aggregation in the economic capital, further standardisation of the methods was carried out for the December 31, 2008 reporting date. For more information, please refer to the respective chapters.

Risk Report (Continued)

Overall bank management

1 Dual management principle for overall bank management

The main focus of capital market-oriented management in HVB Group, and therefore in HVB AG as well, is on investment and the value-oriented allocation of our capital resources to business activities with attractive risk-return ratios. Within the framework of our dual management principle, the divisions are allocated both regulatory (or used core) capital and economic capital. Both resources are expected to yield an appropriate return, which is derived from the expectations of the capital markets and is expected to be earned by our business units. To harmonise the dual management principle with the management of the UniCredit Group, the key performance indicators, economic value added (EVA) and risk adjusted return on risk adjusted capital (RaRoRac) were implemented in sales management at the individual transaction level.

EVA expresses in monetary units the ability to create additional value. It is calculated as the difference between the net profit (less minorities) and the return expectations on invested capital (used core capital plus intangible assets) or economic capital.

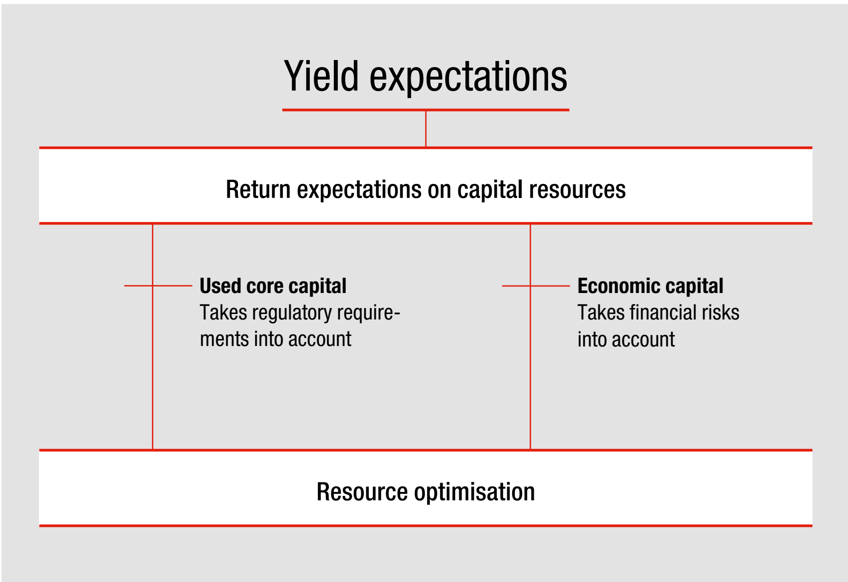
RaRoRac is the ratio of EVA to used core capital, and indicates the value created for each unit of incoming allocated capital.

In addition, the hands-on management of sales within the divisions is handled individually within each division.

2 Regulatory capital adequacy

Used core capital

For purposes of planning and controlling, the divisions are required to have core capital backing for credit and market risks equal to an average of 6.8% of equivalent risk assets. Furthermore, the expected return on investment is derived from the average used core capital. In line with the management logic of the UniCredit Group, core capital exclusive of hybrid capital (= core tier 1 capital) is used. Since the beginning of 2008, a core capital backing averaging 6.4% has been applied, based on the risk assets as defined in Basel II (including equivalent risk assets for operational risks).



Management of regulatory capital adequacy requirements
To manage our regulatory capital, we apply the following three capital ratios, which are managed on the basis of internally defined minimum levels:
- Core capital ratio 1 (ratio of core capital to risk-weighted assets)
- Core capital ratio 2 (ratio of core capital to the sum of risk-weighted assets and market risk positions weighted by a factor of 12.5)
- Equity funds ratio (ratio of equity funds to the sum of risk-weighted assets and market risk positions weighted by a factor of 12.5)

In 2008, we converted overall bank management to Basel II, thus including the operational risks in the calculation of capital ratios.

To determine the appropriate capital funding, we have essentially defined the following process:
- Based on our multi-year plan, every month we prepare a rolling eight-quarter projection for ongoing forecasting of our capital ratios in accordance with the German Banking Act.
- Reports on the actual ratios and significant effects on them are submitted every month to the Asset Liability Committee, which decides on appropriate action if the actual ratios deviate significantly from plan.
- The Management Board is informed on a monthly basis on the risk asset budget utilisation of the divisions.

3 Economic capital adequacy
The future economic capital requirements of the divisions – broken down by risk type – are determined under the annual planning process in close cooperation between Strategic Risk Management and Control and the individual operating units. After approval by the Management Board of HVB Group, the economic capital figures are anchored in the control and reporting instruments of the Bank. A comparison between the targets and the actual values of the figures is produced on a quarterly basis and reported to the divisions and the Chief Risk Officer. An overview summarising the risk situation is provided by the trend in economic capital and the assessment of the ability of HVB Group's risk-bearing capacity.

During 2008, the aggregate economic capital for HVB AG increased from €4.2 billion at December 31, 2007 to €5.7 billion at December 31, 2008, taking into account all risk-reducing diversification effects of HVB Group. These figures include the effects of the efforts to standardise methodologies, in particular for market, business, real estate and financial investment risk, which amounted to €0.3 billion before the aggregation of the risk types. The figures at December 31, 2007 were also adjusted for the effects of a changed re-allocation algorithm and the standardised calculation of the correlation matrix for the aggregation of risk types.

The increase in economic capital at HVB AG in 2008 in the area of market risk and investment risk is attributable to the ongoing financial crisis. This has also contributed to a decline in income in the Markets & Investment Banking division, which is having a corresponding effect on business risk. Default risk primarily reflects the increased risks in the financial sector. In the Corporates & Commercial Real Estate Financing division, the decline in operational risk combined with decreasing business risk was not enough to compensate for the increased default risk due to the current business development. Real estate risk continues to play a subordinate role.

In a quarterly analysis of our risk-bearing capacity risk, we measure our entire economic capital at the HVB Group level against the Group-level capital cushion available to us to cover risk. In addition, this sustainability analysis is carried out with a corresponding forecasting horizon as a component of our planning process. The detailed annual plan for 2009 is based on the figures and targets of the three-year plan prepared in 2008. The analysis of our risk-bearing capacity also represents an essential component of our risk strategy. As a result, we are in compliance with the essential components of the Internal Capital Adequacy Assessment Process (ICAAP).

According to our internal definition, the capital cushion is made up of IFRS capital components, participatory certificates and hybrid capital, reserves, and the actual result. Minority interests are included and goodwill is deducted. The capital cushion for HVB Group amounted to

Risk Report (Continued)

€24.2 billion at the end of 2008 (2007: €22.0 billion). The year-on-year rise results primarily from the retained portion of consolidated income in 2007, the funds used to offset the consolidated loss in 2008, and decreasing AfS reserves. With the aggregate economic capital of HVB Group amounting to €6.8 billion, this represents a utilisation of approximately 28.2% of the cushion by HVB Group. We expect a similar situation for 2009.

4 Risk strategy

For 2008, the Management Board has approved a risk strategy in line with the business strategy, taking into account all risk types relevant to HVB AG and the economic capital. A major element of this risk strategy is maintaining HVB Group's risk-bearing capacity. For more information on the risk strategy, please refer to the sections on the various risk types.

Economic capital after portfolio effects
(confidence level 99.97%)

	2008		2007[1]	
	€ millions	in %	€ millions	in %
Broken down by risk type				
Market risk	814	14.4	247	5.9
Default risk	3,872	68.5	2,546	61.2
Business risk	341	6.0	568	13.6
Operational risk	319	5.6	515	12.4
Risks arising from our own real estate portfolio	49	0.9	62	1.5
Risks arising from our shareholdings/financial investments	260	4.6	223	5.4
Total	**5,655**	**100**	**4,161**	**100**

1 including standardised methodologies

Economic capital after portfolio effects
(confidence level 99.97%)

	2008		2007[1]	
	€ millions	in %	€ millions	in %
Broken down by division				
Markets & Investment Banking	2,937	51.9	2,330	56.0
Corporates & Commercial Real Estate Financing	1,211	21.5	862	20.7
Retail	415	7.3	454	10.9
Wealth Management	54	1.0	62	1.5
Other/consolidation	1,038	18.3	453	10.9
Total	**5,655**	**100**	**4,161**	**100**

1 including standardised methodologies

Risk types in detail

1 Default risk

Risk management

Default risk is defined as potential losses arising from a customer default or downgraded credit rating. We distinguish here between the risk categories of credit risk, counterparty risk, issuer risk and country risk.

Credit risk

– Credit risk is defined as the potential losses arising from commercial lending operations. It is taken into account by recognising allowances for losses on loans and advances in the balance sheet whenever specific indicators of a default have arisen in the past (incurred loss). The abstract expectation that customers could default in the future (the concept of expected loss and credit value-at-risk) must be seen separately from this.

Counterparty risk

– Counterparty risk is defined as the potential losses arising from the default or deterioration of credit ratings of counterparties with whom we have engaged in derivative transactions involving interest rates, foreign currencies, equities/indices, or other futures or derivative transactions. It can be broken down into settlement risk, replacement risk and cash risk. For the Bank, there is a settlement risk whenever payments are exchanged and, when processing the transaction, we make advance payments without being certain at the time of the payment that the counterparty will make the corresponding payment. The replacement risk is defined as the risk that the Bank must replace a transaction under less favourable market conditions following a default by the counterparty. The cash risk consists of the risk that the counterparty will not repay loans (taken out in cash). In the case of treasury products, cash risk is relevant in money trading.

Issuer risk

– Issuer risk reflects the risk from an issuer's default or downgraded credit rating. It arises in connection with the purchase of securities for own account, securities issuance and placement transactions, and credit derivatives. Issuer risk is measured by means of the issuer exposure, which is calculated using nominal values, netting effects and loss quotas.

Country risk

– Country risk is defined as potential losses arising from transfer/conversion restrictions, bans, or other sovereign measures imposed by the borrower's country (transfer risk). Country risk arises in cross-border transactions in foreign currencies. The default risk of central governments and central banks is also taken into account (sovereign risk). This includes all positions from lending and trading activities, including internal transactions within HVB Group and the issuer risk associated with tradable fixed-income securities, with the exception of the trading positions included under market risk.

Default risk is managed on the basis of an integrated concept of clearly defined policies, approval authority structures and risk assessment processes.

With reference to default risk, all HVB AG units that are involved in credit business must take organisational steps to segregate business origination functions ("front office") and credit risk management functions ("back office") at all levels by way of fully independent reporting lines. The back office functions are pooled under the Chief Risk Officer. In addition, centrally positioned regional industry teams are involved in the decision-making process in all divisions for exposures in excess of a certain amount. They bear risk responsibility for their assigned portfolios and manage the sectors in accordance with the portfolio strategies adopted by the Strategic Credit Committee (Risk Committee in the future).

The credit equivalents (exposure values) of a given treasury transaction serve as a basis for the credit decision within the framework of the credit process, and are examined in conjunction with the exposure values from commercial lending operations. This applies both to individual credit decisions and to the management of concentration risk in HVB AG.

Country risk is managed on the basis of value-at-risk and volumes. For this purpose, a strategy is established annually and compared with the actual situation over the course of the year.

Risk Report (Continued)

Measurement methods

Credit risk

We use differentiated risk measurement instruments to assess our credit risk:

Rating analysis

It is vitally important for us to reliably assess the default probabilities of our customers in the interest of credit decisions, pricing, regulatory capital coverage under Basel II (under the IRB approach), and for our internal default risk model. For this reason, we place particular emphasis on the ongoing development and fine-tuning of our internal creditworthiness analysis instruments.

HVB AG has a wide range of rating and scoring processes tailored to the needs of the various customer groups. We continually optimise these systems, applying modern statistical processes, in order to ensure the best possible selectivity and forecasting accuracy with regard to the default probability of a customer.

The result of a rating or scoring process is the classification in a rating class with a ten-point scale. Rating classes 1–7 are set aside for performing loans and classes 8–10 for non-performing loans. For some processes, finer distinctions are made by subdividing each rating class into three subclasses (notches). For rating classes 8– and higher, loan-loss provisions are created. Process-based rating classes are determined up to class 8. The rating classes 8–, 9 and 10 are determined by setting appropriate performance status flags resulting in the derivation of a default rating class.

The rating and scoring processes are subject to continual monitoring. They are validated annually and are recalibrated or fundamentally revised as required. This ensures regular monitoring and review of all rating processes.

In 2008, we focused primarily on the following areas:
– Further development of the SME ratings and the rating process for acquisition and leveraged finance in corporate banking
– Introduction of the GLOS (Global Shipping) rating process
– Implementation of a rating process for retail and wealthy customers
– Introduction of a scoring procedure for business customers seeking small loans
– Introduction of the revised rating group logic

In the case of new lending, a rating class must be determined for the borrower beforehand using the appropriate rating process.

The obligation to determine a rating applies regardless of whether the loan is subject to mandatory disclosure pursuant to Section 18 of the German Banking Act. The rating must be adjusted at least once a year on the basis of up-to-date rating documents. In case of material economic changes or risk-relevant changes to the exposure, an interim update of the rating must be performed without delay.

The rating is released by the responsible approval authority.

A transformation table is used for the transformation of external issuer ratings, so that internal ratings can be compared with external ratings. For this purpose, we use only ratings from S&P, Moody's or Fitch.

Collateral and collateral management

The methods used by the Bank to reduce credit risk are based on the strict regulatory standards governing the so-called IRB Advanced Approach.

Taking the Bank's General Lending Policy as the guiding principle, our collateral management follows a body of regulations that begins by formulating a strategy. When procuring loan collateral from our customers or guarantors, we exercise particular care to ensure that the collateral agreement is legally enforceable.

In new lending, the Bank pursues the strategy of applying all types of loan collateral that would yield an economic benefit to the Bank in case of default. This economic benefit may be derived from the realisation of the collateral, but may also involve improving the Bank's position in dealings with third parties.

The most significant collateral types in terms of value are land charges, guarantees and pledges of financial collateral, which together account for approximately 90% of all valued collateral. Valuation is carried out for each collateral type according to specific valuation rules on the basis of empirically determined realisation quotas. In addition, cost quotas are determined for all collateral types using a fixed calculation basis, taking into account the time needed for realisation and the discount effect over that time period. In this way, a value is determined that is comparable with the fair value approach. In the case of securities, we resort to our own haircut estimates. The GLOS rating system was introduced at HVB AG at the end of 2008. This also involved further development of the valuation of ship mortgages, which are generally registered for ocean-going ships, as a credit-risk-reducing tool. The body of regulations is rounded off by various monitoring activities, the tracking of collateral-related default data and regular analyses (for example using risk concentrations).

The Bank has a central collateral system in which all relevant data on collateral agreements and collateral allocations are managed and collateral valuations are carried out. To bolster operational collateral management, the Bank introduced collateral officers for each division at the end of the year under review. The core responsibilities of these specialists will be to monitor the valuation principles and to make further improvements to data quality.

Internal default risk model

To measure default risk, we employ an internal default risk model to quantify and assess our credit and counterparty risks on a worldwide basis. The advantage of this internally devised model is that its methodology and parameters perfectly match our portfolio and that we can update it at any time to take new knowledge into account. The internal default risk model was integrated into a new IT platform in 2008, making it possible to determine the credit value-at-risk and regulatory capital requirements according to Basel II in terms of the input parameters (PD, LGD and EAD) and on a basis consistent with the available data. Country risk is also assessed using a portfolio model.

The core element of the credit value-at-risk approach to measurement is the so-called factor model, which describes the dependency of the default probability of our customers on changes in macroeconomic factors (such as capital market indices, exchange rates, interest rates or unemployment rates).

The greater the sensitivities of the customers (clusters) in relation to the macroeconomic factors, the greater their reaction will be to economic fluctuations, thus resulting in greater variations in their default probabilities.

The joint dependency of two customers (clusters) on the same macroeconomic factors also determines their joint default behaviour, measured as the default correlation.
The empirically determined interrelationships of the factor model are used in a simulation model to identify the possible range of losses from defaults to determine the expected losses. For this purpose, thousands of macroneconomic scenarios are randomly generated, representing cases of both strong and weak economic performance. For each scenario, the model determines the default probability of the customers (clusters), and thus the amount of losses. The examination of all scenarios yields a loss distribution that serves as the basis for calculating the credit value-at-risk.

Expected loss

For purposes of default risk measurement, we distinguish between the expected loss and the unexpected loss (expressed as credit value-at-risk). The expected loss reflects the default losses expected from the current loan portfolio over the next twelve months, taking into account the assigned ratings and the collateral on hand. Expected loss is a key parameter in risk management. It is used among other things for risk identification, as an absolute and relative value, in pricing and for profitability calculations.

To calculate the expected loss, the exposure at default is calculated as stipulated by Basel II. For credit risk and country risk, this amount is equal to the line utilisation at the reporting date plus portions of the unused, externally committed credit lines. The calculation takes into account differences in the risk inherent in various credit types.

The credit equivalent for counterparty risk is defined as the potential future exposure, and results from the profile of potential future prices/market values that can be assumed by the OTC transactions of a trading partner, taking into account netting and collateral agreements as well as portfolio effects. The determination of the future market values is based on the Monte Carlo simulation of the internal market risk model. The results are scaled according to the maturity of the transactions or the margin period (in the event of dynamic collateral agreements). When determining the potential future exposure, a high distribution quantile (99%) is used for limiting purposes, while an expected positive exposure is used as a calculation basis for the internal credit risk model (see the section “Internal default risk model” in this chapter).

Risk Report (Continued)

The parameters assumed for measuring the exposure at default and the loss given default are based on long-term statistical averages derived from internal defaults and losses, and from external reference parameters. They comply with the strict quality requirements of Basel II (IRB Advanced Approach).

Credit value-at-risk

The credit value-at-risk (unexpected loss) provides information about the maximum negative deviation of the actual loss from the expected loss (99.97% probability) within one year. This loss potential provides a figure that makes the risk inherent in the various subportfolios transparent. It is also used in pricing and in the Bank's profitability calculations. In addition, the credit value-at-risk is backed by economic capital as a safety cushion, taking portfolio effects into account.

Scenario analysis

The credit value-at-risk is calculated under the assumption of normal conditions. Scenario analysis helps us to simulate the effects of future macroeconomic trends or exogenous shocks and quantify their impact on the potential losses in the credit portfolio of HVB AG. The analysis includes multi-year forecasts of interest rate trends, economic growth and unemployment, as well as inflation scenarios and such events as extreme changes in the financial markets. The results of selected scenario evaluations are used to manage and limit credit and country risk.

In 2008, we carried out various scenario and simulation calculations for credit risk and analysed their effects on the corresponding risk parameters in detail. On the one hand, we performed scenario analyses for across-the-board adjustments (deterioration) of default probabilities in the loan portfolio. In line with internal and regulatory standards, we defined various increments in the rating classifications of our borrowers and evaluated the effects according to various criteria (such as subsegments, industries, syndication). On the other hand, we also conducted regular simulations of the effects of macroeconomic disruptions on our lending risk. In particular, we intensively examined the scenario of a financial market crash and conducted related calculations at an early stage in the course of 2008.

Risk-based and market-oriented pricing

To manage risk and profitability in lending business, pricing methods and tools are used that take into account all cost components, in particular the expected standard risk costs and the capital costs. Because the calculation is based on the relevant risk parameters, and must be carried out before a credit transaction is finalised, lending decisions are made under risk/return considerations. Regular comparisons were also carried out between the internal margin expectations and the current capital market prices for loans, particularly against the backdrop of the turmoil on the financial markets.

Basel II

HVB AG started calculating the regulatory capital requirements for credit risk in accordance with the Basel II regulations in 2008. The Bank applies the IRB Advanced Approach for this purpose.

The core element of Basel II is the greater differentiation of risk compared with the former Principle I rules. This is expressed in the extensive utilisation of rating classes for borrowers and the collateral structure of individual transactions. As a result, the determination of capital adequacy for regulatory purposes pursuant to Pillar 1 of Basel II focuses on rating processes and risk parameters.

Against this backdrop, we are striving for continual improvement of the rating systems we employ to determine default probabilities and loss quotas. We achieved significant improvements in 2008, including greater selectivity, a long-term improvement in our empirical data pool for parameterisation purposes and the implementation of new rating systems. Another success factor is the appropriate use of these tools. We have raised awareness of this consideration within the Bank and further enhanced the understanding of data quality and its implications for our results. Viewed in isolation, the measures taken led to a reduction of the risk-weighted assets in credit risk for HVB Group and created additional capital leeway for the Bank. During economic downturns, however, the utilisation of Basel II-compliant rating processes and risk parameters can also lead to erosion of the capital relief effects. This fluctuation is caused by downgraded ratings resulting from economic conditions and low proceeds from the realisation of collateral. Consequently, we carry out simulated calculations at regular intervals to estimate effects of this kind on the basis of which we derive and implement appropriate measures. Also planned in 2009 is the implementation of additional new rating processes to transfer portions of portfolios to the IRB Advanced Approach. The measures selected by HVB AG has reinforced our intention to increase the share of the HVB AG lending portfolio covered by the most progressive Basel II approach and generate sustainable savings in risk-weighted assets in credit risk.

The regulatory changes initiated under Basel II are leading to a convergence of regulatory management with the economic viewpoint of risk-adjusted management already established in the Bank. For this reason, we are using the management instruments and risk parameters of the previous and new regulatory approaches as well as those of the economic capital approach in parallel. A key prerequisite for this course of action is a data pool and risk parameterisation that are usable under both approaches. We pushed forward with their harmonisation during the past year.

The requirements of Pillar 2 of Basel II were met through the on-schedule implementation within our Bank of the Minimum Requirements for Risk Management of the German banking supervisory authorities. These include the treatment of concentration risk, stress testing of individual risk types and overall bank risk, along with the determination of the risk-bearing capacity.
In the meantime, the UniCredit Group has also taken up these issues from the perspective of the Italian regulatory standards. Methods and procedures were harmonised during 2008. In some areas, such as business, real estate and financial investment risk, we have already defined uniform standards and implemented them for HVB AG; in other areas, activities of this kind are scheduled to take place in 2009.

Measuring country risk
At HVB AG, we measure country risk mainly by using country ratings. Along with the probability of default (PD) and the loss given default (LGD), the measurement of country risk takes into account the structure of transactions in terms of its relevance to country risk.

A portfolio model building on this information is used to calculate the value-at-risk (VaR) stemming from country risks for HVB AG every month. Due to the small number of countries, country portfolios tend by their nature to be rather undiversified. The use of an internal portfolio model thus enables us to achieve important management effects that go beyond the provisions of the Solvency Regulation.

Risk monitoring
Risk monitoring takes place at two different levels:
– at the level of individual exposures,
– at the portfolio level.

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

At HVB Group level, and thus at the HVB AG level as well, credit risk concentrations with affiliated counterparties are limited by credit ratings. For this purpose, we use a database encompassing all exposures of a borrower within HVB Group. This ensures that information is regularly provided on concentrations of credit risk and related limits. The limits were harmonised with the UniCredit Group in 2008.

Counterparty risk and issuer risk
We employ limit systems as a key element of our management and control of counterparty risk and issuer risk to prevent the unintended and uncontrolled increase of our risk positions. These systems are available online at all key HVB AG facilities engaged in trading activities. Each new trade is immediately entered and applied to the corresponding limit within an appropriate time frame. For counterparty risk, this applies to both replacement risk and settlement risk. For the latter, the risk for the future value date is limited and monitored right from the time the Bank enters into the transaction, so that a concentration of payments on a single value date is prevented beforehand. This enables each trader to check current limit utilisation and lets the risk controller perform direct limit monitoring for each counterparty or issuer. When monitoring issuer risk, we distinguish between the controlling areas of trading, non-trading and ACPM (active credit portfolio management).

Country risk
Country risk is managed on the basis of the measurement methods described above with the aid of regional value-at-risk limits. Transactions with high levels of country risk are given a higher weighting for inclusion in regional risk limits than transactions with low levels. In taking this approach, we are striving to limit country risk while implementing risk-oriented portfolio management and a flexible exposure management based on transaction potential. In addition, country risk management works with volume limits for each country, broken down by product risk group.

Risk Report (Continued)

All default risks are also monitored at the portfolio level. Particular attention is paid to country, industry or regional concentrations and their impact on the Bank's ability to support risk.

Another instrument for risk monitoring, particularly at the portfolio level, is internal reporting. In compliance with the Minimum Standards for Risk Management (MaRisk), the Management Board and the Audit Committee of the Supervisory Board must receive a report on the credit portfolio at least on a quarterly basis and on an ad hoc basis as situations arise. In addition, risk reports are produced with a special focus on specific divisions, products or industries.

Quantification and specification

An increase of €10.8 billion (5.0%) in credit and counterparty risk, to €225.8 billion, was recorded at HVB AG in the year under review. Key factors in this development included the increase in business with other banks, the increase in business with corporate customers and a change in the treatment of external lines.
The issuer exposure of HVB AG for non-trading and ACPM increased by €6.9 billion to €39.3 billion in 2008 (2007: €32.4 billion).

The structure of the loan portfolio in terms of industries remained largely stable, with relatively strong increases seen above all in banking and insurance (€5.2 billion), mechanical engineering/steel (€4.7 billion), mineral oil (€2.9 billion) and public sector (€2.4 billion). Decreases in exposures, by contrast, were seen in the retail customer (€6.4 billion), and food/consumer goods/services (€3.6 billion) sector.

As in 2007, the issuer portfolio was concentrated in the banking and insurance and public sector industry sectors, with issuer exposure increasing by €4.9 billion to €21.4 billion in the banking and insurance sector and by €1.5 billion to €11.1 billion in the public sector.

The core portfolio, defined as the overall HVB AG portfolio excluding the remaining exposures assigned to the former segment Real Estate Restructuring, increased by 5.5% in 2008 to €224.2 billion. The largest increases in exposure were seen in the Corporates & Commercial Real Estate Financing division, where it rose €10.3 billion (14.4%) and Markets & Investment Banking, where the exposure was up by €9.6 billion (13.2%). The Wealth Management division reported a further increase (€0.2 billion). Our exposure in the Retail division decreased by €4.4 billion (9.5%). The decrease under Other/consolidation is primarily due to the disposal (as planned) of non-strategic portfolios. Since the market for syndicated loans has largely come to a standstill during the financial crisis, it is practically impossible to place LBO financing at the present time. As these loans generally involve higher credit exposure than most, they give rise to greater concentration risk. The issuer exposure primarily arises in the Markets & Investment Banking division.

The significant €13.9 billion increase (14.8%) in credit and counterparty exposures in rating classes 1–4 raised the share of this group in the total core portfolio by 3.8 percentage points. Only minor changes were seen in the ratings classes 5–8. Exposures in rating classes 9 and 10 increased slightly by €0.2 billion.
At 90.6%, the issuer exposure in 2008 was concentrated largely on issuers classified as free of default risk, in the ratings classes 1–4. Among issuers free of default risk the issuer exposure increased €1.6 billion to €10.4 billion, and issuer exposure in the rating classes 1–4 rose €3.3 billion to €25.2 billion.

The risk contribution from the divisions has changed, as reflected in the distributions of expected loss and value-at-risk of the credit risk and counterparty risk. Both expected loss and value-at-risk decreased slightly in the Retail division. The share of risk from Corporates & Commercial Real Estate Financing increased by 10 percentage points, both in terms of expected losses and value-at-risk. By contrast, the share of risk contributed by Markets & Investment Banking decreased. In Wealth Management, the expected loss and value-at-risk decreased slightly, while the share of value-at-risk remained constant at a low level.

Gains in valuation from the lending business of HVB AG shown in the income statement amounted to €759 million in 2008.

Financial derivatives

HVB AG uses financial derivatives primarily to manage market price

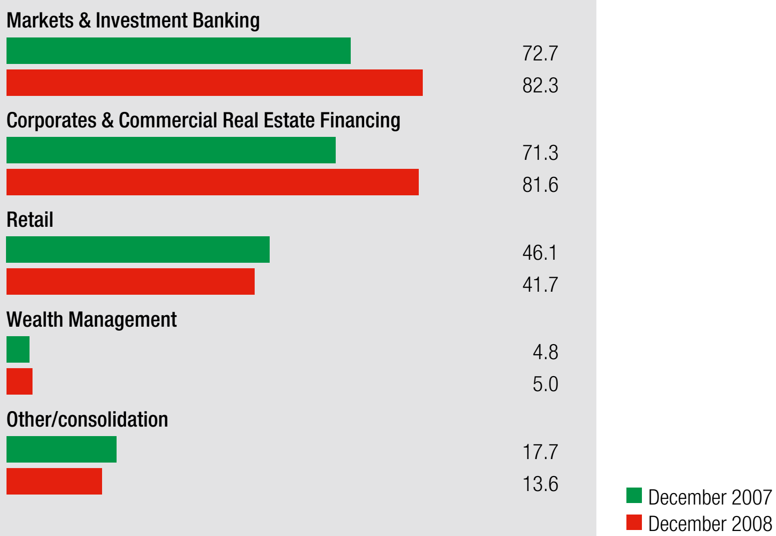
Breakdown of credit exposure and counterparty exposure by industry sector

		€ billions
	2008	2007
Industry sector		
Banking and insurance	44.0	38.8
Construction	35.4	34.9
Retail customers	33.8	40.2
Food, consumer goods, services	24.7	28.3
Public sector	12.5	10.1
Chemicals, health, pharmaceuticals	12.3	13.1
Transportation	12.3	10.6
Mechanical engineering, steel	12.2	7.5
Utilities	10.5	9.8
Mineral oil	6.8	3.9
Automotive	5.8	4.0
Other	5.6	5.1
Electrical, IT, communications	5.6	4.5
Media, printing, paper	4.3	4.2
Total	**225.8**	**215.0**

Breakdown of issuer exposure by industry sector

		€ billions
	2008	2007
Industry sector		
Banking and insurance	21.4	16.5
Public sector	11.1	9.6
Food, consumer goods, services	1.2	1.4
Automotive	1.0	0.3
Utilities	1.0	0.9
Other	0.9	0.9
Electrical, IT, communications	0.8	0.7
Construction	0.5	0.6
Media, printing, paper	0.4	0.6
Chemicals, health, pharmaceuticals	0.3	0.3
Mineral oil	0.3	0.1
Transportation	0.3	0.4
Mechanical engineering, steel	0.1	0.1
Retail customers	0,0	0.0
Total	**39.3**	**32.4**

Breakdown of credit exposure and counterparty exposure by division – core portfolio (€ billions)



Risk Report (Continued)

Breakdown of credit exposure and counterparty exposure by rating class – core portfolio

	2008		2007	
	€ billions	in %	€ billions	in %
Rating				
Free of default risk	6.0	2.7	9.3	4.4
Not rated	10.1	4.5	9.0	4.2
Rating classes 1–4	107.8	48.0	93.9	44.2
Rating classes 5–8	94.3	42.1	94.6	44.5
Rating classes 9–10	6.0	2.7	5.8	2.7
Total	**224.2**	**100.0**	**212.6**	**100.0**

Breakdown of issuer exposure by rating class – core portfolio

	2008		2007	
	€ billions	in %	€ billions	in %
Rating				
Free of default risk	10.4	26.5	8.8	27.1
Not rated	2.9	7.4	0.9	2.8
Rating classes 1–4	25.2	64.1	21.9	67.6
Rating classes 5–8	0.8	2.0	0.8	2.5
Rating classes 9–10	0.0	0.0	0.0	0.0
Total	**39.3**	**100.0**	**32.4**	**100.0**

Breakdown of expected loss, credit risk and counterparty risk (value-at-risk) by division – core portfolio

in %

	EXPECTED LOSS		VALUE-AT-RISK	
	2008	2007	2008	2007
Broken down by division				
Markets & Investment Banking	29.5	31.5	44.8	55.4
Corporates & Commercial Real Estate Financing	35.7	25.6	36.3	26.3
Retail	19.7	20.6	8.9	9.5
Wealth Management	1.1	1.5	0.9	0.9
Other/consolidation	14.0	20.8	9.1	7.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

risk (in particular risk arising from interest rate fluctuations and currency fluctuations) arising from trading activities. They also serve, however, to provide cover for on- and off-balance-sheet items within asset/liability management or, in the case of credit derivatives, to manage credit risk.

At year-end 2008, the total nominal amount of worldwide derivative transactions of HVB AG amounted to approximately €4,324 billion (December 31, 2007: €4,503 billion).

However, the nominal amounts do not reflect the potential risk inherent in derivative transactions, whereas the positive fair values are relevant for purposes of default risk as replacement values for the OTC derivatives. They represent the potential costs that HVB AG would incur to replace all of the original contracts with equivalent transactions in case of simultaneous default by all counterparties.

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case-scenario) for HVB AG at year-end 2008 totalled €124.5 billion (December 31, 2007: €59.8 billion).

In accordance with the banking supervision regulations under Basel II (German Banking Act/Solvency Regulation), with so-called partial use based on individual risk weightings, and the risk-reducing effects of existing, legally enforceable bilateral netting agreements and the collateral provided by borrowers, risk-weighted assets for HVB AG amounted to €18.7 billion at December 31, 2008.

Pursuant to the German Banking Act/Principle I, the risk-weighted assets for HVB AG amounted to €11.7 billion.

Risk Report (Continued)

The following tables provide detailed information on the nominal values and fair values of the overall derivative transactions and credit derivative transactions of HVB AG.

Derivative transactions

€ millions

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2008	2007	2008	2007	2008	2007
Interest rate derivatives	**958,754**	**1,258,921**	**999,402**	**3,217,077**	**3,371,212**	**68,619**	**33,069**	**67,032**	**31,830**
OTC products									
Forward rate agreements	96,062	43,700	—	139,762	155,679	227	52	322	53
Interest rate swaps	652,814	959,973	925,802	2,538,589	2,646,020	63,716	29,730	60,596	28,562
Interest rate options									
– purchased	69,786	125,644	38,107	233,537	245,996	4,653	3,277	1	1
– written	67,314	121,077	35,493	223,884	214,979	17	6	6,088	3,214
Other interest rate derivatives	35	30	—	65	131	6	4	25	—
Exchange-traded products									
Interest rate futures	62,191	8,497	—	70,688	101,818	—	—	—	—
Interest rate options	10,552	—	—	10,552	6,589	—	—	—	—
Foreign exchange derivatives	**327,650**	**112,550**	**56,287**	**496,487**	**479,091**	**21,855**	**9.290**	**19,569**	**8,566**
OTC products									
Foreign exchange forwards	223,937	22,461	375	246,773	225,608	9,694	3,549	8,252	3,663
Cross-currency swaps	28,868	75,958	54,633	159,459	139,803	9,307	4,309	8,585	3,604
Foreign exchange options									
– purchased	37,723	7,090	775	45,588	56,753	2,850	1,432	—	—
– written	37,068	7,041	504	44,613	56,927	4	—	2,732	1,299
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	54	—	—	54	—	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Equity/index derivatives	**77,231**	**108,209**	**12,724**	**198,164**	**243,342**	**13,902**	**13,596**	**16,067**	**16,932**
OTC products									
Equity/index swaps	10,175	6,797	718	17,690	28,687	1,769	894	1,016	652
Equity/index options									
– purchased	18,317	22,765	2,368	43,450	45,900	6,550	7,344	4	2
– written	25,630	49,680	8,584	83,894	79,646	48	8	8,071	10,968
Other equity/index derivatives	114	6	8	128	—	29	—	—	—
Exchange-traded products									
Equity/index futures	875	115	—	990	4,095	17	4	13	8
Equity/index options	22,120	28,846	1,046	52,012	85,014	5,489	5,346	6,963	5,302
Credit derivatives[1]	**31,032**	**301,458**	**70,074**	**402,564**	**405,032**	**18,497**	**3,081**	**17,862**	**3,473**
Other transactions	**5,216**	**4,120**	**636**	**9,972**	**4,625**	**1,585**	**725**	**1,818**	**669**
Total	**1,399,883**	**1,785,258**	**1,139,123**	**4,324,264**	**4,503,302**	**124,458**	**59,761**	**122,348**	**61,470**

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

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €645,902 million at December 31, 2008 (thereof credit derivatives: €7,026 million).

Derivative transactions by counterparty type

€ millions

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2008	2007	2008	2007
Central governments (and central banks)	641	321	379	298
Banks	99,732	46,274	99,516	47,457
Financial institutions	19,181	11,100	20,155	11,870
Other companies and private individuals	4,904	2,066	2,298	1,845
Total	**124,458**	**59,761**	**122,348**	**61,470**

Credit derivatives

€ millions

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2008	2007	2008	2007	2008	2007
Banking book	**548**	**1,580**	**2,784**	**4,912**	**9,159**	**100**	**7**	**249**	**272**
Protection buyer									
Credit default swaps	367	1,136	1,799	3,302	7,357	91	4	8	137
Total return swaps	—	—	725	725	725	—	—	200	130
Credit-linked notes	—	76	14	90	556	9	3	—	1
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	181	350	246	777	419	—	—	37	1
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	18	—	18	102	—	—	4	3
Other	—	—	—	—	—	—	—	—	—
Trading book	**30,484**	**299,878**	**67,290**	**397,652**	**395,873**	**18,397**	**3,074**	**17,613**	**3,201**
Protection buyer									
Credit default swaps	14,133	144,818	33,346	192,297	186,424	17,927	2,701	226	325
Total return swaps	—	2	205	207	5,583	38	39	—	2
Credit-linked notes	426	1,222	476	2,124	790	232	6	25	3
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	15,561	153,313	33,052	201,926	197,768	197	326	17,282	2,837
Total return swaps	—	—	—	—	5,126	—	—	—	33
Credit-linked notes	364	523	211	1,098	182	3	2	80	1
Other	—	—	—	—	—	—	—	—	—
Total	**31,032**	**301,458**	**70,074**	**402,564**	**405,032**	**18,497**	**3,081**	**17,862**	**3,473**

Risk Report (Continued)

Credit derivatives by reference asset

	NOMINAL AMOUNT					€ millions
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	OTHER	TOTAL 2008	TOTAL 2007
Public sector bonds	33,072	—	916	—	33,988	23,047
Corporate bonds	361,037	725	2,091	—	363,853	356,979
Equities	80	—	—	—	80	—
Other assets	4,113	207	323	—	4,643	25,006
Total	**398,302**	**932**	**3,330**	**—**	**402,564**	**405,032**

Multi-name credit derivatives, relating to baskets or indices, accounted for a share of 55.3%; single-name credit derivatives made up 44.7% of the total.

Country risk year-on-year

In the year under review, the exposures of HVB AG entailing country risk increased by €16.8 billion from €51.0 billion to €67.8 billion. This increase resulted primarily from an increase of net exposure in the UK from €18.3 billion to €34.7 billion, mostly in connection with trading activities.

Approximately 95% of the total exposure (2007: 92%) relates to countries with an investment grade rating. Only €3.7 billion relates to countries with non-investment grade ratings (2007: €3.9 billion). The majority of the exposure, at 62%, is in western Europe (2007: 50%), with the remainder showing satisfactory regional diversification. Trading activities accounted for 68% of the portfolio (2007: 64%). In the lending segment, 32% of net exposures entailing country risk were disbursed (2007: 36%).

To address the increased financial market risks, a stricter risk strategy was approved for selected countries in 2008, including various graded measures such as limit reductions and/or restrictions on new business in specified products. This has reduced risks in countries currently heavily affected by the crisis. In line with the defined processes and regulations, we will continue to optimise the HVB Group portfolio with targeted exposure reductions and diversification, thus taking deliberate action to face up to the challenges of the financial crisis.

In general, all countries are reviewed at least once a year, with the risks limited through a volume limit for each country that is broken down into a defined product structure. OECD countries with very good ratings are the only countries for which we do not apply limits. In addition, HVB Group applies limits in the form of value-at-risk limits by region, which are used up quickly in case ratings deteriorate or concentration risks arise.

Country exposure[1] and country value-at-risk by rating class

€ millions

	EXPOSURE		VALUE-AT-RISK[2]	
	2008	2007	2008	2007
Rating				
Rating classes 1–4	65,754	48,566	31	37
Rating classes 5–8	2,091	2,472	23	36
Rating class 9	0	0	0	0
Total	**67,845**	**51,038**	**54**	**73**

1 net of collateral; excluding transactions with loan-loss provisions
2 VaR recalculated (99.97% and one-year holding period) on the basis of HVB Group's portfolio after the disposal of the Bank Austria Group

Country exposure[1] by region and product category

€ millions

	LENDING		TRADING		ISSUER RISK		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
Region								
Western Europe	8,657	7,070	32,598	17,325	1,093	1,038	42,348	25,433
Asia/Pacific	5,830	4,344	4,321	5,375	635	207	10,786	9,926
North America	1,662	1,650	3,215	2,864	799	687	5,676	5,201
Eastern Europe	3,430	3,245	1,110	827	202	100	4,742	4,172
Central and South America	1,450	1,690	854	3,226	1,490	940	3,794	5,856
Africa	352	379	138	71	9	0	499	450
Total	**21,381**	**18,378**	**42,236**	**29,688**	**4,228**	**2,972**	**67,845**	**51,038**

1 net of collateral; excluding transactions with loan-loss provisions

Top ten countries by exposure[1] across all rating classes

€ millions

	EXPOSURE		VALUE-AT-RISK[2]	
	2008	2007	2008	2007
Country				
UK	34,673	18,316	4	1
Switzerland	3,732	3,278	0	0
USA	3,715	3,879	0	0
Singapore	2,792	2,651	0	0
Russian Federation	2,426	1,645	9	12
United Arab Emirates	2,422	245	1	0
Cayman Islands, on-shore	1,867	1,729	3	3
Denmark	1,803	1,433	0	0
Turkey	1,152	1,268	9	14
Norway	1,094	1,086	0	0
Total	**55,676**	**35,530**	**26**	**30**

1 net of collateral; excluding transactions with loan-loss provisions
2 VaR recalculated (99.97% and one-year holding period) on the basis of HVB Group's portfolio after the disposal of the Bank Austria Group

Risk Report (Continued)

2 Market risk

Risk management

Market risk is defined as the potential loss arising from an adverse change in the financial market prices of our positions in the trading or banking book. Market risk comprises the risk categories interest rate, foreign exchange, equity, credit spread and commodity risk.

Our market risks are managed in the Markets & Investment Banking division.

Measurement methods

For purposes of day-to-day risk measurement and management, we quantify the value-at-risk on the basis of a confidence level of 99% and a holding period of one day. On account of the joint management of the trading and banking books, the value-at-risk is also shown as an aggregate value. The risks inherent in the trading books continue to be shown separately for regulatory purposes. To determine and allocate the economic capital requirements for market risks, this value-at-risk, like other risk types, is scaled to a confidence level of 99.97% and a holding period of one year, taking diversification effects into account.

To calculate the value-at-risk we employ an internal model in full use on a worldwide basis that was given full regulatory approval at the end of 2005. The model takes into account both general and specific market risks. General market risks include the systematic risk from market movements not caused by individual securities or debtors, while the specific risks include the risks related to individual securities and debtors. The model is based on a logarithmic-normal distribution assumption of the risk factors taken into account which represent all relevant asset classes, in particular equities, credit spreads, exchange rates, interest rates and commodities. The modelling of general market risks is based on a Monte Carlo simulation approach and, with few exceptions – for instance the merging of the positions of the former UBM – a so-called full evaluation. This means that no sensitivity approach such as delta/gamma/vega is applied in the valuation of the related positions; instead, the valuation function is fully applied. The specific market risks are modelled using a sensitivity approach, however. Whereas the historically estimated correlations are taken into account for the risk factors of the general market risks, a value of zero is assumed for the correlations between the general and specific market risks and within the specific market risks. At the end of 2008, HVB AG received approval from the German Financial Supervisory Authority (BaFin) to take into account the portfolios of the former UBM in the internal model of HVB AG for not only internal reporting, but also regulatory reporting.

In addition, appropriate procedures are applied within HVB AG, primarily based on value-at-risk approaches.

We check the appropriateness of the methods used to measure market risk at HVB AG by means of periodic back-testing that compares the value-at-risk calculations with the market value changes (hypothetical P/L) derived from the positions. In the first half of 2008, there were three back-testing exceptions to report (see diagram: "Back-testing of internal model: trading activities HVB AG 2008 [€ millions]"). On that date, the hypothetical loss was greater than the forecast value-at-risk value. Seven more exceptions were generated in the second half of the year. The very high number of exceptions was the result of the observable, unusually strong market volatility. The exceptions were caused primarily by the sharp swings in the credit spreads. Our analyses showed that the exceptions were largely due to the unusual situation in the markets. Consequently, we believe that our internal risk model still meets a high standard of quality. The German Financial Supervisory Authority (BaFin) has not yet made a final decision on whether there is a need to increase the quantitative scaling factor.

In addition to calculating the value-at-risk, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rate, currency and equity markets or disruptions in the underlying volatilities through to a widening of the credit spreads or changes in the correlations. This also includes scenarios used in the UniCredit Group.

Risk monitoring

The risk positions in the trading and banking books are monitored using a uniform, hierarchical limit system that restricts the loss potential from market risk. All HVB AG transactions worldwide are collated in an overall value-at-risk overnight and checked against the risk limits. The risk limits are approved annually by the Management Board of HVB Group. The overall limit of HVB AG was incrementally increased from €40 million to €75.5 million in 2008.

The risk values are reported daily along with the limit utilisation and the P/L figures to the Management Board and the responsible persons in the Markets & Investment Banking division. Whenever limits are exceeded, an escalation process is triggered immediately and the reduction of the positions in question is monitored.

Market Risk Control has direct access to the front office systems used in trading operations, enabling it to perform spot checks on the risk situation, even during daily market trading.

In addition to the daily reports, management is informed on a monthly basis of the results of the risk analyses, including the results of the back-testing and stress tests. The most significant stress result at December 31, 2008, at minus €1,732 million, is a 50% widening of the credit spreads.

Quantification and specification

The table below shows the aggregate market risks of our trading positions in HVB AG for last year. The increase in market risks in the third quarter, and especially in the fourth quarter, resulted from the increased credit spreads and higher volatilities, and not from an increase in the positions.

At €0.8 billion, the economic capital for market risks has increased by €0.6 billion over the comparable previous-year figure because of the ongoing financial market crisis.

Market risk of HVB AG

(value-at-risk, 99% confidence level, one-day holding period)

						€ millions
	AVERAGE 2008[1]	31/12/2008	30/9/2008	30/6/2008	31/3/2008	31/12/2007
HVB AG	**81**	**142**	**78**	**52**	**53**	**32**

1 arithmetic mean

Market risk from trading positions of HVB AG

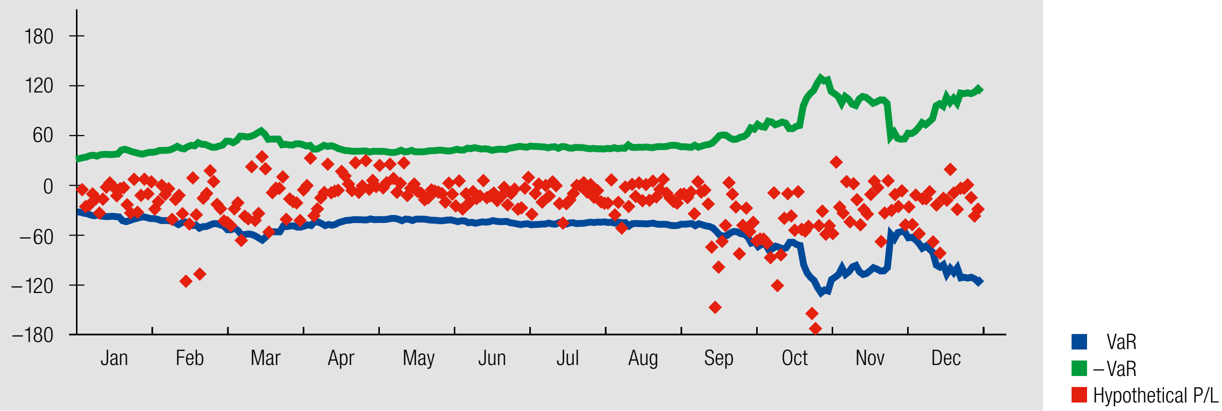
(value-at-risk, 99% confidence level, one-day holding period)

						€ millions
	AVERAGE 2008[1]	31/12/2008	30/9/2008	30/6/2008	31/3/2008	31/12/2007
Interest rate positions (incl. credit spread risks)	69	117	67	43	49	30
Foreign exchange positions	5	5	8	4	4	3
Equity/index positions	13	10	13	14	14	8
Diversification effect[2]	(18)	(19)	(21)	(15)	(17)	(10)
Total	**69**	**113**	**67**	**46**	**50**	**31**

1 arithmetic mean
2 because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks

Risk Report (Continued)

Back-testing of internal model: trading activities HVB AG 2008 (€ millions)



At year-end, the banking book contained market risks of €66 million with a one-day holding period (December 31, 2007: €15 million). The market risks of the reclassified portfolios, taken in isolation, amount to €69 million. The market risks of the remaining banking book positions show a market risk of €56 million.

An upward shift in yield curves by 100 basis points (interest sensitivity) at the end of the year resulted in a decrease in value of €13.55 million (0.05% of the regulatory capital) in the banking book of HVB AG (December 31, 2007: €17.428 million with a downward shift in the yield curve).

Value change in case of an interest shock of + 100 BP
at December 31, 2008

	€ millions
HVB AG BANKING BOOK	
Total	(13.55)
up to 1 year	(13.16)
1–5 years	(10.29)
More than 5 years	9.90

A 10% appreciation of all foreign currencies (FX sensitivity) results in a decrease of €39.36 million in the portfolio value (0.15% of the regulatory capital) in the banking book of HVB AG (December 31, 2007: a decrease of €21.11 million with a devaluation of foreign exchange positions).

Value change in case of a 10% FX appreciation
at December 31, 2008

	€ millions
HVB AG BANKING BOOK	
Total	(39.36)
USD	(27.21)
GBP	(14.93)
AUD	0.58
CHF	6.51
JPY	(0.55)
SGD	(1.23)
Other	(2.53)

A 20% decline in all equity and hedge fund prices results in a decrease of €95.35 million in the portfolio value (0.36% of regulatory capital) in the banking book of HVB AG (December 31, 2007: €108.12 million).

Value change in case of a 20% decrease in equity prices
at December 31, 2008

	€ millions
HVB AG BANKING BOOK	
Total	(95.35)
Equity products	(0.15)
Hedge funds	(95.20)

Any financial impact resulting from present value (PV) valuations in interest rate changes, FX devaluations and price reductions in the area of equities and index-linked products are reflected in interest income and trading income.

In addition, regular stress tests and scenario analysis that reveal the loss potential in case of extreme market movements are carried out on the banking books of HVB AG.

In compliance with the Circular of November 6, 2007 of BaFin, the change in the market value of the banking book in case of a sudden and unexpected interest shock of +130/(190) basis points is compared with the Bank's eligible equity funds. With a notional utilisation of 0.07% (previous year: 0.16%) of its regulatory equity capital at December 31, 2008, HVB AG is well below the reportable outlier value of 20% stipulated by the banking supervisory authorities. Without the valuation effects arising from the reclassified portfolios, the rate of equity capital utilisation is 0.14%.

In addition, a dynamic simulation of the net interest income is carried out for HVB AG on a quarterly basis. The future trend in net interest income is simulated in various scenarios in relation to business volume and interest rates. Assuming a constant volume of business, a parallel upward interest shock of 100 basis points would result in a €87 million decrease in net interest income within the next 12 months (December 31, 2007: €88 million).

Market liquidity risk
Market liquidity risk (the risk that the Bank will be able to liquidate assets on the market only at a discount) is managed by the people responsible for the various portfolios as they perform their defined market-related tasks. As a result, it is included in the measurement of market risk, so that reference should essentially be made to the measurement and monitoring instruments listed for market risks. The risk capital potential of the market liquidity risks is determined by the Market Risk Control department for selected scenarios using stress tests.

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

The effects of the financial market turmoil are shown indirectly through the decreased valuations of ABS transactions resulting from lower market liquidity and wider spreads for securities and CDS positions of financial service providers. The direct exposure in the subprime loan segment is negligible.

3 Liquidity risk

Risk management
The financial crisis, which started as a local problem in the United States in 2007, grew from a real estate and banking crisis into a global crisis. The bankruptcy of the US investment bank Lehman Brothers in September 2008 greatly heightened the severity of the crisis. Maturities on the interbank money market became shorter, term deposits were practically unavailable and CDS spreads rose sharply.

HVB AG could not evade such market turmoil. However, our good liquidity situation, a sound financing structure and the liquidity management measures undertaken – for instance increased deposits of securities to obtain funding through central banks and the focus on long-term funding in the first half of 2008 – helped us to overcome this phase. Based on the analyses we have carried out so far, we expect our overall liquidity to remain adequate. We expect to continue feeling the effects of the general lack of confidence on the money markets in 2009 and we will still be operating in a very challenging environment. We will have to watch very carefully to see what effect some banks' utilisation of state guarantees to issue new debt instruments will have on the funding situation of HVB AG.

Liquidity risk is defined in terms of three risk categories:

Short-term liquidity risk
– For short-term liquidity risk (the risk that the Bank will not be able to meet its payment obligations in full or in time) we have put in place a cash-flow oriented limit system that tracks the relevant balances within HVB AG per working day and limits the positions appropriately.

  In addition, stress analyses based on various scenarios enable us to make projections on the impact of sudden disruptions on our liquidity position so that we are in a position to take the necessary management measures as early as possible.

Risk Report (Continued)

HVB AG met the requirements of the German Liquidity Ordinance at all times in 2008.

Funding risk

– Funding risk (the risk of not being able to obtain sufficient liquidity or that it will be available only at higher market interest rates) of HVB AG is well-managed due to the diversified funding with regard to products, markets and investor groups.

  Consequently, we were in a position to obtain adequate funding for our lending operations as planned, even in difficult market phases such as those we experienced especially in the second half of 2008.

  We are able to cope with the effects of the widened funding spreads to a very large extent because the internal funds transfer prices for the lending and deposit business are continually reviewed for appropriateness and regularly adjusted to reflect the market situation.

Market liquidity risk

– The management of market liquidity risk (the risk that the Bank will be able to liquidate assets on the market only at a discount) is described in the section dealing with market risk.

  The rules and principles of liquidity management are specified in the Liquidity Policy of HVB Group passed by the Management Board, and are implemented by the operational business units. Implementation – for short-term liquidity risk and funding risk – is coordinated and monitored for HVB AG by the Asset Liability Management unit.

Measurement methods

Short-term liquidity risk

To measure our short-term liquidity risk, cash flow profiles are produced on a daily basis. The resulting balances are compared with the available liquidity reserves, which consist primarily of the available highly liquid securities, eligible as collateral for central bank borrowings. We try to make the underlying assumptions as conservative as possible, for instance by applying appropriate haircuts. The cumulative balance of the above-named components is backed with limits of up to one month for the relevant units of HVB AG. For two and three months, observation parameters are in place with appropriate trigger values.

Furthermore, stress scenarios based on the liquidity profiles of the units of HVB AG are simulated at regular intervals. These scenarios take into account both internal (e.g. possible HVB AG-specific problems) and external factors (e.g. disruptions in global financial markets).

In addition to this internal measurement methodology, HVB AG is subject to the regulatory standards defined in the German Liquidity Ordinance for short-term liquidity risk.

Funding risk

To measure funding risk, long-term funding needs are determined through a coordinated process, taking the planned new business volumes into consideration. This funding plan is updated as required. The long-term funding needs, which are used to set the funding targets, additionally take into account the assets and liabilities falling due in the period. This mechanism ensures a balanced maturity structure of assets and liabilities within defined maturity buckets.

Risk monitoring
The monitoring of our liquidity situation has been entrusted to our Asset Liability Management unit. It essentially comprises the analysis, classification and management of incongruencies, which are limited for defined maturity periods through limits and refinancing targets. Compliance with the allocated limits is monitored on a daily basis and the long-term funding quotas are monitored monthly.

To ensure adequate liquidity, the impact on the liquidity of HVB AG is calculated at regular intervals for defined stress scenarios that take into account both internal and external stress factors. For instance, it is determined whether and for how long the existing collateral is sufficient to cover liquidity requirements. This may result in limits being adjusted as required or other management measures being initiated.

Funding volumes and instruments derived from the refinancing targets are implemented in a cost-effective manner by the units actively operating in the market and in consultation with Asset Liability Management.

The local treasury units are responsible for observing developments in the various local markets. These units submit reports to Asset Liability Management as needed.

The Asset Liability Committee and the Management Board are kept regularly informed about the current liquidity and funding situation. A contingency plan is in place to deal with liquidity bottlenecks. It describes and regulates the distribution of responsibilities, internal reporting requirements, decision-making powers and potential countermeasures.

Quantification and specification
Conditions on the money markets and capital markets in 2008 were dominated by high volatility. Particularly in the second half of the year, interbank money markets came to a near standstill and risk premiums on funding costs increased significantly compared to 2007. Despite the market turmoil, HVB AG's liquidity situation remained at an adequate level at all times over the course of the past year.

Short-term liquidity risk
Within the framework of our limit system, which operates under conservative assumptions, we showed an overall positive balance of short-term liquidity risk of €16.8 billion (2007: €22.5 billion) in HVB AG for the next banking day at the end of December 2008. The portfolio of highly liquid securities eligible as collateral for central bank borrowings and available at short notice to compensate for unexpected outflows of liquidity amounted to €13.0 billion at year-end (2007: €17.4 billion).

The requirements of the German Liquidity Ordinance were met at all times by the relevant units of HVB AG in the year under review. The funds available to HVB AG exceeded its payment obligations for the following month by an average of €33.4 billion in 2008 (2007: €31.1 billion) and by €30.6 billion at December 31, 2008.

Funding risk
The funding risk of HVB AG has so far remained quite low due to our broad funding base with regard to products, markets and investor groups. This enabled us to obtain adequate funding for our lending operations even during difficult market phases. HVB AG obtained longer-term financing with a volume of €9.2 billion (2007: €8.3 billion) on the capital market during 2008. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain one of the most important funding instruments.

Risk Report (Continued)

4 Operational risk

Risk management

We define operational risk as the risk of losses resulting from inadequate or failed internal processes, human error, technological breakdowns or external events. Under Basel II, this definition also includes legal risks.

The identification, analysis and management of operational risk are the responsibility of the respective divisions and functional units of HVB AG. The operational risk managers in the various units are responsible for the operational implementation of the process, which involves in particular the collection, analysis, evaluation and quality assurance of risk data, and the planning of appropriate measures with continual monitoring of important risks.

The Compliance, Legal and Corporate Affairs unit (RET) is responsible for managing legal risk. Responsibility for strategic and operational compliance was also located here during 2008. Consequently, RET oversees the introduction of and compliance with all relevant rules and regulations by HVB Group, and monitors compliance with legal requirements and the generally accepted principles of jurisprudence by HVB Group companies. This involves close cooperation with the management and divisions of HVB AG, and the relevant departments of HVB Group companies, where present.

Measurement methods

We employ the loss distribution approach to quantify the operational risk of HVB AG. The model primarily uses internal loss data to determine the loss distributions. We use scenario analysis as well as external data to compensate for the shortage of data in some areas involving rare, high losses. A Monte Carlo simulation is used to calculate the value-at-risk figures for HVB AG, taking into account risk-reducing measures, such as insurance. By taking into account factors related to internal control and the business environment, we adapt the measurements to the current risk profile.

The economic capital for operational risks is calculated using the UniCredit Group-wide Advanced Measurement Approach measurement model. Only our own data is used when representing the specific risk profile of HVB Group. UniCredit Group-wide diversification effects are not taken into account, however. The economic capital management and reporting of HVB AG is thus carried out on a stand-alone basis.

By contrast, the Group-wide diversification effects across the UniCredit Group are taken into account when calculating the capital at the UniCredit holding company level.

Risk monitoring

The focus in the year under review was on the further development of risk surveys and scenario analyses, the ongoing monitoring of relevant risks and ad hoc analyses of current internal and external risk factors. This also reflects the areas of activity specified in our operational risk strategy.

An intensive exchange takes place between the central Operational Risk Control function, the local operational risk managers and the relevant line departments, particularly in the form of regularly scheduled meetings and, to some extent, in specific operational risk committees.

To intensify the group-wide exchange of information, HVB AG also represents HVB Group at the operational risk committee meetings of the UniCredit Group.

Operational Risk Control keeps the Chief Risk Officer, the Management Board of HVB Group and the Audit Committee of the Supervisory Board informed about any loss events that occur, and important operational risks and their management through regular and comprehensive reporting at the HVB Group level. In addition our local operational risk managers submit regular reports to their senior management. Recommendations for action are also made in the course of this reporting.

Quantification and specification
The HVB Group has carried out its regulatory reporting in accordance with the new Basel II standards since March 2008, and is thus reporting operational risks in terms of risk-weighted assets for the first time. HVB AG is now fully covered by the Advanced Measurement Approach with its high quality standards. Employing the Advanced Measurement Approach means that HVB AG achieves capital savings of well over 10 percent as compared with the Standard Approach.

The economic capital for operational risks of HVB AG amounted to €0.3 billion at the end of 2008.

The following were the most important risk management activities undertaken by HVB AG in the year under review:

Outsourcing
Outsourcing involves the transfer of activities to other service providers. This also involves the transfer of some of the operational risk. However, residual risks and the risks from the outsourcing relationship remain within the company. The necessary risk analysis was integrated into the existing operational risk organisation and/or processes, and the internal instructions and processes were adapted to the new requirements pursuant to the Minimum Standards for Risk Management (MaRisk). The operational risk managers and the central Operational Risk Control function help the project heads and the heads of the retained organisations to prepare and/or update the risk analyses.

The following outsourcing projects that received risk analysis support in 2008 warrant special mention:
– The relocation of mainframe operations from HVB Information Services GmbH to UniCredit Global Information Services S.p.A. (UGIS)
– Integration of back office units into the UniCredit Group subsidiary UniCredit Business Partner
– Planned integration of our IT service provider HVB Information Services GmbH into UGIS, the IT service provider of the UniCredit Group, in 2009
– The outsourcing of facility management services taking place in 2009

In addition, risk analysis has started for all existing outsourcing activities.
Risk analysis for existing outsourcing activities will be consolidated in 2009, and a review of the implemented process and the results will be carried out.
A further priority is still to ensure that the service level agreements take into account all aspects of operational risk and to establish and develop a retained organisation to monitor the outsourced areas.

IT risks
The relocation of production mainframe operations from HVB Information Services GmbH to UniCredit Global Information Services S.p.A. (UGIS) was carried out on schedule in the spring of 2008. The IT risks for operations were intensively studied in advance and, after the conclusion of the assessments, rated as equivalent to the situation up until then. Through the greater distance between the data centres, there is greater safety in some areas with regard to widespread disasters.
In addition, the comprehensive assessment of the operational IT risks with regard to potential non-availability of systems continued. As an interim result, the risk impact was found to be significantly lower than originally assumed, particularly in the area of central IT applications. With the new statutory regulations on the flat tax on capital income taking effect at the beginning of 2009, the corresponding applications and processes were put in place. The launch risk associated with this extensive change was minimised through extensive test runs and intensive risk analyses of the processes. There were no unexpected service limitations related to the transactions concerned.

HVB AG plans to roll out the new EuroSIG IT platform during 2009, probably in October. This core banking software, which can be used across the entire Group, is intended to replace some of the Bank's complex system landscape and help cut costs and boost efficiency in IT.
Because such major projects inevitably involve increased operational risks due to their size and complexity, the early identification and reduction of these risks is a core task of the project management.

Also planned in 2009 is the integration of our IT service provider HVB Information Services GmbH into UGIS, the IT service provider of the UniCredit Group, in accordance with the corporate strategy. Possible changes to the risk situation resulting from this move are currently being investigated.

Risk Report (Continued)

Financial crisis
In response to the continuing financial crisis and the increased threat of default by financial institutions, the Bank has put a specific crisis process in place and taken additional measures to ensure that financial transactions can be settled securely and with the necessary care and – if necessary – to initiate a claiming process encompassing the entire bank in cooperation with the legal department. For this purpose, a separate committee has been set up to deal with financial crises.

Due to the extreme market developments in 2008, a review was made of the valuation of risks in the areas of securities/derivatives and the potential for related advisory errors. In the course of a review of product policy, stricter guidelines were developed for the derivatives business with the goal of further reducing speculative and optimisation transactions to reduce risks to our customers.

Further measures
– Following the discovery of inadequate control mechanisms in major banks, all market and investment banking processes were analysed by a project entitled "SocGen lessons learned". The Markets & Investment Banking Risk Committee developed additional measures to shore up controls and the risk culture, which were either implemented in 2008 or are now at an advanced stage.
A training programme focusing on regulations, compliance, risk management and the world of structured products was put in place for all employees in the Markets & Investment Banking division.
In addition, we made systematic progress on a global consolidation process aimed at standardising the front and back offices and the risk systems in order to reduce process diversity.

– To address the rise of credit card fraud seen across Germany, HVB AG is now introducing credit cards with a security chip.

– Further improvements were made in data collection and assessment of operational risk in the credit area. Among the improvements was the establishment of a monitoring unit independent of sales and the implementation of a special watchlist management system. This represents a further development in the process for the early identification of risks.

Business continuity management
– The effectiveness of the crisis management function was tested in exercises and ensured by training the crisis management team. The emergency and crisis management team did not have to respond to any real situations during the period under review.

– The development of the Business Continuity Management (BCM) organisation at HVB Group, which was established in 2007, continued in 2008. It investigated business-critical processes and reviewed and optimised emergency measures.

Legal risks
Medienfonds lawsuit
Numerous shareholders who invested in Medienfonds VIP 4 GmbH & Co. KG have filed complaints and lawsuits against HVB AG. The economic background of these actions is primarily the fact that the tax deferrals, which were part of the benefits achieved by the investment, will no longer apply according to the current position of the tax authorities. HVB AG did not market the fund, but granted investment finance loans to all investors for a portion of the investment amount; moreover, to collateralise the fund, HVB AG assumed various payment obligations of film distribution companies vis-à-vis the fund.
At the end of 2008 suits were pending against HVB AG for a total amount in the higher double digit million euro range. The complaints and suits against the Bank are based on claims that the Bank culpably violated its obligations to provide information prior to signing the contract because it was aware that the fund's structure and execution allegedly made it highly risky in terms of tax law. Moreover, the lawsuits are based on alleged errors in the prospectus, for which the plaintiffs say the Bank is responsible along with the initiator and other persons.

A few first-instance rulings have been issued. In some cases, courts have ruled against the Bank because of alleged violations of obligations to inform. Some suits have been dismissed, with courts providing extensive grounds for the dismissal. So far, none of these rulings on these matters are final. A small number of proceedings have been terminated through the withdrawal of lawsuits after the agent arranging the investment, who was a codefendant, was obliged to pay damages due to improper advice, either in court settlements or under court rulings. Munich Higher Regional Court is soon due to begin hearing a test case pursuant to the Capital Markets Test Case Act (KapMuG) that among other matters is intended to clarify the question of responsibility for the prospectus, also on the part of HVB AG, with regard to the banking services it provided.
From today's standpoint, the Bank does not anticipate serious negative consequences from these legal disputes.

Real estate finance/financing of purchases of shares in real estate funds
HVB AG will not suffer negative legal consequences if customers cancel their property loan agreements under the Doorstep Transactions Act. According to the law and the opinion on this subject expressed in the German Supreme Court's (BGH) established practice, the customer, who is required to demonstrate that the conditions for cancelling the contract have been met, must repay the loan amount to the Bank, including interest at customary market rates, even after cancellation of the loan agreement. Under a well-established body of court decisions, the Bank would be required to assume the investment risk because of a failure to explain the right to cancel the contract only if the customer could prove that he would not have made the investment if he had been aware of this right; in addition, the German Supreme Court has decided that the Bank would only have to assume the investment risk in case of culpable actions. On the basis of court rulings issued so far, the Bank does not expect any negative effects.
The Bank's claim to repayment remains in effect even if the borrower issued an invalid proxy to a third party, and the Bank relied on the validity of the proxy when entering into the loan agreement. Based on the experience gained to date, the Bank does not believe that legal risks exist in these cases.

The most recent judgement from the German Supreme Court also confirms the already narrow conditions for a possible explanation and advisory obligation on the part of the Bank. The German Supreme Court makes it easier for investors to provide evidence of violations of the explanation obligation only in cases of institutionalised collaboration. Based on our experience so far, we do not expect any negative effects on HVB AG.

If the Bank finances the purchase of shares in real estate funds for the borrower with a loan not secured by a real property lien, the borrower can – if the transaction is a so-called related transaction – dispute the claim of the financing bank to repayment on the basis of objections which the borrower is entitled to assert against the seller or agent in the fund transaction because of improper advice. Consequently, the Bank has no claim against the customer to repayment of the loan if it utilised the sales organisation of the agent arranging the sale of shares in the fund, the loan was disbursed directly to the fund, and the investor was misled when purchasing the shares, or if the borrower has a right of rescission. The borrower in each individual case would have to demonstrate that these prerequisites were met. From today's standpoint, the Bank expects these circumstances to apply, if at all, only in exceptional cases.

Lawsuits in connection with the financial market crisis
As a result of the dramatic developments in global financial markets in recent months, the number of complaints from customers who have investments in securities affected by these developments or who entered into derivative transactions with HVB AG are at above-average levels. So far customers have filed lawsuits based on claims of improper advice that was either inappropriate for the investor or the form of the investment only in exceptional cases.
Alongside a large number of other defendants, our American brokerage subsidiary UniCredit Capital Markets, Inc., is facing three class action suits in the USA. The reason for the claims are securities issued by Lehman Brothers Holding and Merrill Lynch. Although UniCredit Capital Markets was part of the underwriting syndicate for some of the disputed securities, it neither received nor sold these securities. Based on the assessment of our external solicitors the Bank therefore did not make any provisions.

Risk Report (Continued)

Court proceedings of HVB AG shareholders

Shareholders challenged the resolutions adopted by the Annual General Meeting of our Bank on May 12, 2005. Insofar as the suit is intended to challenge the election of Supervisory Board members and the auditor of the annual financial statements, Munich Regional Court I rejected the suit challenging those elections; the ruling is not yet final.

With respect to the lawsuits contesting the resolutions passed by our Annual General Meeting on May 23, 2006 approving the spin-off and takeover agreement of March 29, 2006 and the master agreement of January 16, 2006 in conjunction with the transfer of a loan portfolio to a company in the Goldman Sachs Group, Munich Higher Regional Court issued a final ruling in favour of the Bank on February 29, 2008.

Legal proceedings relating to the restructuring of the Bank

Numerous shareholders have filed suits contesting the resolutions adopted by our Bank's Extraordinary Shareholders' Meeting on October 25, 2006 approving the sale and transfer of the shares held by our Bank in Bank Austria Creditanstalt AG and HVB Bank Ukraine to the UniCredit Group, the shares held by our Bank in Closed Joint Stock Company International Moscow Bank (IMB) (renamed ZAO UniCredit Bank, Moscow in December 2007; still referred to below as IMB) and AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) to Bank Austria Creditanstalt AG, and the branches in Vilnius and Tallinn to AS UniCredit Bank, Riga, asking the court to declare or to state respectively these resolutions null and void. The shareholders have filed their lawsuits on the basis of formal errors related to the invitation and conduct of the Extraordinary Shareholders' Meeting of October 25, 2006 and the allegedly too low purchase price paid for the units sold. In a ruling of January 31, 2008, Munich Regional Court I declared the resolutions passed at the Extraordinary Shareholders' Meeting of October 25, 2006 null and void for formal reasons, because the court was of the opinion that the Business Combination Agreement (BCA) entered into by the Bank and UniCredit S.p.A. on June 12, 2005 was not presented in sufficient detail in the invitation to the aforementioned meeting, particularly with regard to the clauses in the agreement on arbitration proceedings and the choice of applicable governing law; moreover, the court stated that shareholders' questions regarding the hypothetical effects of specific alternative valuation parameters were not answered adequately by the aforementioned Meeting. Munich Regional Court I did not address the issue of the allegedly inadequate purchase price paid for the transferred units. At the same time, Munich Regional Court I ruled in response to a filing by shareholders that the BCA ought to have been presented to a Shareholders' Meeting of the company to be valid because it would represent an undisclosed control agreement. Because the clauses in the BCA regarded by the court as essential for the contracts presented to the Extraordinary Shareholders' Meeting on October 25, which any way contain separate provisions in this regard, were not essential, and because answering the question regarding specific alternative valuation parameters – if it would have been possible to answer that question at the Extraordinary Shareholders' Meeting and if it could have been answered properly without taking other countervailing effects into account – would have changed nothing with regard to the contractual provisions presented for approval, we are not convinced by the ruling. The Bank has therefore appealed against it.
As a precaution, the Annual General Meeting on July 29/30, 2008 confirmed the resolutions passed by the Extraordinary Shareholders' Meeting of HVB AG of October 25, 2006.

Since then, numerous suits have also been filed contesting the confirmatory resolutions, some of which are based on claims of formal errors; most, however, claim that the purchase price for the sale of the participating interests and branches was too low. In a resolution dated October 29, 2008, Munich Higher Regional Court suspended the proceedings regarding the resolutions passed by the Extraordinary Shareholders' Meeting of HVB AG of October 25, 2006 until a final court ruling on the suits contesting the confirmatory resolutions passed at the Annual General Meeting of HVB AG on July 29/30, 2008.
As a precaution in an Extraordinary Shareholders' Meeting of HVB AG dated February 5, 2009 the resolutions and the confirmatory resolutions were confirmed another time.

A former shareholder of our Bank has filed an action asking a court to declare that UniCredit does not have any rights pertaining to the shares in the Company acquired in connection with the take-over offer. Munich Regional Court I dismissed the suit in a ruling dated November 27, 2008; the plaintiff filed appeal against this ruling. The Bank assumes that this appeal has no chance of succeeding either.

The Annual General Meeting of Shareholders of our Bank on June 26/27, 2007 passed a resolution in favour of asserting claims to damages against UniCredit S.p.A. and its legal representatives and the governing bodies of our Bank, claiming that the Bank's assets incurred damage through the sale of the BA-CA shares and through the BCA that was signed with UniCredit S.p.A., and appointed Dr Thomas Heidel of Bonn, Germany, solicitor, as a special representative. Our now sole shareholder, UniCredit S.p.A, has filed suit contesting this resolution. In a decision dated August 27, 2008 Munich Higher Regional Court ruled that the resolution passed by the Annual General Meeting of HVB AG on June 26/27, 2007 on asserting claims to compensation for alleged damages and on the appointment of the special representative is null and void to the extent that it concerns the assertion of claims to damages stemming from the signing of the BCA (letter d from agenda item 10 of the Annual General Meeting of 2007). The special representative and other former external shareholders of our Bank have filed an appeal against denial of leave to appeal with the German Supreme Court, as has UniCredit, our sole shareholder since September 15, 2008. A final ruling has not yet been made.
The special representative submitted a writ on November 5, 2007 to join the suits challenging the resolutions of the Extraordinary Shareholders' Meeting of October 25, 2006 as an "intervening third party". Munich Regional Court I rejected the request for intervening third party status; the summary complaint filed against that ruling was also rejected by Munich Higher Regional Court in a ruling dated October 7, 2008.
A resolution passed by the Extraordinary Shareholders' Meeting of the Company on November 10, 2008 revoked the resolution of June 26/27, 2007 to appoint a special representative to assert alleged claims to compensation stemming from the sale of Bank Austria and the signing of the BCA (agenda item 10 from the Annual General Meeting of 2007) and the mandate of the special representative was recalled. Two suits filed with Munich Regional Court I contesting this resolution are pending, and no decision has been made yet.

In a letter dated December 27/28, 2007 the special representative called on UniCredit S.p.A. to retransfer the BA-CA shares sold to it and, following the rejection of this demand on February 20, 2008, filed suit against UniCredit S.p.A. and Alessandro Profumo as well as Dr Wolfgang Sprissler and Rolf Friedhofen as joint and several

Risk Report (Continued)

debtors, demanding the retransfer of the BA-CA shares with reference to the "hedge fund lawsuits" mentioned below or in the alternative asserting a claim to damages of at least €13.9 billion. In a writ dated July 10, 2008 the special representative expanded the scope of his claim and asserted additional claims to alleged damages of at least €2.92 billion against the above-named defendants; the special representative claims that HVB AG incurred damages of at least that amount in connection with the transfer of the investment banking business of UBM. The defendants are convinced that these claims are unfounded.

The Annual General Meeting of our Bank on June 26/27, 2007 passed a resolution approving the transfer of the shares of the minority shareholders in exchange for an appropriate cash settlement (€38.26 per share); at the same Annual General Meeting a resolution was passed to discharge the members of the Management Board and Supervisory Board from their actions in the 2006 financial year while a motion requesting the appointment of a special auditor was rejected. More than 100 shareholders filed suits challenging these resolutions or asking courts to declare them null and void, particularly the resolution on the transfer of the shares of the minority shareholders. Our Bank filed a motion on December 7, 2007, asking the court to grant clearance for the transfer resolution to be entered in the commercial register, notwithstanding the lawsuits challenging this resolution. After Munich Regional Court I ruled in favour of this request for clearance on April 24, 2008, Munich Higher Regional Court rejected the summary complaint filed against that ruling on September 3, 2008. The transfer resolution was then entered in the Commercial Register of HVB AG on September 15, 2008; since that time UniCredit has been the sole shareholder of HVB AG.
In a ruling issued on August 28, 2008, Munich Regional Court I dismissed the motions seeking to have the resolutions passed by the Annual General Meeting on June 26/27, 2007 declared null and void, and in particular the suit filed against the transfer resolution. The ruling is not yet final because a number of shareholders have appealed the ruling of first instance. However, in view of the decisions issued by Munich Regional Court I on April 24 and Munich Higher Regional Court on September 3, 2008, the Bank does not expect the appeal to succeed.

A total of eight companies with headquarters in the United States, the Virgin Islands, the Cayman Islands, the British West Indies and Bermuda, stating that they are shareholders in our company, have filed suit against UniCredit S.p.A., Alessandro Profumo and Dr Wolfgang Sprissler, demanding payment of €17.35 billion in damages to HVB AG ("the hedge fund lawsuits"), stating that the sale of the Bank Austria shares held by our Bank to UniCredit S.p.A. and the sale and transfer of other companies (in particular CEE units and asset management companies) to companies affiliated with UniCredit took place at prices significantly below market value. One former minority shareholder (Verbraucherzentrale für Kapitalanleger e.V. (VzfK)) raised with similar arguments a claim against UniCredit S.p.A., Alessandro Profumo and Dr Wolfgang Sprissler for alleged damages in the amount of €173.5 million to be paid to HVB. Against the backdrop of the independent external opinions obtained for the various transactions, and in view of the fact that all transactions took place at arm's length, the defendants are convinced that the alleged damage claims are without foundation.

The plaintiffs of the hedge fund lawsuits and another shareholder have also filed suit against our Bank, making the same arguments, seeking to have our Bank's annual financial statements for the 2006 financial year declared null and void because the above-mentioned claims were not recognised in the balance sheet. This proceeding has been suspended pending a final ruling on the hedge fund lawsuits.

Arbitration on the cash settlement for Vereins- und Westbank AG

The Extraordinary Shareholders' Meeting of Vereins- und Westbank AG on June 24, 2004 approved the transfer of shares of minority shareholders of Vereins- und Westbank AG to HVB AG; after settlement of the legal challenges to this move, HVB AG paid the minority shareholders of Vereins- und Westbank AG an increased cash settlement of €26.65 per share (the "26.65 settlement"). Notwithstanding this arrangement, numerous minority shareholders have exercised their right to have the €26.65 compensation reviewed in special judicial proceedings pursuant to Section 1 (3) of the Act on the Procedure Regarding the Compensation of Minority Shareholders. In a ruling dated March 2, 2006, Hamburg Regional Court increased the cash settlement to €37.20 per share on the basis of its own assessment; the Bank has appealed against this decision. We assume that, at most, a much smaller payment in addition to the €26.65 settlement will have to be made to the squeezed-out shareholders of Vereins- und Westbank AG. More detailed information could have a negative effect on the legal position of HVB AG in the pending proceedings.

Trade tax reimbursement/Hypo Real Estate

Up to and including 2001, HVB AG charged or reimbursed local trade tax (Gewerbesteuer) to various subsidiaries which comprised a single entity with HVB AG or its legal predecessors for trade tax purposes. Hypo Real Estate Bank AG and Hypo Real Estate International AG have filed a lawsuit demanding repayment of approximately €76 million plus interest for alleged overpayments. Munich Regional Court I ruled in favour of these lawsuits on April 29, 2008. HVB AG has appealed against this ruling because, on the basis of legal opinions obtained on this matter, it believes that the plaintiffs are not entitled to their claims.

5 Business risk

Risk management

We define business risk as adverse, unexpected changes in business volume and/or margins that cannot be attributed to other risk types. It can lead to sustained losses in earnings, thereby diminishing the market value of a company. Business risk can result above all from serious deterioration of the market environment, changes in the competitive situation or customer behaviour, but may also result from changes in the cost structure.

As part of its cost and income responsibility, each business unit is responsible for the operational management of business risk.

Measurement methods

The economic capital arising from business risk is measured on the basis of a value-at-risk approach. For this purpose, income and cost volatilities are determined at division level and, with due consideration given to correlations, a value-at-risk is calculated that represents the possible fluctuations in the company value associated with business risk. In 2008, the method was revised and standardised within the UniCredit Group, and the parameters for HVB Group were updated.

Risk monitoring

Economic capital arising from business risk is calculated and analysed by the Strategic Risk Management and Control department and reported to the divisions, the Chief Risk Officer and the Audit Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual and budget figures.

Within the framework of monthly reporting to the Management Board by the Controlling and Accounting departments, interim income and costs of the business units are tracked as levers of business risk by comparing the actual figures with the budgeted targets.

Risk Report (Continued)

Quantification and specification
The value-at-risk, without taking into account the diversification effects between risk types, decreased in the course of the year by €0.3 billion to €0.6 billion. The calculated economic capital for business risks of HVB AG amounted to approximately €0.3 billion at year-end 2008 (2007: €0.6 billion). These figures also reflect the effects of a changed re-allocation algorithm and the standardised calculation of the correlation matrix for the aggregation of risk types.

We continued with our projects to enhance processes and cut costs during the year under review. We also achieved significant reductions in payroll costs. First, the variable remuneration of our employees was reduced through the negative impact of the financial crisis on our results. This applied above all to the bonus payments in the Markets & Investment Banking division. Second, overall wages and salaries decreased as a result of the declining number of employees.

The Other/consolidation segment achieved savings by pooling core competencies and outsourcing activities in the Global Banking Services subsegment. This primarily involved the back office and facility management activities. For additional information on process improvements and cost savings, please refer to the chapters on Global Banking Services and Human Resources.

6 Risks arising from our own real estate portfolio

Risk management
We classify potential losses resulting from market fluctuations of our real estate portfolio under this risk type. Real estate collateral is discussed under default risk.

The real estate portfolio of HVB AG has essentially been transferred to our HVB Gesellschaft für Gebäude mbH & Co. KG subsidiary. Meanwhile, in the course of the integration of Vereins- und Westbank AG in 2004, its real estate portfolio was transferred to HVB AG.

HVB AG has been responsible for all strategic properties under its jurisdiction since October 1, 2007. Our strategic properties include all properties used by the Bank.

The infrastructure and facility management activities at HVB AG will be outsourced to an external service provider with effect from April 1, 2009. At the same time, approximately 250 employees will transfer to the service provider. A retained organisation remaining with HVB AG will provide the interface to the service provider.

The real estate economic capital for HVB AG amounted to €49 million as of December 31, 2008 (December 31, 2007: €62 million). These figures also reflect the effects of a changed re-allocation algorithm and the standardised calculation of the correlation matrix for the aggregation of risk types.

7 Risks arising from our shareholdings and investments

Risk management
We classify potential losses resulting from fluctuations in market prices of our portfolio of listed and unlisted shareholdings, financial investments and corresponding fund shares under this risk type (operational subsidiaries of HVB Group are excluded). The portfolio is managed by the Management Board.

Measurement methods
Under the value-at-risk approach, the risk inherent in our investments is calculated on the basis of their market values and volatilities, which, in the case of investments in listed companies, are determined using the share price fluctuations. In the case of investments in unlisted companies, we apply the book values as market value estimates as well as the volatilities of industry-specific indices. In 2008, the method was revised and standardised within the UniCredit Group, and the parameters for HVB Group were updated. This involved abandoning the exponential weighting and moving towards the regulatory parameterisation requirements for market risk.

Risk monitoring

The Strategic Risk Management and Control unit calculates and analyses the economic capital for shareholdings and financial investments, and reports it to the divisions, the Chief Risk Officer and the Audit Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual and budget figures.

The task of investment controlling falls to the Financial Shareholdings department, which is under the responsibility of the Chief Financial Officer. This department uses auditors' reports, annual reports and interim reporting instruments to regularly verify the value of our investments. This ensures that substantial decreases in value are recognised early, analysed and reported to the Chief Financial Officer.

All investments are either considered strategic and allocated to a division, or deemed non-strategic and can thus in principle be eliminated through disposals, mergers or liquidation. The number of strategic investments remained nearly constant in 2008. There are no plans for major changes. The reduction of the non-strategic portfolio is progressing as planned.

Quantification and specification

The value-at-risk, without taking into account the diversification effects between risk types, remained at €0.8 billion. The economic capital of HVB AG was up slightly by €0.1 billion to €0.3 billion. These figures also reflect the effects of a changed re-allocation algorithm and the standardised calculation of the correlation matrix for the aggregation of risk types, and also show the impact of the ongoing financial crisis.

8 Strategic risk

Risk management

Strategic risk results from management being slow to recognise important trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that may prove to be disadvantageous in terms of the Bank's long-term goals and may be difficult or impossible to reverse. Notwithstanding the fact that HVB AG is part of the UniCredit Group, the management of strategic risk lies within the corporate management responsibilities of the Management Board, which determines the risk positioning of HVB Group by defining the Bank's strategic orientation.

Measurement methods

Strategic risk is measured primarily by qualitative methods. For this purpose, we continually monitor the domestic and international political and economic environment while subjecting our own strategic positioning to an ongoing review process.

Risk monitoring

As part of its long-term planning, the Management Board regularly reviews the defined strategy of HVB Group. This ensures that we can respond to changing conditions as required with adjustments to the business model or the business processes. When deriving strategic initiatives of this kind, the Management Board conducts close consultations with the Supervisory Board at regular intervals, in particular with the Audit Committee.

Quantification and specification

Risk from overall economic trends and risk from external market changes

The strategic orientation of HVB Group is described in the Financial Review. The Bank provides customer-oriented products in its main lines of business in retail, private and corporate banking as well as investment banking in its core market of Germany and concentrates equally on its core markets of Germany, Italy and Austria. Against this backdrop, the overall economic trend in Germany, coupled with developments and changes on the international financial and capital markets, is of great importance for the assets, liabilities, financial position and profit or loss of HVB Group.

Risk Report (Continued)

As described in detail in the section of the Financial Review of HVB Group entitled "Underlying conditions and general comments on the business situation", 2008 was overshadowed by the rapidly worsening financial crisis and the ensuing severe global economic crisis, complete with the negative effects described. In this difficult environment, which will continue through 2009, it is uncertain whether the Bank will be able to sustain a positive performance, even given the balanced business model implemented by HVB Group.

The economic downturn could lead to a rapidly rising rate of bankruptcies amongst companies of all sizes and higher unemployment in Germany. HVB Group is one of the biggest lenders to the SMEs and one of the leading providers of private and commercial loans in Germany. Should the economy perform worse than expected, it is possible that the consequences of the crisis will also have a greater impact on the customers of HVB Group and loan-loss provisions will rise more significantly than currently expected by the management of HVB Group.

Taking all factors into account, there is still considerable uncertainty regarding both the effectiveness of the current economic stimulus packages and the duration and intensity of the financial and economic crisis. Should the planning assumptions applied under this uncertainty fail to materialise, or should the financial markets face further turmoil for example as a result of bankruptcies in the financial sector or defaults by individual states, this could have a negative effect on the assets, liabilities, financial position and profit or loss of HVB Group.

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

Even if the intention is to retain HVB Group's fundamental strategic orientation as the centre of competence for the UniCredit Group's investment banking activities, we are currently in the process of adjusting the business model of the Markets & Investment Banking division to reflect the changed market realities. Among other things, we intend to cut back sharply on proprietary trading and concentrate more on our key customers in the core markets of the UniCredit Group. Furthermore, the Markets & Investment Banking division will focus more heavily than before on providing customer-oriented products for the other divisions. Should this modification of the business model fail to have the desired effect, this could seriously affect HVB Group's ability to participate in a recovery on the markets and to secure sustainable profitability.

Against the backdrop of the extremely difficult conditions faced by the banking sector, HVB Group has decided to eliminate 2,500 posts with a view to permanently enhancing its profitability. If this objective is not achieved, or if it is only partly achieved, in the period earmarked, this could have a negative impact on the results of HVB Group.

Risks from the consolidation of the banking market

Consolidation on the German and international banking and financial markets is continuing apace. This is demonstrated among other things by the national mergers announced in 2008. The assets, liabilities, financial position and profit or loss of HVB Group could be affected by consolidation and concentration in the German banking sector, together with an associated increase in the market power of its competitors. HVB Group does, however, have a strong capital base and adequate liquid funds to be able to respond quickly and flexibly to these developments when the time and the conditions are right. In addition, HVB Group can leverage the international network of the UniCredit Group for the benefit of its customers.

Risks from modified competitive conditions in the German financial sector

The German financial services market is HVB Group's core market. At present, this can readily be described as difficult for retail and corporate banking operations on account of the German banking system's three-pillar structure and strong competition. Overcapacity still exists on the retail side of the German market in particular, leading to intense competition for customers and market share, and putting HVB Group up against sustained rivalry for trade. Moreover, there is a trend for simpler, more traditional products, which could serve to aggravate the already tough competitive conditions. This has been engendered by the loss of confidence on the part of customers and investors as a result of the financial crisis. HVB Group nevertheless has funds available for possible expansions with regard to its balanced business model and very strong capital base, and a good chance of enhancing its market and earnings position. At the same time, though, the possibility of further intensifying competitive conditions in the financial sector having a negative effect on the assets, liabilities, financial position and profit or loss of HVB Group cannot be completely excluded.

HVB Group has survived without government assistance to date and has not had to call upon any of the measures envisaged in the German Financial Markets Stabilisation Act. The state safety net was essential to stabilise the situation and restore confidence on the German financial market. It would probably be impossible to overcome this crisis on the financial services market without state intervention and stimulus packages. HVB Group is working on the assumption that state action will remain limited to what is absolutely essential to deal with the crisis, taking into account the planned additional regulations. Otherwise these actions could create new, uneven competitive conditions, which could have a negative effect on the assets, liabilities, financial position and profit or loss of financial institutions that do not request state support.

HVB Group continues to enjoy an adequate supply of liquidity. As far as the Bank is concerned, critical success factors alongside general developments on the money and financial markets, especially with longer terms, are the generally limited demand from investors for bank issues; a possible competitive disadvantage compared with state-guaranteed bank bonds (SoFFin); the competitive disadvantages arising from the sharp widening of spread levels of German states and other nations; and a reticence on the part of customers to spend, should the financial crisis deepen any further. Moreover, greater demand for liquidity from a number of states and government units caused by the economic stimulus packages worldwide, coupled with an associated expanded supply of government bonds, could make it more difficult for the financial sector to place debt at suitable terms.

Risks from a change in HVB Group's rating

HVB Group currently enjoys a sound rating from the external rating agencies S&P, Moody's and Fitch. Should there be a change in the parameters that the rating agencies use to assess HVB Group, the result could be a downgrade. Such a change in the rating could make it harder to tap the capital markets, with higher funding costs having a negative effect on the assets, liabilities, financial position and profit or loss of HVB Group.

Income Statement

for the year ended December 31, 2008

Expenses

				2008	2007
					€ millions
1	Interest payable			12,308	11,720
2	Fees and commissions payable			1,046	568
3	Net loss on financial operations			3,149	85
4	General administrative expense				
	a) payroll costs				
	aa) wages and salaries	1,386			1,456
	ab) social security costs and expenses for				
	pensions and other employee benefits	348			357
			1,734		1,813
	including: for pensions				
	€150 million				(155)
	b) other administrative expenses		1,401		1,414
				3,135	3,227
5	Amortisation, depreciation and impairment losses				
	on intangible and tangible assets			159	134
6	Other operating expenses			114	173
7	Write-downs and impairments for receivables and				
	certain securities as well as additions to provisions				
	for losses on guarantees and indemnities			2,470	2,141
8	Write-downs and impairments on participating				
	interests, shares in affiliated companies				
	and investment securities			107	—
9	Expenses from absorbed losses			51	69
10	Extraordinary expenses			—	—
11	Transfers to the special fund for general banking				
	risks pursuant to Section 340g, Commercial Code			—	—
12	Taxes on income			149	343
13	Other taxes, unless shown under				
	“Other operating expenses”			21	2
14	Net income			—	8,146
Total expenses				22,709	26,608

Income

			€ millions
		2008	2007
1 Interest income from			
a) loans and money market operations	12,164		11,972
b) fixed-income securities and government-inscribed debt	3,616		3,181
		15,780	15,153
2 Current income from			
a) equity securities and other variable-yield securities	832		411
b) participating interests	100		223
c) shares in affiliated companies	160		179
		1,092	813
3 Income earned under profit-pooling			
and profit-and-loss transfer			
agreements		52	412
4 Fees and commissions receivable		2,256	2,090
5 Net profit on financial operations		—	—
6 Write-ups on bad and doubtful debts and on certain			
securities as well as release of provisions for losses on			
guarantees and indemnities		1,002	1,054
7 Write-ups on participating interests,			
shares in affiliated companies and			
investment securities		—	6,827
8 Other operating income		176	259
9 Net loss		(2,351)	—
Total income		**22,709**	**26,608**
1 Net loss/net income		(2,351)	8,146
2 Withdrawal from retained earnings			
a) from legal reserve	—		—
b) from reserve for own shares	—		1
c) from other retained earnings	2,354		—
		2,354	1
4 Transfer to retained earnings			
a) to legal reserve	—		—
b) to reserve for own shares	3		—
c) to other retained earnings	—		4,073
		3	4,073
4 Profit available for distribution		—	4,074

Balance Sheet

at December 31, 2008

Assets

		Dec. 31, 2008	Dec. 31, 2007
			€ millions
1 Cash and cash balances			
a) cash on hand	536		543
b) balances with central banks	4,703		2,943
including: with Deutsche Bundesbank			
€4,270 million			(2,863)
		5,239	3,486
2 Treasury bills and other bills eligible			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	11		10
including: eligible for refinancing with			
Deutsche Bundesbank			
€8 million			(7)
b) bills of exchange	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
		11	10
3 Loans and receivables with banks			
a) repayable on demand	24,525		19,779
b) other loans and receivables	51,210		62,912
		75,735	82,691
including: mortgage loans			
€— million			(—)
municipal loans			
€767 million			(592)
4 Loans and receivables with customers		143,717	148,258
including: mortgage loans			
€61,531 million			(70,020)
municipal loans			
€14,413 million			(15,436)
other loans secured by			
real-estate liens			
€3,671 million			(3,931)
Amount carried forward:		224,702	234,445

Liabilities

				€ millions
			Dec. 31, 2008	Dec. 31, 2007
1 Deposits from banks				
a) repayable on demand		12,966		17,806
b) with agreed maturity dates or periods of notice		85,866		96,086
			98,832	113,892
including: registered mortgage bonds in issue				
€1,483 million				(1,892)
registered public-sector bonds in issue				
€445 million				(543)
bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€2 million				(2)
and registered public-sector bonds				
€3 million				(7)
2 Deposits from customers				
a) Savings deposits				
aa) with agreed period of notice of three months	11,530			12,287
ab) with agreed period of notice				
of more than three months	110			129
		11,640		12,416
b) registered mortgage bonds in issue		10,590		11,194
c) registered public-sector bonds in issue		3,860		3,813
d) other debts				
da) repayable on demand	45,297			35,688
db) with agreed maturity dates or periods of notice	82,963			60,132
including: bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€76 million				(87)
and registered public-sector bonds				
€60 million				(61)
		128,260		95,820
			154,350	123,243
Amount carried forward:			253,182	237,135

Balance Sheet (Continued)

Assets

			Dec. 31, 2008	Dec. 31, 2007
				€ millions
Amount brought forward:			224,702	234,445
5 Bonds and other				
fixed-income securities				
a) money market paper				
aa) issued by public authorities	1,281			602
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€864 million				(118)
ab) issued by other borrowers	12,197			7,540
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€7,506 million				(2,076)
		13,478		8,142
b) bonds and notes				
ba) issued by public authorities	20,615			13,657
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€20,109 million				(12,511)
bb) issued by other borrowers	65,124			59,840
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€34,974 million				(26,831)
		85,739		73,497
c) own bonds		15,582		12,973
nominal value €16,634 million				(13,727)
			114,799	94,612
6 Equity securities and other variable-yield securities			12,663	29,905
7 Participating interests			1,091	981
including: in banks				
€19 million				(19)
in financial service institutions				
€— million				(—)
8 Shares in affiliated companies			3,014	3,088
including: in banks				
€1,186 million				(1,191)
in financial service institutions				
€46 million				(46)
Amount carried forward:			356,269	363,031

Liabilities

			Dec. 31, 2008	Dec. 31, 2007
				€ millions
Amount brought forward:			253,182	237,135
3 Debt securities in issue				
a) bonds				
aa) mortgage bonds	19,556			24,086
ab) public-sector bonds	3,233			3,155
ac) other bonds	37,186			43,675
		59,975		70,916
b) other debt securities in issue		—		3
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(3)
			59,975	70,919
4 Trust liabilities			247	250
including: loans taken out on a trust basis				
€247 million				(250)
5 Other liabilities			28,162	29,870
6 Deferred income				
a) from issuing and lending operations		89		132
b) other		268		299
			357	431
7 Provisions				
a) provisions for pension fund and similar obligations		1,523		1,508
b) tax provisions		559		700
c) other provisions		2,019		1,878
			4,101	4,086
8 Subordinated liabilities			7,632	8,335
9 Participating certificates outstanding			205	614
including: those due in less than two years				
€— million				(409)
10 Fund for general banking risks			291	291
Amount carried forward:			354,152	351,931

Balance Sheet (Continued)

Assets

			€ millions
		Dec. 31, 2008	Dec. 31, 2007
Amount brought forward:		356,269	363,031
9 Trust assets		247	250
including: loans granted on a trust basis			
€247 million			(250)
10 Intangible assets		261	291
11 Property, plant and equipment		314	369
12 Own shares		—	—
nominal value €— million			(—)
13 Other assets		16,155	9,773
14 Prepaid expenses			
a) from issuing and lending operations	134		206
b) other	106		98
		240	304
Total assets		**373,486**	**374,018**

Liabilities

				€ millions
			Dec. 31, 2008	Dec. 31, 2007
Amount brought forward:			354,152	351,931
11 Shareholders' equity				
a) subscribed capital		2,407		2,407
divided into:				
787,830,072 shares of common				
bearer stock				
14,553,600 shares of registered				
non-voting preferred stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for own shares	3			—
cc) other retained earnings	7,133			5,815
		7,136		5,815
d) profit available for distribution		—		4,074
			19,334	22,087
Total liabilities and shareholders' equity			**373,486**	**374,018**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		39,976		36,624
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			39,976	36,624
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		41,912		39,271
			41,912	39,271

Notes

Legal basis

The annual financial statements of Bayerische Hypo- und Vereinsbank Aktiengesellschaft (the “Bank” or “HVB”) for the 2008 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Pfandbrief Act (PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (RechKredV).

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

The Bank has published the statement of compliance with the German Corporate Governance Code required by Section 161 of the Stock Corporation Act on its website at www.hvb.de/annualreport.

Accounting, valuation and disclosure

Changes in accounting and valuation methods as well as disclosure modifications are indicated for the respective item.

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

Loans and receivables (asset items 3 and 4) are valued strictly at the lower of cost or market as stipulated in Section 253 (3) 1, German Commercial Code. The Bank creates specific loan-loss provisions and accruals to the amount of the anticipated loss for all identifiable exposure to lending risk. Specific loan-loss provisions and accruals are reversed as soon as the default risk has ceased, or used if the receivable is classified as irrecoverable and written off. The discounted amount of expected flow-backs was used when determining the level of write-downs compliant with Section 253 of the German Commercial Code.

The Bank makes general provisions for losses on specific loans or sets aside provisions for loans in countries with acute transfer risk or guarantees with comparable risk. Country-specific risk provisions are created to cover renegotiated loans and other finance facilities (due in more than one year). Sound assets pledged to the Bank as security reduce the Bank’s exposure to loan-loss risk. The group of countries with acute transfer risk and the corresponding write-down rate are updated regularly to take account of the current risk situation.

Latent lending risks are covered by global provisions. When assessing domestic latent lending risks, the Bank applies the principles of the German tax regulations allowing financial institutions to deduct global provisions.

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

Securities are shown under the items bonds and other fixed-income securities (asset item 5) and equity securities and other variable-yield securities (asset item 6). Depending on specific criteria like holding period and purpose, all securities are classified as held for trading purposes, as investment securities or as held for liquidity purposes (securities treated neither as held for trading purposes nor as investment securities). The Bank’s total holdings consist of 66.5% held for trading purposes, 20.8% held for liquidity purposes and 12.7% investment securities on the balance sheet date.

Investment securities are valued in accordance with the regulations set forth in Section 253 (2) 3, German Commercial Code, which only allow for write-downs to be taken in the event of probable permanent impairment. Securities held for liquidity purposes are valued strictly at the lower of the moving average value or the market price at the balance sheet date, as provided for in Section 253 (3) 1, German Commercial Code. Securities held for liquidity purposes that are hedged by offsetting positions are treated in accordance with the valuation-unit principles. Consequently, the Bank has established documented, predefined valuation units which are subject to strict preconditions; these are made up of underlying on-balance-sheet transactions (such as fixed-income securities) and associated hedging instruments (such as interest rate swaps) for the same type of risk. Within the individual valuation units, the results of valuing the individual financial instruments are netted. Any residual profit is disregarded when net income is computed; a loss is covered by appropriate provisions for anticipated losses on pending transactions.

For accounting purposes, securities held for trading purposes are grouped together with other financial contracts held for trading purposes to form portfolios, which are valued using a modified mark-to-market method. Trading portfolios and contracts are valued at market prices less computed potential loss of the portfolio (value-at-risk discount on the basis of a holding period of 10 days) – where there is a positive valuation difference – to ensure that no unrealised gains from outstanding positions are recognised in the income statement. The Bank makes allowance for the principle of prudence by limiting this procedure to the actively managed and liquid portfolios in the trading book and by applying a value-at-risk discount to take account of future uncertainties. The value-a-risk does not reflect uncertainty in the process of determining fair value. Applying the value-at-risk discount gives a value that protects the Bank against potential loss positions that it is essential to close out or execute within a defined period.

The valuation results for securities and derivatives are calculated on the basis of either external price sources (e.g. stock exchanges or other price providers like Reuters) or market prices determined using internal valuation models (mark-to-model). For the most part, prices from external sources are used to calculate the valuation results of securities. Derivatives are primarily valued on the basis of valuation models. The parameters for the Bank's internal valuation models (e.g. yield curves, volatilities, spreads, etc.) are taken from external sources and checked for validity and correctness by the Risk Control unit.

Appropriate adjustments are made to the fair values calculated in this way in order to take account of other influences on the fair value (such as the liquidity of the financial instrument or model risks in the fair value calculation using a valuation model).

Exhaustive information about the Bank's off-balance-sheet financial contracts, complete with detailed breakdowns of the nominal amounts and counterparty structure, is included in the Risk Report.

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

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

When disclosing income from write-ups on participating interests, shares in affiliated companies and investment securities (income item 7) and write-downs on these investments (expense item 8), the Bank has exercised the option allowed under Section 340c (2) 2, German Commercial Code. The Bank nets out respective expense and income items which also contain the results from the disposal of financial assets.

Software is disclosed under intangible assets (asset item 10). Software is valued at cost, with scheduled amortisation taken over an expected useful life of three to five years.

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

Liabilities (liability items 1 to 3, 8 and 9) are shown on the basis of the actual amount payable. Any difference between this sum and the issue amount is carried under deferred income and amortised as appropriate. However, discounted liabilities are shown at cash value.

Provisions for taxes, liabilities of uncertain amount and anticipated losses on pending transactions (liability item 7) have been assessed in accordance with the prudence and due diligence concept; they cover the anticipated payment obligation and are stated at nominal values, provided that accounting regulations do not require discounting. Pension provisions are set aside in the highest amount permitted under the relevant tax legislation, in accordance with actuarial principles, by applying an assumed interest rate of 6% on the future pension commitment; as provided for in Section 6a, German Income Tax Act, in conjunction with Regulation 6a, German Income Tax Regulations, such provisions are based on present values. Compliant with Section 8a of the German Semi-Retirement Act (Altersteilzeitgesetz), employee credits for semi-retirement are secured by pledging securities to the trustee.

The timing differences between taxable income and accounting income are determined in a statistical working paper. Deferred tax assets and liabilities are netted. Compliant with Section 274 (2), German Commercial Code, any remaining asset balance is not disclosed.

Net income for the year is not affected by additional tax-related depreciation allowances or omitted write-ups.

Foreign currencies

Amounts in foreign currency are translated in accordance with the principles set forth in Section 340h, German Commercial Code. In addition, the Bank observes the suggestions for currency translation by banks given in Comment 3/1995 of the German Institute of Accountants' Expert Committee on Banks. As a result, assets and liabilities denominated in foreign currency and spot transactions outstanding at the balance sheet date are always converted into euros using market rates applicable at the balance sheet date. On the other hand, investment securities with no special cover are translated at the exchange rate applicable at the time of acquisition. Outstanding forward transactions are translated at the forward rate effective at the balance sheet date.

Earnings arising from the translation of items affecting the balance sheet and from the valuation of forward contracts at year-end are included in the income statement. Unrealised earnings from outstanding positions in money transfer operations are recognised in the period they arise. This does not give rise to any significant deferments of earnings.

Breakdown by maturity of selected asset items

		€ millions	
		2008	2007
A 3 b)	Other loans and receivables with banks		
	with residual maturity of less than 3 months	36,439	41,979
	at least 3 months but less than 1 year	7,044	13,576
	at least 1 year but less than 5 years	4,189	4,571
	5 years or more	3,538	2,786
A 4)	Loans and receivables with customers		
	with residual maturity of less than 3 months	16,325	14,986
	at least 3 months but less than 1 year	11,798	9,932
	at least 1 year but less than 5 years	35,527	34,845
	5 years or more	66,884	72,986
	No fixed maturity	13,183	15,509
A 5)	Bonds and other fixed-income securities amounts due in the following year	29,394	20,484

Breakdown by maturity of selected liability items

		€ millions	
		2008	2007
L 1 b)	Deposits from banks		
	with agreed maturity dates or periods of notice		
	with residual maturity of less than 3 months	64,177	71,993
	at least 3 months but less than 1 year	3,341	7,912
	at least 1 year but less than 5 years	9,702	8,883
	5 years or more	8,646	7,298
	Deposits from customers		
L 2 ab)	Savings deposits with agreed maturity dates or periods of notice		
	with residual maturity of less than 3 months	3	5
	at least 3 months but less than 1 year	30	36
	at least 1 year but less than 5 years	33	39
	5 years or more	44	49
L 2 b)	Registered mortgage bonds in issue		
L 2 c)	Registered public-sector bonds in issue		
L 2 db)	Other debts with agreed maturity dates or periods of notice		
	with residual maturity of less than 3 months	53,021	47,184
	at least 3 months but less than 1 year	9,533	5,265
	at least 1 year but less than 5 years	9,497	8,892
	5 years or more	25,362	13,798
	Debt securities in issue		
L 3 a)	Bonds amounts due in following year	18,745	28,154
L 3 b)	Other debt securities in issue		
	with residual maturity of less than 3 months	—	3
	at least 3 months but less than 1 year	—	—
	at least 1 year but less than 5 years	—	—
	5 years or more	—	—

Notes to the Balance Sheet (Continued)

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

				€ millions
	AFFILIATES 2008	AFFILIATES 2007	PARTICIPATING INTERESTS 2008	PARTICIPATING INTERESTS 2007
Loans and receivables with banks	32,902	25,535	538	964
Loans and receivables with customers	2,567	2,862	7,076	3,006
Bonds and other fixed-income securities	3,533	2,149	710	1,477
Deposits from banks	12,859	30,915	498	136
Deposits from customers	2,799	4,672	24,220	4,661
Debt securities in issue	1,616	2,091	—	—
Subordinated liabilities	1,615	1,589	—	—

Trust business

Trust business assets and liabilities break down as follows:

		€ millions
	2008	2007
Loans and receivables with banks	90	85
Loans and receivables with customers	157	165
Equity securities and other variable-yield securities	—	—
Participating interests	—	—
Other assets	—	—
Trust assets	**247**	**250**
Deposits from banks	6	7
Deposits from customers	241	243
Debt securities in issue	—	—
Trust liabilities	**247**	**250**

Foreign-currency assets and liabilities

72.9% of the Bank's foreign-currency holdings consist of US dollars, 10.8% of pounds sterling, 5.8% of Swiss francs and 5.0% of Japanese yen.

		€ millions
	2008	2007
Assets	49,671	63,772
Liabilities	34,712	49,874

The amounts shown represent the euro equivalents of all currencies. The differences in amount between assets and liabilities are generally offset by off-balance-sheet transactions.

Subordinated asset items

The following balance sheet items contain subordinated assets:

		€ millions
	2008	2007
Loans and receivables with banks	1,496	1,521
Loans and receivables with customers	812	649
Bonds and other fixed-income securities	4,862	3,041
Equity securities and other variable-yield securities	10	83
thereof: own participating certificates		
in market-smoothing portfolio	—	17

Marketable debt and equity securities

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

						€ millions
	TOTAL MARKETABLE SECURITIES 2008	TOTAL MARKETABLE SECURITIES 2007	OF WHICH: LISTED 2008	OF WHICH: LISTED 2007	OF WHICH: UNLISTED 2008	OF WHICH: UNLISTED 2007
Bonds and other						
fixed-income securities	114,799	94,611	78,526	69,060	36,273	25,551
Equity securities and other						
variable-yield securities	8,889	25,340	7,583	24,013	1,306	1,327
Participating interests	98	132	98	132	—	—
Shares in affiliated companies	262	262	262	262	—	—

All securities held for trading purposes are valued using a modified mark-to-market method (see "Accounting, valuation and disclosure" above).

A fair-value discount has been taken to the income statement for risks in the model assumptions (see also the section entitled "Accounting, valuation and disclosure"). For holdings in the trading book, this discount is shown under net income from financial operations. For other holdings of securities and derivatives portfolios, it is shown under write-downs and provisions for losses on loans, advances and securities as well as additions to provisions for losses on guarantees and indemnities.

Non-current securities contain financial instruments carried at an amount higher than their fair value. The carrying amount of these securities is €16,175 million and the fair value €14,456 million. Given the development of interest and rating risks, we do not believe that these securities have suffered a permanent loss of value.

In this context, securities held for trading purposes with a carrying amount of €13,050 million were reclassified as investment securities in the year under review.

Own shares

Compliant with Section 71 (1) No. 7 of the German Stock Corporation Act, the purchase of own shares during the period from January 1, 2008 to July 30, 2008 was carried out on the basis of the authorisation issued under the resolutions passed by the Bank's Annual General Meeting of Shareholders on June 27, 2007; the purchase of shares for the period from July 31, 2008 to the delisting of HVB shares on the Frankfurt Stock Exchange at the end of September 15, 2008 was carried out on the basis of the authorisation issued under the resolutions passed at the Bank's Annual General Meeting of Shareholders on July 30, 2008.

For the purposes of securities trading as permitted under Section 71 (1) No. 7, German Stock Corporation Act, 1,303,174 own shares of treasury stock were purchased by the Bank and controlled or majority-owned companies at the respective current market prices as part of normal securities trading, and 1,303,174 own shares of treasury stock were sold at the respective current market prices.

The own shares of treasury stock were purchased at an average price of €40.44 per share and resold at an average price of €40.44 per share. The shares purchased during the period under review amounted to an equivalent of €4 million, or 0.16% of capital stock.

The highest number of own shares of treasury stock held on a single day during the year, was 11,001, equivalent to €0.03 million, or 0.001% of capital stock.

Notes to the Balance Sheet (Continued)

Analysis of non-current assets

€ millions

	ACQUISITION/ PRODUCTION COST 1	ADDITIONS DURING FINANCIAL YEAR 2	DISPOSALS DURING FINANCIAL YEAR 3	RECLASSIFICATIONS DURING FINANCIAL YEAR[2] 4
Intangible assets	710	87	23	2
thereof: Goodwill	—	5	5	—
Software	710	82	18	2
Property, plant and equipment	699	7	82	3
thereof: Land and buildings used by the Bank in				
its operations	292	—	—	—
Furniture and office equipment	407	7	82	3
Other	21	—	—	—
	ACQUISITION COST			**CHANGES +/–[1]**
Participating interests	1,564			(473)
Shares in affiliated companies	3,474			(460)
Investment securities	273			15,944

1 use has been made of the possibility of combining amounts allowed by Section 34 (3), Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions
2 the "Reclassifications during financial year" column shows the changes in value as a result of currency translation

Within the scope of its lending operations, the Bank and its controlled or majority-owned companies had, in accordance with Section 71e (1) 2 of the German Stock Corporation Act, received a total of 201,832 own shares as collateral as of September 15, 2008. This represents €0.6 million, or 0.03% of capital stock.

At December 31, 2008, neither HVB nor any controlled companies nor any companies in which a majority interest is held had significant holdings of own shares or other equity instruments of HVB in their portfolios.

Intangible assets

The goodwill of €5 million generated by the acquisition of the trading operations of Capitalia S.p.A. in 2008 was amortised in full in the year under review.

Compliant with IDW RS HFA 11, system and application software is shown under intangible assets.

Non-scheduled amortisation is taken on unused software developments.

Other assets

€ millions

	2008	2007
Premiums paid on options pending	11,180	7,665
Offsetting valuation item from assets		
held for trading purposes	2,247	—
Equalisation item for revaluation of tied		
currency positions	961	145
Claims to tax reimbursements	496	341
Variation margin DTB	415	278
Capital investments with life insurers	193	187
Claims to dividends	181	575
Collection paper, such as checks, matured debentures,		
interest and dividend coupons	150	153
Merger-related differences in market values		
of VuW portfolios	28	83
Purchase price receivables	9	5

WRITE-UPS DURING FINANCIAL YEAR 5	DEPRECIATION/ AMORTISATION ACCUMULATED 6	SCHEDULED DEPRECIATION/AMORTISATION DURING FINANCIAL YEAR 7	NON-SCHEDULED DEPRECIATION/AMORTISATION DURING FINANCIAL YEAR 8	NET BOOK VALUE 31/12/2008 9	NET BOOK VALUE 31/12/2007 10
					€ millions
—	515	90	5	261	291
—	—	—	—	—	—
—	515	90	5	261	291
2	315	(34)	18	314	369
2	78	9	18	216	241
—	237	(43)	—	98	128
—	—	—	—	21	23
				NET BOOK VALUE 31/12/2008	**NET BOOK VALUE 31/12/2007**
				1,091	981
				3,014	3,088
				16,217	273

Prepaid expenses

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

	2008	2007
		€ millions
Discounts on funds borrowed	134	206
Premiums on amounts receivable	—	—

Assets assigned or pledged as security for own liabilities

Assets totalling €76,193 million were assigned or pledged as security for the following liabilities:

	2008	2007
		€ millions
Deposits from banks	45,794	30,171
Deposits from customers	30,399	8,718
Provisions for pension fund and similar obligations	1,523	1,508

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

As a seller under repurchase agreements, the Bank entered into sales and repurchase transactions for securities with a book value of €68,109 million. These securities continue to be shown under the Bank's assets, and the consideration received in return is stated under liabilities. They comprise mainly open-market transactions with Deutsche Bundesbank and international money market transactions.

At the same time, further assets totalling €16,335 million were pledged as security for securities lending transactions and exchange-traded derivatives.

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

Notes to the Balance Sheet (Continued)

Other liabilities

The following table shows the main items included in other liabilities:

		€ millions
	2008	**2007**
Liabilities from short securities positions	13,392	16,595
Premiums received on options pending	12,202	10,682
Obligations arising from debts assumed	1,355	1,453
Variation margin DTB	401	32
Taxes payable	188	193
Offsetting valuation item for assets held		
for trading purposes	—	191
Banking book valuation reserves	66	17
Liabilities from allowances paid to and losses		
absorbed from subsidiaries	51	67
Merger-related differences in market values		
of VuW portfolios	19	56

Deferred income

Discounts on amounts receivable shown at nominal value totalled €69 million.

Provisions

Other provisions include the following items:

		€ millions
	2008	**2007**
Provisions for losses on guarantees and indemnities	280	289
Anticipated losses on pending transactions	563	202
Provisions for uncertain liabilities	1,097	1,277
of which:		
Bonuses on savings plans	19	21
Anniversary bonus payments	79	78
Payments for early retirement, semi-retirement, etc.	28	41
Payments to employees	258	428
Restructuring provisions	79	110
Total other provisions	**2,019**	**1,878**

Subordinated liabilities

This item includes accrued interest of €172 million. The Bank incurred interest expenses of €478 million in 2008.

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

In 2008, no item exceeded 10% of total subordinated liabilities.

Participating certificates outstanding

The following table shows the breakdown of participating certificates outstanding:

	ISSUER	WKN	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT	INTEREST RATE	MATURITY
1	Bayerische Hypo- und Vereinsbank AG	788119	2001	Bearer participating certificates	100	6.30	2011
2	Bayerische Hypo- und Vereinsbank AG	HV0CLA	2004	Bearer participating certificates	10	6.78	2010
3	Bayerische Hypo- und Vereinsbank AG	HV0CLB	2004	Bearer participating certificates	10	6.90	2011
4	Bayerische Hypo- und Vereinsbank AG	HV0CLL	2004	Bearer participating certificates	10	7.08	2010
5	Bayerische Hypo- und Vereinsbank AG	HV0CLP	2004	Bearer participating certificates	10	7.20	2010
6	Bayerische Hypo- und Vereinsbank AG	HV0CLQ	2004	Bearer participating certificates	10	7.20	2010
7	Bayerische Hypo- und Vereinsbank AG	HV0CLC	2004	Bearer participating certificates	8	6.90	2011
8	Bayerische Hypo- und Vereinsbank AG	HV0CLD	2004	Bearer participating certificates	6	6.90	2011
9	Bayerische Hypo- und Vereinsbank AG	HV0CLF	2004	Bearer participating certificates	5	6.90	2011
10	Bayerische Hypo- und Vereinsbank AG	HV0CLG	2004	Bearer participating certificates	5	6.90	2011
11	Bayerische Hypo- und Vereinsbank AG	HV0CLH	2004	Bearer participating certificates	5	6.93	2011
12	Bayerische Hypo- und Vereinsbank AG	HV0CLJ	2004	Bearer participating certificates	5	6.93	2011
13	Bayerische Hypo- und Vereinsbank AG	HV0CLK	2004	Bearer participating certificates	5	6.98	2011
14	Bayerische Hypo- und Vereinsbank AG	HV0CLM	2004	Bearer participating certificates	5	7.08	2010
15	Bayerische Hypo- und Vereinsbank AG	HV0CLN	2004	Bearer participating certificates	5	7.08	2010
16	Bayerische Hypo- und Vereinsbank AG	HV0CLR	2004	Bearer participating certificates	5	6.93	2011
17	Bayerische Hypo- und Vereinsbank AG	HV0CLE	2004	Bearer participating certificates	1	6.90	2011

Holders of participating certificates are subordinated creditors and are not entitled to a share of the proceeds on company liquidation.

In each case, the participating certificates grant holders an entitlement to an annual interest payment with priority over the entitlement of shareholders to dividend payments; the interest payments arising from the participating certificates are reduced if such payments would result in a net loss for the year. In the event of the interest payment being reduced, the shortfall is to be repaid in the subsequent financial years, provided this does not result in a net loss for the year; a claim to repayment only exists, however, during the term of the participating certificates. Repayment is at the nominal amount; in the event of a net loss for the year or a reduction in the capital stock to cover losses, the redemption amount to which holders are entitled declines proportionately. Where net profits are generated in the subsequent financial years following a participation of the participating certificates in a net loss, the claims to repayment of the participating certificates are to be increased out of these profits before the net income is appropriated in any other way, once the legal reserves have been replenished; this obligation terminates when the participating certificates expire.

The interest payments for the 2008 financial year were made in full.

For the Bank, the participating certificates listed as 1 to 17 are classified as shareholders' equity in the sense of Section 10 (5), German Banking Act.

Shareholders' Equity

Analysis of shareholders' equity shown in the balance sheet

		€ millions
Subscribed capital		
Balance at January 1, 2008	2,407	
Balance at December 31, 2008		2,407
Additional paid-in capital		
Balance at January 1, 2008	9,791	
Balance at December 31, 2008		9,791
Retained earnings		
Legal reserve		
Balance at January 1, 2008	—	
Balance at December 31, 2008		—
Reserve for own shares		
Balance at January 1, 2008	—	
Transfer from reserve for own shares	3	
Balance at December 31, 2008		3
Other retained earnings		
Balance at January 1, 2008	5,815	
Transfer from net income 2007	3,672	
Withdrawal to offset the net loss 2008	(2,354)	
Balance at December 31, 2008		7,133
Profit available for distribution		
Balance at January 1, 2008	4,074	
Dividend payout of HVB for 2008	(402)	
Transfer from net income 2007	(3,672)	
Net loss	(2,351)	
Transfer to reserve for own shares	(3)	
Withdrawal from other retained earnings to		
offset the net loss 2008	2,354	
Balance at December 31, 2008		—
Shareholders' equity at December 31, 2008		19,334

Authorised capital increase

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	31/12/2008 € millions
2004	29/4/2009	990	835

The resolution adopted at the Annual General Meeting of Shareholders on April 29, 2004 with regard to the release of the remaining €137 million and the simultaneous approval of a new amount of €990 million was entered in the Commercial Register on December 18, 2006.

The capital increase of April 3, 2007 due to the integration of the investment banking activities of UniCredit Banca Mobiliare S.p.A. involving the issue of 51,684,532 new shares of common bearer stock (which correspond to €155 million) was performed in part by utilising the authorised capital increase.

Conditional capital

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	31/12/2008 € millions
2003	14/5/2008	375	—

Holdings of Bayerische Hypo- und Vereinsbank AG stock in excess of 5%

in %	2008	2007
UniCredit S.p.A.	100.0	95.5
thereof indirect: UniCredit S.p.A.	—	6.4

The Annual General Meeting of Shareholders on June 26/27, 2007 adopted a resolution to transfer the shares held by minority interests to UniCredit S.p.A. against payment of an appropriate cash settlement (squeeze-out). The squeeze-out resolution was filed in the Commercial Register on September 15, 2008. This means that all shares held by minority shareholders have been transferred to UniCredit by force of law.

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

Holdings pursuant to Section 285 No. 11 and 11a, German Commercial Code

The Bank has made use of the option set forth in Section 287 of the German Commercial Code. The full list of the Bank's shareholdings is published as part of the present financial statements by the operator of the electronic Federal Gazette in accordance with Section 325 (2) of the German Commercial Code and can be accessed via the homepage of the company register in accordance with Section 8b (2) of the German Commercial Code. It can also be called up on the Bank's website at www.hvb.de/annualreport.

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

Services performed for third parties
The Bank performed significant services for third parties notably in portfolio and asset management, and in the brokerage of insurance, savings and loan contracts and investment funds.

Breakdown of income by region

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

		€ millions
	2008	**2007**
Germany	13,936	13,885
Rest of Europe	4,332	3,760
Americas	655	674
Asia	433	408

Breakdown of other operating income and expenses
This item primarily includes income from payroll costs and costs of materials passed on (€72 million) and income from the reversal of provisions other than provisions for lending and securities operations (€36 million).

Other operating expenses include the following:
– additions to provisions other than provisions for lending and securities operations (€26 million),
– compensation and ex gratia payments,
– subsidies for subsidiaries, and
– amounts for social facilities and personnel costs.

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

Net loss
HVB recorded a net loss of €2,351 million in 2008, which has been offset by a withdrawal from retained earnings.

Other Information

Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €39,976 million:

		€ millions
	2008	2007
Loan guarantees	15,473	13,829
Guarantees and indemnities	22,493	21,591
Documentary credits	2,010	1,204

Irrevocable lending commitments totalling €41,912 million break down as follows:

		€ millions
	2008	2007
Book credits	37,568	34,938
Mortgage and municipal loans	1,069	1,149
Guarantees	3,205	3,133
Bills of exchange	70	51

Other financial commitments arising from real estate and IT operations total €344 million (2007: €328 million). A large part of the total relates to contracts with subsidiaries. The contracts run for standard market periods, and no charges have been put off to future years.

At the balance sheet date, the Bank had pledged securities worth €28,690 million as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main, Clearstream Banking S.A., Luxembourg and Clearstream Banking AG, Frankfurt am Main.

As part of real estate financing and development operations, the Bank assumes rental obligations or issues rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by its H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Provisions have been set aside in the income statement to cover identifiable risks arising from such guarantees.

Commitments for uncalled payments on shares not fully paid up amounted to €703 million at year-end 2008, and similar obligations for shares in cooperatives totalled €1 million. Under Section 22 (3) and Section 24 of the German Private Limited Companies Act, the Bank was also liable for defaults on such calls in respect of one company for an aggregate of €1 million.

At the end of 2008, the Bank was liable for calls for additional capital of €7 million for CMP Fond GmbH, and was also liable for calls for additional capital of €57 million for Liquiditäts-Konsortialbank GmbH, Frankfurt am Main. In addition, under Article 5 (4) of the Articles of Association of Liquiditäts-Konsortialbank GmbH, the Bank is jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

At the balance sheet date, the Bank had unlimited personal liability arising from shares in three partnerships.

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, the Bank has undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which the Bank has a majority interest. The Bank has made similar representations for its mortgage banking subsidiary in accordance with Section 3 (1) of the by-laws of the Deposit Guarantee Fund for Bank-Related Savings and Loan Associations.

Auditor's fees

The following table shows the breakdown of fees paid to the auditor KPMG AG Wirtschaftsprüfungsgesellschaft recognised as expense in the year under review:

		€ millions
	2008	2007
Fees for		
Auditing of the financial statements	5	5
Other auditing or appraisal services	2	2
Tax consulting services	—	—
Other services	2	2

Statement of responsibility

HVB ensures that, to the extent of its shareholding, the companies set forth below are in a position to meet their contractual obligations except in the event of political risks:

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
DAB Bank AG, Munich[1]
Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich
2. Banks in other regions
HVB Banque Luxembourg Société Anonyme, Luxembourg
HVB Singapore Limited, Singapore
3. Financial companies
Beteiligungs- und Handelsgesellschaft in Hamburg
mit beschränkter Haftung, Hamburg
HVB Alternative Financial Products AG, Vienna
4. Companies with bank-related auxiliary services
HypoVereinsFinance N.V., Amsterdam

1 The company provides a Statement of Responsibility with the same wording for selected subsidiaries in its annual report.

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

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

Key capital ratios

Pursuant to Section 10 (1d) of the German Banking Act, equity capital for solvency purposes consists of the modified available capital and Tier III capital.

The modified available capital, consisting of core capital (Tier I) and supplementary capital (Tier II), totalled €24,930 million at year-end. There was no Tier III capital. We have not allocated any unrealised reserves to supplementary capital compliant with Section 10 (2b) 1 No. 6 and 7 of the German Banking Act.

The liable funds totalling €24,579 million calculated in accordance with Section 10 (2) of the German Banking Act are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits.

Derivative financial instruments

Detailed information on the Bank's derivative financial instruments, complete with itemised breakdowns of the nominal amounts, fair values and counterparty structure, is shown in the Risk Report.

Employees

The average number of staff employed was as follows:

	2008	2007
Staff (excluding trainees)	19,346	19,303
of whom: full-time	15,077	15,162
part-time	4,269	4,141
Trainees	1,025	1,077

The staff's length of service was as follows:

				in %
	WOMEN	MEN	2008	2007
	(EXCLUDING TRAINEES)		TOTAL	
Staff's length of service				
25 years or more	14.3	18.7	16.3	16.0
15 to 25 years	33.8	23.7	29.2	27.2
10 to 15 years	15.5	13.0	14.4	15.2
5 to 10 years	13.0	13.0	13.0	14.8
less than 5 years	23.4	31.6	27.1	26.8

Other Information (Continued)

Emoluments

		€ millions
	2008	2007
Members of the Management Board	8	13
Members of the Supervisory Board	1	1
Former members of the Management Board		
and their surviving dependants	10	9

At December 31, 2008, the Bank had pension provisions for former members of the Management Board and their surviving dependants totalling €94 million (2007: €90 million) calculated in accordance with Section 6a of the German Income Tax Act using actuarial principles.

Loans to executive board members

The total amount of loans and advances made and liabilities assumed at the balance sheet date was as follows:

		€ millions
	2008	2007
Members of the Management Board	3	5
Members of the Supervisory Board	1	1

Executive boards

Supervisory Board

Sergio Ermotti
Chairman since February 5, 2009

Alessandro Profumo
Chairman until February 5, 2009

Dr Wolfgang Sprissler
Deputy Chairman
since February 5, 2009

Peter König
Deputy Chairman

Dr Lothar Meyer
Deputy Chairman until
February 5, 2009
Ordinary member since
February 5, 2009

Gerhard Bayreuther
since July 30, 2008

Aldo Bulgarelli

Beate Dura-Kempf

Paolo Fiorentino

Dario Frigerio
until February 5, 2009

Giulio Gambino
since July 30, 2008

Klaus Grünewald

Günter Guderley
until July 30, 2008

Karl Guha
since February 5, 2009

Stephan Hofmeister
from July 1 to July 30, 2008

Friedrich Koch
until July 30, 2008

Hanns-Peter Kreuser
until June 30, 2008

Ranieri de Marchis

Beate Mensch
since July 30, 2008

Roberto Nicastro

Vittorio Ogliengo
until February 5, 2009

Panagiotis Sfeliniotis

Professor
Hans-Werner Sinn

Maria-Magdalena Stadler
until July 30, 2008

Jutta Streit
since July 30, 2008

Ursula Titze
until July 30, 2008

Michael Voss
since July 30, 2008

Jens-Uwe Wächter

Dr Susanne Weiss
since February 5, 2009

Management Board

Willibald Cernko
until April 30, 2008 and
again from January 1, 2009

Lutz Diederichs
since January 1, 2009

Stefan Ermisch
until June 5, 2008

Rolf Friedhofen

Henning Giesecke
since May 1, 2008

Heinz Laber

Dr Stefan Schmittmann
until April 30, 2008

Ronald Seilheimer
until December 31, 2008

Matthias Sohler
until April 30, 2008

Dr Wolfgang Sprissler
Board Spokesman
until December 31, 2008

Andrea Umberto Varese
until April 30, 2008

Dr Theodor Weimer
Board Spokesman
since January 1, 2009

Andreas Wölfer
until April 30, 2008 and again
from January 1, 2009

List of Executives and Outside Directorships[1]

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Alessandro Profumo UniCredit Group Chief Executive Officer of UniCredit S.p.A., member of the Management Committee of UniCredit S.p.A., Milan Chairman until February 5, 2009		UniCredit Bank Austria AG, Vienna (chairman)[2]
Sergio Ermotti UniCredit Group Deputy CEO, head of Corporate Investment Banking & Private Banking Area, member of the Management Committee of UniCredit S.p.A., Collina d'Oro Chairman[3]		UniCredit Bank Austria AG, Vienna[2] London Stock Exchange Group Plc, London Darwin Airline SA (chairman), Lugano Enterra SA, Lugano Hotel Residence Principe Leopoldo SA-Paradiso (chairman), Lugano Leopoldo Hotels & Restaurants SA (chairman), Lugano Tessal SA, Lugano Fidinam Group Holding SA, Lugano Kurhaus Cademario SA, Cademario
Peter König Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Haar-Salmdorf Deputy Chairman		BVV Versicherungsverein des Bankgewerbes a.G., Pensionskasse BVV Pensionsfonds des Bankgewerbes AG BVV Versorgungskasse des Bankgewerbes e.V.
Dr Lothar Meyer Former Chairman of the Management Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach Deputy Chairman[4]	ERGO Versicherungsgruppe AG, Düsseldorf[2] DKV Deutsche Krankenversicherung AG, Cologne[2] Hamburg-Mannheimer Versicherungs-AG, Hamburg[2] Victoria Lebensversicherung AG, Düsseldorf[2] Jenoptik AG, Jena	
Dr Wolfgang Sprissler Former Board Spokesman of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Sauerlach Deputy Chairman since February 5, 2009		UniCredit Bank Austria AG, Vienna[2] Dr. Robert Pfleger Chemische Fabrik GmbH, Bamberg
Gerhard Bayreuther Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Neubeuern since July 30, 2008		Pensionskasse der HypoVereinsbank (deputy chairman) BayBG Bayerische Beteiligungsgesellschaft mbH (deputy chairman)
Aldo Bulgarelli Attorney and partner in law office NCTM, Verona		ARAG ASSICURAZIONI S.p.A., Verona (President of the Collegio Sindacale)
Beate Dura-Kempf Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Litzendorf		

1 as of December 31, 2008
2 Group directorship
3 since February 5, 2009
4 until February 5, 2009

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

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Paolo Fiorentino UniCredit Group Deputy CEO, head of Global Banking Services Area, member of the Management Committee of UniCredit S.p.A., Milan		UniCredit Bank Austria AG, Vienna[2] Bank Pekao SA, Warsaw (deputy chairman)[2] UniCredit Global Information Service S.p.A., Milan[2] Banca di Roma, Rome Banco di Sicilia, Palermo
Dario Frigerio Head of Asset Management Division, member of the Management Committee of UniCredit S.p.A., Milan until February 5, 2009		UniCredit Bank Austria AG, Vienna[2] Pioneer Global Asset Management S.p.A., Milan[2] Pioneer Investment Management Ltd., Dublin[2] Pioneer Investment Management SGRp.A., Milan[2] Pioneer Alternative Investment Management, Dublin[2] Pioneer Investment Management USA Inc., Boston[2] Baroda Pioneer Asset Management, Mumbai[2] Finecobank S.p.A., Milan[2]
Giulio Gambino Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Unterschleißheim since July 30, 2008		
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia IT AG, Karlsruhe	
Günter Guderley Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Goldbach until July 30, 2008		
Karl Guha UniCredit Group Chief Risk Officer, member of the Management Committee of UniCredit S.p.A., Milan since February 5, 2009		
Stephan Hofmeister Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich from July 1 to July 30, 2008		
Friedrich Koch Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Kirchheim until July 30, 2008		
Hanns-Peter Kreuser Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich until June 30, 2008		
Ranieri de Marchis UniCredit Group Chief Financial Officer, member of the Management Committee of UniCredit S.p.A., Milan		Koç Finansal Hizmetler AS, Istanbul[2] Yapi Kredi Bankasi AS, Istanbul[2] Bank BPH S.A., Warsaw UNICREDIT TIRIAC Bank S.A.[2] Finecobank S.p.A., Milan[2]

1 as of December 31, 2008
2 Group directorship

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Beate Mensch Trade union secretary in the North Rhine-Westphalian division of Vereinte Dienstleistungsgewerkschaft, unit 10, Cologne since July 30, 2008	DHL Freight GmbH, Bonn	
Roberto Nicastro UniCredit Group Deputy CEO, head of Retail Area, member of the Management Committee of UniCredit S.p.A., Milan		Zao UniCredit Bank[2] UniCredit Banca S.p.A., Bologna[2] Banco di Sicilia[2] ABI – Italian Banking Association[2] UniCredit Servizi Retail Uno S.p.A.[2] UniCredit Servizi Retail Tre S.p.A.[2] UniCredit Bank Austria AG, Vienna[2]
Vittorio Ogliengo Head of Corporate Banking Division, member of the Management Committee of UniCredit S.p.A., Parma until February 5, 2009		UniCredit Corporate Banking S.p.A., Verona[2] UniCredit Global Leasing S.p.A., Milan (chairman)[2] UniCredit Bank Austria AG, Vienna[2]
Panagiotis Sfeliniotis Employee, HVB Direkt GmbH, Munich	HVB Direkt GmbH, Munich	
Professor Hans-Werner Sinn President of the Ifo Institute for Economic Research, Gauting	Thüga AG, Munich	
Maria-Magdalena Stadler Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Pullach until July 30, 2008		
Jutta Streit Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Augsburg since July 30, 2008		
Ursula Titze Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Neusäß until July 30, 2008		
Michael Voss Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Gröbenzell since July 30, 2008		
Jens-Uwe Wächter Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Himmelpforten		
Dr Susanne Weiss Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich since February 5, 2009		ROFA AG (chairperson), Kolbermoor Wacker Chemie AG, Munich

1 as of December 31, 2008
2 Group directorship

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

Management Board

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Willibald Cernko until April 30, 2008 and again since January 1, 2009	HVB Direkt Gesellschaft für Direktservice und Direktvertrieb mbH, Munich (chairman)[2] PlanetHome AG, Unterföhring near Munich (chairman)[2] Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich (chairman)[2]	Wealth Management Capital Holding GmbH, Munich[2] Notartreuhandbank AG, Vienna (deputy chairman) card complete Service Bank AG, Vienna
Lutz Diederichs since January 1, 2009	BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH, Berlin Deutsche Schiffsbank AG, Bremen/Hamburg (deputy chairman) Köhler & Krenzer Fashion AG, Ehrenberg	UniCredit Global Leasing S.p.A, Monza
Stefan Ermisch until June 5, 2008		
Rolf Friedhofen	HVB Immobilien AG, Munich (chairman)[2] HVB Information Services GmbH, Munich (deputy chairman)[2]	Wealth Management Capital Holding GmbH, Munich (deputy chairman)[2]
Henning Giesecke since May 1, 2008	Endurance Capital AG, Munich (deputy chairman) Rothenberger AG, Kelkheim	Wealth Management Capital Holding GmbH, Munich[2], since January 1, 2009 UniCredit Corporate Banking S.p.A., Verona
Heinz Laber	BodeHewitt Beteiligungs AG, Grünwald (chairman)[2] ESMT European School of Management and Technology GmbH, Berlin Trenkwalder Personaldienste GmbH, Munich HVB Immobilien AG, Munich (deputy chairman)[2], since December 1, 2008 HVB Information Services GmbH, Munich (chairman)[2], since December 1, 2008	BVV Versicherungsverein des Bankgewerbes a.G., Berlin HVB Profil Gesellschaft für Personalmanagement mbH, Munich (chairman)[2] HVB Secur GmbH, Munich (chairman)[2], since May 7, 2008 UniCredit Business Partner S.p.A., Cologno Monzese, since January 1, 2009
Dr Stefan Schmittmann until April 30, 2008		
Ronald Seilheimer until December 31, 2008		HVB Banque Luxembourg Société Anonyme, Luxembourg[2], until December 31, 2008
Matthias Sohler until April 30, 2008		i-Faber S.p.A., Milan, until December 31, 2008 UniCredit Real Estate S.p.A., Milan, until December 31, 2008
Dr Wolfgang Sprissler Spokesman until December 31, 2008	ThyssenKrupp Services AG, Düsseldorf, until December 31, 2008	UniCredit Bank Austria AG, Vienna[2] Dr Robert Pfleger Chemische Fabrik GmbH, Bamberg (deputy chairman) HVB Banque Luxembourg Société Anonyme, Luxembourg (president)[2], until December 31, 2008
Andrea Umberto Varese until April 30, 2008		Wealth Management Capital Holding GmbH, Munich[2], until December 31, 2008

1 as of December 31, 2008
2 Group directorship

Management Board

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Dr Theodor Weimer Spokesman since January 1, 2009	ThyssenKrupp Services AG, Düsseldorf, since January 1, 2009	AI Beteiligungs GmbH, Vienna, since November 19, 2008 HVB Consult GmbH, Munich (chairman)[2] UniCredit CA IB AG, Vienna, since November 19, 2008 UniCredit CA IB Polska S.A., Warsaw, since November 19, 2008
Andreas Wölfer until April 30, 2008 and again since January 1, 2009	DAB Bank AG, Munich (chairman)[2]	Wealth Management Capital Holding GmbH, Munich (chairman)[2] direktanlage.at AG, Salzburg (chairman)[2], until January 31, 2009 HVB Banque Luxembourg Société Anonyme, Luxembourg (deputy chairman)[2] Unicredit (Suisse) Bank S.A., Lugano, until January 31, 2009

List of employees and outside directorships

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Carsten Dieck	HVB Leasing GmbH, Hamburg (deputy chairman)[2]
Dr Peter Ermann	Bankhaus Neelmeyer AG, Bremen[2]
Matthias Glückert	Oechsler AG, Ansbach
Klaus Greger	HVB Leasing GmbH, Hamburg (chairman)[2]
Dr Rainer Hauser	Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich[2]
Dr Martin Hebertinger	HVB Direkt Gesellschaft für Direktservice und Direktvertrieb mbH, Munich[2] HVB Leasing GmbH, Hamburg[2]
Martin Marsmann	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main
Dr Reiner Meisinger	Bankhaus Neelmeyer AG, Bremen[2]
Alberto Naef until December 31, 2008	HVB Direkt Gesellschaft für Direktservice und Direktvertrieb mbH, Munich (deputy chairman)[2]
Dr Guido Schacht	AVAG Holding AG, Augsburg
Joachim Scheuenpflug	PlanetHome AG, Unterföhring[2]
Gabriela Vetter	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main
Heike Wagner	WABCO GmbH, Hanover WABCO Standard GmbH, Bonn

1 as of December 31, 2008
2 Group directorship

Mortgage Banking

Coverage

		€ millions
	2008	2007
A. Mortgage bonds		
Standard coverage		
1. Loans and receivables with banks		
Mortgage loans	—	—
2. Loans and receivables with customers		
Mortgage loans	36,132	41,290
Other eligible cover[1]		
1. Other lending to banks	400	600
2. Bonds and other fixed-income securities	649	447
3. Equalisation claims on government authorities	—	—
Subtotal	**37,181**	**42,337**
Total mortgage bonds requiring cover	30,908	36,322
Excess coverage	**6,273**	**6,015**
B. Public-sector bonds		
Standard coverage		
1. Loans and receivables with banks	837	624
Mortgage loans	—	—
Municipal loans	837	624
2. Loans and receivables with customers	9,260	9,784
including:		
mortgage loans	704	892
municipal loans	8,556	8,892
3. Bonds and other fixed-income securities	786	834
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**10,883**	**11,242**
Total public-sector bonds requiring cover	7,437	7,394
Excess coverage	**3,446**	**3,848**

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

Mortgage bonds outstanding and covering assets used

€ millions

	NOMINAL 2008	NOMINAL 2007	PRESENT VALUE 2008	PRESENT VALUE 2007	PRESENT RISK VALUE 2008	PRESENT RISK VALUE 2007
1. Mortgage bonds						
Covering assets[1]	37,181	42,337	39,441	43,268	41,086	44,565
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	30,908	36,322	32,926	36,880	34,830	38,306
Excess coverage	**6,273**	**6,015**	**6,515**	**6,388**	**6,256**	**6,259**
2. Public-sector bonds						
Covering assets[2]	10,883	11,242	11,567	11,549	11,113	11,208
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	7,437	7,394	7,963	7,591	7,528	7,291
Excess coverage	**3,446**	**3,848**	**3,604**	**3,958**	**3,585**	**3,917**

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act
2 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act

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

€ millions

	COVERING ASSETS 2008	COVERING ASSETS 2007	MORTGAGE BONDS 2008	MORTGAGE BONDS 2007
1. Mortgage bonds[1]				
less than 1 year	12,209	13,196	2,291	7,074
at least 1 year but less than 5 years	15,569	18,708	17,197	16,128
at least 5 years but less than 10 years	8,109	8,829	9,016	10,859
10 years or more	1,294	1,604	2,404	2,261
	37,181	**42,337**	**30,908**	**36,322**
2. Public-sector bonds[2]				
less than 1 year	4,196	3,485	1,844	915
at least 1 year but less than 5 years	3,750	4,567	2,013	2,744
at least 5 years but less than 10 years	2,224	2,325	2,154	2,370
10 years or more	713	865	1,426	1,365
	10,883	**11,242**	**7,437**	**7,394**

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act
2 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act

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

€ millions

	2008	2007
Mortgage covering assets		
up to and including €300,000	22,312	26,224
over €300,000		
up to and including €5,000,000	9,754	10,991
more than €5,000,000	4,066	4,075
	36,132	**41,290**

Mortgage Banking (Continued)

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

€ millions

	MORTGAGE COVERING ASSETS			
	RESIDENTIAL PROPERTY		COMMERCIAL PROPERTY	
	2008	2007	2008	2007
1. Austria				
Apartments	—	1	—	—
Single-family houses	—	—	—	—
Office buildings	—	—	5	—
	—	**1**	**5**	**—**
2. France/Monaco				
Apartments	—	—	—	—
Single-family houses	2	3	—	—
Multi-family houses	1	1	—	—
Office buildings	—	—	—	6
Buildings under construction	—	—	—	—
	3	**4**	**—**	**6**
3. Germany				
Apartments	8,600	10,332	—	—
Single-family houses	9,329	10,869	—	—
Multi-family houses	8,200	9,147	—	—
Office buildings	—	—	3,803	4,166
Commercial buildings	—	—	3,087	3,397
Industrial buildings	—	—	698	778
Other commercially used buildings	—	—	732	818
Buildings under construction	896	994	686	679
Building sites	33	43	55	51
	27,058	**31,385**	**9,061**	**9,889**
4. Italy/San Marino				
Apartments	—	—	—	—
Single-family houses	1	1	—	—
Multi-family houses	—	—	—	—
	1	**1**	**—**	**—**
5. Luxembourg				
Office buildings	—	—	3	4
	—	**—**	**3**	**4**
6. Spain				
Apartments	—	—	—	—
Single-family houses	1	1	—	—
Buildings under construction	—	—	—	—
	1	**1**	**—**	**—**
	27,063	**31,392**	**9,069**	**9,899**

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

		€ millions
	COVERING ASSETS	
	2008	2007
1. Austria		
Central government	200	388
	200	**388**
2. Germany		
Central government	62	118
Regional authorities	3,377	3,466
Public-sector authorities	4,665	4,926
Other	2,283	1,991
	10,387	**10,501**
3. Greece		
Central government	236	236
Other	10	27
	246	**263**
4. Italy		
Regional authorities	—	20
	—	**20**
5. Spain		
Regional authorities	—	20
Public-sector authorities	50	50
	50	**70**
	10,883	**11,242**

Mortgage Banking (Continued)

Payments in arrears

Payments in arrears on mortgages and public-sector loans and receivables due between October 1, 2007 and September 30, 2008 break down as follows:

		€ millions
	COVERING ASSETS	
	2008	2007
1. Payments in arrears on mortgages		
Germany	14	19
	14	**19**
2. Payments in arrears on public-sector loans and receivables		
Germany		
Regional authorities[1]	—	5
Other[1]	2	2
	2	**7**

1 officially guaranteed loans and receivables

Repayments, foreclosures and sequestrations

		OF WHICH:	
		COMMERCIAL PROPERTY 2008	RESIDENTIAL PROPERTY 2008
1. Repayments			
	€ millions		
through amortisation		904	3,293
other		524	1,786
		1,428	**5,079**
(comparative figures from 2007		1,876	4,711)
2. Foreclosures and sequestrations			
	NUMBER OF PROCEEDINGS		
a) Pending at December 31, 2008			
Foreclosure proceedings	242	11	231
Sequestration proceedings	4	2	2
Foreclosure and sequestration proceedings	130	11	119
	376	**24**	**352**
(comparative figures from 2007	771	61	710)
b) Foreclosures finalised in 2008	**1,036**	**65**	**971**
(comparative figures from 2007	1,347	104	1,243)
3. Properties auctioned or repossessed			
The Pfandbrief bank did not have to repossess any properties during the year under review to prevent losses on mortgage loans			

Interest in arrears

Interest in arrears on mortgage-covering assets due between October 1, 2007 and September 30, 2008 totalled €4 million. Arrears break down as follows:

		€ millions
	2008	**2007**
Commercial property	1	2
Residential property	3	5

The present annual financial statements were prepared on March 10, 2009.

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft
The Management Board

Cernko Diederichs Friedhofen Giesecke

Laber Weimer Wölfer

Declaration by the Management Board

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

Munich, March 10, 2009

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft
The Management Board

Cernko Diederichs Friedhofen Giesecke

Laber Weimer Wölfer

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, March 11, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft)

Becker
Wirtschaftsprüfer

Pukropski
Wirtschaftsprüfer

Financial Calendar

Important Dates 2009	
Publication of the 2008 annual results	March 20, 2009
Interim report at March 31, 2009	May 13, 2009
Half-yearly financial report at June 30, 2009	August 4, 2009
Interim report at September 30, 2009	November 11, 2009

Contacts

Should you have any questions about the annual report or our interim reports, please contact Group Investor Relations by
calling +49 (0)89 378-25336,
faxing +49 (0)89 378-24083, or
e-mailing ir@hvb.de
You can call up important company announcements as soon as they have been published by visiting our website at www.hvb.de, where you can also register for our e-mail subscription service.

Internet

You can call up user-friendly, interactive versions of our annual and interim reports, including search and other functions, on our website:
www.hvb.de/annualreport
www.hvb.de/interimreport

Shareholder publications

Annual Report (English/German)
Interim reports (English/German)
for the first, second and third quarters
CSR Short Report 2007/08
You can obtain PDF files of all reports on our website:
www.hvb.de/annualreport
www.hvb.de/interimreport
www.hvb.de/sustainabilityreport
Annual Report Lexicon (available in German only)

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