HypoVereinsbank
UniCredit Group

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.

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Our Commitment is Our Strength

2008 was a year that posed significant challenges to the global economy, to the financial services industry and to our business.

To date, our business model remains sound, and our outlook is positive for our future operations.

We remain positive because we know that we can count on our greatest strength. It is our solid and rigorous commitment – to our customers, to our people, to our investors, to the communities we serve, to our core values, to culture, to quality in everything we do, and to the sustainable success of our enterprise.

Every day we renew that commitment through the efforts and expertise of more than 174,000 people in 22 countries.

That is why this year's Annual Report features the photographs and words of UniCredit Group employees.

No one could express our commitment more eloquently than the men and women who live it every day.

They speak to you from our branches and offices across Europe. Each message is different. Each expresses what commitment means to them, to their customers, and to their colleagues every single working day.

We feel that their words, their ideas truly capture the spirit of UniCredit Group – the spirit of commitment, our greatest strength.

2008 Annual Report

HypoVereinsbank Profile

- HypoVereinsbank is one of the **leading financial institutions** in Germany. Our core competencies cover retail banking, corporate banking and commercial real estate financing, wealth management and international capital markets.
- The **customer** is the focal point of all our activities. We are committed to providing our customers with excellent, innovative and fast solutions across all business segments.
- HypoVereinsbank belongs to the European **UniCredit Group**. This Group holds a leading position in the wealthiest regions and fastest-growing markets in Europe. It is the undisputed number one in the emerging economies of central and eastern Europe.
- Germany has an important role to play in the new Group. We are committed to our regional origins, but as a fully integrated member of the UniCredit Group, we also want to develop a strong **cultural identity** as the first truly European bank. The rebranding exercise should be seen in this context; it exemplifies the **independent identity** of HypoVereinsbank in Germany within the UniCredit Group. We are also committed to our **corporate citizenship**, promoting the common good in the countries where we operate.
- We offer our people excellent opportunities to further their careers throughout Europe. At the same time, we ensure strict compliance with the Group-wide **Integrity Charter**, which encompasses the basic values that all our people are expected to observe. We include our people by means of Integrity Charter workshops and regular staff surveys.

Financial Highlights

Key indicators	2008	2007[1]
Return on equity after taxes, adjusted[2, 3]	(8.9)%	13.3%
Return on equity after taxes[2]	(8.9)%	17.6%
Return on equity before taxes, adjusted[2, 3]	(9.5)%	17.9%
Return on equity before taxes[2]	(9.5)%	25.0%
Cost-income ratio (based on total revenues)	88.5%	54.1%

Operating performance	2008	2007[1]
Operating profit	€453 m	€3,035 m
Profit/(loss) before tax	€(595) m	€2,962 m
Net profit/(loss)	€(671) m	€2,050 m
Earnings per share, adjusted[3]	€(0.84)	€2.03
Earnings per share	€(0.84)	€2.60

Balance sheet figures	31/12/2008	31/12/2007
Total assets	€458.6 bn	€422.1 bn
Shareholders' equity	€23.0 bn	€24.0 bn

Key capital ratios	31/12/2008 COMPLIANT WITH BASEL II	31/12/2008 COMPLIANT WITH GERMAN BANKING ACT, (KWG)	31/12/2007 COMPLIANT WITH GERMAN BANKING ACT, (KWG, PRINCIPLE I)
Core capital[4]	€21.2 bn	€21.2 bn	€23.6 bn
Risk-weighted assets (including equivalents for market risk and operational risk)	€148.2 bn	€160.9 bn	€145.5 bn
Core capital ratio[4, 5]	14.3%	13.2%	16.2%

	31/12/2008	31/12/2007
Employees	24,638	24,784
Branch offices	852	846

1 without discontinued operations
2 return on equity relating to 6.8% tied equity capital as a proportion of average risk-weighted assets compliant with German Banking Act (KWG)/Principle I
3 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and non-recurring tax charges arising from German tax reforms.
4 31/12/2007 pro forma: based on approved annual financial statements, including the transfer of €3.7 billion to reserves approved by the Annual General Meeting of Shareholders on July 30, 2008
5 calculated on the basis of risk-weighted assets, including equivalents for market risk and additionally for Basel II operational risk

Ratings	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	CHANGED/ CONFIRMED	PFANDBRIEFS PUBLIC	PFANDBRIEFS MORTGAGE	CHANGED/ CONFIRMED
Moody's	A1	P-1	stable	C–	7/10/2008	AAA	Aa1*	13/6/2008*/ 17/6/2008
S & P	A +	A-1	negative	—	6/10/2008	AAA	—	30/11/2007
Fitch Ratings	A	F1	negative	B/C	2/10/2008	AAA	AAA	17/6/2008

Andre Nolting
Germany

«I think that we are always close to our customers.
Even more so if the markets are difficult, as last year. We organised events for our customers to discuss the situation in the financial markets. We keep our promise always to be there – especially in times of need.»

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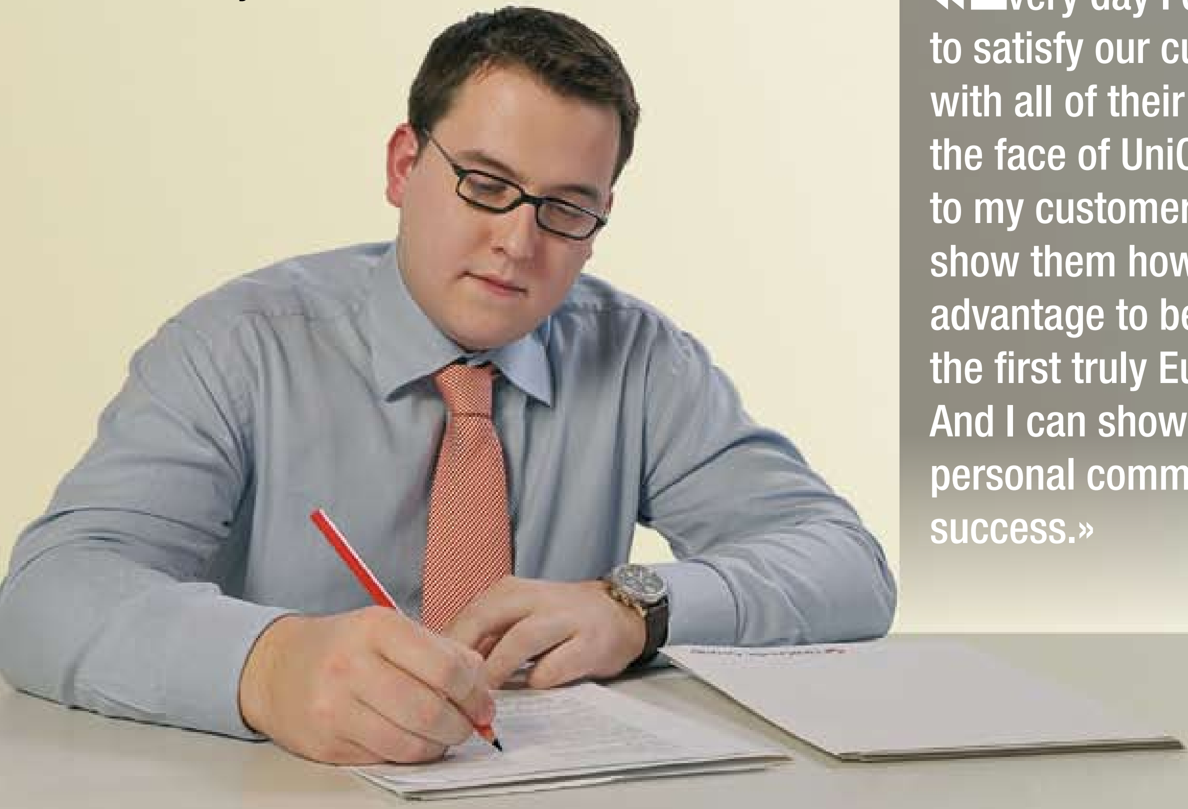
Felix Schneider
Germany



«Every day I do the best to satisfy our customers with all of their needs. I am the face of UniCredit Group to my customers. So I can show them how it is a big advantage to be partners with the first truly European bank. And I can show them my personal commitment to their success.»

«I went to the grocery store to buy some food for lunch. The cashier was interested in getting firsthand information about a banking product that she saw in a television advertisement. I ended up with neither lunch nor dinner because I was so focused on giving her an explanation that I forgot to buy anything. This is either commitment or obliviousness ...»

Gordana Jedinak
Croatia

Strategy and Results

Letter from the Supervisory Board Chairman

HVB, as an integral part of UniCredit Group, has continued to play a key role within the European banking network.

Ladies and gentlemen,

In 2008, the financial crisis had a severe impact on banks across the world. The already significant pressure on global economies was then amplified with the collapse of Lehman Brothers in September. As is clear in this Annual Report, HypoVereinsbank's results were not exempt from these unprecedented conditions. However, thanks to HVB's well-balanced and diversified business model, it performed well relative to its competitors.

HVB has reinforced its position as one of Germany's leading banks and, despite worsening market conditions in the fourth quarter, the bank focused on its core competencies and continued to deliver high quality services to its German and international customers.

Despite the very difficult market environment for Markets & Investment Banking businesses, all other areas of the bank posted good results. The Corporate division was particularly successful. Total revenues rose despite the impact of the financial crisis on exports, cross-border investments and other areas in which we provide all our services and expertise to our customers. Furthermore, after considering the abnormally negative effect of capital markets on fees and commissions, our Retail and Wealth Management divisions also performed well.

In response to the financial crisis and to structural changes in the sector, certain strategic adjustments will be made in our Markets & Investment Banking (MIB) activities. Nonetheless, we believe that our goal to be one of the leading corporate banks in Germany cannot be successfully achieved without customer-driven investment banking and direct access to international capital markets. We will further mould parts of our business model in MIB into a strong customer franchise within the successful and strong European network of UniCredit Group, with its unique positioning in 22 European countries. At the same time, HVB will continue to play a vital role in ensuring that all UniCredit customers have access to international markets and high-quality, tailor-made services.

The strength of HVB's core capital base, and thus its ability to react to unforeseen risks, allows us to emphasise to you the stability of HVB. Moreover, reflecting its diversified portfolio of business and risk management activities, HVB has been more insulated than other financial institutions in Germany from the proliferation of the crisis which began with US subprime mortgages. Nonetheless, whilst the bank is well equipped to cope with the current crisis, it is also ready to take advantage of new opportunities upon the normalisation of financial markets.

At the beginning of 2009, I succeeded Alessandro Profumo as Chairman of HVB's Supervisory Board. Both Alessandro Profumo, as UniCredit's CEO, and I, as one of the Deputy CEOs, have made a strong personal commitment to HypoVereinsbank. Furthermore, I have full confidence in the company's Management Board and its committed employees. Our value system applies to everyone within the Group; regular employee surveys allow us to continually analyse the effectiveness of our corporate culture and identify areas of improvement.

I am also glad to welcome Dr Theodor Weimer as HypoVereinsbank's new Board Spokesman. He has worked in the German banking industry with great success for many years and is thus well qualified to ensure that HVB achieves its goals despite the difficult market conditions. Equally, I would like to thank Dr Wolfgang Sprissler for his highly regarded professional competence and his unmatched knowledge of the financial and banking industry. He became Board Spokesman of HVB soon after it merged with UniCredit in 2005. Thanks to him, HVB is firmly integrated within UniCredit Group and has asserted its position in Germany. With his reliability and experience, I know that he will be a valued colleague as Deputy Chairman of the HVB Supervisory Board.

2009 will be a difficult year for the banking sector. However, we at HypoVereinsbank remain committed to sustainable profitability, operational efficiency and the values stated in our Integrity Charter. All are essential components of long-term and sustainable business success, which is our primary goal. Personally, I am confident that the bank will master the challenges that lie ahead and will be well positioned to profit from all possible market opportunities in the future.

Kind regards,

Sergio Ermotti

Chairman
Supervisory Board

Letter from the Board Spokesman

"To achieve our objectives, we can rely upon the strength of an European Group with the target: One company without boundaries."

Dear Customers, Investors and
Business Partners,
Ladies and Gentlemen,

The financial and banking industry experienced one of its hardest tests last year. The financial crisis deteriorated again rapidly from mid-September 2008 onwards, triggering a severe global economic crisis with consequences for many key industries in the real economy. The financial dimension to this crisis, which has reached unprecedented proportions, represents a major liability for the stability of the entire financial system, going hand-in-hand with an international trust and liquidity crisis: there is a great degree of uncertainty on the part of many customers and investors.

It is true to say that, although our performance is certainly not entirely satisfactory, our bank has stood its ground well in this extremely difficult environment. Our corporate banking operations have again grown at a pleasing rate, and we have tangibly increased our total revenues. We will continue to supply our customers with liquidity through the crisis and offer them credit. When it comes to extending loans, we are still a reliable partner even in these turbulent times, retaining a customer-oriented focus within the framework of our lending policies.

Retail banking activities performed reasonably well. Business on both the retail and the wealth management side has of course been affected by the insecurity on the markets. Customers proved reluctant to enter into securities transactions and shifted their capital into more crisis-proof sight and term deposits. In our retail operations, we concentrated primarily on ensuring a close correlation between earnings and costs. Our wealth management activities involving high net worth customers developed comparatively well, despite the uncertainty stemming from the financial crisis.

In contrast, the Markets & Investment Banking (MIB) business, which has been concentrated at HVB Group for the entire UniCredit Group, faced severe pressures as a result of the financial and economic crisis. Like others, our organisation was also forced to accept major setbacks in this regard. Nevertheless, our aspiration to be a leading corporate bank is impossible to realise without a customer-oriented investment banking arm, enjoying direct access to the capital markets. We are currently in a process of adjusting the MIB business model to reflect the market's realities.

HypoVereinsbank is reporting a loss of €671 million for the last financial year, 2008, following a profit of around €2 billion the previous year. HVB Group's operating profit stood at €453 million. The Corporate & CREF division produced a particularly pleasing operating performance, with a 12.4% increase in its operating profit.

Letter from the Board Spokesman (Continued)

Overall, our retail and wealth management operations generated a generally satisfactory contribution to profits overall. At the same time, the operating result of the Markets & Investment Banking division was massively affected by the financial crisis, as reflected in a clear net trading loss. The profits generated by our other lines of business did, however, largely offset these losses in 2008.

As with every crisis, this may also have its positive side effects. It will give rise to a new stability in the global financial system built on modified bank business models and stricter regulation, with new opportunities opening up at the same time. We will see a renaissance of basic, readily comprehensible products. Nevertheless, an integrated global economy will not be able to exist with only a few, simple financial products. It also needs innovative solutions in order to finance world trade across borders, legal systems and customer needs with appropriate margins and adequate risk costs. One thing I am convinced of: HypoVereinsbank is in shape to overcome this crisis.

The squeeze-out procedure initiated by UniCredit was brought to a successful conclusion and the minority shareholders received the appropriate compensation in cash.

Belonging to UniCredit Group provides us with the perfect backdrop for seizing opportunities on the market quickly and effectively, and for cushioning risks. Without this, we would not have been able to survive the present crisis as relatively unscathed as has been the case. Our future lies in systematically exploiting the economies of scale and strategic assets available within UniCredit Group. UniCredit Group has a divisionally and regionally balanced business model with offices in 22 different countries. Alongside its domestic markets in Germany, Austria and Italy, it is one of the leading banking groups in the countries of central and eastern Europe. In the final analysis, it is our customers who benefit from this international diversification. This is one of the reasons why we considered it so important to clearly reflect the common identity of the corporate group visibly in our external image. The rebranding announced in 2007 was largely completed last year.

Once more, we have much to thank our employees. HypoVereinsbank was again able to rely on their hard work last year; not for the first time, they have done an outstanding job under difficult circumstances. I would like to express my personal thanks to every one of our people for this. Given the current crisis and the changes it is bringing about, we will again be reliant on this willingness to perform in the current year. Beyond all hierarchies and functions, we view ourselves at HypoVereinsbank as a “working family”, by which I mean that we need the different skills and abilities of our people if we are to remain successful – only if we pull together will we be able to win.

Allow me to make a few comments about the crisis-related developments in the banking industry. Last year, and presumably again in 2009, we saw the extent to which the state was forced to intervene in the markets. I welcome the fact that the government acted so quickly and firmly. The state safety net was needed to stabilise the situation and restore trust. It will not be possible to overcome this crisis without state intervention and stimulus. At the same time, though, these actions do of course always modify economic conditions and create a playing field that is anything but level. For this reason, I greatly hope that state action will remain limited to what is absolutely essential to overcome the crisis.

At the start of 2009, I took up my new duties as Spokesman of this Bank's Management Board and as UniCredit Country Chairman in Germany. I would like to expressly thank Dr Wolfgang Sprissler, my predecessor as Board Spokesman, who successfully steered HVB Group. He will continue to actively follow the development of our bank in his new function as deputy chairman of the Supervisory Board.

Looking ahead, 2009 will demand plenty of hard work from us and also call for us to make sacrifices. The unresolved faults in the financial system, coupled with the increasing weakness in other industries, will put further pressure on the earnings, costs and risks associated with our operations. Fortunately, one thing HypoVereinsbank does not need right now is a fundamentally new strategic direction. We are part of a Group which has a clear strategic direction and business model. Hence, we can leverage on this to devote ourselves fully to the new challenges of everyday banking. We aim to leverage this advantage for the benefit of our customers.

We have set new targets for the future. We intend to build on our physical proximity to our customers and increase their satisfaction levels. We aim to reinforce our market positions in difficult markets, without losing sight of productivity or risk issues. Performance and motivation are the pillars on which our actions and our success are built. A particular concern of mine in this context is to systematically help our managers realise their full potential rapidly, also with regard to diversity aspects.

To achieve our objectives, we can rely upon the strength of an European Group with the target: "One company without boundaries", and – above all – a motivated, achievement-oriented team of employees. I am certain that we are in good shape to come through this difficult year ahead of us, and trust the same applies to all the business partners, customers and investors of HVB.

Best regards,

Dr Theodor Weimer

Munich, March 17, 2009

Summary of Results

- Markets & Investment Banking – total revenues affected by financial crisis, especially in net trading income; decline in operating costs and higher risk provisions.
- Corporates & Commercial Real Estate Financing – total revenues up by more than 9% compared to last year; profit before tax remains healthy despite higher risk provisions. Cost-income ratio further improved.
- Retail – total revenues below last year's level; strict cost controls and lower risk provisions help to stabilise earnings to a certain extent.
- Wealth Management – total revenues down on last year; operating costs up as a result of primary consolidations.

A detailed presentation and commentary of the results can be found in the segment report section of the notes to the consolidated financial statements.

Divisional highlights[1] € millions

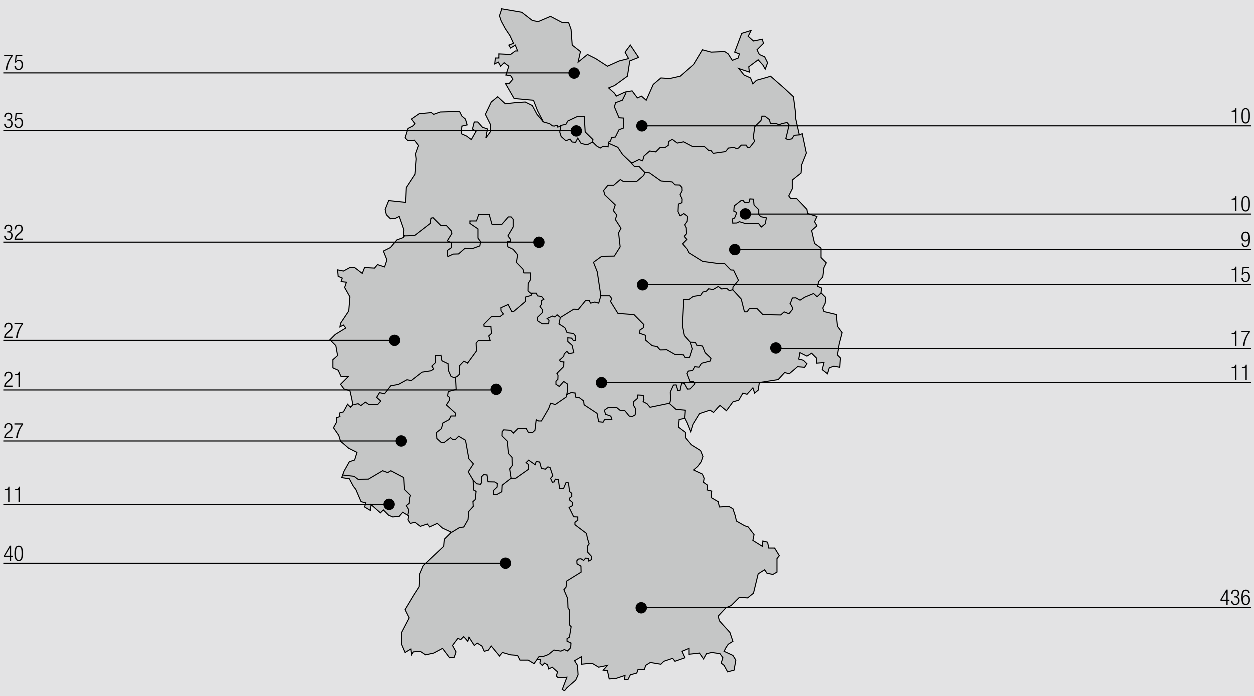
	MARKETS & INVESTMENT BANKING	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION
Total revenues					
2008	(261)	1,612	1,616	443	538
2007	2,179	1,474	1,761	483	714
Operating costs					
2008	(1,081)	(586)	(1,313)	(310)	(205)
2007	(1,161)	(561)	(1,354)	(294)	(206)
Operating profit/(loss)					
2008	(1,342)	1,026	303	133	333
2007	1,018	913	407	189	508
Profit/(loss) before tax					
2008	(2,031)	660	213	132	431
2007	1,523	746	295	201	197
Cost-income ratio[2] **in %**					
2008	n. a.	36.4	81.3	70.0	—
2007	53.3	38.1	76.9	60.9	—

1 please refer to Note 28, "Income statement broken down by division", in the notes to the consolidated financial statements for more detailed information
2 based on total revenues

Offices by division and state[1]			
STATE	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING
Baden-Wuerttemberg	25	5	10
Bavaria	372	21	43
Berlin	8	1	1
Brandenburg	8		1
Hamburg	27	2	6
Hesse	14	4	3
Lower Saxony	25	1	6
Mecklenburg-Western Pomerania	8		2
North Rhine-Westphalia	14	4	9
Rhineland-Palatinate	22	4	1
Saarland	9	1	1
Saxony	11	3	3
Saxony-Anhalt	12	1	2
Schleswig-Holstein	62	4	9
Thuringia	9		2
Total	**626**	**51**	**99**

1 the Markets & Investment Banking division has offices at the major financial centres of the world

HypoVereinsbank offices in Germany



Global Banking Services

CORPORATE SERVICES CENTRE BOOSTS EFFICIENCY BY OUTSOURCING AND POOLING CORE COMPETENCIES

Global Banking Services (GBS) combines interdisciplinary functions and services that are critical to ensuring business success. The departments subsumed under GBS include IT, Organisation, Purchasing, and Logistics & Facility Management. These are complemented by a series of back office functions.

The year under review was dominated by outsourcing projects in the fields of organisation and service management, and logistics and facility management. A number of projects were also successfully implemented or initiated. These include:

- the preparation and pooling of uniform core banking systems throughout the corporate group (EuroSIG),
- the formation of a new back office company (One4All),
- the outsourcing of facility management to an external service provider (FILM), and
- the international creation of a Group-wide HR system (DigiSimplification).

STRICT COST MANAGEMENT AGAIN REDUCES OPERATING COSTS

For several months now, cost-cutting exercises have helped to reduce operating costs. This has included ongoing workflow improvements and new rules for the spending process. The Cost Management team collaborates closely on this with the Corporate Purchasing department and all relevant units in the divisions and subsidiaries of HVB Group.

In 2008, we again succeeded in reducing operating costs slightly overall, to €3,495 million (2007: €3,576 million). We achieved this despite the spending required for integration projects and the consolidation of units like HVB Leasing and WealthCap.

Constant reduction of HVB Group operating costs (€ millions)

SERVICE MANAGEMENT & GOVERNANCE OPERATING MODEL CONSOLIDATES CENTRAL FUNCTIONS

The introduction of the Service Management & Governance operating model (SM&G) in the second half of 2008 served to reinforce the bank's IT and back office strategy, which is structured around core competencies. By outsourcing services in the fields of IT, payments, securities handling and back office – as well as logistics and facility management in the future – to independent service providers, we have developed a model with the following key characteristics:

- Clear collaboration guidelines to ensure compliance with regulatory requirements
- Complete management of service providers guaranteed by precisely defined parameters for process interfaces
- Clearly defined oversight functions in GBS and the divisions.

The operating model had been drawn up by mid-2008 and was employed in new outsourcing activities between then and the end of the year.

LOGISTICS & FACILITY MANAGEMENT: OUTSOURCING BOOSTS EFFICIENCY

The Corporate Logistics & Facility Management service unit (CLF) again successfully pursued the goal of offering a high standard of quality at lower cost in the year under review. Measures initiated included consolidating office space in Munich and vacating rented premises.

During the year under review, we decided to outsource technical and commercial facility management together with all infrastructure services to an external service provider following a long and involved tender process. The deal covers around 1,000 properties in Germany that HypoVereinsbank uses, owns or rents.

The step will enable HypoVereinsbank to concentrate more fully on its core operations and the strategic oversight of the service provider. The 250 or so employees concerned are being transferred to the external service provider and given an employment guarantee running to the end of 2012. Thus, we have been able to find a solution that is both cost-efficient and socially responsible.

GROUP-WIDE INTEGRATION OF BACK OFFICES COMPLETED

The UniCredit Group has drawn up a standard business and operating model with a view to providing uniform back office services throughout the corporate group. A new global operations company named UniCredit Business Partner (UBP) was set up as a result.

UniCredit Business Partner brings together the back offices of UniCredit banks in six countries – Germany, Italy, Austria, Poland, Romania and the Czech Republic – under a single roof. It started operating at the beginning of 2009 with an initial workforce of 7,000. Spinning off the back office units covering real estate finance and branch support to UniCredit Business Partner at the end of the year means that all back office operations, with the exception of cash, currency and derivative handling, are now integrated in internal and external service providers.

UniCredit Business Partner offers several core competencies:

- Business optimisation by means of standardisation and harmonisation
- The key integration of back offices in new markets to support our growth in CEE countries
- Exploitation of economies of scale, Group-wide best practice and location advantages within the UniCredit Group.

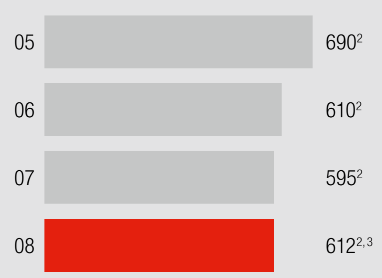
Within HVB AG, the Back Office Service Management unit oversees all service providers relevant for back office operations. This unit secures the necessary standard methodology across all retained organisations (RTOs) and makes it possible to realise synergies. A dedicated management team has been set up for each of the service providers in the fields of payment processing, securities handling and bank operations. This facilitates specific oversight of these service providers in accordance with clear cost and quality targets.

INFORMATION TECHNOLOGY: CHALLENGING IT APPLICATION DEVELOPMENT AND INFRASTRUCTURE PROJECTS

Our IT activities focused primarily on implementing the international IT strategy of the UniCredit Group. The standardisation of the IT platforms makes it possible for the business divisions to employ the Group's IT resources to best effect and to realise economies of scale throughout the corporate group.

IT spending amounted to around €612 million in 2008. The total includes some €14 million relating to various changes of perimeter, including the newly integrated Milan-based UBM. If this is taken into account, the figure is around the same size as the €595 million recorded last year. Despite massive strategic investments – in things like the EuroSIG project, a new Group-wide standard core banking system, the IT integration of our Markets & Investment Banking division (MIB) and the outsourcing of securities handling and custody – efficiency gains were more than evident in terms of restricting IT spending.

Total IT spending (€ millions)[1]



1 IT spending without depreciation or amortisation, but including capital spending
2 without BA-CA, CEE, Activest
3 including the newly integrated UBM, among others

Global Banking Services (Continued)

In the field of operations and infrastructure services, GBS has all its mainframe services in Italy whereas the client-server environments are centralised in Munich. This involved relocating the mainframe previously installed in Munich to Verona. All the moved applications were made available to our customers again without any impairment of service.

The divisions had the following focal points in terms of application development:
- A target architecture drawn up for the Markets & Investment Banking division's application landscape is being implemented in stages. A key element in this process is the consolidation of front office systems for fixed-income products.
- A new front-to-back platform was rolled out for structured credit products.
- The demanding EuroSIG project was launched during the year under review, with roll-out planned for the autumn of 2009. Nevertheless, the first EuroSIG lending applications were already successfully implemented for HVB in mid-2008.

Other IT projects included the following:
- Support on the IT side for the rebranding of HVB AG and its subsidiaries
- International risk management systems.

OUTLOOK: CUTTING COSTS AND BOOSTING EFFICIENCY

In what remains a challenging environment, we will pay even closer attention to cost management and efficiency gains involving the centralisation and outsourcing of service activities. The consolidation of office space and disposal of rented premises will help to reduce costs.

One key area of activity will be the continued pooling of service management functions. The Logistics & Facility Management unit will implement the SM&G model by mid-2009; further consolidation will take place following the roll-out of EuroSIG in the Finance & Treasury Services department. Added to this is the development of a standard, international IT systems for the Human Resources department as part of the DigiSimplification project.

It is planned to merge the three major IT companies of the UniCredit banks, including HVB Information Services GmbH, during 2009 to form a single IT firm. This will give rise to an IT service provider operating in eight countries. The move represents a logical next step in consolidating IT as a service provided for the business divisions across the whole corporate group.

Human Resources

ENSURING EFFICIENCY AND FAIRNESS IN A CHALLENGING ENVIRONMENT

The financial crisis has had serious consequences on employment in the banking industry. Numerous banks both in Germany and elsewhere have cut their workforces sharply. HypoVereinsbank also has to deal with the consequences of the crisis and is being forced to reduce its cost base on both the payroll and non-payroll side. A decision to trim 2,500 posts was already taken.

We continue applying the principle of employing socially responsible measures and voluntary termination agreements wherever possible when lowering the headcount. We are making consistent use of natural fluctuation to eliminate positions in the bank; this totalled 8% in the year under review (adjusted for non-recurring effects arising from spin-offs). Added to this are early retirement and semi-retirement arrangements.

Part-time work is a further tool we employ for flexible capacity management. The proportion of part-time workers at HVB AG has risen again, to 22.6%. We also offer telecommuting positions.

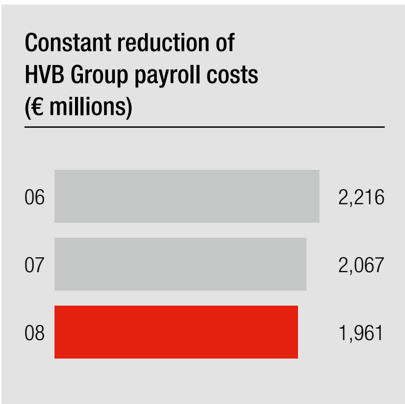
We succeeded in achieving a further reduction in payroll costs during 2008, to €1,961 million from €2,067 million in 2007, by applying strict cost management. At the end of the year, the HVB Group subgroup had 24,638 employees, 20,384 of whom were working at HVB AG.

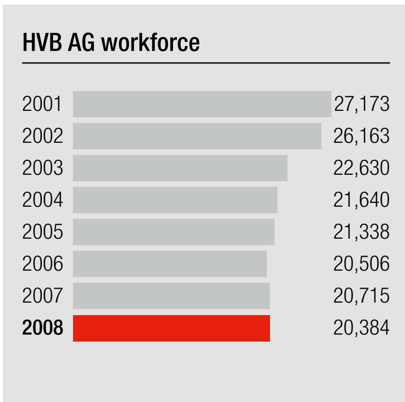
As in previous years, a responsible relationship was again evident in 2008 between our HR managers and employee representatives, most notably the Central Works Council and the Speakers' Committee for Senior Executives. Working together, we managed to find a positive, constructive solution for many issues, some of which required serious debate. We would like to express our specific thanks to everyone involved.

PROMOTING INCLUSION: INTEGRITY CHARTER DAY AND PEOPLE SURVEY

Especially in economically challenging times, the task of including and motivating the workforce is one of the key functions of HR management. The Integrity Charter represents our basic set of values. All employees are expected to observe the six basic values – fairness, transparency, respect, reciprocity, freedom and trust – which act as a baseline for all our actions.

More Integrity Charter workshops for managers and their staff were held on September 24, 2008. These serve as a forum for discussing the extent to which the Charter values have been implemented and for initiating improvements. We intend to continue this process in 2009.





Human Resources (Continued)

The People Survey, which has now been conducted twice throughout the UniCredit Group, also helps to include the entire workforce. The participation rate at HVB Group reached a pleasing level of 77%. The action plans drawn up by the divisions after team discussions of the results were implemented in stages during 2008.

The Employee Share Ownership Plan (ESOP) was opened to all eligible UniCredit employees throughout the corporate group for the first time in 2008. The plan provides an opportunity to purchase UniCredit shares at preferential conditions, thus enabling staff to participate in the future success of the UniCredit Group over the long run.

VARIED TRAINING COURSES AND WIDE-RANGING DEVELOPMENT PROGRAMMES

The success of our bank depends heavily on the skills and development of our people. This is one of the reasons why HypoVereinsbank continues to place such emphasis on attracting junior talent and offering seamless talent management. The central task of our Talent Centre consists of attracting, selecting and integrating junior talent. Apprentices again made up 6% of the workforce and graduates 1.1% in the year under review.

We train talented young people for careers in banking, office management and IT. Our graduate programme provides opportunities for university graduates to enter any of the four divisions and the competence lines.

The annual performance review is the focal point of our staff development strategy. The personal performance of the employee is discussed in a dialogue with his or her supervisor together with future prospects and the continuing professional development required to achieve this.

We offer both potential and experienced managers a broad range of communication and leadership seminars. We also provide personal coaching sessions to support our managers' development. At the same time, a wide range of courses in areas like foreign languages is also available to all our people.

Our JUMP! junior management programme offers interesting prospects for young professionals. A further 31 junior managers joined the scheme during the year under review.

PROMOTING AND DEVELOPING TALENTED WOMEN

Both HypoVereinsbank and the UniCredit Group have set clear signals in terms of promoting talented female employees and offering them new perspectives for development. The starting point is the fact that, although more than half of HVB AG's workforce is female (55%), women account for just over 28% of people in managerial positions. We have established a specific mentoring programme for female employees with a view to raising the proportion of women in senior management and to encouraging more talented female staff. The goals are to appoint a senior manager to act as mentor for women in managerial positions and to establish a separate network. Selected female colleagues in Munich and Frankfurt also take part in Cross Mentoring, an intercompany initiative aimed at fostering talented young women.

Furthermore, a scheme entitled Initiative UniCredit Women's International Network (UWIN) was set up in 2008. UWIN is part of the Women and Leadership programme launched by UniCredit Group CEO Alessandro Profumo in September 2007. UWIN first started in Italy, Germany, Austria, Poland and the Czech Republic, with further countries covered by the UniCredit Group set to follow in the first quarter of 2009.

INTERNATIONAL DEVELOPMENT PROSPECTS

Our membership of the UniCredit Group opens up a diverse range of international career prospects for our people.
These include:

- the UniQuest talent programme aimed at talented young people from any company in the UniCredit Group. Following a selection process, these people are given the chance to work on demanding tasks in international project teams outside their normal working environment.
- the Group-wide Executive Development Plan (EDP), which is open to senior and middle managers. This is a tool used to steer the strategic management resources of the UniCredit Group. One of the purposes of the EDP is to plan resources and succession issues for relevant management positions.
- the Talent Management Review. This is a procedure for identifying potential among top performers with no more than 10 years of professional experience, who are likely to take on a managerial function in the UniCredit Group in the next five to seven years.
- the UniFuture development programme, which is intended to help build networks among middle and senior managers. The focus here is on forward-looking projects and mutual development coaching between the participants.

WORK-LIFE BALANCE AND HEALTH MANAGEMENT AS SOCIAL PRIORITIES

At HypoVereinsbank, we take the health and well-being of our people very seriously. This means we look to facilitate a compromise between personal and professional spheres, and also seek a middle road between our priorities as an employer and the life priorities of our employees. We support the work-life balance by providing parental leave and offering counselling during family-related leaves of absence. Around 1,100 employees took parental leave in 2008. Our people also take sabbaticals in order to realise their personal ambitions during unpaid leave lasting between 12 and 24 months. We pay allowances for child care and provide assistance for our employees with special family circumstances such as looking for care options for elderly dependants.

The Health Forum run by our HR Management department forms the platform for our health management activities. The internal cooperation partners include company doctors together with representatives of the company health insurance fund, the works council, social services, the HVB Club, the staff restaurants and the CSR Management department. Seminars and information events serve to reinforce health awareness and personal responsibility. The HVB Club, the sports and leisure club of HVB and its subsidiaries, has around 8,000 members, of whom 4,200 are in Munich and 3,800 in regional club branches, including Hamburg, Regensburg and Nuremberg. The Club provides attractive facilities in the fields of sport, wellness/fitness, and arts and culture.

OUTLOOK: EMPLOYEE INCLUSION AND A STANDARD IT PLATFORM

Committed, skilled people will continue to represent our key asset into the future. We conducted another staff survey at the start of 2009. The results will help us to identify potential areas for improvement and to reinforce cohesion within the bank.

HVB is being provided with a new IT platform known as EuroSIG (see also the chapter entitled Global Banking Services in the present report). This means that a number of key sales and customer-side IT applications in the corporate group will be replaced by EuroSIG. Wide-ranging training courses are planned for employees in all the divisions in this regard. These courses will represent one of the largest blocks in our continuing professional development programme for 2009.

Corporate Social Responsibility

INTEGRITY FOUNDED ON CLEAR PRINCIPLES

Society is making greater demands of banks as the financial crisis unfolds. The companies of the UniCredit Group committed themselves to ethical behaviour many years ago by adopting the Integrity Charter. This encompasses six values against which we gauge our activities: fairness, transparency, respect, reciprocity, freedom and trust. The values defined in the Charter are communicated to our employees in workshops and opinion polls, among other things (please refer to the section entitled "Human Resources" elsewhere in this report for more details).

HypoVereinsbank focuses on the long-term interests of its stakeholders. These include a range of diffent groups: customers, employees and suppliers as well as local authorities and social groupings. We are convinced that it is in our long-term commercial interest to take account of their expectations and desires in our core operations. We regularly employ surveys and polls to help us evaluate these expectations and shape our activities accordingly.

Corporate social responsibility (CSR) is the umbrella term frequently used to encompass the varied requirements of responsible corporate management. The relevant legislation currently in force is reinforced with principles that we have set ourselves. We have defined clear rules regarding conflicts of interest, corruption and money laundering prevention, and correct behaviour towards competitors in our Code of Conduct and Compliance Guidelines. In addition, we employ a series of indicators to measure our ecological-social performance and a range of measures to enhance our outcomes in this regard.

Our CSR Short Report contains more information about our CSR policies and activities. For information on calling up or ordering a copy, please refer to the Financial Calendar elsewhere in the present report.

CORPORATE MANAGEMENT: GUIDING RESPONSIBLE BEHAVIOUR

For many years now, HypoVereinsbank's corporate strategy has taken account of the principles of sustainable development. Our innovative system of sustainability management has resulted in HVB being included in leading indexes, including the Dow Jones Sustainability Index and the FTSE4Good Index. Our understanding of sustainability is broad-based:

- We create new earnings potential among other things by means of sustainable investments and finance for projects in key sectors such as renewable energy.
- We minimise credit and liability risks by performing environmental risk audits and apply appropriate standards for project finance.
- Our internal environmental management system helps us to use resources more sparingly and reduce costs.
- Sustainable operations and the recognition we again received in 2008 in the form of numerous awards serve to enhance HVB's reputation with its stakeholders.

Our commitment to climate protection is of particular interest to our stakeholders. For us, it is simultaneously an ethical obligation and a line of business in which we successfully market a range of financial products and services. We are committed to exploiting the potential to save energy in our banking operations. With this in mind, we have established an environmental management system, which has been externally validated in accordance with the international ISO 14001 standard and the European Management and Audit Scheme (EMAS).

We cooperate with other leading German financial service providers and the German Federal Ministry of Education and Research in the "Finanzforum: Klimawandel", which was formed in 2007 with a view to enhancing the way we deal with climate risks. As a signatory of the Declaration on Climate Change of the United Nations Environment Programme (UNEP-FI), the UniCredit Group has committed itself to relevant measures and is currently drawing up a corporate climate protection strategy. HVB's commitment to sustainable banking operations was recognised by several awards in 2008.

Sustainability awards received by HypoVereinsbank in 2008

European Green Fleet Award presented by Brussels-based Green Fleet Manager Magazin

CSR Mobility Prize awarded by the VCD lobby group for HVB's coherent overall concept of sustainable mobility management

Third place in the B.A.U.M. "Office and Environment" competition

FUTURE-PROOFED OPERATIONS: CREDIT CHECKS AND SUSTAINABLE INVESTMENTS

We prefer to generate earnings by means of long-term value creation rather than short-term profits. As a result of our commitment as one of the world's biggest providers of project and foreign trade finance, we provide investment loans for almost every sector of industry. We are well aware that these schemes may entail environmental and social risks for our customers. Consequently, we especially insist upon compliance with environmental and social standards in our lending activities. The framework for this is set by local, national and international laws together with the World Bank standards. We are a founder member of the Equator Principles, a global industry standard for large-scale project finance.

The European Emissions Trading System (ETS), which is intended to limit emissions of greenhouse gases by applying a market approach, has opened up fresh business opportunities for us. The Carbon Solutions department set up within our Markets & Investment Banking division in 2004 supports our customers throughout Europe with a comprehensive portfolio of products and services relating to emissions trading.

Within the framework of public subsidy programmes, HVB supports its customers by providing special loans for environmental investments, such as home modernisation or the installation of solar panels. The annual volume of these special loans totals around €500 million. In terms of wealth management, we offer our customers the advantages of sustainable investments. In a test conducted throughout Germany, global21, a magazine focusing on sustainable investment, put HVB in first place for investment advice.

CUSTOMER LOYALTY: DEMONSTRATING RELIABILITY

There are two aspects to the dialogue with our customers: the reliable, professional advice and care we offer; and the way we deal with complaints. Recognising this, HVB conducts regular surveys to determine customer satisfaction levels and collect ideas for how it might improve its service.

Many of our customers are interested in how we earn profits on their investments as well as the size of these profits. We take account of just how important climate protection is for HVB customers when developing new products such as the HVB Climate Change Certificate for private customers or the "Energieausweis" energy performance certificate marketed by our Vereinsbank Victoria Bauspar AG subsidiary.

Our customer service received top marks for quality in 2008, with HVB being awarded first place in the "Best branch advice" category of Germany's biggest banking test, carried out by €uro Finanzen. And Focus Money named HVB Germany's most transparent bank alongside Commerzbank for its securities advice.

SOCIAL COMMITMENT: DONATIONS AND VOLUNTARY WORK

Unidea – UniCredit Foundation is an important promoter of the UniCredit Group's charitable activities. This not-for-profit foundation is an active provider of social facilities and development aid, notably funding projects in the fields of microfinance, health care, social integration and education. Unidea also works with HypoVereinsbank to finance projects in Germany. Last year, for instance, help was provided for two integration projects in Munich, with €305,000 given to Early Childhood Education, an initiative devoted to promoting the language skills of children of various nationalities whose parents are attending integration courses. A further €95,000 was donated to "buntkicktgut", an intercultural street football league.

We also collaborate with Unidea in terms of donations made by our employees. In 2008, our people donated some €160,000 to charity, representing an increase of more than 100% over the previous year. Unidea made a contribution of the same amount as part of the Gift Matching Programme, thus doubling the amount donated by employees. In addition, we promote voluntary work performed by our people as part of our Corporate Volunteering Programme. We do this by granting special paid leave to employees doing voluntary work and by making donations to the social organisations in which our people are active.

We are also active through our membership of various organisations and initiatives. For instance, we are an initiator and founder member of BenE Munich, an initiative supported by the United Nations University promoting education in the field of sustainable development. At the same time, we are a member of the Verein für Umweltmanagement in Banken (VfU), the Forum Nachhaltige Geldanlagen and the Finanzforum: Klimawandel. HypoVereinsbank remains firmly committed to the principles of sustainability in terms of its business policy and social commitment as well as its internal workflows.

«We had a foreign tourist turn to us with a problem. Even though it was not possible to resolve his problem from our office, I took my time to help him. I think he left satisfied, reassured that his bank is there for him anywhere he goes. These are the moments when we can show our true commitment to the bank and our customers. Every one of our employees represents the whole UniCredit Group.»

Reet Trumm
Estonia

Peter Bodensteiner
Germany

«One of our core values is trust. Trust is the most important asset in financial markets. In our business, we receive the trust of our clients every time they use UniCredit Group as their point of entry to international markets. This makes it necessary every day to work towards earning our clients' trust for tomorrow.»

Financial Statements (1): Management's Discussion and Analysis

Financial Review

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 Group was also unable to evade the external pressure of the markets in this extremely difficult environment. After a loss before tax of €665 million in the fourth quarter of 2008, HVB Group reports a loss before tax of €595 million for 2008 as a whole.

The divisions not directly affected by the financial crisis – Retail, Corporates & Commercial Real Estate Financing, and Wealth Management – generated a profit before tax despite the difficult market situation and developed satisfactorily overall. Particularly pleasing was the business trend in the Corporates & Commercial Real Estate Financing division with a tangible increase in total revenues.

At the same time, the result of the Markets & Investment Banking division was affected by the extremely difficult environment caused by the considerable market turmoil and the collapse of banks. In the process, particularly the resulting adverse effects on net trading income and the higher net write-downs of loans and provisions for guarantees and commitments as well as a loss in net income from investments led to the Markets & Investment Banking division recording a loss before tax of €2,031 million.

After tax and minorities, HVB Group reports a loss of €671 million. In the previous year, HVB Group generated a profit of €2,050 million in a much more favourable market environment, which was also positively influenced by non-recurring effects.

HVB Group has a solid foundation built on its strong capital basis and its diversified business model, which is absolutely essential in this critical environment. The core capital ratio (Tier I ratio) under Basel II amounted to 14.3% at year-end 2008, which is outstanding by 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 there was adequate funding of our lending operations even in difficult market phases. Further comments on liquidity risk are contained in the Risk Report of this Management's Discussion and Analysis.

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 of HVB Group

The IASB amendment of IAS 39.50 dated October 15, 2008 reflects further convergence with US GAAP. This has led to the avoidance of competitive distortions whilst simultaneously maintaining transparency. We have presented the effects arising from reclassifying certain financial instruments from financial assets held for trading to loans and receivables under the respective individual items of the income statement.

Net interest income

Net interest income increased by €306 million in 2008, to €4,059 million. The total includes a favourable effect of €127 million caused by reclassification. Even without this effect, net interest income would have been above last year's level (up 4.8%).

This rise is also attributable to higher year-on-year interest income from trading operations and lower funding costs for the trading portfolios in the investment banking activities of UniCredit Banca Mobiliare S.p.A.[1] (UBM) transferred to HVB AG in April 2007.

Income from dividends and similar income from equity investments decreased by €176 million to €200 million, mainly due to the substantial decline in dividends paid by private equity funds in line with the general market trend.

1 the effects caused by the investment banking activities transferred from UBM in the period from January 1 to March 31, 2008 are similar to initial consolidation and are hence referred to as such below

Financial Review (Continued)

Net fees and commissions
In the challenging environment marked by the persistent uncertainties on the capital markets, net fees and commissions fell sharply to €1,453 million after €1,721 million last year. Net fees and commissions in the Markets & Investment Banking division, which has been hit hardest by the financial crisis, tumbled by around 46% compared with 2007. In the Retail and Wealth Management divisions, fee and commission income in the securities business declined significantly, reflecting our customers' restraint due to the financial crisis, the resulting change in investment behaviour and the decline in customer portfolio volumes as a result of collapsing prices on securities markets. In contrast, the Corporates & Commercial Real Estate Financing division managed to match last year's result.

Net trading income
HVB Group's net trading income in 2008 was considerably affected by the extreme market turmoil, which worsened even further in the fourth quarter of 2008. This resulted in a net trading loss of €1,911 million (2007: profit of €592 million). At the same time, it must be taken into account that the reclassifications of financial instruments with effect from July 1, 2008 as already described had a positive impact of €1,792 million on net trading income.

The net trading loss was mainly caused by the negative effects of ABS products, which amounted to a loss of €751 million and mainly concerned the first quarter of 2008. In addition, the net trading loss includes losses and sharp declines in the Structured Equity Derivatives, Global Credit and Relative Value Arbitrage business lines as well as negative effects of €126 million arising from the bankruptcy of the US investment bank Lehman Brothers and a loss of €78 million from trading positions of Icelandic counterparties.

Operating costs
Operating costs declined by 2.3% year-on-year, to €3,495 million, despite the net increase in expenses from initial consolidation and deconsolidation effects, due among other things to the transfer of the investment banking activities of the former UBM at April 1, 2007. Adjusted for all initial consolidation, deconsolidation and currency effects, operating costs fell by 4.5% compared with 2007.

Adjusted for consolidation and currency effects, payroll costs also declined by 5.8%, primarily as a result of the lower expense for profit-related bonus payments in the Markets & Investment Banking division together with a reduction in headcount. Other administrative expenses decreased by 2.7% as a result of efficient cost management, while amortisation, depreciation and impairment losses on intangible and tangible assets declined by 1.9%.

Operating profit
An operating profit of €453 million was achieved in 2008 (2007: €3,035 million). Despite the lower operating costs, the cost-income ratio stood at 88.5% at year-end 2008 (percentage of total revenues made up by operating costs), reflecting the market-induced drag on earnings in the Markets & Investment Banking division. At 57.4% overall for all other divisions, the cost-income ratio is at a good level (2007: 54.5%).

Restructuring costs
For 2008, HVB Group has recognised an expense of €26 million under this item in the income statement. This expense is mainly connected to the pooling of various back office activities within the UniCredit Group. In 2007, we reported net earnings of €13 million for this item.

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

Net write-downs of loans and provisions for guarantees and commitments increased by 41.8% to €760 million in 2008 compared with the low figure of the previous year, already reflecting the deteriorating credit situation as a result of the financial crisis. In this market environment, net write-downs of loans and provisions for guarantees and commitments of €493 million arose for the Markets & Investment Banking division after loan-loss provisions were reversed in previous years. This includes reclassification effects from the formation of specific and portfolio allowances for the reclassified volume of assets compliant with IAS 39.50, producing a negative item of €63 million in the year under review. In addition, this segment is burdened by the net write-downs of loans and provisions for guarantees and commitments for Icelandic exposures. This is also one of the reasons for the sharp rise of €384 million in net write-downs of loans and provisions for guarantees and commitments in the Corporates & Commercial Real Estate Financing division (2007: €143 million). In total, net write-downs of loans and provisions for guarantees and commitments for Icelandic exposures stands at €224 million. In the Other/consolidation segment, the net write-downs of loans and provisions for guarantees and commitments significantly declined due to the successes in reducing the special portfolios (former Real Estate Restructuring segment and Special Credit Portfolio).

Net income from investments

The net loss from investments amounted to €256 million at December 31, 2008, with the total similarly affected by the difficult market situation. The expenses arising from impairments on financial instruments available-for-sale amount to €172 million, notably including impairments on ABS securities in this category together with impairment losses on Lehman bonds, Icelandic bonds and our shareholdings in Babcock & Brown. In addition, a loss of €83 million under net income from investments arose from investment properties.

Net income from investments of €611 million was generated in 2007 on the back of non-recurring items, primarily attributable to the gains of €219 million realised on the sale of Indexchange Investment AG (Indexchange) to Barclays Bank PLC; of €47 million on the sale of Norddeutsche Investment Gesellschaft mbH (Nordinvest) to the Pioneer Group; of €113 million from the sale of the remaining shares in Münchener Rückversicherungs-Gesellschaft AG (Munich Re); and of €292 million on the sale of Financial Markets Service Bank GmbH (FMS Bank) to the French financial services provider CACEIS S.A.S.

Profit before tax

In the wake of the financial crisis, HVB Group posted a loss before tax of €595 million in 2008. This figure includes the positive effect caused by reclassification compliant with IAS 39.50 totalling €1,856 million. In 2007, we generated a profit before tax of €2,962 million in much better market conditions and due to favourable non-recurring effects which, at €2,232 million, was still an excellent result even when adjusted for these non-recurring effects (non-recurring effect under net interest income from interest payments on a purchase price, income statement item "Restructuring costs" and gains on the disposal of Indexchange, Munich Re and FMS Bank under net income from investments).

Income tax for the period

Income tax for the period decreased to €54 million due to the loss before tax. The income tax posted despite the loss before tax can be attributed primarily to the tax charges of fully consolidated subsidiaries and foreign branches of HVB AG together with the deferred tax assets not recognised in part for tax loss carryforwards which arose in the year under review. Last year, we reported a tax expense of €794 million on account of the high profit before tax. This total also included non-recurring charges resulting from negative valuation effects due to German corporate tax reforms.

Financial Review (Continued)

Minorities and net profit
Minorities account for €22 million of the net loss after tax. The net loss after tax and minorities for 2008 stands at €671 million after a net profit after tax of €2,050 million in 2007 (2007 total adjusted by the non-recurring effects mentioned and non-recurring tax charges due to German corporate tax reforms: profit of €1,603 million).

Profitability ratios
The return on equity of HVB Group is reported based on 6.8% of the tied equity capital related to the average risk-weighted assets. The respective profit variable in the equation is adjusted by the imputed interest calculated on what is known as the average capital surplus. We use the same interest here as when assessing the equity capital allocated to companies assigned to several divisions in segment reporting (2008: 3.97%; 2007: 3.8%). We define surplus capital as the difference between the IFRS capital components used to calculate the return on equity (subscribed capital, additional paid-in capital and other reserves, including the gain realised on the disposal of the discontinued operations) and the capital amount based on 6.8% of the tied equity capital related to the average risk-weighted assets.

Due to the adverse effects on income arising from the financial crisis, HVB Group generated a negative return on equity of 8.9% after tax and 9.5% before tax. In 2007, HVB Group generated a return on equity of 17.6% after tax and 25.0% before tax in a much more favourable capital market environment. Adjusted for the non-recurring effects, the ratios stood at 13.3% after tax and 17.9% before tax in 2007.

Segment results by division
The divisions contributed the following amounts to the loss before tax of HVB Group of €595 million:

Markets & Investment Banking	loss of €2,031 million
Corporates & Commercial Real Estate Financing	€660 million
Retail	€213 million
Wealth Management	€132 million
Other/consolidation	€431 million

The income statement has been shown for the whole of the Corporates & Commercial Real Estate Financing division since June 30, 2008 and is no longer divided into the Corporates (including the contributions to earnings from business with commercial real estate customers) and Global Transaction Banking subdivisions, which up until then had been reported separately.

Furthermore, there were some small-scale reorganisations in connection with the attempts to create a clear strategic orientation for the divisions and changes in cost allocation, which led to modified allocations of operating costs. The figures for the comparative periods in the previous year have been adjusted to reflect these changes.

The income statements for each division and comments on the performance of the divisions are provided in Note 28, "Income statement broken down by division" of the present Annual Report. The components and targets of divisions are described in detail in Note 27, "Notes to segment reporting by division".

Financial situation

Total assets

The total assets of HVB Group amounted to €458.6 billion at December 31, 2008. This represents an increase of €36.5 billion, or 8.6%, compared with the 2007 year-end total.

The increase in total assets over the 2007 year-end figure is primarily attributable to a rise of €18.2 billion in financial assets held for trading, although financial instruments with a volume of around €13.7 billion were transferred from financial assets held for trading to loans and receivables in the course of reclassification compliant with IAS 39.50. Adjusted by the reclassification effect, the trading portfolios would account for the largest share of the increase in total assets by far. This is due to the sharp rise of €60.2 billion in positive fair values arising from the measurement of derivative financial instruments. These increases in value are mainly attributable to the substantial decline in interest rates in the fourth quarter of 2008.

The increase of €15.3 billion in the volume of loans and receivables with customers is mainly related to the effects caused by the reclassification described (reclassification effect: up €9.4 billion) and the rise in repurchase agreements (repos) by €5.5 billion. The total liabilities also increased mainly as a result of the development of the negative fair values arising from the measurement of derivative financial instruments (up €58.1 billion) contained under the balance sheet item financial liabilities held for trading (up €48.7 billion). In addition, deposits from customers rose by €6.3 billion, reflecting in part a change observed during the financial crisis in our customers' investment behaviour which is based more strongly on safety considerations. In contrast, our debt securities in issue significantly declined by €15.9 billion.

Shareholders' equity decreased by €1.0 billion in 2008 to €23.0 billion. Besides the dividend of €0.4 billion paid out for the 2007 financial year, this development is due to the loss of €0.7 billion generated in 2008. The change in valuation of financial instruments was a positive €23 million in the year under review (2007: positive €7 million). At the same time, the available-for-sale reserve fell by €0.9 billion in the difficult stock market environment, to minus €0.3 billion, compared with the 2007 year-end total. In this connection, falling fair values for our holdings, such as our shareholding in Ergo (down €216 million) and Babcock & Brown (down €160 million), had a negative impact. Negative market fluctuations arising from ABS securities classified as available for sale, for which there were no impairment criteria compliant with IAS 39.59 and otherwise no impairment losses were to be made, accounted for a loss of €214 million. A €0.9 billion increase in the hedge reserve compensated for the decline in the available-for-sale reserve.

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

The risk-weighted assets for credit risks of HVB Group determined on the basis of Basel II (KWG/Solvency Regulation (SolvV)) by applying partial use amounted to €126.0 billion at December 31, 2008 (including counterparty default risk in the trading book; without market and operational risk). This total includes the holdings of around €4.3 billion reclassified from the trading book to the banking book in the third quarter compliant with IAS 39.50. The risk-weighted assets, including equivalents for market and operational risk, totalled €148.2 billion.

Financial Review (Continued)

The risk-weighted assets of HVB Group compliant with the German Banking Act (KWG)/Principle I (without market risk) increased by €17 billion, to €148.6 billion, compared with year-end 2007. This rise was driven mainly by the holdings of €10.1 billion, which were reclassified from the trading book to the banking book in the third quarter compliant with IAS 39.50, and the increase in the volume of assets of the Markets & Investment Banking and Corporates & Commercial Real Estate Financing divisions. The new securitisation transactions conducted in the second half of 2008 partially offset this development, also when taking account of the securitisation transactions which expired in the course of 2008. Risk-weighted assets including equivalents for market risk totalled €160.9 billion compliant with KWG/Principle I.

The main differences between KWG/Principle I and Basel II (KWG/SolvV) arise from the more risk-sensitive determination of risk-weighted assets under Basel II compared with the static definitions of the risk weightings based on KWG/Principle I. This also applies to the determination of counterparty default risk and the consideration of loan commitments not utilised which also require equity backing under Basel II even if they have a term of one year or less.

Operational risk is a risk component which also requires equity backing under Basel II.

The total lending volume resulting out of the 16 current risk-asset-reducing securitisation transactions of HVB Group amounted to €50.5 billion at December 31, 2008. Due to the resulting reduction in risk-weighted assets of €27.6 billion under Basel II and €39.8 billion under KWG/Principle I, we have achieved an optimal value-added capital allocation. Transactions with a total volume of €8.8 billion matured in 2008.

Consequently, a reduction in risk-weighted assets of €4.3 billion under Basel II (KWG/Principle I: €5.7 billion) was reversed. In the second half of 2008, six new securitisation transactions were concluded with a total volume of €28.8 billion at December 31, 2008. These transactions served to reduce the risk-weighted assets of HVB Group by €18.4 billion under Basel II (KWG/Principle I: €23.5 billion).

At year-end 2008, the core capital of HVB Group compliant with the German Banking Act totalled €21.2 billion and equity capital €26.3 billion. This gives rise to a core capital ratio (including risk-weighted equivalents for the market risk and operational risk) of 14.3% (KWG/Principle I: 13.2%) and an equity funds ratio of 17.8% (KWG/Principle I: 16.4%).

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 in the present Management's Discussion and Analysis for more information in this regard.

Corporate acquisitions and sales

There were no significant corporate acquisitions or sales during the period under review. Changes in the group of companies included in the consolidated financial statements are provided under Note 5, "Companies included in consolidation".

Corporate structure and business operations

Legal corporate 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. It is the parent company of HVB Group, which is headquartered in Munich. HVB AG has been an affiliated company of UniCredit S.p.A. (UniCredit), Rome, Italy, since November 2005 and hence a major part of UniCredit Group from that date as a subgroup.

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.

Main products, sales markets, competitive position and facilities
HVB Group 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 Group 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 have already met with initial success.

Financial Review (Continued)

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 Group 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 divisional 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 the offices of HVB Group by region is shown in Note 87, "Offices", in the notes to the consolidated financial statements.

Organisation of management and control, and internal management

The Management Board of HVB AG is the management body of HVB Group. It 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 Group, 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 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 of the members of the Management Board and the Supervisory Board of HVB AG is given in the consolidated financial statements under Note 88, "Members of the Supervisory Board", and Note 89, "Members of the Management Board".

HVB Group'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 the Overall Bank Management section of the Risk Report.

Financial Review (Continued)

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". Further details are given in the Corporate Governance Report in this Annual Report.

At the beginning of February 2009, the Management Board of HVB AG announced that HVB Group would be eliminating a total of 2,500 jobs by 2010 compared with the workforce at the end of 2007. These reductions 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

Management's Discussion and Analysis 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.

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 Group

HVB Group 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 Group 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 net write-downs of loans and provisions for guarantees and commitments.

Financial Review (Continued)

In the Markets & Investment Banking division, we expect a significant improvement in net trading income over 2008 and thus a corresponding rise in total revenues provided that financial markets return to a certain degree of normality in 2009.

This would also lead to an increase in total revenues and, with an only moderate increase in operating costs, a substantial improvement in the cost-income ratio and in the operating profit in the entire HVB Group.

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 Group 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 Group operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of up-market companies and customers. Hence, HVB Group 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 Group 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 Group'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 Group 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 Group 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 Group 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 Group.

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 Group

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 within HVB Group. 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. Important bodies operating at HVB Group 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 within HVB Group. 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 Group. 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 within HVB Group to ensure that the Group 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 HVB Group's 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 the 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 Group, 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 Group 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 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.

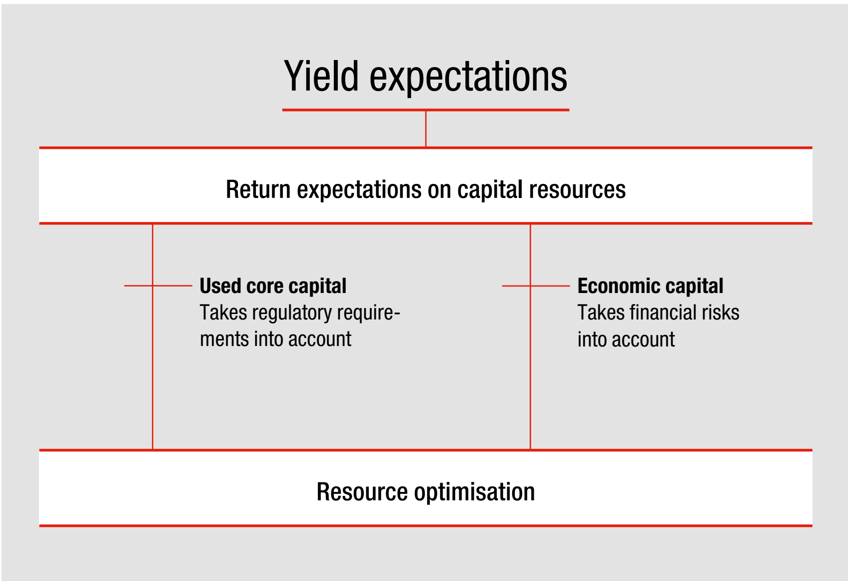
RaRoRac is the ratio of EVA to used core capital, and indicates the value created for each unit of incoming allocated capital.

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.

More detailed information on these ratios is contained in the Financial Review and in the notes to the consolidated financial statements (Note 77) in the present Annual Report.

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 of HVB Group is provided by the trend in economic capital and the assessment of HVB Group's risk-bearing capacity.

During 2008, the aggregate economic capital (including minority interests) for HVB Group increased from €5.2 billion at December 31, 2007 to €6.8 billion at December 31, 2008, taking into account all risk-reduction 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 Group 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, at the same time influencing the development of economic capital in Markets & Investment Banking and under Other/consolidation. In connection with operational risk, the approval of the Advanced Measurement Approach for additional HVB Group subsidiaries had a positive impact. In the Corporates & Commercial Real Estate Financing division, this effect combined with decreasing business risk was not enough to compensate for the increased default risk due to the current business development. The decrease in economic capital for real estate risk reflects the decrease in the special purpose vehicle Euro ImmoProfil.

In a quarterly analysis of our risk-bearing capacity, we measure our economic capital against the 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 €24.2 billion at the end of 2008 (2007: €22.0 billion). The year-on-

Risk Report (Continued)

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 an aggregate economic capital of €6.8 billion, this represents a utilisation of approximately 28.2% of the cushion. The significant rise in the utilisation ratio for HVB Group as compared with the previous year, despite the increase of 10% in the capital cushion, is attributable to the much larger growth in economic capital (30%).

Even taking into account the results of risk type-specific stress results, we had a substantial buffer in the capital cushion at the level of HVB Group over the entire financial year. 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 Group and the economic capital. A major element of this risk

Economic capital after portfolio effects
(confidence level 99.97%)

	2008		2007[1]	
	€ millions	in %	€ millions	in %
Broken down by risk type				
Market risk	902	13.2	271	5.2
Default risk	3,997	58.6	2,619	50.0
Business risk	429	6.3	679	13.0
Operational risk	427	6.3	669	12.8
Risks arising from our own real estate portfolio	601	8.8	659	12.6
Risks arising from our shareholdings/financial investments	461	6.8	336	6.4
HVB Group	**6,817**	**100**	**5,233**	**100**
Capital cushion – HVB Group	**24,206**		**22,037**	
Utilisation, in % HVB Group	**28.2**		**23.7**	

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	3,214	47.2	2,497	47.7
Corporates & Commercial Real Estate Financing	1,299	19.0	941	18.0
Retail	450	6.6	488	9.3
Wealth Management	143	2.1	156	3.0
Other/consolidation	1,711	25.1	1,151	22.0
HVB Group	**6,817**	**100**	**5,233**	**100**

1 including standardised methodologies

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.

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/indexes, 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 Group 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 Group.

Country risk is managed on the basis of value-at-risk and volumes. For this purpose, an HVB Group-wide strategy for country risk 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 Group 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 subsidiaries of HVB AG have their own rating and scoring processes tailored to their own business activities.

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 in HVB Group. 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 Group. 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 Group started calculating the regulatory capital requirements for credit risk in accordance with the Basel II regulations in 2008. HVB AG applies the IRB Advanced Approach for this purpose, whereas our subsidiaries utilise the standard approach.

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. In addition, our plans in 2009 call for subsidiaries to make the transition to the IRB Advanced Approach. The combination of measures selected by HVB has reinforced our intention to increase the share of the HVB Group 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 Group; in other areas, activities of this kind are scheduled to take place in 2009.

Measuring country risk

At HVB Group, 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 Group 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, credit risk concentrations with affiliated counterparties are limited by credit ratings together with a uniform methodology for all subsidiaries. For this purpose, we use a database encompassing all exposures of a borrower within HVB Group worldwide. 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 Group 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

After an increase of 5.4% in the credit exposure and counterparty exposure of HVB Group in the first half of 2008, the exposure increased only slightly, by 0.4%, in the second half of the year. For the year as a whole, the exposure increased by €13.4 billion (5.8%) compared with December 2007. 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 Group for non-trading and ACPM increased by €6.2 billion to €46.1 billion in 2008 (2007: €39.9 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 (€4.8 billion), mechanical engineering/steel (€4.6 billion), mineral oil (€2.8 billion) and other (€6.7 billion). Decreases in exposures, by contrast, were seen in the retail customers (€6.4 billion), food/consumer goods/services (€4.2 billion) and construction (€1.8 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 €4.7 billion to €26.5 billion in the banking and insurance sector and by €1.2 billion to €12.0 billion in the public sector.

The core portfolio, defined as the overall HVB Group portfolio excluding the remaining exposures assigned to the former segment Real Estate Restructuring, increased by 6.2% in 2008 to €242.7 billion. The largest increases in exposure were seen in the Corporates & Commercial Real Estate Financing division, where it rose €11.2 billion (15.1%) and Markets & Investment Banking, where the exposure was up by €11.1 billion (13.4%). The Wealth Management division reported a further increase (€0.5 billion). Our exposure in the Retail division decreased by €4.4 billion (9.2%). 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 €15.6 billion increase (14.6%) in credit and counterparty exposure in rating classes 1–4 raised the share of this group in the total core portfolio by 3.7 percentage points. No change was seen in the ratings classes 5–8. Exposures in rating classes 9 and 10 increased slightly by €0.3 billion to €6.2 billion.
At 91.4%, 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 €1.1 billion to €11.1 billion, and issuer exposure in the rating classes 1–4 rose €3.3 billion to €31.0 billion.

The distributions of expected loss and value-at-risk of credit risk and counterparty risk indicate shifts – in some cases substantial – in the risk contributions of the divisions. 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 nearly 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 increased at a low level.

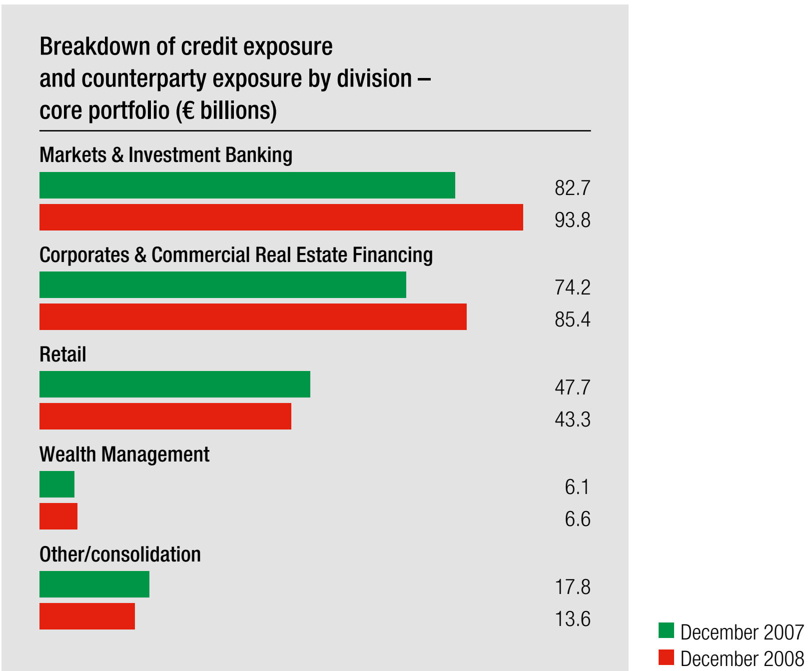
The net loan-loss provisions recognised in the income statement by HVB Group for 2008 amounted to €760 million. More details on net write-downs of loans and provisions for guarantees and commitments can be found in Notes 39, 50, 51 and 52 to the consolidated financial statements in the present Annual Report.

Breakdown of credit exposure and counterparty exposure by industry sector

€ billions	2008	2007
Industry sector		
Banking and insurance	46.3	41.5
Construction	35.9	37.7
Retail customers	35.3	41.7
Food, consumer goods, services	26.4	30.6
Chemicals, health, pharmaceuticals	13.1	13.7
Mechanical engineering, steel	13.0	8.4
Transportation	12.8	11.3
Other	12.7	6.0
Public sector	12.6	10.1
Utilities	11.6	11.0
Mineral oil	7.0	4.2
Automotive	6.6	5.3
Electrical, IT, communications	6.3	4.9
Media, printing, paper	4.7	4.5
HVB Group	**244.3**	**230.9**

Breakdown of issuer exposure by industry sector

€ billions	2008	2007
Industry sector		
Banking and insurance	26.5	21.8
Public sector	12.0	10.8
Other	1.4	1.5
Food, consumer goods, services	1.3	1.5
Automotive	1.0	0.3
Utilities	1.0	0.9
Electrical, IT, communications	0.8	0.7
Construction	0.6	0.8
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	0.1	0.1
HVB Group	**46.1**	**39.9**



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	6.1	2.5	9.3	4.1
Not rated	10.5	4.3	9.0	3.9
Rating classes 1–4	122.8	50.6	107.2	46.9
Rating classes 5–8	97.1	40.0	97.1	42.5
Rating classes 9–10	6.2	2.6	5.9	2.6
HVB Group	**242.7**	**100.0**	**228.5**	**100.0**

Breakdown of issuer exposure by rating class – core portfolio

	2008		2007	
	€ billions	in %	€ billions	in %
Rating				
Free of default risk	11.1	24.1	10.0	25.1
Not rated	3.2	6.9	1.4	3.5
Rating classes 1–4	31.0	67.3	27.7	69.4
Rating classes 5–8	0.8	1.7	0.8	2.0
Rating classes 9–10	0.0	0.0	0.0	0.0
HVB Group	**46.1**	**100.0**	**39.9**	**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	29.1	31.4	44.3	54.9
Corporates & Commercial Real Estate Financing	35.6	25.7	36.5	26.7
Retail	19.8	20.8	9.0	9.7
Wealth Management	1.8	1.5	1.4	0.9
Other/consolidation	13.7	20.6	8.8	7.8
HVB Group	**100.0**	**100.0**	**100.0**	**100.0**

Financial derivatives
HVB Group uses financial derivatives primarily to manage market price 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 Group amounted to approximately €4,328 billion (December 31, 2007: €4,517 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 Group would incur to replace all of the original contracts with equivalent transactions in case of simultaneous default by all counterparties.

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case-scenario) for HVB Group at year-end 2008 totalled €121.9 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 Group amounted to €18.7 billion at December 31, 2008.

Pursuant to the German Banking Act/Principle I, the risk-weighted assets for HVB Group 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 Group.

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	**961,457**	**1,262,633**	**996,515**	**3,220,605**	**3,382,140**	**67,071**	**32,992**	**65,289**	**31,725**
OTC products									
Forward rate agreements	98,619	43,700	—	142,319	155,784	225	52	315	53
Interest rate swaps	652,960	963,734	922,915	2,539,609	2,656,901	62,269	29,662	59,011	28,457
Interest rate options									
– purchased	69,786	125,644	38,107	233,537	245,996	4,556	3,269	1	1
– written	67,314	121,028	35,493	223,835	214,930	15	5	5,937	3,214
Other interest rate derivatives	35	30	—	65	122	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	**328,082**	**112,545**	**56,283**	**496,910**	**481,942**	**21,404**	**9,402**	**19,039**	**8,581**
OTC products									
Foreign exchange forwards	224,369	22,456	371	247,196	228,769	9,496	3,690	8,004	3,680
Cross-currency swaps	28,868	75,958	54,633	159,459	139,803	9,113	4,299	8,371	3,603
Foreign exchange options									
– purchased	37,723	7,090	775	45,588	56,471	2,791	1,413	—	—
– written	37,068	7,041	504	44,613	56,899	4	—	2,664	1,298
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**	**13,612**	**13,560**	**15,665**	**16,929**
OTC products									
Equity/index swaps	10,175	6,797	718	17,690	28,687	1,732	892	990	652
Equity/index options									
– purchased	18,317	22,765	2,368	43,450	45,900	6,413	7,324	4	2
– written	25,630	49,680	8,584	83,894	79,646	47	8	7,870	10,966
Other equity/index derivatives	114	6	8	128	—	29	—	—	—
Exchange-traded products									
Equity/index futures	875	115	—	990	4,095	16	4	12	8
Equity/index options	22,120	28,846	1,046	52,012	85,014	5,375	5,332	6,789	5,301
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**	**1,552**	**723**	**1,773**	**669**
Total	**1,403,018**	**1,788,965**	**1,136,232**	**4,328,215**	**4,517,081**	**122,136**	**59,758**	**119,628**	**61,377**

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 €646,608 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)	630	321	371	298
Banks	97,865	46,256	97,269	47,417
Financial institutions	18,826	11,071	19,737	11,817
Other companies and private individuals	4,815	2,110	2,251	1,845
Total	**122,136**	**59,758**	**119,628**	**61,377**

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

						€ millions
	NOMINAL AMOUNT					
	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 Group entailing country risk increased by €16.7 billion to €70.7 billion. This increase resulted primarily from an increase of net exposure in the UK from €18.8 billion to €35.1 billion, mostly in connection with trading activities.

Approximately 95% of the total exposure (2007: 92%) relates to countries with an investment grade rating. Only €3.9 billion relates to countries with non-investment grade ratings (2007: €4.1 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 67% of the portfolio (2007: 62%).
In the lending segment, 33% of net exposures entailing country risk were disbursed (2007: 38%).

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, resulting in "limit depletion".

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

	EXPOSURE		VALUE-AT-RISK[2]	
€ millions	2008	2007	2008	2007
Rating				
Rating classes 1–4	68,451	51,386	34	40
Rating classes 5–8	2,224	2,616	25	38
Rating class 9	0	0	0	0
HVB Group	**70,675**	**54,002**	**59**	**78**

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

	LENDING		TRADING		ISSUER RISK		TOTAL	
€ millions	2008	2007	2008	2007	2008	2007	2008	2007
Region								
Western Europe	9,755	8,363	32,793	17,727	1,107	1,053	43,655	27,143
Asia/Pacific	6,080	4,523	4,323	5,376	635	207	11,038	10,106
North America	1,784	1,749	3,214	2,864	878	951	5,876	5,564
Eastern Europe	3,970	3,628	1,110	827	201	100	5,281	4,555
Central and South America	1,470	1,760	1,339	3,437	1,501	974	4,310	6,171
Africa	368	392	138	71	9	0	515	463
HVB Group	**23,427**	**20,415**	**42,917**	**30,302**	**4,331**	**3,285**	**70,675**	**54,002**

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

HVB Group: top ten countries by exposure[1] across all rating classes

	EXPOSURE		VALUE-AT-RISK[2]	
€ millions	2008	2007	2008	2007
Country				
UK	35,059	18,811	4	1
Switzerland	4,391	4,095	0	0
USA	3,838	4,163	0	0
Singapore	2,792	2,651	0	0
Russian Federation	2,748	1,821	11	14
United Arab Emirates	2,423	248	1	0
Denmark	1,895	1,584	0	0
Cayman Islands, on-shore	1,885	1,781	3	3
Turkey	1,247	1,380	10	16
Cayman Islands, off-shore	1,156	3,175	1	10
HVB Group	**57,434**	**39,709**	**30**	**44**

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 and in the various treasury units of our subsidiaries.

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 at HVB AG, we employ an internal model in full use 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 Group, primarily based on value-at-risk approaches.

We check the appropriateness of the methods used to measure market risk 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 [€ 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 for HVB Group to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered for HVB AG, such as the widening of 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 Group was incrementally increased from €65.5 million to €86.5 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 €1,754 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 Group 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 €0.9 billion, the economic capital for market risks at HVB Group has increased by €0.6 billion over the comparable previous-year figure because of the ongoing financial market crisis.

Market risk of HVB Group
(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 Group	**82**	**146**	**78**	**52**	**53**	**36**

1 arithmetic mean

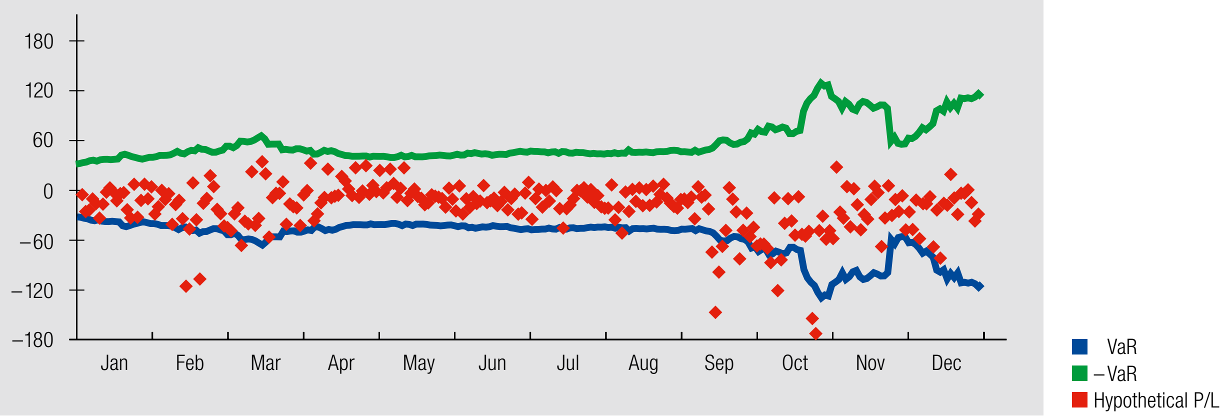
Market risk from trading positions of HVB Group
(value-at-risk, 99% confidence level, one-day holding period)

						€ 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)	70	118	68	44	49	31
Foreign exchange positions	6	5	9	5	4	3
Equity/index positions	13	10	13	14	14	8
Diversification effect[2]	(20)	(21)	(22)	(17)	(17)	(11)
HVB Group	**69**	**112**	**68**	**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 of HVB Group contained market risks of €69 million with a one-day holding period (December 31, 2007: €19 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 €53 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 €47.31 million (0.17% of the regulatory capital) in the banking book of HVB Group (December 31, 2007: €2.335 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 GROUP BANKING BOOK	
Total	(47.31)
up to 1 year	(30.06)
1–5 years	(27.15)
More than 5 years	9.9

A 10% appreciation of all foreign currencies (FX sensitivity) results in a decrease of €39.57 million in the portfolio value (0.14% of the regulatory capital) in the banking book of HVB Group (December 31, 2007: a decrease of €24.77 million with a devaluation of foreign exchange positions).

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

	€ millions
HVB GROUP BANKING BOOK	
Total	(39.57)
USD	(27.88)
GBP	(14.93)
AUD	0.56
CHF	6.51
JPY	0.02
SGD	(1.29)
Other	(2.56)

A 20% decline in all equity and hedge fund prices results in a decrease of €95.50 million in the portfolio value (0.34% of regulatory capital) in the banking book of HVB Group (December 31, 2007: €108.83 million).

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

	€ millions
HVB GROUP BANKING BOOK	
Total	(95.50)
Equity products	(0.30)
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 Group.

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 0.22% (previous year: 0.01%) of its regulatory equity capital at December 31, 2008, HVB Group 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 0.30%.

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 Group 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 Group.

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 Group 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 Group 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 Group 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 Group 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 Group. 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 Group are simulated at regular intervals. These scenarios take into account both internal (e.g. possible HVB Group-specific problems) and external factors (e.g. disruptions in global financial markets).

In addition to this internal measurement methodology, HVB AG and its domestic subsidiaries with banking operations are 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 Group 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 Group'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 €18.0 billion (2007: €23.8 billion) in HVB Group 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 €14.9 billion at year-end (2007: €17.4 billion).

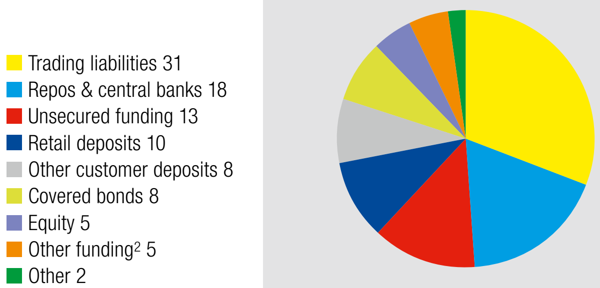
The requirements of the German Liquidity Ordinance were met at all times by the relevant units of HVB Group during the year under review. The funds available to HVB AG exceeded its payment obligations for the following month by an average of €33.4 billion in 2008 (2007: €31.1 billion) and by €30.6 billion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

Funding risk

The funding risk of HVB Group 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 Group obtained longer-term financing with a volume of €10.7 billion (2007: €10.4 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.

For an analysis in terms of maturity dates and residual maturities, see Notes 61, 62 and 63 to the consolidated financial statements in the present Annual Report.

Liability[1] diversification of HVB Group (in %)



total assets of HVB Group: €459 billion,

1 the values in the chart are not comparable with the carrying amounts in the balance sheet shown in the consolidated financial statements

2 including deposits from non-consolidated subsidiaries and special funding (e.g. KfW)

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 each HVB Group subsidiary or that of the relevant 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.

In 2008, the following additional subsidiaries were prepared for the regulatory implementation audit for the Advanced Measurement Approach:
– Bankhaus Neelmeyer AG
– DAB Bank AG
– HVB Leasing GmbH (including other leasing subsidiaries)
– Vereinsbank Victoria Bauspar AG

Our compliance with the requirements was assessed and approved by BaFin and the Bundesbank in the second half of the year. We expect to receive the final approval notices in early 2009.

Measurement methods

We employ the loss distribution approach to quantify the operational risk of HVB AG and our Advanced Measurement Approach subsidiaries. The model uses internal and external loss data to determine the loss distributions. We use scenario analysis 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, 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 Group 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.

For our subsidiaries not included in the Advanced Measurement Approach, the values from the Standard Approach are used and extrapolated to the necessary confidence 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 Group is now largely covered by the Advanced Measurement Approach with its high quality standards. The remaining subsidiaries are integrated through the Standard Approach. Employing the Advanced Measurement Approach means that HVB Group achieves capital savings of well over 10 percent as compared with the Standard Approach.

The economic capital for operational risks of HVB Group amounted to €0.4 billion at the end of 2008.

The following were the most important risk management activities undertaken by HVB Group 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.

Risk Report (Continued)

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.

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 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.

Risk Report (Continued)

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.

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 €0.7 billion. The calculated economic capital for business risks of HVB Group amounted to €0.4 billion at year-end 2008 (2007: €0.7 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. This includes the portfolio of the property ownership companies of HVB AG, and its special-purpose companies and shareholding companies, as well as the portfolios of the HVB Group subsidiaries. Real estate collateral is discussed under default risk.

Risk Report (Continued)

Since October 1, 2007, the Logistics/Facility Management department of HVB AG has been responsible for strategic properties (i.e. properties used by the Bank) and HVB Immobilien AG for non-strategic buildings and land. Non-strategic properties include all properties not used by the Bank. The tasks of HVB Immobilien AG are divided into the areas of portfolio management/sales and asset management/property development.

Measurement methods

We measure our real estate risks using a value-at-risk approach based on the market value of the properties and historical volatilities. The volatilities are determined using real estate indexes for office rents. In addition, risk-reducing correlations between individual regional property markets are included. In 2008, the method was revised and standardised within the UniCredit Group, and the selected parameters for HVB Group were updated.

Risk monitoring

Economic capital arising from real estate 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.

The annual risk inventory was also carried out in 2008. In addition, detailed controlling of measures was implemented. In 2009, this instrument will be used more intensively for risk management purposes.

Again in 2009, the planned reduction of risk assets will include the elimination of real estate and, especially, non-strategic properties.

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 be transferred to the service provider. A retained organisation remaining with HVB AG will provide the interface to the service provider.

Quantification and specification

The portfolio of non-strategic properties held by HVB Immobilien AG was reduced by approximately 15% in 2008 through disposals. The Letting and Sales department operated successfully in 2008 and exceeded its targets.

The value-at-risk, without taking into account the diversification effects between risk types, decreased by €0.1 billion to €0.7 billion. The economic capital for real estate risk amounted to €0.6 billion for HVB Group at the end of 2008 (2007: €0.7 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. The real estate portfolio of HVB Group is located primarily in Munich, which accounts for 38% of the total.

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, whose risks are already separately identified and recorded as part of the other risk types.

The Management Board is responsible for managing our entire portfolio of shareholdings/financial investments (including operational subsidiaries of HVB Group).

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 direct and indirect 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, increased by €0.2 billion to €1.3 billion. The economic capital of HVB Group was €0.5 billion (2007: €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 Group 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.

Risk Report (Continued)

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.

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.

Ernst Jürgen Rohde
Germany

«A good customer relationship is about more than just the volume of business.
I am not satisfied until my clients recognise me and my company as their preferred business partner.
This recognition I have to earn every day anew.»

«Based on my experience, I am convinced of the importance of long-lasting customer relationships.
The roots of my success are anchored in deep customer satisfaction, followed with a steadily growing confidence in myself, my personal competence and my ability to find the right solutions.»

Sandra Stigger
Austria

Financial Statements (2): Consolidated Financial Statements

Consolidated Income Statement and Appropriation of Net Income

for the year ended December 31, 2008

Income/Expenses

	NOTES	2008	2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Net interest		4,059	3,753	+ 306	+ 8.2
Dividends and other income from equity investments		200	376	(176)	(46.8)
Net interest income	32	**4,259**	**4,129**	**+ 130**	**+ 3.1**
Net fees and commissions	33	1,453	1,721	(268)	(15.6)
Net trading income	34	(1,911)	592	(2,503)	—
Net other expenses/income	35	147	169	(22)	(13.0)
Net non-interest income		**(311)**	**2,482**	**(2,793)**	**—**
TOTAL REVENUES		**3,948**	**6,611**	**(2,663)**	**(40.3)**
Payroll costs		(1,961)	(2,067)	+ 106	(5.1)
Other administrative expenses		(1,281)	(1,250)	(31)	+ 2.5
Amortisation, depreciation and impairment losses					
on intangible and tangible assets		(253)	(259)	+ 6	(2.3)
Operating costs	36	**(3,495)**	**(3,576)**	**+ 81**	**(2.3)**
OPERATING PROFIT		**453**	**3,035**	**(2,582)**	**(85.1)**
Provisions for risks and charges	37	(6)	(161)	+ 155	(96.3)
Write-down on goodwill		—	—	—	—
Restructuring costs	38	(26)	13	(39)	—
Net write-downs of loans and provisions					
for guarantees and commitments	39	(760)	(536)	(224)	+ 41.8
Net income from investments	40	(256)	611	(867)	—
PROFIT/(LOSS) BEFORE TAX		**(595)**	**2,962**	**(3,557)**	**—**
Income tax for the period	41	(54)	(794)	+ 740	(93.2)
NET PROFIT/(LOSS)		**(649)**	**2,168**	**(2,817)**	**—**
Minorities		(22)	(118)	+ 96	(81.4)
NET PROFIT/(LOSS) OF HVB GROUP		**(671)**	**2,050**	**(2,721)**	**—**

Earnings per Share

Earnings per share

€			
	Notes	2008	2007
Earnings per share of HVB Group	43	(0.84)	2.60
Earnings per share of HVB Group (adjusted)[1]	43	(0.84)	2.03

1 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and non-recurring tax charges arising from German tax reforms

Reconciliation with the consolidated income statement for 2008, including the results of discontinued operations and appropriation of net income:

Income/Expenses	2008 € millions	2007 € millions
NET PROFIT/(LOSS) OF HVB GROUP	**(671)**	**2,050**
Net profit after tax of		
discontinued operations	—	3,698
Minority interest in the net profit of		
discontinued operations	—	—
NET PROFIT/(LOSS) OF HVB GROUP,		
including discontinued operations	**(671)**	**5,748**
Change in reserves	(671)	1,674
CONSOLIDATED PROFIT	**—**	**4,074**

HVB AG did not record a profit available for distribution in 2008, so no dividend is being paid for that financial year.

Earnings per share, including discontinued operations:

€	
	2007
Earnings per share of HVB Group, including	
discontinued operations	7.28

Since no conversion rights or option rights on conditional capital existed at the closing date for 2008, there is no calculation of diluted earnings per share.

Balance Sheet

at December 31, 2008

Assets

	NOTES	2008	2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Cash and cash balances	44	558	551	+ 7	+ 1.3
Financial assets held for trading	8, 45	199,019	180,855	+ 18,164	+ 10.0
Financial assets at fair value through profit or loss	9, 46	13,335	12,937	+ 398	+ 3.1
Available-for-sale financial assets	10, 47	5,636	6,739	(1,103)	(16.4)
Investments in associates, joint ventures					
and non-consolidated subsidiaries	11, 48	250	317	(67)	(21.1)
Held-to-maturity investments	12, 49	6,020	3,058	+ 2,962	+ 96.9
Loans and receivables with banks	13, 50	46,451	48,866	(2,415)	(4.9)
Loans and receivables with customers	13, 51	175,518	160,246	+ 15,272	+ 9.5
Hedging derivatives	53	2,654	500	+ 2,154	> + 100.0
Property, plant and equipment	15, 54	1,877	1,337	+ 540	+ 40.4
Investment properties	17, 55	1,723	1,890	(167)	(8.8)
Intangible assets	18, 56	795	770	+ 25	+ 3.2
of which: Goodwill		424	421	+ 3	+ 0.7
Tax assets	57	2,792	2,180	+ 612	+ 28.1
of which: Deferred tax assets		2,371	1,856	+ 515	+ 27.7
Assets of discontinued operations					
and non-current assets or					
disposal groups held for sale	19, 58	4	265	(261)	(98.5)
Other assets	59	1,970	1,618	+ 352	+ 21.8
Total assets		**458,602**	**422,129**	**+ 36,473**	**+ 8.6**

Liabilities

	NOTES	2008	2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Deposits from banks	20, 61	83,867	86,702	(2,835)	(3.3)
Deposits from customers	20, 62	114,962	108,626	+ 6,336	+ 5.8
Debt securities in issue	20, 63	63,639	79,568	(15,929)	(20.0)
Financial liabilities held for trading	21, 64	163,944	115,228	+ 48,716	+ 42.3
Hedging derivatives	65	617	473	+ 144	+ 30.4
Hedge adjustment of hedged items					
in the fair value hedge portfolio	22, 66	554	87	+ 467	>+ 100.0
Tax liabilities	67	1,938	1,316	+ 622	+ 47.3
of which: Deferred tax liabilities		1,394	608	+ 786	>+ 100.0
Liabilities of discontinued operations and					
of disposal groups held for sale	68	4	10	(6)	(60.0)
Other liabilities	23, 69	4,562	4,581	(19)	(0.4)
Provisions	24, 70	1,491	1,540	(49)	(3.2)
Shareholders' equity	71	23,024	23,998	(974)	(4.1)
Shareholders' equity attributable to shareholders of HVB AG		22,217	23,190	(973)	(4.2)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Own shares		—	(2)	+ 2	+ 100.0
Other reserves		9,996	6,913	+ 3,083	+ 44.6
Change in valuation of financial instruments		23	7	+ 16	>+ 100.0
AfS reserve		(306)	619	(925)	—
Hedge reserve		329	(612)	+ 941	—
Consolidated profit		—	4,074	(4,074)	(100.0)
Minority interest		807	808	(1)	(0.1)
Total shareholders' equity and liabilities		**458,602**	**422,129**	**+ 36,473**	**+ 8.6**

Statement of Changes in Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OWN SHARES	OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at Jan. 1, 2007	**2,252**	**8,886**	**(3)**	**4,061**	**(814)**
Change from capital increase against contributions in kind	155	905	—	—	—
Change in valuation of financial instruments not affecting income	—	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—	—
Change in net income (loss)	—	—	—	1,674	—
Actuarial losses on defined benefit plans	—	—	—	33	33
Change in holdings of, and net income from, own equity instruments	—	—	1	—	—
Dividend payouts	—	—	—	—	—
Transfers from net income	—	—	—	321	—
Changes in group of consolidated companies	—	—	—	838	592
Reserve arising from foreign currency translation and other changes	—	—	—	(14)	—
Shareholders' equity at Dec. 31, 2007	**2,407**	**9,791**	**(2)**	**6,913**	**(189)**
Shareholders' equity at Jan. 1, 2008	**2,407**	**9,791**	**(2)**	**6,913**	**(189)**
Change in valuation of financial instruments not affecting income	—	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—	—
Net income (loss)	—	—	—	(671)	—
Actuarial losses on defined benefit plans	—	—	—	50	50
Change in holdings of, and net income from, own equity instruments	—	—	—	—	—
Dividend payouts	—	—	—	—	—
Transfers from net income	—	—	—	3,672	—
Changes in group of consolidated companies	—	—	—	(11)	—
Reserve arising from foreign currency translation and other changes	—	—	2	43	—
Shareholders' equity at Dec. 31, 2008	**2,407**	**9,791**	**—**	**9,996**	**(139)**

	CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS		CONSOLIDATED PROFIT	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF HVB AG	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
	AFS RESERVE	HEDGE RESERVE				€ millions
	1,195	**(323)**	**622**	**16,690**	**3,298**	**19,988**
	—	—	—	1,060	—	1,060
	(34)	(617)	—	(651)	—	(651)
	(137)	192	—	55	—	55
	—	—	4,074	5,748	118	5,866
	—	—	—	33	—	33
	—	—	—	1	—	1
	—	—	(301)	(301)	(58)	(359)
	—	—	(321)	—	—	—
	(405)	136	—	569	(2,460)	(1,891)
	—	—	—	(14)	(90)	(104)
	619	**(612)**	**4,074**	**23,190**	**808**	**23,998**
	619	**(612)**	**4,074**	**23,190**	**808**	**23,998**
	(924)	982	—	58	—	58
	1	(41)	—	(40)	—	(40)
	—	—	—	(671)	22	(649)
	—	—	—	50	—	50
	—	—	—	—	—	—
	—	—	(402)	(402)	(68)	(470)
	—	—	(3,672)	—	—	—
	—	—	—	(11)	2	(9)
	(2)	—	—	43	43	86
	(306)	**329**	**—**	**22,217**	**807**	**23,024**

Cash Flow Statement

		€ millions
	2008	2007
Net profit/(loss) after tax of HVB Group[1]	(649)	2,168
Net profit/(loss) after tax of discontinued operations[1]	—	3,698
Net profit after tax, including discontinued operations[1]	**(649)**	**5,866**
Write-downs, provisions for losses on, and write-ups of, loans and		
receivables and additions to provisions for losses on guarantees and indemnities	831	626
Write-downs and depreciation less write-ups on long-term assets	617	484
Change in other non-cash positions	(2,064)	486
Profit from the sale of investments, property, plant and equipment	(29)	(862)
Other adjustments (mainly taxes on income paid, interest received less interest paid		
and dividends received and reclassification of the profits from discontinued operations)	(4,443)	(7,932)
Subtotal	**(5,737)**	**(1,332)**
Change in assets and liabilities from operating activities after correction		
for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	41,042	(797)
Loans and receivables with banks	2,539	(3,621)
Loans and receivables with customers	(14,690)	3,148
Other assets from operating activities	(84)	3,084
Deposits from banks	(3,279)	(49)
Deposits from customers	5,752	14,341
Debt securities in issue	(15,163)	(7,555)
Other liabilities from operating activities	(9,719)	(6,359)
Taxes on income paid	(469)	(183)
Interest received	15,871	17,276
Interest paid	(11,974)	(14,016)
Dividends received	946	702
Cash flows from operating activities	**5,035**	**4,639**

1 including minorities

		€ millions
	2008	2007
Proceeds from the sale of investments	1,869	660
Proceeds from the sale of property, plant and equipment	54	89
Payments for the acquisition of investments	(4,534)	(8,877)
Payments for the acquisition of property, plant and equipment	(312)	(217)
Effects of the change in the group of companies included in consolidation (including discontinued operations)	—	4,263
Cash flows from investing activities	**(2,923)**	**(4,082)**
Change in additional paid-in capital	—	—
Dividend payments	(402)	(301)
Other financing activities, net (subordinated and hybrid capital)	(1,792)	(9)
Other financing activities, net	89	(204)
Cash flows from financing activities	**(2,105)**	**(514)**
Cash and cash equivalents at end of previous period [1]	**551**	**508**
Net cash provided/used by operating activities	**5,035**	**4,639**
Net cash provided/used by investing activities	**(2,923)**	**(4,082)**
Net cash provided/used by financing activities	**(2,105)**	**(514)**
Effects of exchange rate changes	—	—
Less disposal group held for sale and discontinued operations	—	—
Cash and cash equivalents at end of period[1]	**558**	**551**

1 The cash and cash equivalents are identical to the cash and cash balances shown in the balance sheet. The other balances with central banks are carried under loans and receivables with banks and hence no longer form part of cash and cash equivalents.

Notes to the Consolidated Financial Statements

Consolidated financial statements in accordance with IFRS

As a globally active company, we prepare the financial statements in accordance with the requirements of the International Accounting Standards Board (IASB).

This gives our shareholders and all other interested parties a reliable and internationally comparable basis for evaluating the HVB Group and its profitability. Our value-based management is similarly based on these accounting principles.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 16/06/2002 of the European Parliament and of the Council of July 19, 2002 together with further regulations governing the adoption of certain IFRSs within the framework of the EU endorsement, in conjunction with Section 315a of the German Commercial Code (HGB). Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All the standards and interpretations subject to mandatory adoption in the EU for the 2008 financial year have been applied. Section 315a of the German Commercial Code also contains national regulations to be applied alongside the IFRS by companies active on the capital market.

The statement regarding the Corporate Governance Code required by Section 161, German Stock Corporation Act, has been published on our website at www.hvb.com/declarationofconformity. Our listed subsidiary DAB Bank AG has posted an equivalent statement on its website.

The Management's Discussion and Analysis meets the requirements of Section 315 (1, 2) of the German Commercial Code. Also incorporated is a risk report pursuant to Section 315, German Commercial Code.

Compliant with Section 264b of the German Commercial Code, the following companies are exempted from the obligation to prepare a management report and to disclose their annual financial statements:
- HVZ GmbH & Co. Objekt KG, Munich
- Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
- Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
- Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
- A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
- HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
- KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße I KG, Munich
- Omnia Grundstücks-GmbH & Co. Objekt Ostragehege KG, Munich
- Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
- Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
- SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich
- Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
- TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich.

Accounting and Valuation

1 Uniform Group accounting policies

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

2 Consistency

In accordance with the IFRS Framework for the presentation of financial statements together with IAS 1 and IAS 8, we apply the accounting and disclosure principles consistently from one period to the next. Where accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted against retained earnings. Where we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively.

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

The interpretations IFRIC 11 (Group and Treasury Share Transactions) and IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction) to be applied for the first time in the 2008 financial year in the EU have had no material consequences for the consolidated financial statements of HVB Group. We have applied the exposure draft regarding embedded derivatives in IFRIC 9 and IAS 39 published by the IASB at the end of December 2008 in conjunction with the new reclassification rules in the 2008 financial year.

Apart from this, the accounting and valuation principles applied in 2008 are the same as those applied in the consolidated financial statements for 2007, with the exception of the new reclassification rules (amendment to IAS 39.50) and the introduction of the fair value hedge portfolio for interest rate risks.

3 Application of new reclassification rules

The amendment of IAS 39.50 dated October 15, 2008 represents a further harmonisation with US GAAP which prevents distortions in competition and simultaneously maintains transparency. The reclassification options are summarised below.

A reclassification of financial assets classified as held for trading is only possible if the intention to trade in the short term no longer exists. It should be noted in this regard that, in rare circumstances, financial assets held for trading may be reclassified as loans and receivables, held-to-maturity financial instruments or available-for-sale financial instruments, provided the conditions for the respective categories are met. The financial crisis meets the definition of a rare circumstance, with the result that we have reclassified non-marketable financial instruments in accordance with IAS 39.50B. In the case of non-marketable financial instruments (where no active market exists), it is enough to give up the intention to trade for a reclassification to be carried out. In the case of holdings carried at amortised cost, the fair value at the date of reclassification is stated as the original cost. In exceptional cases where an asset has been reclassified with retroactive effect from July 1, 2008, the fair value at July 1 is stated as the original cost. Any possible future write-up may only be made up to the original cost determined at the date of reclassification and not to the historic cost. In this context, the criteria for the category must be met at the time of reclassification. Where an active market exists at the present time, only a reclassification to held-to-maturity financial instruments or available-for-sale financial instruments is possible. A later reclassification back to the held-for-trading category is not possible.

Accounting and Valuation (Continued)

In the exposure draft regarding embedded derivatives published at the end of December 2008 with proposed amendments to IFRIC 9 and IAS 39, the IASB specified for the first time that a test for embedded derivatives must be carried out at the date of reclassification. The IFRIC 9 applicable at September 30 only called for such a test at the date of acquisition and/or the date of changes in contractual conditions, meaning that such a test was not necessary at the date of reclassification. IDW ERS HfA 26 of December 5, 2008 comes to the same conclusion in its draft statement regarding the reclassification of financial assets compliant with the amended IAS 39 and IFRS 7. The amendment of IFRIC 9 recently made available by the IASB has changed this interpretation. In line with the amendment of IFRIC 9, a reclassification of synthetic ABS from the held-for-trading portfolio is no longer possible where they contain embedded derivatives that are not measured separately and carried at fair value.

The reclassified holdings are now shown in Note 74.

We have made use of these reclassification options by reclassifying mostly asset-backed securities and fixed-income securities issued by financial institutions, for which an active market no longer exists, from held for trading to loans and receivables in the third quarter of 2008 with retroactive effect from July 1, 2008. The fair value of the financial instruments reclassified as loans and receivables at July 1, 2008 totalled €14.1 billion.

In the fourth quarter of 2008, we only reclassified assets in the amount of €0.2 billion from held for trading to loans and receivables on a prospective basis.

We have not reclassified any holdings from the available-for-sale portfolio.

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

The standards and interpretations newly published or revised by the IASB, which only become the subject of mandatory adoption for financial years beginning on or after January 1, 2009, have not been the subject of early adoption.

Among other things, the new IFRS 8 “Operating Segments”, which replaces the old regulations governing segment reporting (IAS 14), is the subject of mandatory adoption with effect from January 1, 2009.

5 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 120 (2007: 105) companies. The group of consolidated companies also includes 33 companies and fund assets which SIC 12 requires to be consolidated as special purpose entities.

With regard to the programmes consolidated for the first time in 2007, a total of 11 special purpose entities (2007: 10) have been incorporated in the figures through the two customer conduit programmes Arabella and Salome.

The group of companies included in consolidation has been defined taking into account materiality criteria. All fully consolidated subsidiaries prepared their annual financial statements for the period ended December 31, 2008. The group of consolidated companies does not include any companies that are not fully consolidated. One company: Ramius Fund of Funds Group LLC, Delaware (formerly: Ramius HVB Partners LLC, Delaware) is accounted for using the equity method (no change compared with 2007).

The following companies and fund assets, among others, have been consolidated for the first time in the 2008 financial statements of HVB Group:

– Blue Capital Equity GmbH, Hamburg
– Blue Capital Equity Management GmbH, Hamburg
– Blue Capital Fonds GmbH, Hamburg
– Blue Capital GmbH, Hamburg
– Blue Capital Treuhand GmbH, Hamburg
– Blue Capital USA Immobilien Verwaltungs GmbH, Hamburg
– H.F.S. Immobilienfonds GmbH, Ebersberg
– WealthCap PEIA Management GmbH, Munich (formerly: HVB FondsFinance GmbH, Munich)
– V.M.G. Vermietungsgesellschaft mbH, Munich
– WealthCap Investorenbetreuung GmbH, Munich
– WealthCap Real Estate Management GmbH, Munich
– BaLea Soft GmbH & Co. KG, Hamburg
– BaLea Soft Verwaltungsgesellschaft mbH, Hamburg
– HVB Investitionsbank GmbH, Hamburg
– LFL Luftfahrzeugleasing GmbH, Hamburg
– Mobility Concept GmbH, Munich
– Structured Lease GmbH, Grünwald
– Ocean Breeze Energy GmbH & Co. KG, Munich
– Ocean Breeze Finance S.A., Luxembourg, Compartment I
– Ocean Breeze Finance S.A., Luxembourg, Compartment II
– Pensionskasse der HypoVereinsbank VVaG, Munich
– Rosenkavalier 2008 GmbH, Munich.

The following companies are no longer consolidated for HVB Group at December 31, 2008, as they are no longer considered material from the point of view of the corporate group:

– Hypo (UK) Holdings Limited i.L., London
– Parus Gesellschaft für Immobilienverwaltung mbH, Munich
– ANWA Gesellschaft für Anlagenverwaltung mbH, Munich
– Bayerische Wohnungsgesellschaft für Handel und Industrie mbH, Munich
– Betaterra Gesellschaft für Immobilienverwaltung mbH, Munich
– Alexandersson Real Estate I B.V., Apeldoorn
– HVB Alternative Financial Products AG, Vienna.

In addition, HVB Capital LLC V, Wilmington, was liquidated on January 30, 2008 and Blue Capital Treuhand GmbH, Hamburg, was absorbed by WealthCap Investorenbetreuung GmbH, Munich, on September 16, 2008.

In total, HVB Group has 295 affiliated and associated companies and joint ventures that were neither fully consolidated nor fully accounted for using the equity method.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these non-consolidated companies makes up around 4.5% of consolidated profit of the HVB Group, while such companies provide around 0.2% of consolidated assets. The interests in these companies are carried as available-for-sale financial assets.

	2008	2007
Subsidiaries total	**400**	**455**
Consolidated companies	120	105
Non-consolidated companies	280	350
Joint ventures	**6**	**9**
of which:		
accounted for using the equity method	—	—
Associated companies	**10**	**10**
of which:		
accounted for using the equity method	1	1

HVB has applied the option given in Section 313 (4) of the German Commercial Code. The separate list of holdings drawn up in compliance with Section 313 (2) of the German Commercial Code contains all subsidiaries, joint ventures and associated companies, broken down by whether they are included in the consolidated financial statements or not – together with other holdings. The full list of our 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 our homepage at www.hvb.de/annualreport.

Accounting and Valuation (Continued)

6 Principles of consolidation

Consolidation is performed by offsetting the purchase price of a subsidiary against the value of the interest held in the completely recalculated shareholders' equity of the consolidated subsidiary at the time of acquisition. This amount represents the difference between the assets and liabilities of the acquired company, measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under investments in associates, joint ventures and non-consolidated subsidiaries. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the divisions. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment once a year at the cash-generating unit level. This involves comparing the carrying amount of the CGU with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell. Since the value in use far exceeds the carrying amount for the CGUs to which goodwill is allocated, the values in use have been used as the recoverable amount. When the values in use are calculated, the divisional plans are employed as the basis and a uniform rate of 8.4% for the cost of capital is used for discounting. No growth factor has been assumed for the government perpetuity.

SIC 12 requires us to consolidate special purpose entities provided, in substance, the majority of the risks and rewards incident to the activities of these special purpose entities is attributable to us or, in substance, we control the special purpose entities. Where they are material, they are included in consolidation. An interest in the equity capital of the special purpose entities is immaterial in this regard.

The assets and liabilities of the special purpose entity are included at the balance sheet date measured at their fair value when initially consolidated in accordance with SIC 12. They are subsequently measured in accordance with the uniform principles of accounting and valuation used across the corporate group. The expenses and income of the special purpose entity in question have been included in the consolidated income statement from the date of initial consolidation. Thus, the consolidation of special purpose entities in accordance with SIC 12 has the same effect as full consolidation. Equity interests held by third parties in a special purpose entity consolidated by us in accordance with SIC 12 are recognised under minority interest.

The same principles are applied when consolidating associated companies and joint ventures accounted for using the equity method.

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

7 Financial instruments

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

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

Among other things, the balance sheet disclosures and earnings contributions of the financial instruments must be shown separately, broken down by the IAS 39 valuation categories. In the present consolidated financial statements, we have included these changes in the explanatory notes to the balance sheet and the income statement. The information required by IFRS 7 regarding risks in connection with financial instruments is also provided in the Risk Report within Management's Discussion and Analysis. Compliant with IFRS 7.36A, the maximum credit exposure is the same as the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees and lending commitments, the nominal amount disclosed in Note 78 for the guarantee/amount of the lending commitments not yet utilised.

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

Financial assets and liabilities at fair value through profit or loss

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

  – Financial assets and liabilities held for trading.

    Financial assets and liabilities classified as held for trading at the time of initial recognition are financial instruments acquired or incurred for the purpose of short-term profit-taking as a result of changes in market prices or of realising a profit margin. Financial assets and liabilities held for trading purposes also include derivatives, with the exception of hedging derivatives, which qualify for hedge accounting and which are shown under financial assets and liabilities held for trading.

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

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

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

Loans and receivables

– The category "loans and receivables" includes non-derivative financial assets – both originated by us and acquired – with fixed or determinable payments that are not quoted in an active market, unless they are classified as at fair value through profit or loss or available for sale (AfS). We classify as loans and receivables leveraged buyout financing that we hold to maturity and leveraged buyout financing that we intend to outplace, as there is no short-term intention to trade. Loans and receivables originated by the Company are measured at amortised cost and capitalised under loans and receivables with banks and loans and receivables with customers. Premiums and discounts are taken to the income statement under net interest income over the term of the underlying items.

Held-to-maturity investments

– Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss, loans and receivables or available for sale. HtM financial instruments are measured at amortised cost, with premiums and discounts taken to the income statement under net interest income over the term of the underlying items.

Accounting and Valuation (Continued)

Available-for-sale financial assets

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

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

  – Equity instruments for which there is no quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost. Besides shares in unlisted companies, this primarily concerns investments in private equity funds, which we measure at cost. It is not possible to reliably determine a fair value for these equity instruments since there is no active market in these instruments and, especially with regard to investments in private equity funds, not all the information relevant for measuring fair value is available promptly. Consequently, they are not included in the AfS reserve.

The regulations set forth in IAS 39 regarding reclassifications have been observed. Purchases and sales of financial assets are normally recognised at the trade date.

Determination of fair value

– We can normally reliably determine the fair value of financial instruments measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (other than in a forced or liquidation sale) at the balance sheet date.

The fair value is determined as follows:
Listed price on an active market (Level I)
– Price on the closing date
– Price shortly before the closing date to be adjusted to the extent that the economic data have changed materially since the date the price was determined.

If there is no active market, the fair value is derived using data provided by market data suppliers (Level II):
– The latest market transactions for an identical financial instrument are used
– The amount is compared with the current fair value of a different, essentially identical financial instrument.

If it is not possible to derive a fair value, the amount is calculated using in-house models (Level III):
– Valuation models are used (such as discounting of expected cash flows, option price models or other valuation models normally used by market players to value financial instruments) as far as possible taking into account normal market valuation parameters.

The own credit spread is also included in the underlying valuation parameters for liabilities held for sale. Suitable adjustments are taken on the fair values determined in this way to reflect further factors affecting the fair value (such as the liquidity of the financial instrument or model risks when the fair value is determined using a valuation model).

Financial guarantees

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

– Viewed overall, the fair value of a financial guarantee is zero when the contract is concluded, for the value of the premium received will normally match the value of the guarantee obligation in standard market contracts. The guarantee premium is recognised on a pro rata basis. The need for an allowance to be taken for losses on guarantees is checked during subsequent measurement.

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

Embedded derivatives

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

Hedge accounting

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

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

  A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction and that will affect reported net income. We use derivatives in cash flow hedge accounting to hedge future interest cash flows. We employ the cash flow hedge accounting method to account for derivatives serving to hedge future interest cash flows as part of asset/liability management. Variable interest payments for variable receivables and liabilities are converted into fixed payments primarily by means of interest rate swaps. Hedging instruments are measured at fair value under this method of accounting. Changes in fair value are divided into an effective and an ineffective portion. A hedge is regarded as highly effective if, at inception and throughout the life of the hedge, the Company can expect changes in the cash flows of the hedged item to be offset almost completely by changes in the cash flows of the hedging instrument. To demonstrate effectiveness, the expected future variable interest cash flows arising from variable receivables and liabilities (including rolling short-term positions) being hedged at the end of each quarter or at the balance sheet date are compared with the variable interest rate payments arising from the interest rate derivatives in detailed maturity buckets. The effective portion of the hedging instrument is recognised in a separate equity item (hedge reserve) in the balance sheet. The changes in value of these derivatives are offset by future compensating effects arising from the hedge relationship, which must not yet be shown in the balance sheet. The hedge reserve is reversed and taken to the income statement in the periods during which the cash flows of the hedged financial instruments affect net income for the period. These reversals affecting future reported net income are offset in the income statement by the cash flows from the hedged items. The ineffective portion is recognised directly in the income statement. Depending on its classification, the hedged item is recognised at amortised cost or, in the case of available-for-sale financial assets, at fair value.

Accounting and Valuation (Continued)

Fair value hedge portfolio for interest rate risks

In the fourth quarter of 2008, we changed the hedge accounting method for most areas in terms of the accounting treatment of hedges in asset/liability interest rate risk management. In place of the previously used macro cash flow hedge, we have applied the fair value hedge portfolio for interest rate risks similarly permitted by IAS 39 prospectively. The new approach to hedging the fair value with regard to a portfolio of interest-bearing financial assets and liabilities makes it largely possible to also reflect the usual bank risk management procedures to hedge fixed interest rate risks in the balance sheet. It is planned to switch the few remaining areas to the fair value hedge portfolio in 2009.

Under this accounting treatment of hedges across several items, the changes in value of the hedged amount of hedged items attributable to the hedged risk are recognised as separate asset and liability items and not as an adjustment to the carrying amount of individual items as is the case with micro hedges. The hedged amount of the hedged items is determined as part of interest rate risk management; the liabilities do not contain any sight or savings deposits. Thus we have not made use of sight and savings deposits in the hedged amount as permitted by the EU carved-out version of IAS 39 in this regard. Where the hedge conditions are met, the offsetting changes in value of the hedged amount of the hedged items and the hedging instruments (interest derivatives) are recognised directly in profit or loss. Hedge inefficiencies arising within the necessary hedge efficiency range of 80% to 125% are recognised as profit or loss in net hedging income.

The cash flow hedge reserve existing at the changeover date and the offsetting clean fair values of the existing cash flow hedge derivatives of the same amount are amortised over the remaining term of the hedging derivatives in net interest income, which means that they have no impact on profit or loss in the future until they are fully amortised. HVB AG Germany started to apply these mutually offsetting amortisations from December 1, 2008, such that the cash flow hedge reserve fixed at the changeover date was already reduced to a minor extent in 2008. The changes in value of the same hedged items and hedging derivatives, together with all new contracts arising after the changeover date are treated in accordance with the new fair value hedge portfolio model. To a minor extent, previous cash flow hedge derivatives have no longer been included in the new fair value hedge portfolio. Their portion of the cash flow hedge reserve was immediately taken to the income statement in net interest income. The subsequent measurement of these standalone derivatives is recognised in net trading income.

At the same time, HVB has employed a fair value hedge portfolio for interest rate risks since 2007 for a limited portfolio of liabilities.

8 Assets held for trading purposes

This item includes securities held for trading purposes and positive market values of traded derivatives. All other derivatives not classified as hedging derivatives (which are shown separately in the balance sheet) are similarly considered held for trading. This includes standardised credit default swaps (CDSs) concluded outside the held-for-trading portfolio, which are measured in the same way as traded derivatives.

Provided they are held for trading purposes, promissory notes, registered bonds and treasury bills are carried as other financial assets held for trading.

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

9 Financial assets at fair value through profit or loss

HVB Group only applies the fair value option for financial assets with economic hedges for which hedge accounting is not applied. The designation removes or significantly reduces differences resulting from an accounting mismatch. The portfolio mostly comprises interest-bearing securities not held for trading that are hedged against interest rate risks by means of interest rate swaps. In the case of promissory note receivables similarly included here, there is no material fair value change in terms of the credit risk on account of the prime rating of the issuers. Changes in fair value of the hedged items and the associated derivatives are shown separately in net trading income; current interest income/expenses are recognised in net interest income.

10 Available-for-sale financial assets

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

Available-for-sale financial instruments that are effectively hedged against market risk are recorded as part of fair value hedge accounting.

11 Investments in associates, joint ventures and non-consolidated subsidiaries

Investments in joint ventures and associated companies are accounted for using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value.

Where the fair value of non-listed assets cannot be reliably determined, such assets are recognised at amortised cost.

12 Held-to-maturity investments

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

13 Loans and receivables

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

14 Impairment of financial assets

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

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

Objective evidence of impairment refers to events that normally lead to an actual impairment. In the case of debt instruments, these are events that could result in the borrower not being able to settle his obligations in full or at the agreed date. In the case of equity instruments, market values that are permanently or significantly lower than the carrying amount represent objective evidence of impairment.

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

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

In the case of loans and receivables and held-to-maturity financial instruments, an impairment is the difference between the carrying amount and the present value of the anticipated future cash flows. The future cash flows are determined taking into account past events (objective evidence). The anticipated future cash flows may comprise the repayment and/or interest payments still expected and the income from the realisation of collateral. The impairment is the difference between the present value of the anticipated future cash flows and the carrying amount. A specific loan-loss provision is recognised for the impairment determined in this way. Held-to-maturity financial instruments are approached in the same way.

During subsequent measurement, both changes in the anticipated future cash flows and the time effect arising from a reduction of the discounting period (unwinding) are taken into account. The difference between the newly determined present value of the anticipated future cash flows at each balance sheet date and the carrying amount at the previous balance sheet date is recognised as a reversal of, or an addition to, allowances for losses on loans and receivables. On account of the uniform Group-wide accounting and valuation methods stipulated by the parent company, UniCredit, the effect of the unwinding is disclosed as a reversal of allowances.

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

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

Accounting and Valuation (Continued)

Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made to cover all identifiable default risks arising from lending operations (loans, receivables and financial guarantees). These are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified uncollectable and written off. Acute country-specific transfer risks are included in this process.

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

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

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

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

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

In the case of equity instruments measured at fair value, an impairment occurs when the current fair value is significantly lower than the carrying amount or when the fair value is permanently less than the carrying amount. Where this is the case, the difference between the current fair value and initial cost is recognised in the income statement. Such an impairment recognised in the income statement has to be considered for the new cost basis required for the calculation of AfS reserve. If the fair value rises in the future, the difference between a higher fair value and the initial cost adjusted as described is recognised in the AfS reserve under shareholders' equity.

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

15 Property, plant and equipment

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

PROPERTY, PLANT AND EQUIPMENT	USEFUL ECONOMIC LIFE
Buildings	25–50 years
Fixtures in buildings not owned	10–25 years
Computer equipment	3–5 years
Other plant and office equipment	3–25 years

Impairments are taken on property, plant and equipment whose value is impaired. Should the reasons for the impairment no longer apply, a subsequent write-up is taken to the income statement; the amount of this subsequent write-up must not increase the value of the property, plant and equipment to a level in excess of the amortised acquisition or production cost.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised, provided additional future economic benefits will flow to the Bank. Expenditure on repairs or maintenance of property, plant and equipment is recognised as expense in the year in which it is incurred.

16 Lease operations

Under IAS 17, lease operations are divided into finance leases and operating leases. Unlike an operating lease, a finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset to the lessee. Title may or may not eventually be transferred.

HVB Group as lessor

Under finance leases, the lessor recognises the leased asset in the balance sheet as a receivable from the lessee at an amount equal to the net investment in the lease. The lease payments are broken down into the finance charge and the redemption payment. The redemption payment reduces the amount of the outstanding liability (net investment); the finance charge is treated as interest expense. Interest and similar income is recognised on the basis of a constant, periodic rate of return relating to the net investment outstanding. The term "net investment" is defined in detail in Note 51, "Loans and receivables with customers". HVB Group currently leases mobile assets as a lessor under finance leases.

In contrast, assets held under operating leases are recognised as, and valued using the same principles as, property, plant and equipment. Revenue under these arrangements is recognised on a straight-line basis over the lease term. HVB Group leases both movable property and real estate as a lessor under operating leases.

HVB Group as lessee

Under a finance lease, the asset is recognised as property, plant and equipment, and the obligation as a liability. Each asset is stated at the lower of the following two values: either the fair value of the leased asset at the inception of the lease or, if lower, the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the interest rate implicit in the lease is applied.

The lease payments relating to finance leases are broken down into two components: the finance charge and the redemption payment. The redemption payment reduces the residual liability, and the finance charge is shown as interest expense.

Lease payments relating to operating leases are treated as rental expense and recognised in other operating expenses or operating costs. The corresponding leasing objects are not included as objects. Contracts in which HVB Group acts as lessee are comparatively insignificant.

17 Investment property

Compliant with IAS 40.30 in conjunction with IAS 40.56, land and buildings held by us as investments with a view to generating rental income and/or capital gains are normally carried at amortised cost and written down on a straight-line basis over a useful economic life of 25 – 50 years.

We have applied the regulation stipulated in IAS 40.32A for a limited portfolio of investment property. This regulation allows an entity to measure at fair value through profit or loss any investment properties whose fair value determines the extent of the repayment of liabilities linked to the investment properties, even if all other investment property is measured at amortised cost.

The fair values stated for this limited portfolio of investment property are the result of valuation reports prepared by external assessors compliant with Section 194 of the German Building Code (BauGB). This involved determining fair values on the basis of sustainable rents. When these values were determined, non-recurring effects were taken into account such as differences between contractual rents and sustainable rents.

Accounting and Valuation (Continued)

Current expenses and rental income from investment property is disclosed in net other expenses/income. Depreciation on such investments carried at amortised cost is included in operating expenses, whereas impairments are recognised in net income from investments. Changes in the value of investments at fair value through profit or loss are similarly included in net income from investments. As the fair value model is used, depreciation is not taken on these investments.

18 Intangible assets
The main items included in intangible assets are goodwill arising from the acquisition of fully consolidated subsidiaries and software. An intangible asset shall only be recognised if it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Compliant with IAS 36, amortisation is no longer taken on goodwill. The value of goodwill is tested annually and where there is an indication of impairment. Impairments are taken where necessary. Software is valued at amortised cost and written down over an expected useful life of three to five years. All other intangible assets are amortised over a period of up to ten years, as they have a limited useful life.

19 Assets of discontinued operations and non-current assets or disposal groups held for sale
Under IFRS 5, assets of discontinued operations and non-current assets or disposal groups held for sale are carried at the lower of the carrying amount or fair value less costs to sell at the balance sheet date.

20 Liabilities
Deposits from banks and customers, and debt securities in issue that are not hedged items of an effective fair value hedge are reported at amortised cost.

Instead of the maturity analysis based on undiscounted cash flows required by IFRS 7.39A, we show a breakdown of the carrying amounts by maturity for the relevant liabilities in each case.

21 Financial liabilities held for trading
This item includes the negative market values of traded derivatives and all other derivatives that are not classified as hedging derivatives (which are recognised separately). Also included here are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

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

22 Hedge adjustment of hedged items in the fair value hedge portfolio
Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see Note 66).

23 Other liabilities
Compliant with IAS 37, accruals and other items are shown under other liabilities. These reflect future expenditure of uncertain timing or amount, the uncertainty of which is much less than for provisions. Accruals are liabilities for goods and services provided or received that have been neither paid for nor invoiced by the supplier nor formally agreed. This also includes current liabilities to employees, such as flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used.

Furthermore, minority interests in the capital of a consolidated investment fund are also carried as liabilities from outstanding fund shares under other liabilities, provided the Bank consolidates these funds. Since these minorities are entitled to return their shares at any time to the fund for the redemption price, their shares represent liabilities from the Group's viewpoint. These liabilities are carried at their respective redemption price. Changes in the redemption price are recognised in the income statement.

24 Provisions

Present legal or constructive obligations as a result of past events involving a probable out-flow of resources, and whose amount can be reliably estimated, are recognised as provisions.

When assessing provisions for uncertain liabilities and anticipated losses on onerous transactions, we use a best estimate compliant with IAS 37.36 et seq. Long-term provisions are discounted.

In accordance with IAS 19, we use actuarial principles to determine the provisions for pensions and similar commitments. The amounts are calculated using the projected unit credit method, taking into account the present value of the defined benefit obligations, the fair value of plan assets, and unrealised actuarial gains and losses. Causes of such gains and losses include irregularities in the risk profile (e.g. higher or lower rates of early retirement or mortality than anticipated in the calculation principles applied) and changes in the applicable parameters.

We exercise the option for recognising unrealised actuarial gains or losses in shareholders' equity permitted in IAS 19.93A "Employee benefits".

The discount rate is based on the long-term interest rate for prime, fixed-yield corporate bonds at the balance sheet date. The amount of the provision shown in the balance sheet is calculated as the present value of the obligation determined at the end of the financial year less the fair value of the plan assets determined at the end of the financial year. The plan assets set up by HVB AG and a number of subsidiaries to fund pension obligations are described in detail in Note 70, "Provisions".

25 Foreign currency translation

The consolidated financial statements are prepared in euros, which is the reporting currency of the corporate group. Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for monetary items not denominated in the respective functional currency (generally the local currency in each case) and cash transactions not completed at the valuation date to be translated into euros using current market rates. Non-monetary items carried at fair value are similarly translated into euros using current market rates at the valuation date. Non-monetary items carried at cost are translated using the historic rate applicable at the time of acquisition.

Income and expense items arising from foreign currency translation at the individual Group companies are stated under the appropriate items of the income statement.

Where they are not stated in euros, the balance sheet items reported by our subsidiaries are translated using current market rates at the balance sheet date in the consolidated financial statements. Transaction rates are used to translate the income and expenses of these subsidiaries.

Exchange rate differences resulting from the translation of a foreign operation are recognised in shareholders' equity without affecting profit or loss, and are only taken to the income statement if the operation is sold in part or in full.

26 Income tax for the period

Income tax for the period is accounted for in accordance with the principles set forth in IAS 12. Apart from a few exceptions allowed for in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (balance sheet approach). Deferred tax assets arising from unused losses carried forward for tax-reporting purposes are shown where permitted by IAS 12.

Since the concept is based on the approach of future tax assets and liabilities under the liability method, the assets and liabilities are computed using the tax rates that are expected to apply when the differences are reversed.

Segment Reporting

27 Notes to segment reporting by division (primary segmentation)

In segment reporting, the market-related activities of HVB Group are divided into the following global divisions: Markets & Investment Banking, Corporates & Commercial Real Estate Financing, Retail, and Wealth Management.

Also shown is the "Other/consolidation" segment that covers Global Banking Services and Group Corporate Centre activities and the effects of consolidation. The Group Corporate Centre activities also contain the Special Credit Portfolio (SCP) defined in 2006 and the remaining holdings from the former Real Estate Restructuring segment.

The income statement for the Corporates & Commercial Real Estate Financing division has been shown for the whole division since June 30, 2008 and is no longer divided into the Corporates (including the contributions to earnings from business with commercial real estate customers) and Global Transaction Banking subdivisions, which up until then had been reported separately.

Besides this, a number of smaller reorganisations have taken place with a view to giving the divisions a clear strategic orientation, and changes have been made to the cost allocation which led to modified assignments of operating costs. The figures for the comparable periods in the previous year have been adjusted to take account of these changes.

Components of the segments of HVB Group

Markets & Investment Banking division

The Munich-based Markets & Investment Banking division (MIB) forms the centre of competence for investment banking within the UniCredit Group and acts as a one-stop platform for all products and services relating to investment banking. The target groups served by MIB include multinationals, institutionals and public sector customers. The division also serves as a central product factory and sees itself as a supplier of innovative, specialised products for all regional sales units and the other divisions, who are thus also important individual customers and primary sales partners.

The division's product range encompasses all the main offerings to be expected of an international investment bank.

MIB sets clear regional priorities and focuses primarily on the core countries of the UniCredit Group: Italy, Germany and Austria. In addition, the division maintains a presence at all the major financial centres in the world, such as London, New York, Hong Kong, Singapore and Tokyo. Major subsidiaries assigned to this division include HVB Banque Luxembourg, which is assigned to several divisions, HVB Global Assets, HVB Capital Asia Ltd. and HVB Capital Partners AG.

MIB is divided into two business lines: Markets and Global Investment Banking.

The Markets business line covers trading, structuring and sales activities. Its major units include Rates & FX (FIC), Equities, Credit Markets, Global Distribution and Corporate Treasury Sales. These units are responsible for a wide range of transactions, including interest rate management and interest rate products, FX products, derivative products, structured products and brokerage.

Like Markets, Global Investment Banking covers a broad range of transactions, including financing operations, syndicated bonds, support for IPOs and capital increases, leveraged finance, project loans, mergers and acquisitions, and other corporate finance activities. It consists of the Financing, Equity and Debt Capital Markets, Regional Investment Banking/Coverage and Principal Investments units, together with private equity operations.

Outside of the business lines, MIB Global Research advises and supports our customers in tasks like asset allocation, securities selection and risk management.

Corporates & Commercial Real Estate Financing division
In our **corporate banking operations**, we concentrate on the needs of our around 77,000 customers, among other things, supporting their cross-border expansion; helping them to use new forms of financing and finance risk management; and opening them up to the capital market.

The corporate banking business provides various relationship models based on different customer requirements. In particular, we have relationship models for large caps and commercial real estate customers, mid caps, small caps and the public sector. We combine these models with regional proximity and sector know-how.

Lending is, and is set to remain, our core business, associated with an appropriate proportion of our customers' other financial activities. At the same time, we also create solutions for our customers in addition or as an alternative to the traditional loan. Besides providing sophisticated advisory services and the analysis and funding of current and non-current assets (working capital), we offer structured loans to a broad array of mid-sized enterprises. As part of our financial risk management, we advise our customers extensively on all possible ways of hedging entrepreneurial risks.

As part of a leading corporate banking group in central and eastern Europe, we support our customers through our European network.

Global Shipping has been set up as a separate line of business, representing a separate industry-marketing and product organisation with offices at the major ship-financing centres.

In **commercial real estate financing**, we aim to significantly improve the risk/return profile of portfolios and sustainably boost the profitability of the business. The consistent implementation of our selective lending policies based on the current market conditions and the sustained reduction of unprofitable portions of portfolios are playing an important role in this process. Our target customers have access to tailored products from HypoVereinsbank's full range, extending from classic real estate finance with interest hedging through to structuring, syndication and, where appropriate, securitisation of portfolios, and all the banking products offered by service and deposit-taking operations.

Major subsidiaries assigned to this division include HVB Banque Luxembourg, which is assigned to several divisions, and HVB Leasing GmbH.

Retail division
We divide our customers into three groups: mass market, affluents and business customers. In particular, we are looking to exploit opportunities for growth in the affluents and business customers segments. To do so, we are investing in systematic customer contact, refining the needs-based approach for our products and focussing especially on cross-selling. We take a differentiated view of the mass market sector, relying heavily on automated processes for everything from online banking to more intensive use of self-service terminals in order to allow more time for advisory services. We expanded our real estate financing competence further in 2008, and are the only provider in Germany to not only market its own loans, but also select the best offering for the customer from more than 40 other providers.

Segment Reporting (Continued)

Our **mass market operations** have a clear setup following the restructuring in 2007. Our award-winning HVB Willkommenskonto, which we enhanced by adding a picture debit card in 2008, remains the market leader. Furthermore, we entered into a cooperation agreement with LEGO targeting younger people, which has helped us to acquire a large number of new, young customers. UniCredit Consumer Financing Germany has been marketing credit cards successfully since the first half of 2008 and has also been offering Komfortkredit consumer loans since June.

In the **affluents** segment, we have established a top-drawer standardised advisory process with our PremiumDialog and VermögensDialog advisory tools and are consistently enhancing and expanding our customer relationships. In response to the difficult stockmarket in 2008, we shifted our advisory focus to equity-independent asset classes with great success during the course of the year. In addition, we have launched the HVB VermögensDepot privat product, which offers a perfect combination of tax optimisation and performance.

Even in difficult times, we met the borrowing needs of our **business customers** by providing a constant volume of credit in 2008, thus flying in the face of the public discussions regarding more restrictive lending policies. HVB Business Dialog leverages our advisory skills to the full, enabling us to offer solutions tailored specifically to the needs of the customer. Our approach here focuses on bringing personal accounts under our umbrella alongside the business banking relationship. We provide offerings specially tailored to their profession for specific customer groups, such as doctors.

The Retail division serves around three million customers. Major subsidiaries allocated to this division include Bankhaus Neelmeyer and Vereinsbank Victoria Bauspar AG.

Wealth Management division

The Wealth Management division has set itself the goal of optimally meeting the specific expectations of wealthy customers with regard to a bank and the services it offers in line with demand. The division serves customers with an aggregate investment volume of €57 billion. Wealth Management is divided into four subdivisions.

HVB Wealth Management (WEM)

This unit serves roundly 39,000 HVB AG customers with assets under management of €25 billion. Our 527 employees offer individual, personal advice at 45 locations and six representative offices throughout Germany. Customers and customer groups with liquid assets in excess of €0.5 million are offered all-round, bespoke advice; the Family Office serves family groups with complex assets of more than €30 million.

WEM's strategic objectives are to satisfy high net worth individuals with a comprehensive range of advisory services, attractive products and outstanding customer relationships, and to increase its market share in the highly competitive wealth management environment. WEM aspires to quality leadership in the German market.

DAB Bank Group (DAB)

DAB is one of the most experienced Internet brokers, offering its customers innovative products and services in conjunction with outstanding conditions. As a direct bank, DAB gives its customers access to a broad range of services relating to wealth creation and protection using securities. It provides solutions for savers, investors and traders. In its corporate banking operations, DAB acts as a partner for asset managers, fund brokers, investment advisors, and retail and savings banks. Unlike most of its competitors, DAB focuses on its core business of brokerage involving securities. DAB has a workforce of 691 people serving around 1.1 million customers in Germany and Austria with an investment volume of €23 billion.

Wealth Management Capital Holding (WMC)
WMC structures and issues sophisticated investment products tailored exclusively to the Wealth Management customer group. It is one of the biggest initiators of closed-ended funds.119,000 customers are served by 230 employees in this unit.

HVB Luxembourg Private Banking (LUX)
The Private Banking unit based in Luxembourg provides specialised portfolio solutions for 12,000 customers with an investment volume of €3 billion and employs 76 people.

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

The **Global Banking Services** activities encompass IT application development and operation, purchasing, organisation, logistics and facility management, cost management, and back office functions for credit, accounts, foreign exchange, money market and derivatives. Payments and securities services have been outsourced.

The **Group Corporate Centre** activities contain the Special Credit Portfolio (SCP) defined in 2006 and the remaining holdings from the former Real Estate Restructuring segment (RER). In addition to the RER and SCP portfolios, the Group Corporate Centre activities include profit contributions that do not fall within the jurisdiction of the individual divisions. Among other items, this includes the profits of non-consolidated holdings, provided they are not assigned to the divisions, and the net income from securities holdings for which the Management Board is responsible. Also incorporated in this segment are the amounts resulting from decisions taken by management with regard to asset/liability management.

Method of segment reporting

Segment reporting is based on the internal organisational and management structure together with internal financial reporting. The divisions operate as autonomous companies with their own equity resources and responsibility for profits and losses. The divisions are delimited by responsibility for serving customers.

Net interest income is broken down using the market interest calculation method. The equity capital allocation used to calculate the return on investment on companies assigned to several divisions is based on a system of individual core capital allocation for each division. This involves allocating core capital to the divisions over a range between 5.9% and 6.8% of risk-weighted assets. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. The percentage used to assess the equity capital allocated to the companies assigned to several divisions (HVB AG, HVB Banque Luxembourg) equals the 3-month EURIBOR plus a premium in the amount of the average 5-year UniCredit spread. This rate is set for one year as part of the budgeting process. The percentage rate changed from 3.8% to 3.97% in connection with the rules laid down for the 2008 financial year. The change in interest rate has no material effect. This is why we have not restated the previous periods. Equity capital is not standardised for the subsidiaries.

Operating costs are allocated to the correct division according to causation. The Global Banking Services and Group Corporate Centre units are treated as external service providers, charging the divisions for their services at a price which covers their cost. The method of charging costs that cannot be allocated directly involves identifying the overhead costs for each segment individually in the budgeting process, and setting them in the form of a fixed premium on the direct and indirect costs for the appropriate financial year.

Segment Reporting (Continued)

28 Income statement broken down by division

						€ millions
	MARKETS & INVESTMENT BANKING	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION	HVB GROUP[2]
TOTAL REVENUES						
2008	(261)	1,612	1,616	443	538	3,948
2007	2,179	1,474	1,761	483	714	6,611
Operating costs						
2008	(1,081)	(586)	(1,313)	(310)	(205)	(3,495)
2007	(1,161)	(561)	(1,354)	(294)	(206)	(3,576)
OPERATING PROFIT/(LOSS)						
2008	(1,342)	1,026	303	133	333	453
2007	1,018	913	407	189	508	3,035
Restructuring costs						
2008	(7)	(1)	—	—	(18)	(26)
2007	(27)	—	3	(2)	39	13
Net write-downs of loans and provisions for guarantees and commitments						
2008	(493)	(384)	(71)	4	184	(760)
2007	74	(143)	(147)	(7)	(313)	(536)
Net income from investments and other items[1]						
2008	(189)	19	(19)	(5)	(68)	(262)
2007	458	(24)	32	21	(37)	450
PROFIT/(LOSS) BEFORE TAX						
2008	(2,031)	660	213	132	431	(595)
2007	1,523	746	295	201	197	2,962

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill and net income from investments

2 the profit/(loss) of discontinued operations in 2007 is shown separately in Note 42, "Income statement and earnings per share of discontinued operations"

Income statement of the Markets & Investment Banking division

						€ millions
INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net interest income	**1,440**	**1,247**	**413**	**426**	**293**	**308**
Net fees and commissions	195	358	74	49	38	34
Net trading income	(1,901)	558	(1,100)	(444)	312	(669)
Net other expenses/income	5	16	7	6	(7)	(1)
Net non-interest income	**(1,701)**	**932**	**(1,019)**	**(389)**	**343**	**(636)**
TOTAL REVENUES	**(261)**	**2,179**	**(606)**	**37**	**636**	**(328)**
Payroll costs	(378)	(508)	(81)	(76)	(104)	(117)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(703)	(653)	(186)	(181)	(165)	(171)
Operating costs	**(1,081)**	**(1,161)**	**(267)**	**(257)**	**(269)**	**(288)**
OPERATING PROFIT/(LOSS)	**(1,342)**	**1,018**	**(873)**	**(220)**	**367**	**(616)**
Restructuring costs	(7)	(27)	(6)	—	(1)	—
Net write-downs of loans and provisions for guarantees and commitments	(493)	74	(260)	(233)	23	(23)
Net income from investments and other items[1]	(189)	458	(44)	(111)	(33)	(1)
PROFIT/(LOSS) BEFORE TAX	**(2,031)**	**1,523**	**(1,183)**	**(564)**	**356**	**(640)**
Cost-income ratio in %	n. a.	53.3	n. a.	694.6	42.3	n. a.

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill and net income from investments

Developments in the Markets & Investment Banking division

The performance of the Markets & Investment Banking division was heavily affected by the rapidly worsening financial crisis in the second half of 2008. As a result of these market distortions, the division recorded a loss of €1,183 million before tax in the fourth quarter of 2008, which was again much worse than in the previous quarter, giving rise to a loss of €2,031 million before tax for the year as a whole. In the previous year, we recorded a profit of €1,523 million before tax on account of the very positive market environment in the first half of 2007.

The situation on the financial markets deteriorated sharply once more in the fourth quarter of 2008. The net trading loss again worsened considerably in the fourth quarter of 2008 as a result of the financial crisis, to €1,100 million, compared with the previous quarter, giving rise to a net trading loss of €1,901 million for 2008 as a whole. Among the main factors causing the net trading loss were losses of €751 million on the valuation of ABS products. At the same time, the net trading loss notably includes negative factors in the Global Credit and Relative Value Arbitrage units. In addition, a loss of €126 million was recorded as a result of the bankruptcy of Lehman Brothers and a loss of €78 million was recorded as a result of trading positions of Icelandic counterparties.

Segment Reporting (Continued)

In net interest income, falling dividends from private equity funds were more than offset by higher trading-related interest and lower funding expenses for trading portfolios in the investment banking activities of UniCredit Banca Mobiliare transferred to HVB AG. Net interest income increased by a strong 15.5% overall. The Investment Banking subdivision made a notable contribution to this development, enabling it to report a net profit. Both customer-related financing activities (acquisition loans, structured loans, project and commodity loans) and advisory services regarding M&A and capital market transactions, which are built primarily on customer relationships in the core markets of the UniCredit Group, performed particularly well. Thus the M&A activity set up in 2007 enjoyed success in 2008 and has already reached fourth place in the league tables for M&A transactions in Germany. The Capital Markets unit, which is responsible for the issuance of equity and debt by companies and financial institutions among other things, was also able to record a very sound performance. In addition, the Fixed Income unit within the Markets subdivision was able to generate a very strong result primarily with customer-generated transactions. Nevertheless, net fees and commissions fell by almost 46% year-on-year, due especially to reluctance on the part of market players against the backdrop of the financial crisis.

Despite the inclusion of UBM's investment banking activities, operating costs fell by €80 million, or 6.9%, as a result of much lower payroll costs (down 25.6%) on account of lower expenses for performance bonuses.

Among other things, net write-downs of loans and provisions for guarantees and commitments totalling €493 million also include €136 million for risks relating to exposures to Iceland.

In 2007, net income from investments and other items included the gain of €219 million on the disposal of Indexchange Investment AG and the gain of €259 million on the disposal of FMS Bank; the net loss of €189 million recorded in the year under review can be attributed primarily to valuation expenses associated with the financial crisis.

Income statement of the Corporates & Commercial Real Estate Financing division

€ millions						
INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net interest income	**1,199**	**1,061**	**323**	**310**	**288**	**278**
Net fees and commissions	400	402	96	94	100	110
Net trading income	(2)	2	(1)	(1)	1	(1)
Net other expenses/income	15	9	2	7	—	6
Net non-interest income	**413**	**413**	**97**	**100**	**101**	**115**
TOTAL REVENUES	**1,612**	**1,474**	**420**	**410**	**389**	**393**
Payroll costs	(244)	(219)	(63)	(64)	(61)	(56)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(342)	(342)	(94)	(81)	(86)	(81)
Operating costs	**(586)**	**(561)**	**(157)**	**(145)**	**(147)**	**(137)**
OPERATING PROFIT	**1,026**	**913**	**263**	**265**	**242**	**256**
Restructuring costs	(1)	—	—	(1)	—	—
Net write-downs of loans and provisions for guarantees and commitments	(384)	(143)	(167)	(96)	(66)	(55)
Net income from investments and other items[1]	19	(24)	(18)	23	9	5
PROFIT/(LOSS) BEFORE TAX	**660**	**746**	**78**	**191**	**185**	**206**
Cost-income ratio in %	36.4	38.1	37.4	35.4	37.8	34.9

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill and net income from investments

Developments in the Corporates & Commercial Real Estate Financing division

The Corporates & Commercial Real Estate Financing division recorded a decidedly pleasing profit before tax of €660 million in 2008. The division represents an especially stable pillar in our business model in times of financial crisis like the present. Despite the difficult operating conditions and intense competition on the German market, the division succeeded in generating an excellent operating profit of €1,026 million, which was up a strong 12.4% on the already high total for the previous year.

The year-on-year increase in operating profit can be attributed to the clear increase of 9.4% in total revenues. The main factor behind this was the 13.0% rise in net interest income resulting from revenue growth in lending and deposit-taking operations from larger volumes together with a stepping up of lease operations. Higher dividend income was also realised in 2008. The high figure for net fees and commissions in 2007 was matched in 2008, with a decline in derivative operations offset by higher contributions to revenues from structured loans and from payment and foreign-trade products marketed by the Global Transaction Banking unit. Operating costs rose by 4.5% year-on-year. The higher payroll costs reflect the increase in the workforce undertaken as part of the division's growth strategy, whereas other administrative expenses remained unchanged as a result of strict cost management. At 36.4%, the cost-income ratio was at an outstanding level in 2008 and even better than the 38.1% recorded in the previous year on account of the excellent operating profit.

The increase in net write-downs of loans and provisions for guarantees and commitments compared with last year (2008: €384 million, 2007: €143 million) can be attributed to the effects of the financial crisis, serving to reduce the profit before tax by 11.5% year-on-year, to €660 million.

Segment Reporting (CONTINUED)

Income statement of the Retail division

€ millions						
INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net interest income	**1,053**	**1,078**	**258**	**266**	**266**	**263**
Net fees and commissions	567	669	106	123	161	177
Net trading income	—	2	—	—	—	—
Net other expenses/income	(4)	12	(5)	—	1	—
Net non-interest income	**563**	**683**	**101**	**123**	**162**	**177**
TOTAL REVENUES	**1,616**	**1,761**	**359**	**389**	**428**	**440**
Payroll costs	(588)	(611)	(147)	(141)	(151)	(149)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(725)	(743)	(192)	(176)	(181)	(176)
Operating costs	**(1,313)**	**(1,354)**	**(339)**	**(317)**	**(332)**	**(325)**
OPERATING PROFIT	**303**	**407**	**20**	**72**	**96**	**115**
Restructuring costs	—	3	2	(2)	—	—
Net write-downs of loans and provisions for guarantees and commitments	(71)	(147)	16	(6)	(31)	(50)
Net income from investments and other items[1]	(19)	32	(17)	(15)	(6)	19
PROFIT/(LOSS) BEFORE TAX	**213**	**295**	**21**	**49**	**59**	**84**
Cost-income ratio in %	81.3	76.9	94.4	81.5	77.6	73.9

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill and net income from investments

Developments in the Retail division

The Retail division was able to perform well in the deteriorating economic climate caused by the financial crisis, recording a profit before tax of €213 million (2007: €295 million).

The decline in total revenues resulting from marked cautiousness among our customers was very largely offset by lower costs (down 3.0%) and the halving of net write-downs of loans and provisions for guarantees and commitments to €71 million. Furthermore, the 2007 figures benefited from income recorded under "Net income from investments and other items".

Within total revenues, net interest income decreased by 2.3% year-on-year, to €1,053 million, notably on account of the further strategic reduction of the volume of real estate loans. The weaker lending activities were only partially offset by sharp rises in volumes on the deposit-taking side, primarily affecting time deposits.

The trend for our customers to prefer security-focused investments led to net fees and commissions of €567 million in 2008, which is 15.2% lower than the total for the previous year, with a sharp decline recorded for securities activities among customers. The successful distribution of innovative, new investment products reflecting the greater quality and security needs of our customers did not fully counteract this development. This includes products like our OptiAnleihe bonds or inflation-proof offerings with a total sales volume of €2,390 million in 2008.

The cost-income ratio deteriorated to 81.3% in 2008 after 76.9% in 2007, since the decline in total revenues was only partially offset by savings in operating costs. Payroll costs fell by 3.8%, notably due to a reduction in the headcount. Other administrative expenses (including amortisation, depreciation and impairment losses) declined by 2.4% thanks to systematic cost management and lower amortisation, depreciation and impairment losses. In all, operating costs fell by 3.0% compared with 2007.

Income statement of the Wealth Management division

						€ millions
INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net interest income	**171**	**172**	**46**	**38**	**49**	**38**
Net fees and commissions	297	313	71	65	75	86
Net trading income	(28)	(6)	(1)	(28)	(1)	2
Net other expenses/income	3	4	2	—	(2)	3
Net non-interest income	**272**	**311**	**72**	**37**	**72**	**91**
TOTAL REVENUES	**443**	**483**	**118**	**75**	**121**	**129**
Payroll costs	(116)	(94)	(30)	(30)	(28)	(28)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(194)	(200)	(48)	(47)	(50)	(49)
Operating costs	**(310)**	**(294)**	**(78)**	**(77)**	**(78)**	**(77)**
OPERATING PROFIT/(LOSS)	**133**	**189**	**40**	**(2)**	**43**	**52**
Restructuring costs	—	(2)	—	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	4	(7)	2	(1)	6	(3)
Net income from investments and other items[1]	(5)	21	(7)	1	1	—
PROFIT/(LOSS) BEFORE TAX	**132**	**201**	**35**	**(2)**	**50**	**49**
Cost-income ratio in %	70.0	60.9	66.1	102.7	64.5	59.7

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill and net income from investments

Developments of the Wealth Management division

The Wealth Management division encompasses the Wealth Management Sales of HVB AG (WEM HVB AG), the DAB Group, the private banking activities of HVB Banque Luxembourg and Wealth Management Capital Holding GmbH, Munich, including its participating interests consolidated for the first time in January 2008 (essentially Blue Capital Equity GmbH, Blue Capital Fonds GmbH, HVB FondsFinance GmbH and WealthCap Real Estate Management GmbH).

In recording a profit before tax of €132 million in 2008, the Wealth Management division was unable to match the figure of €201 million for the previous year in the challenging environment of the financial crisis. In this context, however, it is important to note that the profit for the previous year benefited from the proportion of the gain on disposal of FMS Bank attributed to the division, totalling €17 million, and that the total for the year under review is depressed by a valuation expense at DAB AG (on holdings designated as fair value option) caused by the financial crisis, which led to a net trading loss of €26 million.

Segment Reporting (Continued)

The total revenues of the Wealth Management division fell by €40 million, or 8.3%, year-on-year against the backdrop of the very difficult market environment throughout the year under review. The initially consolidated holdings of Wealth Management Capital Holding GmbH had a beneficial effect overall in this regard. While net fees and commissions declined by 5.1% due to customers' restraint on the securities markets coupled with lower portfolio-dependent securities revenues due among other things to lower prices on the securities markets, net interest income (without dividends) increased by a significant 11.2%. This reflects the current trend of shifting investments in the securities business to short-term forms of investment, especially demand and time deposits. Generally, there is a very clear trend towards secure deposit-taking business, which was particularly noticeable in WEM HVB AG and the DAB Group. HVB Banque Luxembourg's fee-earning activities with wealthy private clients were likewise impacted by market developments during the year under review. The volume placed by Wealth Management Capital Holding GmbH was below last year's level due to the market, with equity capital of €138 million and an investment volume of €238 million.

The rise of €16 million (5.4%) in operating costs results from higher payroll costs (up €22 million), essentially stemming from the holdings fully consolidated for the first time. Without the effects of initial consolidation, operating costs were reduced by more than 5% during the year under review by means of systematic cost management. The cost-income ratio rose by 9.1 percentage points year-on-year. If the valuation expense described above were eliminated from the net trading income at DAB, the cost-income ratio would total 66.1%.

Income statement of the Other/consolidation segment

INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
						€ millions
TOTAL REVENUES	**538**	**714**	**215**	**103**	**127**	**93**
Operating costs	**(205)**	**(206)**	**(41)**	**(58)**	**(62)**	**(44)**
OPERATING PROFIT	**333**	**508**	**174**	**45**	**65**	**49**
Restructuring costs	(18)	39	(20)	1	1	—
Net write-downs of loans and provisions for guarantees and commitments	184	(313)	266	(25)	(1)	(56)
Net income from investments and other items[1]	(68)	(37)	(36)	9	(31)	(10)
PROFIT/(LOSS) BEFORE TAX	**431**	**197**	**384**	**30**	**34**	**(17)**

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill and net income from investments

Developments in the Other/consolidation segment

The Other/consolidation segment encompasses the Global Banking Services and Group Corporate Centre subsegments together with the profit contributions from the Special Credit Portfolio (which also includes the remaining holdings in the Real Estate Restructuring Portfolio) and consolidation effects.

The total revenues of this segment declined sharply, from €714 million in 2007 to €538 million in 2008. This development results almost exclusively from net interest income, which benefited in the previous year from a non-recurring item of €93 million arising from the interest payments on purchase prices in conjunction with the disposal of discontinued operations. In addition, the strategic reduction of volumes in the Special Credit Portfolio (including the remaining holdings from the Real Estate Restructuring Portfolio) among other things resulted in lower net interest income. At the same time, non-interest income remained at around the same level as in 2007 overall.

With hardly any change in operating costs, the operating profit fell to €333 million (2007: €508 million) primarily on account of the development of net interest income described above.

Net write-downs of loans and provisions for guarantees and commitments fell by a net €184 million in the year under review, essentially on account of success in reducing the special portfolios (former Real Estate Restructuring Portfolio and the Special Credit Portfolio). The net loss of €68 million recorded under net income from investments and other items in the year under review can mainly be attributed to impairment losses on investment properties. In the previous year, additions of €169 million to provisions notably in relation to potential take-back obligations arising from real estate transactions and provisions for legal risks arising from operations were offset in this item by the gain of €47 million on the disposal of Nordinvest and the gain of €113 million on the disposal of Münchener Rückversicherungs-Gesellschaft recognised in net income from investments. The profit before tax improved from €197 million in 2007 to €431 million in the year under review on the back of the net reversal recorded in net write-downs of loans and provisions for guarantees and commitments.

Segment Reporting (Continued)

29 Balance sheet figures, broken down by division

						€ millions
	MARKETS & INVESTMENT BANKING	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables						
with banks						
2008	12,628	26,120	1,383	1,319	5,001	**46,451**
2007	13,340	26,804	2,244	1,170	5,308	**48,866**
Loans and receivables						
with customers						
2008	56,230	66,007	39,723	4,801	8,757	**175,518**
2007	40,438	58,771	42,649	4,879	13,509	**160,246**
Goodwill						
2008	304	117	—	3	—	**424**
2007	304	117	—	—	—	**421**
Deposits from banks						
2008	69,787	11,196	2,380	501	3	**83,867**
2007	72,307	12,606	2,376	209	(796)	**86,702**
Deposits from customers						
2008	33,722	32,949	31,493	12,258	4,540	**114,962**
2007	31,951	32,190	31,336	12,515	634	**108,626**
Debt securities in issue						
2008	4,917	5,140	573	322	52,687	**63,639**
2007	11,090	5,437	516	515	62,010	**79,568**
Risk-weighted assets						
(including equivalents for						
market risks and additionally						
for Basel II operational risks)						
2008 Basel II	73,093	47,940	11,274	2,930	13,010	**148,247**
2008 German Banking Act						
(KWG, Principle I)	75,044	51,070	20,260	3,896	10,620	**160,890**
2007 German Banking Act						
(KWG, Principle I)	53,818	49,064	23,170	3,704	15,775	**145,531**

1 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in Notes 58 and 68

30 Employees, broken down by operating and service division

	2008	2007
Markets & Investment Banking	2,475	2,539
Corporates & Commercial Real Estate Financing	2,903	2,545
Retail	8,224	9,095
Wealth Management	1,505	1,363
Global Banking Services	4,462	3,861
Group Corporate Centre	5,069	5,381
Total	**24,638**	**24,784**

31 Segment reporting, broken down by region (secondary segmentation)

The allocation of amounts to regions is based on the head office of the Group companies or offices involved.

Income statement, broken down by region

€ millions

	GERMANY	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP
TOTAL REVENUES						
2008	4,793	65	(24)	111	(997)	(3,948)
2007	6,573	800	71	193	(1,026)	6,611
OPERATING PROFIT/(LOSS)						
2008	1,040	(374)	(94)	61	(180)	453
2007	2,698	373	(6)	153	(183)	3,035

Total assets, broken down by region

€ millions

	2008	2007
Germany	342,270	305,764
Rest of Europe	185,502	174,447
Americas	21,138	20,013
Asia	9,531	9,743
Consolidation	(99,839)	(87,838)
Total	**458,602**	**422,129**

Employees, broken down by region

	2008	2007
Germany	22,461	22,692
Rest of Europe	1,599	1,496
Africa	3	5
Americas	269	297
Asia	306	294
Total	**24,638**	**24,784**

Notes to the Income Statement

32 Net interest income

		€ millions
	2008	2007
Interest income from		
lending and money market transactions	11,532	11,250
other interest income	5,216	6,213
Interest expense from		
deposits	(7,103)	(6,593)
debt securities in issue and		
other interest expenses	(5,586)	(7,117)
Net interest	**4,059**	**3,753**
Dividends and other income		
from equity investments		
Dividends and other similar income	202	369
Other income from companies		
using the equity method	(2)	7
Total	**4,259**	**4,129**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €12,317 million and €11,642 million, respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

33 Net fees and commissions

		€ millions
	2008	2007
Management, brokerage and consultancy services	795	1,087
Collection and payment services	197	195
Lending operations	397	409
Other service operations	64	30
Total	**1,453**	**1,721**

This item comprises the balance of fee and commission income of €2,535 million (2007: €2,437 million) and fee and commission expense of €1,082 million (2007: €716 million).

34 Net trading income

		€ millions
	2008	2007
Net gains on financial assets held for trading[1]	(1,655)	487
Private equity realisation gains[2]	(29)	119
Effects arising from hedge accounting	6	(3)
Changes in fair value of hedged items	(499)	434
Changes in fair value of hedging derivatives	505	(437)
Net gains on financial assets at fair value through		
profit or loss (fair value option)[3]	(206)	(7)
Other net trading income	(27)	(4)
Total	**(1,911)**	**592**

1 including dividends on financial assets held for trading
2 the gains/losses on the disposal and impairments on actively managed holdings in the private equity business are recorded here
3 also including the valuation results for derivatives concluded to hedge financial assets at fair value through profit or loss (effect in 2008: minus €579 million)

When measuring the fair value of financial liabilities held for trading, we realised income of €175 million on the measurement of the own credit spread.

The effects arising from hedge accounting include the hedge results of the fair value hedge portfolio and the individual micro fair value hedges as a net aggregate total.

The net gains on holdings at fair value through profit or loss (held-for-trading portfolio and fair value option) generally only contain the changes in fair value disclosed in the income statement. The interest income from held-for-trading portfolios is normally disclosed under net interest income. To ensure that the full contribution to profits is disclosed, the interest cash flows are only carried in net trading income for the interest rate swap trading book, which exclusively contains interest rate derivatives.

35 Net other expenses/income

		€ millions
	2008	2007
Other income	288	337
Other expenses	(141)	(168)
Total	**147**	**169**

Net other expenses/income totalled €147 million in 2008 (2007: €169 million). The total includes a net gain from current income and expenses regarding investment properties and from rental income less current expenses from mixed usage buildings. Furthermore, income from IT services performed for third parties by our HVB Information Services GmbH subsidiary helped to boost net other expenses/income.

In 2007, the largest item was a real estate transaction initiated by us entailing the discontinuation of potential obligation in conjunction with the relinquishment of property and buildings rented by the Bank, and disposal of finance lease properties. This gave rise to total net income of €78 million.

36 Operating costs

		€ millions
	2008	2007
Payroll costs	**(1,961)**	**(2,067)**
Wages and salaries	(1,650)	(1,748)
Social security costs	(232)	(245)
Pensions and other employee benefit costs	(79)	(74)
Other administrative expenses	**(1,281)**	**(1,250)**
Amortisation, depreciation and impairment losses	**(253)**	**(259)**
on property, plant and equipment	(126)	(135)
on software and other intangible assets,		
excluding goodwill	(127)	(124)
Total	**(3,495)**	**(3,576)**

A long-term incentive programme, including share-based remuneration transactions featuring compensation in UniCredit shares (stock options and performance shares), has been set up for executives and junior managers of all UniCredit Group companies selected using defined criteria.

The following statements relate to all HVB Group executives covered by the long-term incentive programme. The information provided in Note 83 in this regard showing the emoluments paid to members of the Management Board merely relates to the stock options and performance shares granted to members of the Management Board.

Information on stock options

STOCK OPTIONS	2008
Number	14,618,896
Strike price (€)	4.185
UCI stock market price at granting date (€)	4.185
Date of granting	June 25, 2008
Start of exercise period	July 10, 2012
End of exercise period	July 9, 2018
Fair value of each option at granting date (€)	0.6552

The stock options grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. The options cannot be exercised until the set exercise period has started. If the beneficiary has already left the UniCredit Group by that date, the stock options are normally forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis in certain exceptional circumstances, such as employee disability or retirement, or should an employer leave the UniCredit Group.

The fair values of the stock options at the date of granting are determined using Hull & White's trinomial model. The following parameters have been taken into account in this context:
– The probability of the option expiring due to the beneficiary leaving the Company prematurely after the lock-up period has expired
– Definition of an exercise barrier. This means that the options are only exercised before the end of the exercise period if the current price of the UniCredit shares exceeds the exercise price by the exercise barrier multiplier (a factor of 1.5 for stock options granted in 2008)
– Dividend yield of the UniCredit share
– Average historical daily volatility over the lock-up period.

Notes to the Income Statement (Continued)

Analysis of outstanding stock options

	2008			2007		
	NUMBER	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY	NUMBER	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY
Outstanding at start of period	**8,562,797**	**6.02**	**November 2018**	**5,852,433**	**5.42**	**July 2019**
Additions						
newly granted options	14,618,896	4.19	July 2018	3,329,054[1]	7.09	July 2017
Releases						
forfeited stock options	2,366,761	5.55	August 2018	618,690	5.43	April 2019
exercised stock options	—	—	—	—	—	—
expired stock options	—	—	—	—	—	—
Total at end of period	**20,814,932**	**4.78**	**August 2018**	**8,562,797[1]**	**6.02**	**November 2018**
Exercisable options at end of period	—	—	—	—	—	—

1 figures differ from previous year due to Group transfers

The fair value on the date of granting is recorded as an expense on the basis of the expected number of options exercised over the period.

Information on performance shares

PERFORMANCE SHARES	2008
Number	4,019,888
UCI stock market price at granting date (€)	4,185
Date of conditional granting	June 25, 2008
Granting upon satisfaction of criteria	December 31, 2011
Fair value of each performance share at granting date (€)	3.480

A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of three years, the relevant targets have been met and the beneficiary is still working for the UniCredit Group; otherwise the performance shares are normally forfeited (with regard to certain exceptions, please see the description of stock options).

Analysis of outstanding performance shares

	2008		2007	
	NUMBER	AVERAGE MATURITY	NUMBER	AVERAGE MATURITY
Outstanding at start of period	**3,209,305**	**January 2010**	**2,424,267**	**July 2009**
Additions				
newly granted performance shares	4,019,888	December 2011	1,046,153[1]	December 2010
Releases				
forfeited performance shares	838,266	June 2010	261,115	July 2009
transferred performance shares	—	—	—	—
Total at end of period	**6,390,927**	**March 2011**	**3,209,305[1]**	**January 2010**

1 figures differ from previous year due to Group transfers

The fair value on the date of granting is recorded as an expense for performance shares in the period that is decisive for fulfilling the respective criteria. The expenses for both programmes (stock options and performance shares) totalled €5.5 million at HVB Group and will be reimbursed to UniCredit when they fall due.

37 Provisions for risks and charges

Provisions for risks and charges totalled €6 million in the year under review (2007: €161 million). Within this total, reversals of provisions for litigation risks were largely offset by additions to provisions for building reconversion obligations and rental guarantees in 2008.

In 2007, the largest individual items were provisions set up to cover potential take-back obligations arising from real estate transactions and provisions for legal risks from business operations, with an aggregate total of €130 million. The total also included a net addition to other provisions and accruals for risks and charges in non-lending business and provisions for litigation risks.

38 Restructuring costs

Restructuring costs totalled €26 million in 2008. They relate primarily to the consolidation of various back office activities within the UniCredit Group.

A net reversal of €13 million was recognised under restructuring costs in 2007.

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

		€ millions
	2008	2007
Additions	**(1,754)**	**(1,798)**
Allowances for losses on loans and receivables	(1,636)	(1,743)
Allowances for losses on guarantees and indemnities	(118)	(55)
Releases	**923**	**1,172**
Allowances for losses on loans and receivables	897	1,146
Allowances for losses on guarantees and indemnities	26	26
Recoveries from write-offs of loans and receivables	**71**	**90**
Total	**(760)**	**(536)**

The effect of €72 million arising from the unwinding (2007: €64 million) to be carried out compliant with IFRS is disclosed under net write-downs of loans and provisions for guarantees and commitments as part of the uniform Group accounting policies. The unwinding is described in Note 14, "Impairment of financial assets".

Notes to the Income Statement (Continued)

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €5 million in the year under review. The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €663 million (2007: €507 million).

Net write-downs of loans and provisions for guarantees and commitments, to related entities

		€ millions
	2008	2007
Non-consolidated subsidiaries	—	1
Joint ventures	(2)	—
Associated companies	—	—
Other participating interests	(1)	6
Total[1]	**(3)**	**7**

1 balance released

40 Net income from investments

		€ millions
	2008	2007
Available-for-sale financial assets	(193)	71
Shares in affiliated companies	17	557
Companies accounted for using the equity method	—	—
Held-to-maturity investments	(17)	(39)
Land and buildings	20	14
Investment properties[1]	(83)	8
Total	**(256)**	**611**

1 impairments and write-ups together with fair value fluctuations for investment properties measured at market value

Net income from investments breaks down as follows:

		€ millions
	2008	2007
Gains on the disposal of	**24**	**749**
available-for-sale financial assets	(21)	174
shares in affiliated companies	25	560
companies accounted for using the equity method	—	—
held-to-maturity investments	—	1
land and buildings	20	14
Write-downs and value adjustments on	**(280)**	**(138)**
available-for-sale financial assets	(172)	(103)
shares in affiliated companies	(8)	(3)
companies accounted for using the equity method	—	—
held-to-maturity investments	(17)	(40)
investment properties[1]	(83)	8
Total	**(256)**	**611**

1 impairments and write-ups together with fair value fluctuations for investment properties measured at market value

The net loss from investments (gains on disposal less write-downs and value adjustments) of €210 million in 2008 arising from available-for-sale financial assets and held-to-maturity investments can be attributed primarily to negative effects from asset-backed-securities, Lehman bonds, Icelandic bonds and our holding in Babcock & Brown carried in these categories.

The gains on disposal of available-for-sale financial assets in 2007 essentially related to the gain of €113 million on the disposal of Münchener Rückversicherungs-Gesellschaft AG.

In 2007, the gains realised on the disposal of affiliated companies included a gain of €292 million on the disposal of FMS Bank, a gain of €219 million on the disposal of Indexchange and a gain of €47 million on the disposal of Nordinvest.

41 Income taxes for the period

		€ millions
	2008	2007
Current taxes	(185)	(326)
Deferred taxes	131	(468)
Total	**(54)**	**(794)**

The current taxes for 2008 include expenses for previous years totalling €6 million. In 2007, on the other hand, this item declined by €61 million due to tax reimbursements for previous years.

The deferred tax income in the year under review comprises income from the recognition of deferred tax assets on tax losses carryforwards (€482 million) and a deferred tax expense arising from the origination and reversal of temporary differences (€351 million).

The revaluation effects to be taken into account at December 31, 2007 as a result of the German corporate tax reform 2008 had a negative impact on deferred tax expenses in 2007.

The differences between computed income tax and recognised income tax are shown in the following reconciliation.

		€ millions
	2008	2007
Profit before tax	(595)	2,962
Applicable tax rate	15.8%	26.4%
Computed income taxes	+ 94	(782)
Tax effects		
arising from previous years and changes in tax rates	(5)	(134)
arising from foreign income	+ 129	+ 18
arising from non-taxable income	+ 42	+ 240
arising from different tax laws	(51)	(234)
arising from non-deductible expenses	(46)	(43)
arising from valuation adjustments and the non-recognition of deferred taxes	(217)	+ 141
arising from amortisation of goodwill	—	—
arising from other differences	—	—
Recognised income taxes	**(54)**	**(794)**

The tax rate applicable in the year under review is 15.8% (2007: 26.4%). It comprises the current rate of corporate income tax in Germany of 15.0% and the solidarity surcharge of 5.5% of corporate income tax.

In 2007, the adjustment item tax effects arising from previous years and changes in tax rates included, among other things, the positive effects of tax reimbursements for previous years offset against the negative valuation effects of changes in tax rates (especially due to the German tax reform 2008 amounting to €195 million).

The effect arising from tax of foreign income results from different tax rates applicable in other countries.

The item tax effects arising from different tax laws comprises primarily current and deferred trade tax in Germany for the current year calculated using tax rates which differ per municipality; in 2007, this item also comprises a reduction in corporate income tax and the solidarity surcharge resulting from the deductibility of trade tax.

In 2007, the item effects on taxes arising from valuation adjustments and the non-recognition of deferred taxes contained the complete effects on income taxes arising from the reduction and increase of deferred tax assets compliant with IAS 12.56 and IAS 12.37. In the year under review, this item for the most part comprises the effects arising from the non-recognition of deferred tax assets for tax loss carryforwards in individual countries.

Notes to the Income Statement (Continued)

The deferred tax assets and liabilities are broken down as follows:

		€ millions
	2008	**2007**
Deferred tax liabilities		
Loans and receivables with banks and customers,		
incl. provisions for losses on loans and receivables	140	106
Financial assets/liabilities held for trading	147	115
Investments	169	37
Property, plant and equipment/intangible assets	69	62
Other assets/other liabilities/derivatives	680	216
Deposits from banks/customers	81	2
Other	108	70
Recognised deferred tax liabilities	**1,394**	**608**
Deferred tax assets		
Financial assets/liabilities held for trading	412	329
Investments	146	55
Property, plant and equipment/intangible assets	71	52
Provisions	277	317
Other assets/other liabilities/derivatives	287	416
Loans and receivables with banks and customers,		
incl. provisions for losses on loans and receivables	217	206
Losses carried forward	846	364
Other	115	117
Recognised deferred tax assets	**2,371**	**1,856**

The German Tax Reform Act 2008 reduced the overall standard income tax burden on German corporations as of January 1, 2008. The corporate income tax rate irrespective of whether the earnings are distributed or not was reduced from 25% to 15%, while the solidarity surcharge remained unchanged at 5.5% of corporate income tax. At the same time, the possibility to deduct municipal trade tax was eliminated and the municipal trade tax factor was reduced from 5% to 3.5%.

At HVB AG, this resulted in an overall valuation rate for deferred taxes of 31.4%. Since the German Tax Reform Act already needed to be applied when measuring deferred taxes at the 2007 balance sheet date, compliant with IAS 12 there was fundamentally no change in the measurement of deferred taxes for our domestic companies as a result of modified tax rates in 2008.

Deferred tax assets of €24 million (2007: €9 million) were credited to the AfS reserve and deferred tax liabilities of €152 million were offset against the hedge reserve (2007: deferred tax assets of €256 million). On account of the option set forth in IAS 19.93A, deferred tax assets of €64 million (2007: €87 million) were directly credited to shareholders' equity. In each case, the deferred tax items offset directly against reserves are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for tax losses of HVB Group carried forward totalling €5,696 million (2007 HVB Group: €4,843 million) and deductible temporary differences of €1,335 million (2007 HVB Group: €1,108 million).

The deferred tax assets recognised on tax loss carryforwards were calculated using plans of the individual divisions, which are based on segment-specific and general macroeconomic assumptions. The amounts were measured taking into account appropriate valuation discounts. The planning horizon was extended from 3 years in 2007 to the current figure of 5 years. This was done in order to harmonise with prevailing opinion, which among other things has been included in the draft German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz). The tax losses for the current year arose in individual tax entities of the Markets & Investment Banking division, in particular on account of the financial crisis. Measurement was carried out taking into account possible restrictions of local regulations regarding time and the so-called minimum taxation rule for domestic tax loss carryforwards.

42 Income statement and earnings per share of discontinued operations

At year-end 2006, the BA-CA Group, IMB, HVB Bank Ukraine, AS UniCredit Bank, Riga and the HVB AG branches in Tallinn and Vilnius were defined as discontinued operations. After these companies and branches were fully sold or transferred during 2007, the net income from investments shown in the income statement of discontinued operations in 2007 contains the gains of €3,782 million before taxes generated on the disposal of the companies and branches listed above. The taxes associated with these gains on disposal amount to €84 million compliant with IFRS. At the same time, the income and expenses of the HVB AG branches in Tallinn and Vilnius are included up to and including March 1, 2007 (economic completion date).

Income statement of discontinued operations

	€ millions
	2007
Net interest income	1
Net fees and commissions	—
Net trading income	—
Net other expenses/income	—
TOTAL REVENUES	**1**
Operating costs	(1)
OPERATING PROFIT	**—**
Provisions for risks and charges	—
Write-down on goodwill	—
Restructuring costs	—
Net write-downs of loans and provisions for guarantees and commitments	—
Net income from investments	3,782
PROFIT BEFORE TAX	**3,782**
Income tax for the period	(84)
PROFIT AFTER TAX	**3,698**
Minorities	—
NET PROFIT	**3,698**

Earnings per share of discontinued operations

	2007
Earnings per share (€)	4.68

43 Earnings per share

HVB GROUP	**2008**	**2007**
Net profit/(loss) (€ millions)	(671)	2,050
Net profit/(loss) (adjusted[1], € millions)	(671)	1,603
Average number of shares	802,383,672	789,462,539
Earnings per share (€)	(0.84)	2.60
Earnings per share (adjusted[1], €)	(0.84)	2.03

1 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and tax charges arising from German corporate tax reforms

HVB GROUP, INCLUDING DISCONTINUED OPERATIONS	**2007**
Net profit/(loss) (€ millions)	5,748
Average number of shares	789,462,539
Earnings per share (€)	7.28

Notes to the Consolidated Balance Sheet

44 Cash and cash balances

Cash and cash balances contained cash on hand of €558 million in the year under review (2007: €551 million).

45 Financial assets held for trading

		€ millions
	2008	2007
Balance-sheet assets		
Fixed-income securities	47,433	64,391
Equity instruments	4,521	18,084
Other financial assets held for trading	27,576	39,122
Positive fair value from derivative		
financial instruments	**119,489**	**59,258**
Total	**199,019**	**180,855**

The financial assets held for trading include €1,630 million (2007: €1,706 million) in subordinated assets.

Financial assets held for trading from related entities

		€ millions
	2008	2007
Non-consolidated subsidiaries	19,815	11,601
Joint ventures	—	—
Associated companies	—	—
Other participating interests	104	94
Total	**19,919**	**11,695**

46 Financial assets at fair value through profit or loss

		€ millions
	2008	2007
Fixed-income securities	10,522	10,389
Equity instruments	—	—
Investment certificates	1	3
Promissory notes	2,812	2,545
Other financial assets at fair value		
through profit or loss	—	—
Total	**13,335**	**12,937**

82% of the promissory notes were issued by the federal states and regional authorities in the Federal Republic of Germany. The remaining promissory notes were issued by European central and regional governments.

On account of the prime ratings of the promissory notes, only minor effects in credit ratings are included in the fair value fluctuations.

The financial instruments at fair value through profit or loss include €287 million (2007: €276 million) in subordinated assets.

47 Available-for-sale financial assets

		€ millions
	2008	2007
Fixed-income securities	2,828	3,545
Equity instruments	2,180	2,460
Other available-for-sale financial assets	344	619
Impaired assets	284	115
Total	**5,636**	**6,739**

Available-for-sale financial assets include financial instruments of €1,471 million (2007: €1,209 million) valued at cost compliant with IAS 39.46(c). €1,289 million of this total relates to investments in private equity (of which, direct and co-investments: €551 million and other investments: €738 million). The invested capital flows back when the investments made are subsequently sold. We generated a gain of €33 million disclosed under net trading income from flow-backs of direct investments with a carrying amount of €41 million for the assets disposed of. The dividend income from private equity funds is recorded as net dividend income in net interest income.

The available-for-sale financial assets contain a total of €284 million in impaired assets for which impairments of €223 million were taken to the income statement during the year under review. None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets include €259 million (2007: €473 million) in subordinated assets.

48 Investments in associates, joint ventures and non-consolidated subsidiaries

		€ millions
	2008	2007
Non-consolidated subsidiaries	212	282
Joint ventures	—	—
Associated companies accounted		
for using the equity method	32	34
of which: goodwill	—	—
Other participating interests	6	1
Total	**250**	**317**

Change in portfolio of investments in associates, joint ventures and non-consolidated subsidiaries

€ millions

2007	NON-CONSOLIDATED SUBSIDIARIES	JOINT VENTURES	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD	OTHER ASSOCIATED COMPANIES	TOTAL
Carrying amounts at Jan. 1	**588**	**—**	**35**	**65**	**688**
Additions	**33**	**—**	**3**	**—**	**36**
Purchases	9	—	—	—	9
Write-ups	2	—	—	—	2
Changes from currency translation	—	—	—	—	—
Other additions[1]	22	—	3	—	25
Disposals	**(339)**	**—**	**(4)**	**(64)**	**(407)**
Sales	(41)	—	—	(46)	(87)
Impairments	(5)	—	—	—	(5)
Changes from currency translation	(2)	—	(4)	—	(6)
Non-current assets or disposal groups held for sale	(7)	—	—	—	(7)
Other disposals[1]	(284)	—	—	(18)	(302)
Carrying amounts at Dec. 31	**282**	**—**	**34**	**1**	**317**

2008	NON-CONSOLIDATED SUBSIDIARIES	JOINT VENTURES	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD	OTHER ASSOCIATED COMPANIES	TOTAL
Carrying amounts at Jan. 1	**282**	**—**	**34**	**1**	**317**
Additions	**10**	**—**	**2**	**6**	**18**
Purchases	1	—	—	—	1
Write-ups	—	—	—	—	—
Changes from currency translation	3	—	2	—	5
Other additions[1]	6	—	—	6	12
Disposals	**(80)**	**—**	**(4)**	**(1)**	**(85)**
Sales	(10)	—	—	—	(10)
Impairments	(8)	—	—	—	(8)
Changes from currency translation	(1)	—	—	—	(1)
Non-current assets or disposal groups held for sale	—	—	—	(1)	(1)
Other disposals[1]	(61)	—	(4)	—	(65)
Carrying amounts at Dec. 31	**212**	**—**	**32**	**6**	**250**

1 also including changes in the group of companies included in consolidation

Notes to the Consolidated Balance Sheet (Continued)

49 Held-to-maturity investments

€ millions	2008	2007
Fixed-income securities	6,008	3,017
Other held-to-maturity investments	12	24
Impaired assets	—	17
Total	**6,020**	**3,058**

The impaired assets of €17 million disclosed in 2007 were written down and taken to the income statement in full during the year under review. The held-to-maturity portfolio contains no further impaired assets.

None of the non-impaired debt instruments are financial instruments past due.

The held-to-maturity investments include €12 million (2007: €24 million) subordinated assets.

Development of held-to-maturity investments

€ millions	2008	2007
Balance at Jan. 1	**3,058**	**471**
Additions		
Purchases	3,116	2,579
Write-ups	—	11
Other additions	45	313
Disposals		
Sales	—	—
Redemptions at maturity	(175)	(206)
Write-downs	(17)	(51)
Other disposals	(7)	(59)
Balance at Dec. 31	**6,020**	**3,058**

Held-to-maturity investments of related entities

€ millions	2008	2007
Non-consolidated subsidiaries	2,127	2,124
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**2,127**	**2,124**

50 Loans and receivables with banks

€ millions	2008	2007
Loans to central banks	**4,998**	**6,081**
Loans to banks	**41,453**	**42,785**
Current accounts and demand deposits	15,467	10,265
Repos[1]	6,331	15,130
Reclassified securities	4,258	—
Other loans to banks	15,397	17,390
Total	**46,451**	**48,866**

1 repurchase agreements

The loans and receivables with banks include €845 million (2007: €576 million) in subordinated assets.

The figures stated for loans and receivables with banks are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

€ millions	2008	2007
Properly serviced loans and receivables		
Carrying amount before allowances	46,442	48,869
Portfolio allowances[1]	11	9
Carrying amount	**46,431**	**48,860**
Properly serviced loans and receivables past due		
Carrying amount before allowances	—	—
Portfolio allowances[1]	—	—
Carrying amount	**—**	**—**
Loans and receivables with allowances		
Carrying amount before allowances	269	83
Specific allowances	249	77
Carrying amount	**20**	**6**

1 including provisions for country risks

The loans and receivables with loan-loss provisions are defined as loans and receivables in rating classes 8–, 9 and 10. These include receivables of €1 million that meet the criteria for an allowance, but for which no allowance has been created on account of fully realisable collateral.

	€ millions
	2008
Loans and receivables broken down by rating class	
Free of counterparty risk	483
Not rated	7,640
Rating class 1 – 4	36,215
Rating class 5 – 8	2,085
Rating class 9 – 10	28
Collateral broken down by rating class	
Free of counterparty risk	25
Not rated	2
Rating class 1 – 4	8,320
Rating class 5 – 8	1,025
Rating class 9 – 10	—

Loans and receivables with related entities

		€ millions
	2008	**2007**
Non-consolidated subsidiaries	10,130	9,319
Joint ventures	—	—
Associated companies	—	—
Other participating interests	75	323
Total	**10,205**	**9,642**

51 Loans and receivables with customers

		€ millions
	2008	**2007**
Current accounts	7,082	8,062
Repos[1]	8,643	3,160
Mortgage loans	62,723	69,956
Finance leases	1,842	929
Reclassified securities	9,451	—
Other loans and receivables	85,777	78,139
Total	**175,518**	**160,246**

1 repurchase agreements

The loans and receivables with customers include €1,055 million (2007: €760 million) in subordinated assets. LBO loans with a volume of €8.2 billion are also included. The loans are recognised at amortised cost as part of the measurement of loans and receivables. Depending on the individual internal rating, a regular impairment test is performed as defined in IAS 39.58.

The figures stated for loans and receivables with customers are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

		€ millions
	2008	**2007**
Properly serviced loans and receivables		
Carrying amount before allowances	167,771	151,492
Portfolio allowances[1]	512	494
Carrying amount	**167,259**	**150,998**
Properly serviced loans and receivables past due		
Carrying amount before allowances	4,428	4,573
Portfolio allowances[1]	13	17
Carrying amount	**4,415**	**4,556**
Loans and receivables with allowances		
Carrying amount before allowances	7,900	9,188
Specific allowances	4,056	4,496
Carrying amount	**3,844**	**4,692**

1 including provisions for country risks

The loans and receivables with loan-loss provisions are defined as loans and receivables in rating classes 8–, 9 and 10. These include receivables of €107 million that meet the criteria for an allowance, but for which no allowance has been created on account of fully realisable collateral.

		€ millions
	2008	**2007**
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1 – 30 days	3,942	4,124
31 – 60 days	363	153
61 – 90 days	110	279

Notes to the Consolidated Balance Sheet (Continued)

	€ millions
	2008
Value of collateral broken down by period past due	
1 – 30 days	1,067
31 – 60 days	68
61 – 90 days	27

	€ millions
	2008
Loans and receivables broken down by rating class	
Free of counterparty risk	4,976
Not rated	4,051
Rating class 1 – 4	79,790
Rating class 5 – 8	83,214
Rating class 9 – 10	3,487
Collateral broken down by rating class	
Free of counterparty risk	123
Not rated	3,639
Rating class 1 – 4	26,235
Rating class 5 – 8	31,409
Rating class 9 – 10	2,378

Loans and receivables with related entities

		€ millions
	2008	2007
Non-consolidated subsidiaries	645	821
Joint ventures	3	7
Associated companies	206	118
Other participating interests	4,716	1,633
Total	**5,570**	**2,579**

Amounts receivable from lease operations (finance lease)

		€ millions
	2008	2007
Gross investment value (by remaining maturity)		
up to 12 months	811	373
from 1 year to 5 years	1,140	619
from 5 years and over	121	33
Total gross investment	**2,072**	**1,025**
of which:		
unguaranteed residual values	—	—
Unrealised finance income (by remaining maturity)		
up to 12 months	(94)	(38)
from 1 year to 5 years	(127)	(56)
from 5 years and over	(9)	(2)
Total unrealised finance income	**(230)**	**(96)**
Net investment (by remaining maturity)		
up to 12 months	717	335
from 1 year to 5 years	1,013	563
from 5 years and over	112	31
Total net investment	**1,842**	**929**

For the lessor, the gross investment in the lease is the aggregate of the minimum lease payments under a finance lease and any unguaranteed residual value accruing to the lessor. The minimum lease payments are the payments over the lease term that the lessee has to make or can be required to make together with any residual values guaranteed.

The unguaranteed residual value is that portion of the residual value of the leased asset which is not guaranteed to be realised by the lessor. The residual value of the leased asset is estimated at the inception of the lease.

Unrealised finance income is the difference between the lessor's gross investment in the lease and its present value (net investment).

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

Analysis of loans and receivables

			€ millions
	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at Jan. 1, 2007	**5,595**	**473**	**6,068**
Changes affecting income			
Gross additions	1,508	235	1,743
Releases	(1,131)	(15)	(1,146)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(1,376)	(194)	(1,570)
Effects of currency translation and other changes not affecting income	(23)	21	(2)
Non-current assets or disposal groups held for sale	—	—	—
Balance at Dec. 31, 2007	**4,573**	**520**	**5,093**
	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at Jan. 1, 2008	**4,573**	**520**	**5,093**
Changes affecting income			
Gross additions	1,585	51	1,636
Releases	(868)	(29)	(897)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(1,054)	—	(1,054)
Effects of currency translation and other changes not affecting income	69	(6)	63
Non-current assets or disposal groups held for sale	—	—	—
Balance at Dec. 31, 2008	**4,305**	**536**	**4,841**

Notes to the Consolidated Balance Sheet (Continued)

Breakdown of allowances for receivables

€ millions	LOANS AND RECEIVABLES WITH BANKS 2008	LOANS AND RECEIVABLES WITH BANKS 2007	LOANS AND RECEIVABLES WITH CUSTOMERS 2008	LOANS AND RECEIVABLES WITH CUSTOMERS 2007
Properly serviced receivables				
Carrying amount before allowances	46,442	48,869	172,199	156,065
Portfolio allowance	11	9	525	511
Carrying amount	**46,431**	**48,860**	**171,674**	**155,554**
Loans and receivables with allowances				
Carrying amount before allowances	269	83	7,900	9,188
Specific allowances	249	77	4,056	4,496
Carrying amount	**20**	**6**	**3,844**	**4,692**

53 Hedging derivatives

This item contains the positive fair values of €2,654 million of hedging derivatives used primarily to hedge market interest risk.

54 Property, plant and equipment

€ millions	2008	2007
Internally used property, plant and equipment[1]		
Land and buildings	1,061	1,106
Plant and office equipment	324	231
Other property	492	—
Total	**1,877**	**1,337**

1 including leased assets of €65 million (2007: €1 million)

Other property contains solely assets under construction by our Ocean Breeze Energy GmbH & Co. KG subsidiary, which was consolidated for the first time in 2008.

Development of internally used property, plant and equipment

€ millions				
2007	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	OTHER PROPERTY	INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at Jan. 1	**2,318**	**1,281**	**—**	**3,599**
Write-downs and write-ups from previous years	(1,069)	(1,010)	—	(2,079)
Carrying amounts at Jan. 1	**1,249**	**271**	**—**	**1,520**
Additions				
Purchases	2	69	—	71
Write-ups	—	—	—	—
Changes from currency translation	—	—	—	—
Other additions[2]	23	42	—	65
Disposals				
Sales	(52)	(30)	—	(82)
Amortisation and write-downs	(48)	(78)	—	(126)
Impairments	(2)	(1)	—	(3)
Changes from currency translation	—	—	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	—	—	—	—
Other disposals[2]	(66)	(42)	—	(108)
Carrying amounts at Dec. 31	**1,106**	**231**	**—**	**1,337**
Write-downs and write-ups from previous year plus year under review	1,119	1,087	—	2,206
Acquisition costs at Dec. 31	**2,225**	**1,318**	**—**	**3,543**

2008	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	OTHER PROPERTY	INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at Jan. 1	**2,225**	**1,318**	**—**	**3,543**
Write-downs and write-ups from previous years	(1,119)	(1,087)	—	(2,206)
Carrying amounts at Jan. 1	**1,106**	**231**	**—**	**1,337**
Additions				
Purchases	3	118	—	121
Write-ups	3	—	—	3
Changes from currency translation	—	—	—	—
Other additions[2]	5	94	492	591
Disposals				**—**
Sales	(1)	(13)	—	(14)
Amortisation and write-downs	(48)	(80)	—	(128)
Impairments	(3)	—	—	(3)
Changes from currency translation	—	—	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	—	—	—	—
Other disposals[2]	(4)	(26)	—	(30)
Carrying amounts at Dec. 31	**1,061**	**324**	**492**	**1,877**
Write-downs and write-ups from previous year plus year under review	1,060	846	—	1,906
Acquisition costs at Dec. 31	**2,121**	**1,170**	**492**	**3,783**

1 including leased assets
2 also including changes in the group of companies included in consolidation

Notes to the Consolidated Balance Sheet (Continued)

55 Investment properties

The fair value of investment property at HVB Group, which is measured at amortised cost, totalled €500 million (2007: €502 million). The appraisals prepared to calculate the fair values in this case are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. The fair values of the portfolios measured at fair value represents the results of valuation appraisals prepared by external assessors.

Investment properties

€ millions		
2007	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at Jan. 1	**891**	**—**
Write-downs and write-ups from previous years	(418)	—
Carrying amounts at Jan. 1	**473**	**—**
Additions		
Purchases	12	—
Write-ups	8	—
Changes from currency translation	—	—
Other additions[1]	3	1,459
Disposals		
Sales	(13)	—
Amortisation and write-downs	(5)	—
Impairments	(3)	—
Changes from currency translation	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	(26)	—
Other disposals[1]	(18)	—
Carrying amounts at Dec. 31	**431**	**1,459**
Write-downs and write-ups from previous year plus year under review	418	—
Acquisition costs at Dec. 31	**849**	**1,459**

1 also including changes in the group of companies included in consolidation

Investment properties

€ millions		
2008	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at Jan. 1	**849**	**1,459**
Write-downs and write-ups from previous years	(418)	—
Carrying amounts at Jan. 1	**431**	**1,459**
Additions		
Purchases	2	—
Write-ups	2	—
Changes from currency translation	—	—
Other additions[1]	4	—
Disposals		
Sales	(10)	(42)
Amortisation and write-downs	(6)	—
Impairments	(2)	—
Changes from currency translation	—	(12)
Assets of discontinued operations and non-current assets or disposal groups held for sale	(2)	—
Net gains/(losses) on the adjustment of fair values	—	(98)
Other disposals[1]	(3)	—
Carrying amounts at Dec. 31	**416**	**1,307**
Write-downs and write-ups from previous year plus year under review	424	—
Acquisition costs at Dec. 31	**840**	**1,307**

1 also including changes in the group of companies included in consolidation

56 Intangible assets

Write-downs on goodwill are shown in a separate item in the income statement. Amortisation of software and other intangible assets is normally stated under amortisation, depreciation and impairment losses on intangible and tangible assets under operating costs.

€ millions		
	2008	2007
Goodwill	**424**	**421**
Other intangible assets		
Internally generated intangible assets	212	180
Other intangible assets	159	169
Total	**795**	**770**

Development of intangible assets

€ millions			
2007	GOODWILL FROM SUBSIDIARIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at Jan. 1	**1,089**	**552**	**645**
Write-downs and write-ups from previous years	(667)	(363)	(448)
Carrying amounts at Jan. 1	**422**	**189**	**197**
Additions			
Purchases/internally generated intangible assets	—	60	56
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	19	20
Disposals			
Sales	(1)	(20)	(29)
Amortisation and write-downs	—	(48)	(63)
Impairments	—	(1)	(12)
Changes from currency translation	—	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	(19)	—
Carrying amounts at Dec. 31	**421**	**180**	**169**
Write-downs and write-ups from previous year plus year under review	667	412	523
Acquisition costs at Dec. 31	**1,088**	**592**	**692**
2008	GOODWILL FROM SUBSIDIARIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at Jan. 1	**1,088**	**592**	**692**
Write-downs and write-ups from previous years	(667)	(412)	(523)
Carrying amounts at Jan. 1	**421**	**180**	**169**
Additions			
Purchases/internally generated intangible assets	—	101	46
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	3	1	22
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(57)	(65)
Impairments	—	—	(5)
Changes from currency translation	—	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	(13)	(8)
Carrying amounts at Dec. 31	**424**	**212**	**159**
Write-downs and write-ups from previous year plus year under review	667	254	333
Acquisition costs at Dec. 31	**1,091**	**466**	**492**

1 also including changes in the group of companies included in consolidation

Notes to the Consolidated Balance Sheet (Continued)

57 Income tax assets

		€ millions
	2008	2007
Current tax assets	421	324
Deferred tax assets	2,371	1,856
Total	**2,792**	**2,180**

58 Non-current assets or disposal groups held for sale

Compliant with IFRS 5, non-current assets held for sale and the assets of a disposal group held for sale are shown separately in the balance sheet.

		€ millions
ASSETS	31/12/2008	31/12/2007
Cash and cash balances	—	—
Financial assets held for trading	—	—
Financial assets at fair value through profit or loss	—	—
Available-for-sale financial assets	—	—
Investments in associates, joint ventures and non-consolidated subsidiaries	2	7
Held-to-maturity investments	—	—
Loans and receivables with banks	—	—
Loans and receivables with customers	—	—
Hedging derivatives	—	—
Property, plant and equipment	—	—
Investment properties	2	257
Intangible assets	—	—
Tax assets	—	—
Other assets	—	1
Total assets	**4**	**265**

– In December 2007, real estate which was sold to third parties from Euro ImmoProfil, a special property fund consolidated for the first time at December 31, 2007, was one of the items classified as held for sale compliant with IFRS 5. After ownership, benefits and obligations were transferred in the first quarter of 2008, the assets involved were derecognised.
– Ownership, benefits and obligations of the investment properties classified as held for sale compliant with IFRS 5 in 2007 were transferred in the first half of 2008. These properties related to the disposal of portfolio of non-strategic real estate.

59 Other assets

Other assets include prepaid expenses of €119 million (2007: €119 million).

60 Own securitisation

Synthetic securitisation requires the portfolio to be divided into at least two tranches. The credit risk inherent in the underlying receivables is spread over the tranches with different risk profiles. A traditional securitisation transaction (true sale), on the other hand, is structured in such a way that the cash flow from the underlying receivables services at least two tranches reflecting different risk profiles.

One of the goals of securitisation transactions is to reduce risk-weighted assets. Accordingly, the prime motivation for our securitisation programmes is the desire to reduce the risk in our loan portfolio and to achieve the optimum capital allocation for creating value. In order to reduce risk-weighted assets in a way that is recognised by the supervisory authorities, at least 50% of the risk-weighted assets relating to the mezzanine tranches of the underlying pool of receivables must be transferred compliant with Section 232 of the German Solvency Regulation; the securitising institution may retain the remaining portion. The extent to which the bank then actually retains risks depends on the current market conditions and the type of securitisation transaction (synthetic or traditional), among other factors.

In the case of synthetic securitisation, the transfer of risk and the ensuing reduction in capital requirements is essentially achieved using hedges in the form of guarantees and credit derivatives (credit default swaps, credit-linked notes). In the case of traditional securitisation, this is achieved by selling balance-sheet assets (true sale).

HVB Group continued its securitisation activities in 2008 with six new transactions (Geldilux-TS-2008, Building Comfort 2008, EuroConnect SME 2008-1, Permanent SFA Bridge 2008, SFA-2-2008 and SFA-3-2008). The corresponding volume of lending newly outplaced totalled €28.8 billion at year-end, serving to reduce a gross amount of €18.4 billion from risk-weighted assets compliant with Basel II. The Bank retained tranches from the securitisation transactions carried out in 2008 that should be included in risk-weighted assets with an amount of €2.8 billion, and deducted from liable equity with an amount of €42.2 million. Assuming a risk weighting of 1,250% for the deductible items, there is a net reduction of €15.1 billion for the securitisation transactions carried out in 2008.

At the same time, the Wolfgang, Promise Color 2003, Building Comfort 2002 and Building Comfort 2003 transactions, and Series 1 and Series 2 of Geldilux-TS-2005, expired during 2008 with an aggregate lending volume of €8.8 billion. This served to reduce an amount of €4.3 billion from risk-weighted assets compliant with Basel II.

At December 31, 2008, the total volume of lending in HVB Group's full set of securitisation programmes totalled €50.5 billion, serving to deduct a gross amount of €27.6 billion from risk-weighted assets compliant with Basel II or a net amount of €21.9 billion taking account of the retained tranches.

With the true sale transactions that have been carried out – Geldilux-TS-2005, Geldilux-TS-2007 and Geldilux-TS-2008 – the underlying receivables with a carrying amount of €5.6 billion are still fully shown in the balance sheet. Compliant with SIC 12, the special purpose entities set up for this purpose – Geldilux-TS-2005 S.A., Geldilux-TS-2007 S.A. and Geldilux-TS-2008 S.A. – are fully consolidated.

Furthermore, for the first time in 2008 the Bank carried out securitisation transactions with a view to using the securities generated in this way as collateral for repurchase agreements with the ECB (Rosenkavalier 2008). As part of this true sale transaction, the Bank securitised a loan portfolio of €11.6 billion and generated securities of €9.7 billion eligible for pledging with the ECB. In the case of Rosenkavalier, the Bank has retained all of the tranches (entailing no reduction in risk-weighted assets). HVB AG continues to carry the underlying receivables in its balance sheet, and the special purpose entity set up for this purpose has been fully consolidated.

Notes to the Consolidated Balance Sheet (Continued)

ISSUER	TRANSACTION NAME	LEGAL TRANSACTION MATURITY / TRANSACTION CALL DATE	TYPE OF ASSET SECURITISED	TOTAL VOLUME OF LENDING BASEL II € millions	REDUCTION IN RISK-WEIGHTED ASSETS COMPLIANT WITH BASEL II[1] € millions
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2003-1[2]	28/7/2055 28/10/2009	Private mortgage loans	865	—
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2004-1	27/11/2045 27/2/2010	Private mortgage loans	1,687	239
Total for 2003-2004				**2,552**	**239**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2005-1	25/8/2048 25/2/2011	Private mortgage loans	3,075	471
HVB Banque Luxembourg S.A.	Geldilux-TS-2005	10/12/2012 Series 3: 10/7/2010	Euroloans	2,002	1,789
Total for 2005				**5,077**	**2,260**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2006-1	25/8/2048 1/5/2012	Private mortgage loans	2,088	432
Bayerische Hypo- und Vereinsbank AG	Promise-XXS 2006-1	12/5/2024 12/8/2012	Corporate loans	2,660	1,842
Total for 2006				**4,748**	**2,274**
HVB Banque Luxembourg S.A.	GELDILUX-TS-2007	8/9/2014 8/4/2012	Euroloans	2,100	1,871
Bayerische Hypo- und Vereinsbank AG / HVB Banque Luxembourg S.A.	EuroConnect Issuer LC 2007-1	15/3/2028 15/9/2013	Corporate loans	1,543	774
Bayerische Hypo- und Vereinsbank AG	EuroConnect Issuer SME 2007-1	15/11/2030 15/2/2015	Corporate loans	1,880	1,149
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2007-1	25/1/2051 25/7/2013	Private mortgage loans	3,752	645
Total for 2007				**9,275**	**4,439**
HVB Banque Luxembourg S.A.	GELDILUX-TS-2008	10/1/2014 10/8/2011	Euroloans	1,472	1,236
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2008	25/9/2050 25/9/2013	Private mortgage loans	3,139	591
Bayerische Hypo- und Vereinsbank AG	EuroConnect Issuer SME 2008-1	17/4/2033 17/4/2014	Corporate loans	1,536	1,191
Bayerische Hypo- und Vereinsbank AG	Permanent SFA Bridge 2008	30/12/2021 30/9/2013	Corporate loans	8,610	4,966
Bayerische Hypo- und Vereinsbank AG	SFA-3-2008	30/3/2028 30/12/2013	Corporate loans/ mortgage loans	10,079	7,475
Bayerische Hypo- und Vereinsbank AG	SFA-2-2008	30/3/2028 30/12/2013	Corporate loans	4,012	2,958
Total for 2008				**28,848**	**18,417**
Total				**50,500**	**27,629**

1 does not include any retained risks
2 no figures are calculated for these transactions under Basel II

The values shown are carrying amounts relating to the reporting date, December 31, 2008.

61 Deposits from banks

€ millions	2008	2007
Deposits from central banks	**29,549**	**16,559**
Deposits from banks	**54,318**	**70,143**
Current accounts and demand deposits	12,001	9,490
Reverse repos[1]	12,378	9,226
Other liabilities	29,939	51,427
Total	**83,867**	**86,702**

1 repurchase agreements

Deposits from banks, broken down by maturity

€ millions CARRYING AMOUNTS	2008	2007
Repayable on demand and undated	7,980	19,631
With agreed maturities	75,887	67,071
up to 3 months	59,828	51,006
from 3 months to 1 year	3,293	6,024
from 1 year to 5 years	6,125	5,922
5 years and over	6,641	4,119
Total	**83,867**	**86,702**

Amounts owed to related entities

€ millions	2008	2007
Non-consolidated subsidiaries	6,342	13,749
Joint ventures	—	—
Associated companies	151	4
Other participating interests	95	46
Total	**6,588**	**13,799**

62 Deposits from customers

€ millions	2008	2007
Current accounts and demand deposits	36,237	37,060
Savings deposits	13,648	14,580
Reverse repos[1]	12,245	3,867
Other liabilities	52,832	53,119
Total	**114,962**	**108,626**

1 repurchase agreements

Deposits from customers, broken down by maturity

€ millions CARRYING AMOUNT	2008	2007
Repayable on demand and undated	46,794	44,374
With agreed maturities	68,168	64,252
up to 3 months	45,807	48,916
from 3 months to 1 year	10,897	5,650
from 1 year to 5 years	5,945	4,027
5 years and over	5,519	5,659
Total	**114,962**	**108,626**

Liabilities to related entities and persons

€ millions	2008	2007
Non-consolidated subsidiaries	330	423
Joint ventures	1	—
Associated companies	68	91
Other participating interests	10,377	2,274
Total	**10,776**	**2,788**

Notes to the Consolidated Balance Sheet (Continued)

63 Debt securities in issue

€ millions	2008	2007
Listed securities	**42,451**	**57,003**
Bonds	40,679	55,286
Other securities	1,772	1,717
Unlisted securities	**21,188**	**22,565**
Bonds	20,891	22,158
Other securities	297	407
Total	**63,639**	**79,568**

Debt securities in issue, broken down by maturity

€ millions		
CARRYING AMOUNT	2008	2007
With agreed maturities		
up to 3 months	8,380	12,667
from 3 months to 1 year	5,728	13,119
from 1 year to 5 years	29,917	32,749
from 5 years and over	19,614	21,033
Total	**63,639**	**79,568**

Debt securities in issue, payable to related entities

€ millions	2008	2007
Non-consolidated subsidiaries	1,470	1,585
Joint ventures	—	—
Associated companies	—	—
Other participating interests	52	66
Total	**1,522**	**1,651**

64 Financial liabilities held for trading

€ millions	2008	2007
Negative fair values arising from		
derivative financial instruments	119,011	60,904
Other financial liabilities held for trading	44,933	54,324
Total	**163,944**	**115,228**

The negative fair values arising from derivative financial instruments are carried as financial liabilities held for trading purposes. Also included under other financial liabilities held for trading purposes are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities not held for trading purposes.

The cumulative changes in fair value resulting from the valuation of the own credit spread total €245 million.

65 Hedging derivatives

This item contains the negative fair values of €617 million arising from hedging derivatives used primarily to hedge market interest risk.

66 Hedge adjustment of hedged items in the fair value hedge portfolio

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €554 million. This is offset on the assets side by an economic equivalent amount of approximately the same size disclosed under hedging derivatives.

67 Income tax liabilities

€ millions	2008	2007
Current tax liabilities	544	708
Deferred tax liabilities	1,394	608
Total	**1,938**	**1,316**

68 Liabilities of disposal groups held for sale

The following table shows the breakdown of the liabilities of disposal groups held for sale:

		€ millions
	2008	**2007**
Deposits from banks	—	1
Deposits from customers	—	4
Financial liabilities held for trading	—	—
Provisions	—	—
Tax liabilities	—	—
Other liabilities	4	5
Total liabilities	**4**	**10**

69 Other liabilities

This item essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc. This item also includes the interests held by outside shareholders in the capital of certain investment funds, provided these are consolidated by us.

70 Provisions

		€ millions
	2008	**2007**
Provisions for pensions and similar obligations	104	105
Allowances for losses on guarantees and commitments	223	163
Restructuring provisions	92	126
Other provisions	1,072	1,146
Total	**1,491**	**1,540**

Provisions for pensions, HVB Group

The provisions for pensions and similar obligations include the direct commitments to HVB Group employees under company pension plans.

The direct commitments are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. The funded pension obligations are offset against the fair value of a plan's assets. The pension provision recognised in the previous year reflects the balance of the present value of the pension obligations and the fair value of the plan assets. In one instance in the year under review, the fair value of the plan assets for a given plan were greater than the present value of the corresponding funded pension obligation, so that the balance for the plan, after having been reduced as a result of the asset ceiling as specified in IAS 19.58B, is capitalised under other assets.

In addition, Group companies make contributions for commitments made by independent pension organisations. The pension obligations funded through retirement benefit corporations with matching cover are recognised as defined contribution plans. The cost of such plans totalled €40 million (2007: €50 million).

In the year under review, we have included the pension obligations financed by Pensionskasse der HypoVereinsbank VVaG in the disclosures regarding pension obligations for the first time. The standard, HVB Group valuations parameters were applied when calculating the obligations. Since the fair value of the plan assets exceeds the present value of the pension obligations, this change does not result in a defined benefit liability being recognised in the balance sheet.

Notes to the Consolidated Balance Sheet (Continued)

For the purpose of calculating the amounts of these commitments, the valuation parameters were modified as follows:

		in %
	31/12/2008/ 1/1/2009	31/12/2007/ 1/1/2008
Interest rate	5.75	5.25
Expected return on plan assets	5.25	5.25
Rate of increase in pension obligations	1.9	1.9
Rate of increase in future compensation and		
vested rights	2.75	2.5
Rate of increase over career	0–1.5	0–1.5

Funding status

	€ millions
	2008
Funded pension obligations:	
Present value of funded pension obligations	2,751
Fair value of plan assets	(3,010)
Reduction due to asset ceiling compliant with IAS 19.58B	104
Capitalised excess cover of plan assets	174
Recognised pension provisions	**19**
Unfunded pension obligations:	
Present value of unfunded pension obligations	85
Total recognised pension provisions	**104**

HVB Group applies the option permitted by IAS 19.93A, “Employee Benefits”, to carry unrealised actuarial gains or losses in shareholders’ equity outside the profit or loss for the period.

The following table shows the breakdown of pension expenses:

	€ millions
	2008
Present value of the pension claims vested in the year under review	(26)
Interest expense	(125)
Expected income from plan assets	122
Losses from changes to plans	—
Total	**(29)**

Pension expense is recognised in payroll costs (pension and other employee benefit costs) as a net amount.

The following table shows an analysis of the present value of funded pension obligations for 2008:

	€ millions
	2008
Balance at Jan. 1, 2008	**2,305**
Present value of the pension claims vested in the year under review	25
Interest expense	121
Contributions from plan participants	9
Actuarial gains (losses)	(178)
Payments affecting liquidity	(107)
Changes in consolidated group	589
Changes arising from foreign currency translation	(13)
Balance at Dec. 31, 2008	**2,751**

The following table shows an analysis of the present value of unfunded pension obligations for 2008:

	€ millions
	2008
Balance at Jan. 1, 2008	**82**
Present value of the pension claims vested in the year under review	1
Interest expense	4
Contributions from plan participants	—
Actuarial gains (losses)	(3)
Payments affecting liquidity	(4)
Changes in consolidated group	5
Changes arising from foreign currency translation	—
Balance at Dec. 31, 2008	**85**

HVB AG set up plan assets in the form of so-called contractual trust arrangements (CTA). This involved transferring the assets required to fund its pension obligations to legally independent trustees – including HVB Trust e.V. IAS 19.54 requires the assets transferred to be offset against the pension provisions, with the amount of the pension provisions in the corporate group declining accordingly.

The trustees’ plan assets used to fund the pension obligations are invested in special-purpose funds set up specifically for this purpose (unit trusts).

The following table shows the development of the plan assets in the year under review:

	€ millions
	2008
Balance at Jan. 1, 2008	**2,322**
Expected income from plan assets	122
Actuarial gains (losses)	(104)
Allocations to plan assets	105
Employee contributions	—
Disbursements to beneficiaries	(107)
Additional allocations in the form of benefits not taken	—
Changes in exchange rates	(14)
Changes in consolidated group	686
Balance at Dec. 31, 2008	**3,010**

With regard to the plan assets, the item actuarial gains (losses) shows the difference between the expected income from plan assets and the income from plan assets actually realised. The balance of expected income and actuarial losses from plan assets gives the actual income from plan assets of €18 million.

The cumulative actuarial gains recognised in shareholders' equity compliant with IAS 19.93A total €203 million before deferred taxes or minority interests.

When the present value of the pension obligations was calculated, the differences between the expected and actual development in the composition of the eligible employees (experience adjustment) totalled minus €18 million in the year under review (2007: minus €27 million).

Allowances for losses on guarantees and commitments, restructuring provisions and other provisions

			€ millions
	ALLOWANCES FOR LOSSES ON GUARANTEES AND COMMITMENTS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
Balance at Jan. 1, 2008	**163**	**126**	**1,146**
Changes in consolidated group	—	—	9
Changes arising from foreign currency translation	—	—	2
Transfers to provisions	118	22	230
Reversals	(26)	(2)	(107)
Reclassifications	—	(20)	(26)
Amounts used	(32)	(34)	(182)
Assets of discontinued operations and			
non-current assets or disposal groups held for sale	—	—	—
Balance at Dec. 31, 2008	**223**	**92**	**1,072**

The allowances for losses on guarantees and commitments primarily include allowances for financial guarantees (guarantee risks and documentary credits).

Other provisions include provisions for litigation fees, damage payments, anticipated losses and long-term liabilities to employees such as service anniversary awards, early retirement and semi-retirement.

The provisions for the Retention Awards Programme are also carried under other provisions. In addition to the bonus for the current financial year, selected employees in investment banking receive a retention award which is disbursed later (after two years), provided that these employees are still working for HVB Group at that time. The award granted to the eligible employees attracts interest of 4.2% over the waiting period. No further provisions were set aside for the Retention Awards Programme in 2008 (2007: €18 million). No amounts were reversed or used in 2008 either, as the payments to employees arising from the programmes set up in 2006 and 2007 do not fall due until 2009 and 2010, respectively.

Notes to the Consolidated Balance Sheet (Continued)

71 Shareholders' equity

Analysis of subscribed capital, authorised capital increase and conditional capital of HVB AG.

Breakdown of subscribed capital

At December 31, 2008, the subscribed capital of HVB AG totalled €2,407 million (2007: €2,407 million) and consisted of the following:

	2008	2007
Shares of common bearer stock		
(no par shares)	787,830,072	787,830,072
Shares of registered preferred stock		
(no par shares)	14,553,600	14,553,600

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share.

The shares of preferred stock are non-voting and receive an advance share of profits of €0.064 per no par share, payable on a cumulative basis, as well as a further share in profits of the same amount as the shares of common stock. The claim to payment on a cumulative basis of the advance share of profits is granted to the holders of preferred stock as a separate right. The Bank reserves the right to issue further shares of non-voting preferred stock with equal rights.

Authorised capital increase

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT 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. An amount of €155 million from the authorised capital increase was used for the transfer of the investment banking activities of UBM to HVB AG in April 2007 as part of a capital increase against a contribution in kind.

Conditional capital

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

Change in valuation of financial instruments

The changes in valuation of financial instruments amounted to an increase of €23 million in the year under review (2007: increase of €7 million). Within this total, the AfS reserve declined €0.9 billion compared with year-end 2007 in the difficult market environment, to minus €0.3 billion. Negative fair value fluctuations in our shareholdings, including our holdings in Ergo (down €216 million) and Babcock & Brown (down €160 million), served to depress the total. Negative mark-to-market fluctuations account for €214 million arising from asset-backed securities classified as available-for-sale for which the impairment criteria defined in IAS 39.59 were not present and for which consequently no write-downs needed to be taken. The decrease in the AfS reserve was offset by an increase of €0.9 billion in the hedge reserve.

72 Subordinated capital

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

€ millions	2008	2007
Subordinated liabilities	7,206	8,014
Participating certificates outstanding	205	614
Hybrid capital instruments	1,804	2,376
Total	**9,215**	**11,004**

Pursuant to Section 10 (4, 5, 5a and 7) of the German Banking Act and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities, participating certificates outstanding and hybrid capital instruments) was carried as core capital, supplementary capital and Tier III capital for regulatory purposes in 2008.

The following table shows the breakdown of subordinated capital by balance sheet item:

€ millions	2008	2007
Deposits from customers	389	461
Deposits from banks	907	898
Debt securities in issue	7,919	9,645
Total	**9,215**	**11,004**

We have incurred interest expenses of €650 million in connection with this subordinated capital. Subordinated capital includes proportionate interest of €217 million.

Subordinated liabilities
Subordinated liabilities include no individual items exceeding 10% of the total amount.

The borrower cannot be obliged to make early repayments in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated liabilities are only repaid after the claims of all primary creditors have been settled.

There were subordinated liabilities of €1,070 million payable to related entities in 2008.

Participating certificates outstanding
The following issue represents a major component of HVB Group's participating certificates outstanding:

ISSUER	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT € millions	INTEREST RATE in %	MATURITY
Bayerische Hypo- und Vereinsbank AG	2001	Bearer participating certificates	100	6.30	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 paid in the subsequent financial years, provided this does not result in a net loss for the year; a claim to such subsegment payment 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 will be disbursed in full for 2008, as no net loss was recorded for the year.

Hybrid capital instruments
At December 31, 2008, the HVB Group had hybrid core capital of €1,749 million (eligible amount compliant with the German Banking Act) to bolster its capital base.

Hybrid capital instruments include issues placed by specially created subsidiaries in the form of capital contributions from silent partners or preferred shares.

These instruments differ from supplementary capital in that they are subject to more stringent conditions in terms of maturity. The terms of issue for capital contributions from silent partners envisage a minimum term of ten years, while an unlimited term has been agreed with the investors for preferred shares. In addition, hybrid capital instruments are not repaid until after supplementary capital has been repaid (subordinated liabilities and participating certificates outstanding) in the event of bankruptcy.

In contrast to traditional components of core capital such as shares, the claim to a share of profit takes the form of a fixed interest payment in the case of hybrid capital. Moreover, hybrid capital can be issued as undated instruments as well as instruments in the long term.

Both the German Banking Supervisory Authority and the Basel Committee on Banking Supervision have expressly confirmed the recognition of hybrid capital for banking supervisory purposes.

Notes to the Cash Flow Statement

73 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities and financing activities for the year under review. Operating activities are defined broadly enough to allow the same breakdown as for operating profit.

The cash and cash equivalents shown correspond to the cash reserve item in the balance sheet.

Change in other non-cash positions comprises the changes in the valuation of financial instruments, net additions to deferred taxes, changes in provisions, changes in prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interest in net income.

No shares in fully consolidated companies were purchased or sold in 2008.

Other Information

74 Information regarding reclassifications compliant with IFRS 7

We have made use of the reclassification options permitted for the first time in 2008 by the amended IAS 39.50 ff. (see also Note 3) by reclassifying in the third quarter of 2008 mostly asset-backed securities and fixed-income securities issued by financial institutions classified as held for trading in the amount of €13.5 billion (carrying amount as at December 31, 2008), for which there is no active market, to loans and receivables with retroactive effect from July 1, 2008. In addition, in the fourth quarter of 2008 we prospectively reclassified further assets amounting to €0.2 billion (carrying amount as at December 31, 2008) from the held-for-trading category to loans and receivables.

The following table shows the development of the reclassified holdings:

					€ millions
RECLASSIFIED FINANCIAL ASSETS	CARRYING AMOUNT OF ASSETS RECLASSIFIED IN 2008 AT THE EFFECTIVE DATE OF RECLASSIFICATION	NOMINAL AMOUNT OF ASSETS RECLASSIFIED IN 2008 AT THE EFFECTIVE DATE OF RECLASSIFICATION	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1] 31/12/2008	FAIR VALUE OF ALL RECLASSIFIED ASSETS 31/12/2008	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS 31/12/2008
Asset-backed securities and other debt securities	14,271	15,379	13,709	11,825	14,569

1 before portfolio allowance

Under IAS 39.50F, the carrying amount is the same as the fair value of the reclassified assets at the date when the reclassification took effect.

If the reclassification of financial assets from held to trading to loans and receivables had not been carried out in 2008, mark-to-market valuation of these holdings would have given rise to a loss of €1,792 million in the trading book for the period between the reclassification taking effect and December 31, 2008. This effect is a theoretical pro forma calculation as the holdings are measured at amortised cost on account of the reclassification.

As part of the reclassification, we posted allowances of €63 million on the reclassified holdings for 2008, of which €28 million relates to portfolio allowances and €35 million to specific allowances.

No reclassified assets were sold during 2008, meaning that no gains or losses were realised on disposal.

The fair value at the date when the reclassification takes effect represents the new historic cost, which is considerably lower than the nominal value. Accordingly, this difference (discount) is to be amortised for the first time over the remaining term of the reclassified financial assets, giving rise to an effect of €127 million recorded in net interest income.

The net effect of the reclassification on the income statement totals €1,856 million before tax, resulting from the losses avoided on mark-to-market valuation, the valuation result taken to the income statement and the accrual of the discount.

Other Information (Continued)

75 Notes to selected structured products

The effects of the financial market crisis on the performance of HVB Group and the resulting burdens on the income statement and the available-for-sale reserve in 2008 have already been described in the Financial Review of the Management's Discussion and Analysis. Additional information regarding selected structured products is given below in order to provide greater transparency.

The assets of consolidated conduits are shown alongside tranches retained by HVB Group from its own securitisation transactions and holdings of asset-backed securities (ABS) transactions issued by third parties, broken down by various criteria.

ABS portfolio

In a securitisation transaction, the originator transfers mainly credit receivables and/or credit risks to third parties. The securitisation itself is usually performed via special purpose vehicles (SPVs). In order to refinance the acquisition of receivables, these SPVs use the capital market to issue securities that are secured by the receivables acquired. This serves to transfer the associated credit risks to investors in the form of asset-backed securities. The securities issued by SPVs are generally divided into tranches which differ above all in terms of seniority in the servicing of claims to repayment and interest payments. These tranches are generally assessed by rating agencies.

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:

– Residential mortgage-backed securities (RMBS) relating to mortgage loans in the private sector (residential mortgage loans),
– Commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans),
– Collateralised loan obligations (CLO) relating to commercial bank loans,
– Collateralised bond obligations (CBO) relating to securities portfolios.

Consumer loans, credit card receivables and lease receivables are also securitised.

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by rating class (HVB Group without consolidated conduits which are shown separately)

				€ millions
	31/12/2008			
CARRYING AMOUNTS	SENIOR	MEZZANINE	JUNIOR	TOTAL
Positions retained from own securitisations	**227**	**199**	**21**	**447**
Positions in third-party ABS transactions	**5,374**	**1,687**	**70**	**7,131**
Residential mortgage-backed securities (RMBS)	2,377	544	7	2,928
thereof:				
US subprime	—	—	—	—
US Alt A	22	17	4	43
Commercial mortgage-backed securities (CMBS)	933	350	—	1,283
Collateralised debt obligations (CDO)	375	239	4	618
thereof:				
US subprime	1	8	—	9
US Alt A	—	5	—	5
Collateralised loan obligations (CLO)/				
Collateralised bond obligations (CBO)	726	261	36	1,023
Consumer loans	388	77	—	465
Credit cards	107	12	—	119
Leases	188	103	7	298
Others	280	101	16	397
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**44**	**348**	**192**	**584**
Total	**5,645**	**2,234**	**283**	**8,162**

1 the amount shown in the table represents the carrying amount (fair value)

The positions are classified as senior, mezzanine and junior on the basis of external ratings, or internal ratings where no external rating exists. Only those tranches with the best rating (AAA in the case of external ratings) are carried as senior tranches. Only tranches with low ratings (worse than CCC in external ratings) and unrated tranches (known as first loss pieces) are carried as junior tranches; all other tranches are grouped together as mezzanine tranches.

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by region (HVB Group without consolidated conduits which are shown separately)

€ millions

	31/12/2008				
CARRYING AMOUNTS	EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations	**447**	**—**	**—**	**—**	**447**
Positions in third-party ABS transactions	**5,708**	**585**	**407**	**431**	**7,131**
Residential mortgage-backed securities (RMBS)	2,562	43	119	204	2,928
thereof:					
US subprime	—	—	—	—	—
US Alt A	—	43	—	—	43
Commercial mortgage-backed securities (CMBS)	1,023	96	153	11	1,283
Collateralised debt obligations (CDO)	246	191	80	101	618
thereof:					
US subprime	—	9	—	—	9
US Alt A	—	5	—	—	5
Collateralised loan obligations (CLO)/					
Collateralised bond obligations (CBO)	875	82	5	61	1,023
Consumer loans	415	10	8	32	465
Credit cards	78	—	41	—	119
Leases	222	54	—	22	298
Others	287	109	1	—	397
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**36**	**548**	**—**	**—**	**584**
Total	**6,191**	**1,133**	**407**	**431**	**8,162**

1 the amount shown in the table represents the carrying amount (fair value)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by remaining maturity (HVB Group without consolidated conduits which are shown separately)

				€ millions
	31/12/2008			
CARRYING AMOUNTS	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitsations	**44**	**296**	**107**	**447**
Positions in third-party ABS transactions	**355**	**5,040**	**1,736**	**7,131**
Residential mortgage-backed securities (RMBS)	52	2,112	764	2,928
thereof:				
US subprime	—	—	—	—
US Alt A	3	27	13	43
Commercial mortgage-backed securities (CMBS)	100	848	335	1,283
Collateralised debt obligations (CDO)	36	441	141	618
thereof:				
US subprime	1	—	8	9
US Alt A	—	—	5	5
Collateralised loan obligations (CLO)/				
Collateralised bond obligations (CBO)	12	637	374	1,023
Consumer loans	33	430	2	465
Credit cards	2	117	—	119
Leases	23	251	24	298
Others	97	204	96	397
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**13**	**296**	**275**	**584**
Total	**412**	**5,632**	**2,118**	**8,162**

1 the amount shown in the table represents the carrying amount (fair value)

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by class as per IAS 39 (HVB Group without consolidated conduits which are shown separately)

						€ millions
	31/12/2008					
CARRYING AMOUNTS	HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations	**44**	**—**	**159**	**—**	**244**	**447**
Positions in third-party ABS transactions	**589**	**177**	**5,715**	**67**	**583**	**7,131**
Residential mortgage-backed securities (RMBS)	22	45	2,616	—	245	2,928
thereof:						
US subprime	—	—	—	—	—	—
US Alt A	—	1	42	—	—	43
Commercial mortgage-backed securities (CMBS)	57	26	1,094	—	106	1,283
Collateralised debt obligations (CDO)	175	49	254	60	80	618
thereof:						
US subprime	—	—	9	—	—	9
US Alt A	1	—	4	—	—	5
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)	315	11	621	1	75	1,023
Consumer loans	4	—	445	—	16	465
Credit cards	—	—	95	—	24	119
Leases	—	10	246	5	37	298
Others	16	36	344	1	—	397
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**584**	**—**	**—**	**—**	**—**	**584**
Total	**1,217**	**177**	**5,874**	**67**	**827**	**8,162**

1 the amount shown in the table represents the carrying amount (fair value)

Consolidated conduits

Alongside the directly held portfolios of own and external ABS transactions listed above, further similar portfolios are held through conduits managed by HVB (SPVs that issue short-term commercial paper to refinance their assets) that are consolidated by HVB. Essentially, these involve credit receivables of third parties that are securitised by HVB using the services of the conduits.

Positions in consolidated conduits, broken down by product category and rating class

Consolidated conduits € millions

	31/12/2008			
CARRYING AMOUNTS	SENIOR	MEZZANINE	JUNIOR	TOTAL
Residential mortgage loans/ Residential mortgage-backed securities (RMBS)	254	1,211	—	1,465
Commercial mortgage loans/ Commercial mortgage-backed securities (CMBS)	365	611	—	976
Collateralised debt obligations (CDO)	5	—	—	5
Collateralised loan obligations (CLO)/ Collateralised bond obligations (CBO)	77	77	—	154
Consumer loans	—	1,127	—	1,127
Credit cards	—	—	—	—
Leases	433	195	—	628
Others	624	834	—	1,458
Total	**1,758**	**4,055**	**—**	**5,813**

The positions are classified as senior, mezzanine and junior on the basis of external ratings, or internal ratings where no external rating exists. Only those tranches with the best rating (AAA in the case of external ratings) are carried as senior tranches. Only tranches with low ratings (worse than CCC in external ratings) and unrated tranches (known as first loss pieces) are carried as junior tranches; all other tranches are grouped together as mezzanine tranches.

Other Information (Continued)

Positions of consolidated conduits, broken down by product category and region

Consolidated conduits (€ millions)

CARRYING AMOUNTS	31/12/2008				
	EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Residential mortgage loans/					
Residential mortgage-backed securities (RMBS)	1,211	2	—	252	1,465
Commercial mortgage loans/					
Commercial mortgage-backed securities (CMBS)	890	86	—	—	976
Collateralised debt obligations (CDO)	—	5	—	—	5
Collateralised loan obligations (CLO)/					
Collateralised bond obligations (CBO)	—	154	—	—	154
Consumer loans	1,127	—	—	—	1,127
Credit cards	—	—	—	—	—
Leases	628	—	—	—	628
Others	661	797	—	—	1,458
Total	**4,517**	**1,044**	**—**	**252**	**5,813**

Positions of consolidated conduits, broken down by product category and remaining maturity

Consolidated conduits (€ millions)

CARRYING AMOUNTS	31/12/2008			
	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Residential mortgage loans/				
Residential mortgage-backed securities (RMBS)	254	—	1,211	1,465
Commercial mortgage loans/				
Commercial mortgage-backed securities (CMBS)	13	5	958	976
Collateralised debt obligations (CDO)	—	—	5	5
Collateralised loan obligations (CLO)/				
Collateralised bond obligations (CBO)	—	77	77	154
Consumer loans	1,127	—	—	1,127
Credit cards	—	—	—	—
Leases	628	—	—	628
Others	791	371	296	1,458
Total	**2,813**	**453**	**2,547**	**5,813**

Positions of consolidated conduits, broken down by product category and class as per IAS 39

Consolidated conduits						€ millions
	31/12/2008					
CARRYING AMOUNTS	HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Residential mortgage loans/						
Residential mortgage-backed securities (RMBS)	—	—	1,463	2	—	1,465
Commercial mortgage loans/						
Commercial mortgage-backed securities (CMBS)	—	59	890	—	27	976
Collateralised debt obligations (CDO)	—	—	—	5	—	5
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)	—	—	—	133	21	154
Consumer loans	—	—	1,127	—	—	1,127
Credit cards	—	—	—	—	—	—
Leases	—	—	628	—	—	628
Others	—	125	1,092	29	212	1,458
Total	**—**	**184**	**5,200**	**169**	**260**	**5,813**

Other Information (Continued)

76 Fair values of financial instruments compliant with IFRS 7

The fair values stated for financial instruments as defined in IFRS 7 are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the balance sheet date.

The fair values are calculated using the market information available at the reporting date and individual company valuation methods.

				€ billions
	2008		2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets				
Cash and cash balances	0.6	0.6	0.6	0.6
Financial assets held for trading	199.0	199.0	180.9	180.9
Financial assets at fair value through profit or loss	13.3	13.3	12.9	12.9
Available-for-sale financial assets				
thereof measured				
at cost	1.5	1.5	1.2	1.2
at fair value	4.1	4.1	5.5	5.5
Investments in associates, joint ventures and non-consolidated subsidiaries	0.3	0.3	0.3	0.3
Held-to-maturity investments	6.0	5.9	3.1	3.1
Loans and receivables with banks	46.5	46.3	48.9	48.9
Loans and receivables with customers	175.5	177.9	160.2	161.8
Hedging derivatives	2.7	2.7	0.5	0.5
Total	**449.5**	**451.6**	**414.1**	**415.7**

	2008		2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Liabilities				
Deposits from banks	83.9	84.1	86.7	86.9
Deposits from customers	115.0	115.5	108.6	108.7
Debt securities in issue	63.6	64.0	79.6	79.3
Financial liabilities held for trading	163.9	163.9	115.2	115.2
Hedging derivatives	0.6	0.6	0.5	0.5
Hedge adjustment of liabilities in the fair value hedge portfolio	0.6	0.6	0.1	0.1
Other liabilities[1]	0.4	0.4	0.7	0.7
Total	**428.0**	**429.1**	**391.4**	**391.4**

1 interests held by outside shareholders in consolidated investment funds, which are designated as a separate class in accordance with IFRS 7, have been disclosed here since 2007

	2008		2007	
				€ billions
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial guarantees and irrevocable credit commitments	**73.1**	**73.1**	**73.6**	**73.6**

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash reserve as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates taking into account the respective spreads. The spread used here for receivables is determined on the basis of Basel II-compliant expected loss values and the cost of capital. Where loans and receivables with banks and customers contain reclassified securities, these are stated at the fair value shown in Note 74.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. The fair value of the remaining securities is calculated as the net present value of future anticipated cash flows.

The fair values of single-currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally acceptable models used to calculate the price of options.

The common Black & Scholes (equity, currency and index instruments) or lognormal models (interest instruments) are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value.

Where the fair value of non-listed assets cannot be reliably determined, such assets are recognised at amortised cost.

The fair values of financial guarantees and irrevocable credit commitments are the same as their carrying amounts.

The difference in HVB Group between the fair values and carrying amounts totals €2.1 billion for assets and €1.1 billion for liabilities. The balance of these values is €1.0 billion.

Other Information (Continued)

77 Key capital ratios (based on German Commercial Code)

The capital ratio for banking supervisory purposes defined in the German Solvency Regulation represents the ratio of the eligible equity compliant with Section 10 of the German Banking Act (KWG) to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted equivalent of these risk positions). The capital ratio and the equity funds ratio must be at least 8.0%. Under Section 10 of the German Banking Act in conjunction with Section 2 of the German Solvency Regulation, the core capital ratio calculated as the ratio of core capital to total risk-weighted assets determined as described above must be at least 4.0%.

The eligible equity which is used to calculate the capital ratio in accordance with the German Solvency Regulation consists of the core capital, the supplementary capital and Tier III capital. The Tier III capital comprises current subordinated liabilities which we only use to back market risk positions. HVB Group mostly uses internal models to measure market risk positions.

The following tables show equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at December 31, 2008:

Equity funds[1]

		€ millions
	2008	**2007**
Tier I		
Shares of common stock	2,363	2,363
Additional paid-in capital, retained earnings, minority interest, own shares	17,224	15,843
Hybrid capital instruments (silent partnership certificates and trust preferred securities) without prorated interest	1,749	1,706
Other	214	196
50% deductible Items	(339)	(203)
Total core capital	**21,211**	**19,905**
Tier II		
Unrealised reserves in land and buildings and in securities	—	184
Offsetting reserves for general banking risks	46	46
Cumulative shares of preferred stock	44	44
Participating certificates outstanding	175	205
Subordinated liabilities	4,515	5,686
Value adjustment excess for IRBA positions	676	—
Other	19	19
50% deductible Items	(339)	(202)
Total additional capital for solvency purposes	**5,136**	**5,982**
Total equity capital	**26,347**	**25,887**
Tier III capital	—	—
Total equity funds	**26,347**	**25,887**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

Pursuant to Sections 10 and 10a of the German Banking Act, the equity funds of HVB Group amounted to €26,347 million at December 31, 2008. Supplementary capital includes no unrealised reserves pursuant to Section 10 (2b) 1 No. 6 and 7 of the German Banking Act.

Our equity funds compliant with the KWG rules are calculated on the basis of the individual financial statements of the consolidated companies, taking into account the special provisions of German banking supervisory regulations.

The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS:

				€ millions
	CORE CAPITAL	SUPPLEMENTARY CAPITAL	TIER III CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet				
Shareholder's equity	23,024	—	—	23,024
Reconciliation to the equity funds compliant with the German Banking Act				
AfS reserve	306	—	—	306
Hedge reserve	(329)	—	—	(329)
Cumulative shares of preferred stock	(44)	44	—	—
Deduction of intangible assets	(795)	—	—	(795)
Ineligible profit components under banking supervisory regulations	(2,391)	—	—	(2,391)
Hybrid capital recognised under banking supervisory regulations	1,749	—	—	1,749
Eligible portion of certificates outstanding	—	175	—	175
Eligible portion of subordinated liabilities	—	4,515	—	4,515
Reclassifications to Tier III capital due to banking supervisory regulations	—	0	0	0
Eligible Tier III capital unused	—	—	0	0
Unrealised reserves in land and buildings and in securities	—	0	—	0
Value adjustment excess for IRBA positions	—	676	—	676
Deductible items due to non-consolidated investments	(143)	(143)	—	(286)
Deductible items compliant with Sect.10 (6a), German Banking Act	(196)	(196)	—	(392)
Other effects (e.g. differences in group of consolidated companies and principles of consolidation)	30	65	0	95
Equity funds compliant with German Banking Act	**21,211**	**5,136**	**0**	**26,347**

	€ billions
	2008 BASEL II
Risk-weighted assets from	
on-balance-sheet counterparty risk positions	83.3
off-balance sheet counterparty risk positions	22.5
other counterparty risk positions[1]	1.5
derivative counterparty risk positions	18.7
Total credit risk-weighted assets	**126.0**
Risk-weighted asset equivalent for market risk positions	**12.2**
Risk-weighted asset equivalent for operational risk	**10.0**
Total risk-weighted assets	**148.2**

1 primarily including repos and securities lending transactions

At December 31, 2008, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows:

	in %
	2008 BASEL II
Core capital ratio (core capital/risk-weighted assets)	16.8
Core capital ratio II (core capital/(risk-weighted assets + 12.5 x market risk positions + 12.5 x operational risk))	14.3
Equity funds ratio (equity funds/(risk-weighted assets + 12.5 x market risk positions+ 12.5 x operational risk))	17.8

Other Information (Continued)

€ billions	2007 KWG/PRINCIPLE I
On-balance-sheet assets	108.7
Traditional off-balance-sheet assets	22.8
Bank-book derivatives	0.1
Total credit risk-weighted assets	**131.6**
Risk-weighted assets equivalent for market risk positions	**13.9**
Total risk-weighted assets	**145.5**

in %	2007 KWG/PRINCIPLE I
Core capital ratio I (core capital/risk-weighted assets)	15.1
Core capital ratio II (core capital/(risk-weighted assets + 12.5 x market risk positions))	13.7
Equity funds ratio (equity funds/(risk-weighted assets + 12.5 x market risk positions))	17.8

78 Contingent liabilities and other commitments

€ millions	2008	2007
Contingent liabilities[1]	**24,428**	**25,355**
Guarantees and indemnities	24,428	25,355
Other commitments	**67,068**	**60,609**
Irrevocable credit commitments	48,645	47,580
Other commitments	18,423	13,029
Total	**91,496**	**85,964**

1 contingent liabilities are offset by contingent assets to the same amount

Neither contingent liabilities other commitments contain any significant items. The gross volume of contingent liabilities for which provisions have been created in the above totals €584 million (2007: €470 million). The provisions of €195 million (2007: €163 million) set up for these liabilities have been deducted from the contingent liabilities recognised and are carried under provisions in the balance sheet (see Note 70, "Provisions").

Most of the other commitments of €18,423 million in the year under review relate to delivery obligations arising from securities lending transactions. Commitments arising from rental, leasing and maintenance agreements, and from rental of office space and use of technical equipment are also included. The contracts run for standard market periods and no charges have been put off to future years.

As part of real estate financing and development operations, we have assumed rental obligations or issued 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 our H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement.

Commitments for uncalled payments on shares not fully paid up amounted to €703 million at year-end 2008 (2007: €723 million), and similar obligations for shares in cooperatives totalled €1 million (2007: €1 million). Under Section 22 (3 and 24) of the German Private Limited Companies Act, we were also liable for defaults on such calls in respect of one company for an aggregate of €1 million (2007: €1 million).

Under Section 26 of the German Private Limited Companies Act (GmbHG), we were liable for calls for additional capital of €7 million (2007: €7 million) with regard to CMP Fonds I GmbH and were also liable for calls for additional capital of €58 million (2007: €58 million) with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, at year-end 2008. In addition, under Article (5) 4 of the Articles of Association of Liquiditäts-Konsortialbank GmbH, we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

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

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest. We have made a similar representation for Vereinsbank Victoria Bauspar AG in accordance with Section 3 (1) of the by-laws of the Deposit Guarantee Fund for Bank-Related Savings and Loan Associations.

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

In the same way as HVB AG and its affiliated banks assume liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Contingent liabilities payable to related entities

€ millions		
	2008	2007
Non-consolidated subsidiaries	3,062	1,671
Joint ventures	—	—
Associated companies	1	—
Other participating interests	51	8
Total	**3,114**	**1,679**

79 Statement of responsibility

HVB AG 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

If our shareholding in a particular company declines, our commitment arising from the above Statement of Responsibility shall decline to the same extent with regard to commitments of the relevant company that did not arise until after our shareholding decreased.

HVB AG no longer provides a Statement of Responsibility for companies which left HVB Group during the 2007 financial year or 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.

80 Trust business

Trust assets

€ millions		
	2008	2007
Loans and receivables with banks	110	104
Loans and receivables with customers	431	249
Equity securities and other variable-yield securities	200	173
Bonds	—	—
Participating interests	120	—
Property, plant and equipment	—	—
Other assets	—	—
Remaining trust receivables	—	—
Total	**861**	**526**

Trust liabilities

€ millions		
	2008	2007
Deposits from banks	207	8
Deposits from customers	654	518
Debt securities in issue	—	—
Other liabilities	—	—
Total	**861**	**526**

Other Information (Continued)

81 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €68.1 billion. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

The following table shows the breakdown of own liabilities for which we provide collateral:

		€ millions
	2008	**2007**
Deposits from banks	49,411	31,771
Deposits from customers	25,176	9,069
Debt securities in issue	—	—
Financial liabilities held for trading	19,596	—
Contingent liabilities	—	—
Total	**94,183**	**40,840**

The assets pledged as security for own liabilities can be broken down as follows:

		€ millions
	2008	**2007**
Financial assets held for trading	67,527	18,998
Financial assets at fair value through profit or loss	16,189	11,890
Available-for-sale financial assets	1,046	84
Held-to-maturity investments	—	—
Deposits from banks	312	976
Deposits from customers	9,109	8,892
Property, plant and equipment	—	—
Total	**94,183**	**40,840**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. The disclosure also provides information on the extent to which the security provided may be pledged or sold on by the borrower.

		€ millions
	2008	**2007**
Aggregate carrying amount of assets		
pledged as security	94,183	40,840
of which:		
pledged/sold on	48,282	29,179

82 Collateral received that HVB Group may sell on or pledge on

As part of repurchase agreements and securities lending transactions, the HVB Group has received security that it may sell on or pledge on at any time without the security provider having to be in arrears. The fair value of this security is €36.2 billion.

HVB Group has actually sold or pledged on €13.5 billion of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

83 Information on relationships with related parties

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

At the Annual General Meeting of Shareholders on May 23, 2006, the so-called opting-out clause under the Act concerning the Disclosure of Management Board Remuneration was used and a resolution was adopted, whereby the information required in Section 285 (1) No. 9a and (5) to (9) and Section 314 (1) No. 6a (5) to (9) of the German Commercial Code is not to be disclosed in our annual and consolidated financial statements for the financial years 2006 to 2010; this arrangement will not be applicable beyond March 22, 2011 at the latest. In addition, HVB is no longer a listed company as a result of the filing of the squeeze-out resolution in the Commercial Register on September 15, 2008. Hence the emoluments paid to members of the Management Board are not shown on an individualised basis.

Emoluments paid to members of the Supervisory Board and Management Board

	FIXED COMPENSATION		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVES[1]		TOTAL	€ millions
	2008	2007	2008	2007	2008	2007	2008	2007
Management Board of HVB AG	3	5	4	7	1	1	8	13
Supervisory Board of HVB AG for								
Supervisory Board activities	0.8	0.8	0.4[2]	0.3[3]	0	0	1.2	1.1
Former members of the Management Board of								
HVB AG and their surviving dependants							10	9
Transitional allowances								
for former members of the Management Board							8	0

1 cash value of the share-based compensation
2 relating to 2007 financial year, disbursed in 2008
3 relating to 2006 financial year, disbursed in 2007

Other Information (Continued)

Details of share-based compensation

	Number
MEMBERS OF THE MANAGEMENT BOARD OF HVB AG	
Options	
Stock options 2007	880,324
Stock options 2008	1,454,150
Performance shares	
Performance shares 2007	265,730
Performance shares 2008	355,158

For more details of the stock options and performance shares, please refer to Note 36, where the UniCredit Group's long-term incentive programme underlying these instruments is described.

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

Compensation paid to members of the Management Board or employees of HVB AG for positions on Supervisory Boards of Group companies is to be surrendered to HVB AG.

Under the pension commitments to active members of the Management Board, provisions for pensions of €4,244,086.00 were transferred to provisions for former members of the Management Board in 2008 on account of the changes on the Management Board. €175,547.00 of this total was deferred compensation invested in a fund in 2008.

At December 31, 2008, the pension provisions of HVB AG for former members of the Management Board and their surviving dependants compliant with Section 285, German Commercial Code, increased to €94 million accordingly (2007: €90 million). Under IFRS, the pension provisions for retired members of the Management Board amount to €120 million.

No compensation was paid to members of the Supervisory Board in 2008 for services rendered.

In 2008, expense allowances totalling €74,737.58 were paid to members of the Supervisory Board.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2008:

				in €
	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo, Chairman[1]	50,000.00	11,561.64	61,561.64	(42,077.38)[11]
Sergio Ermotti, Chairman[2]	25,000.00		25,000.00	(17,087.50)[11]
Peter König, Deputy Chairman	37,500.00	20,000.00	57,500.00	
Dr Lothar Meyer, Deputy Chairman[3]	37,500.00	40,000.00	77,500.00	
Dr Wolfgang Sprissler, Deputy Chairman[4]				
Gerhard Bayreuther[5]	10,547.95	8,438.36	18,986.31	
Aldo Bulgarelli	25,000.00	8,438.36	33,438.36	(22,855.12)[11]
Beate Dura-Kempf	25,000.00		25,000.00	
Paolo Fiorentino	25,000.00		25,000.00	(17,087.50)[11]
Dario Frigerio[6]	25,000.00		25,000.00	(17,087.50)[11]
Giulio Gambino[5]	10,547.95		10,547.95	
Klaus Grünewald	25,000.00		25,000.00	
Günter Guderley[7]	14,452.05	11,561.64	26,013.69	
Karl Guha[8]				
Stephan Hofmeister[9]	2,054.79		2,054.79	
Friedrich Koch[7]	14,452.05		14,452.05	
Hanns-Peter Kreuser[10]	12,397.26		12,397.26	
Ranieri de Marchis	25,000.00	20,000.00	45,000.00	(30,757.50)[11]
Beate Mensch[5]	10,547.95		10,547.95	
Roberto Nicastro	25,000.00		25,000.00	(17,087.50)[11]
Vittorio Ogliengo[6]	25,000.00		25,000.00	(17,087.50)[11]
Panagiotis Sfeliniotis	25,000.00		25,000.00	
Professor Hans-Werner Sinn	25,000.00		25,000.00	
Maria-Magdalena Stadler[7]	14,452.05		14,452.05	
Jutta Streit[5]	10,547.95		10,547.95	
Ursula Titze[7]	14,452.05		14,452.05	
Michael Voss[5]	10,547.95		10,547.95	
Jens-Uwe Wächter	25,000.00		25,000.00	
Dr Susanne Weiss[8]				
Total	**550,000.00**	**120,000.00**	**670,000.00**	**586,127.50**[11]

1 member and chairman until February 5, 2009
2 chairman since February 5, 2009
3 deputy chairman until February 5, 2009
4 member and deputy chairman since February 5, 2009
5 member since July 30, 2008
6 member until February 5, 2009
7 member until July 30, 2008
8 member since February 5, 2009
9 member from July 1 to July 30, 2008
10 member until June 30, 2008
11 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge for Supervisory Board members

Other Information (Continued)

The total amount of loans and advances made to, and liabilities assumed for, members of the Supervisory Board and Management Board and to executives at Bereichsvorstand level at the balance sheet date was as follows:

€ millions		
	2008	2007
Management Board of HVB AG	3	5
Supervisory Board of HVB AG	1	1
Executives at Bereichsvorstand level	1	1

Interest is payable on all loans and advances made to members of the Management Board and the Supervisory Board, and to the executives at Bereichsvorstand level at usual market rates.

84 Own shares

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

For the purposes of securities trading as permitted under Section 71 (1) No. 7 of the German Stock Corporation Act, 1,303,174 own shares of treasury stock were purchased by HVB AG 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.

Within the scope of lending operations, we and our 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 AG 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 AG in their portfolios.

85 Fees paid to the independent auditors

The following table shows the breakdown of fees of €11 million recorded as expense in the year under review, as paid to the independent auditors KPMG AG, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

€ millions	
	2008
Fee for auditing of the financial statements	6
Other auditing and appraisal services	2
Tax advisory services	—
Other services	3

86 Employees

Average number of people employed by us

	2008	2007
Employees (excluding trainees)	23,525	23,836
Full-time	18,556	18,865
Part-time	4,969	4,971
Trainees	1,122	1,171

87 Offices

Offices, broken down by region

	1/1/2008	ADDITIONS	REDUCTIONS		CHANGE IN CONSOLIDATED GROUP	31/12/2008
		NEW OPENINGS	CLOSURES	CONSOLIDATIONS		
Germany						
Baden-Wuerttemberg	33	1	—	—	—	34
Bavaria	458	4	3	—	4	463
Berlin	14	2	1	—	—	15
Brandenburg	9	—	—	—	—	9
Bremen	8	—	—	—	—	8
Hamburg	32	1	—	1	10	42
Hesse	19	2	1	—	—	20
Lower Saxony	28	2	—	—	—	30
Mecklenburg-Western Pomerania	9	—	—	—	—	9
North Rhine-Westphalia	30	2	5	—	—	27
Rhineland-Palatinate	25	—	—	—	—	25
Saarland	10	—	—	—	—	10
Saxony	16	1	3	—	—	14
Saxony-Anhalt	12	—	—	—	—	12
Schleswig-Holstein	73	—	6	—	—	67
Thuringia	10	—	1	—	—	9
Subtotal	**786**	**15**	**20**	**1**	**14**	**794**
Other regions						
Austria	9	—	—	—	(2)	7
Other western Europe	20	1	1	—	—	20
Central and eastern Europe	2	—	—	—	—	2
Africa	1	—	—	—	—	1
Americas	14	—	—	—	1	15
Asia	14	—	1	—	—	13
Subtotal	**60**	**1**	**2**	**—**	**(1)**	**58**
Total	**846**	**16**	**22**	**1**	**13**	**852**

Other Information (Continued)

88 Members of the Supervisory Board

Alessandro Profumo
Chairman
until February 5, 2009

Sergio Ermotti
Chairman[1]

Peter König
Deputy Chairman

Dr Lothar Meyer
Deputy Chairman[2]

Dr Wolfgang Sprissler
Deputy Chairman
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

1 since February 5, 2009
2 until February 5, 2009

89 Members of the Management Board

Willibald Cernko
Retail division
until April 30, 2008;
since January 1, 2009

Lutz Diederichs
Corporates & Commercial Real Estate Financing division
since January 1, 2009

Stefan Ermisch
Markets & Investment Banking division
Internal organisation, integration and establishment of global investment banking activities of the UniCredit Group at HVB
until June 5, 2008

Rolf Friedhofen
Chief Financial Officer (CFO)

Henning Giesecke
Chief Risk Officer (CRO)
since May 1, 2008

Heinz Laber
Human Resources Management
Global Banking Services segment[1]

Dr Stefan Schmittmann
Corporates & Commercial Real Estate Financing division
until April 30, 2008

Ronald Seilheimer
Markets & Investment Banking division
Markets, Corporates & Commercial Real Estate Financing division[1]
until December 31, 2008

Matthias Sohler
Global Banking Services segment
until April 30, 2008

Dr Wolfgang Sprissler
Board Spokesman
Retail division[1] and Wealth Management division[1]
until December 31, 2008

Andrea Umberto Varese
Chief Risk Officer (CRO)
until April 30, 2008

Dr Theodor Weimer
Board Spokesman
Markets & Investment Banking division
since January 1, 2009

Andreas Wölfer
Wealth Management division
until April 30, 2008;
since January 1, 2009

1 since May 1, 2008

Munich, March 10, 2009

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft
The Management Board

Cernko Diederichs Friedhofen Giesecke

Laber Weimer Wölfer

Statement by the Management Board

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

Munich, 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 consolidated financial statements prepared by the Bayerische Hypo- und Vereinsbank Aktiengesellschaft, München, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 11, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(Formerly
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Becker	Pukropski
Wirtschaftsprüfer	Wirtschaftsprüfer

«The secret of our strength is quite simple: we do not follow corporate values handed down to us from a sheet of paper.
We exemplify through our own lives what the sheet of paper has to say!»

Oliver Riedl
Germany

«The network of our Group allows us to support our customers with different specialised products. The values of the Integrity Charter differentiate our Group. Different languages, different cultures, different working experiences, but one Group, one commitment and one way – straight forward! That is our strength.»

Christian Kiss
Austria

Corporate Governance

Supervisory Board, Trustees and Management Board

Supervisory Board

Alessandro Profumo
Chief Executive Officer of UniCredit S.p.A., Milan
Chairman
until February 5, 2009

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[1]

Peter König
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Haar-Salmdorf
Deputy Chairman

Dr Lothar Meyer
Former Chairman of the Management Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach
Deputy Chairman[2]

Dr Wolfgang Sprissler
Former Board Spokesman of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Sauerlach
Deputy Chairman
since February 5, 2009

Gerhard Bayreuther
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Neubeuern
since July 30, 2008

Aldo Bulgarelli
Attorney and partner in law office NCTM, Verona

Beate Dura-Kempf
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Litzendorf

Paolo Fiorentino
UniCredit Group Deputy CEO, Head of Global Banking Services Area, member of the Management Committee of UniCredit S.p.A., Milan

Dario Frigerio
Head of Asset Management Division, member of the Management Committee of UniCredit S.p.A., Milan
until February 5, 2009

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

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
Chief Financial Officer, member of the Management Committee of UniCredit S.p.A., Milan

Beate Mensch
Trade union secretary in the North Rhine-Westphalian division of Vereinte Dienstleistungsgewerkschaft, unit 10, Cologne
since July 30, 2008

Roberto Nicastro
UniCredit Group Deputy CEO, Head of Retail Area, member of the Management Committee of UniCredit S.p.A., Milan

Vittorio Ogliengo
Head of Corporate Banking Division, member of the Management Committee of UniCredit S.p.A., Parma
until February 5, 2009

Panagiotis Sfeliniotis
Employee, HVB Direkt GmbH, Munich

Professor Hans-Werner Sinn
President of the Ifo Institute for Economic Research, Gauting

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

Supervisory Board Committees[3]

Remuneration & Nomination Committee
Alessandro Profumo, until February 5, 2009
Sergio Ermotti, since February 5, 2009
Peter König
Dr Lothar Meyer, until February 5, 2009
Dr Wolfgang Sprissler, since February 5, 2009

Audit Committee
Dr Lothar Meyer, Chairman
Gerhard Bayreuther, since July 30, 2008
Aldo Bulgarelli, since July 30, 2008
Günter Guderley, until July 30, 2008
Peter König
Ranieri de Marchis
Alessandro Profumo, until July 30, 2008

Negotiating Committee
Alessandro Profumo, until February 5, 2009
Sergio Ermotti, since February 5, 2009
Peter König
Dr Lothar Meyer
Ursula Titze, until July 30, 2008
Michael Voss, since July 30, 2008

1 since February 5, 2009
2 until February 5, 2009
3 see also Report of the Supervisory Board

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Dieter Knauer
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Munich

Deputies

Ulrich Exler
President of the Bavarian State Tax Office a.D., Munich

Dr Ulrich Klein
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Munich

Management Board

Willibald Cernko
born 1956
Retail division
until April 30, 2008 and again from January 1, 2009

Lutz Diederichs
born 1962
Corporates & Commercial Real Estate Financing division
since January 1, 2009

Stefan Ermisch
born 1966
Markets & Investment Banking division
Internal organisation, integration and establishment of the global investment banking activities of the UniCredit Group at HVB
until June 5, 2008

Rolf Friedhofen
born 1958
Chief Financial Officer (CFO)

Henning Giesecke
born 1960
Chief Risk Officer
since May 1, 2008

Heinz Laber
born 1953
Human Resources Management
Global Banking Services segment[1]

Dr Stefan Schmittmann
born 1956
Corporates & Commercial Real Estate Financing division
until April 30, 2008

Ronald Seilheimer
born 1959
Markets & Investment Banking division
Markets,
Corporates & Commercial Real Estate Financing division[1]
until December 31, 2008

Matthias Sohler
born 1969
Global Banking Services segment
until April 30, 2008

Dr Wolfgang Sprissler
born 1945
Board Spokesman
Retail division[1]
Wealth Management division[1]
until December 31, 2008

Andrea Umberto Varese
born 1964
Chief Risk Officer (CRO)
until April 30, 2008

Dr Theodor Weimer
born 1959
Board Spokesman
Markets & Investment Banking division
since January 1, 2009

Andreas Wölfer
born 1961
Wealth Management division
until April 30, 2008 and again from January 1, 2009

1 since May 1, 2008

Report of the Supervisory Board

As in previous years, the Supervisory Board again paid close attention to the work of the Management Board in 2008. The Supervisory Board advised the Management Board on the running of the Company in line with the rights and obligations imposed on it by the law, the Company's Articles of Association and its internal regulations, and monitored its management of the Company. The Supervisory Board was consulted on all major decisions.

The Management Board kept the Supervisory Board informed regularly, promptly and comprehensively about the performance and economic situation of the Company and its subsidiaries and about planning and risk management. This happened primarily during the meetings of the Supervisory Board, but also in writing at other times. Furthermore, the Chairman of the Supervisory Board was in constant, close contact with the Board Spokesman and was kept continually informed about the current business situation, major transactions and decisions taken by the Management Board.

Focus of discussion during the plenary sessions of the Supervisory Board

The Supervisory Board met at eight plenary sessions last year (four each in the first and second half of 2008), two of which were extraordinary meetings. Furthermore, 46 of its resolutions were adopted by written circular, 38 of which concerning approval for lending transactions with companies in compliance with Section 136 of the Italian Banking Act (Testo Unico Bancario – TUB). This banking supervisory regulation which, in essence, is similar to Section 15 of the German Banking Act ("Loans to executives and Board members") primarily aims at preventing abuse of special privileges granted to corporate officers.

The work of the Supervisory Board focused on two main issues in 2008. On the one hand, this was the global financial crisis, which deteriorated further in the second half of the year, and its effects on the performance of HVB. On the other hand, the Supervisory Board dealt with: the various lawsuits of (former) shareholders against

- the resolutions of the Extraordinary Shareholders' Meeting in 2006 (consent resolutions to the transfer of the business activities of HVB AG in Austria, central Europe – except for Germany and Italy – and eastern Europe to UniCredit),
- the resolutions of the Annual General Meeting in 2007 (particularly the squeeze-out resolution; appointment of the special representative to assert claims for damages pursuant to Section 147 of the German Stock Corporation Act) including the related clearance procedure, and
- the resolutions of the Annual General Meeting in 2008 (particularly confirmation of the consent resolutions of the Extraordinary Shareholders' Meeting held in 2006);

and also with the legal conflicts in the run-up to the 2008 Annual General Meeting regarding the special representative's right of participation and the extension of the agenda, further with the lawsuit filed by a former shareholder seeking to determine the non-validity of UniCredit's voting rights, and finally with the lawsuit filed by the special representative appointed by the Annual General Meeting on June 26/27, 2007 to retransfer Bank Austria and to claim damages as well as the claim for damages relating to hedge funds.

In view of the gravity of the financial crisis, in the wake of which whole market segments collapsed, the Supervisory Board paid special attention to the business development of HVB in this difficult environment. At five meetings, the Supervisory Board requested the Management Board to explain the effects of the financial crisis on the financial position and earnings situation of HVB. On the basis of suitable documents, particularly the Half-Yearly Financial Report and the interim reports, the Management Board reported on the latest business performance of the Company and each of the divisions. The subject of discussions was particularly the liquidity situation of the Company. The Supervisory Board also requested the Management Board to explain the rescue package announced by the German government in connection with the financial crisis, whereby the Management Board did not see any necessity for HVB to use this aid.

At the beginning of the year under review, the Supervisory Board considered the budget for the 2008 financial year in depth. This planning was marked by the high level of uncertainty on the market.

At five meetings, the Supervisory Board was informed in great detail by the Management Board about the current status of the various lawsuits based on handouts and verbal explanations. Furthermore, the Management Board also notified the Supervisory Board of new developments outside the meetings by means of written reports.

Already at the beginning of 2008, the Supervisory Board requested information from a legal advisor of a prestigious law firm about the Supervisory Board's duties in connection with the lawsuits and especially the facts on which the lawsuits are based. Given the highly diverse suits and the complexity of the proceedings, the Supervisory Board set up an ad hoc working group in February 2008 tasked with advising on questions arising in this context – also with the support of a legal advisor – as well as with preparing plenary meetings and hence increasing the efficiency of Supervisory Board work. This committee convened three times in 2008 and considered the above topics in depth.

At its meeting on February 6, 2008 and again on March 10, 2008, the Supervisory Board considered in great depth the ruling of Munich Regional Court I of January 31, 2008 which had declared the consent resolutions of the Extraordinary Shareholders' Meeting of October 25, 2006 on the sale of the shareholding in Bank Austria and other companies in central and eastern Europe to be null and void due to alleged formal defects. HVB has filed an appeal against this judgement. After being given detailed explanations, the Supervisory Board approved the Management Board's proposal to submit the consent resolutions from 2006 to the Annual General Meeting in 2008 for affirmation to rectify the alleged defects and approved the other agenda items and draft resolutions for this Annual General Meeting. The extensive preparations involved in the affirmative resolutions caused the Annual General Meeting to be postponed until the end of July 2008.

Furthermore, in the course of 2008 the Supervisory Board deliberated at length on the suits challenging the resolution passed at the Annual General Meeting in 2007 to transfer the HVB shares held by minority shareholders to UniCredit in exchange for an appropriate cash settlement (squeeze-out). The Supervisory Board approved the initiation of what is known as a clearance procedure which the Management Board had applied to Munich Regional Court for in response to the lawsuits.

In the course of the year, the Management Board immediately notified the Supervisory Board when Munich Regional Court I granted the Bank's application for clearance in its ruling of April 24, 2008 and when Munich Higher Regional Court dismissed the complaints immediately filed against the decision in favour of the clearance in a ruling on September 3, 2008. Hence, the squeeze-out resolution was able to be entered in the Commercial Register on September 15, 2008 resulting in the transfer of all HVB shares held by minority shareholders to UniCredit by act of law.

After the Extraordinary Shareholders' Meeting of HVB held on November 10, 2008 revoked the resolution passed by the Annual General Meeting on June 26/27, 2007 to claim damages in connection with the sale of the shareholding in Bank Austria and dismissed the special representative from office, the Supervisory Board considered the resulting measures at its meeting on December 1, 2008. The Supervisory Board instructed a legal adviser to issue an expert opinion on the Supervisory Board's duties in this connection and – jointly with the ad hoc committee – to prepare a decision on how to proceed in the matter concerning the pending lawsuit of the special representative. To avoid any conflicts of interest, one member of the Supervisory Board abstained from voting on this matter.

Other topics which the Supervisory Board extensively considered were the EuroSIG project that will roll out a uniform IT platform for the UniCredit Group, from which HVB would also benefit, and various outsourcing projects carried out by Global Banking Services. The Management Board gave a report to the Supervisory Board on the status of implementation in each case.

At the Supervisory Board meeting on March 10, 2008, the Supervisory Board requested the Chief Risk Officer (CRO) to submit an extensive risk report. The Management Board immediately complied with the request to report again on selected risk issues arising from the deterioration of the financial crisis at the plenary session of the Supervisory Board on November 10, 2008 following the meeting of the Audit Committee. Based on the reports and documents presented, the Supervisory Board was able to gain an extensive overview of the development of credit risk, market risk, operational risk and risk provisioning. There was no reason to inspect additional books and written documents of the Company as defined by Section 111 of the German Stock Corporation Act.

Report of the Supervisory Board (Continued)

Finally, the Supervisory Board considered the management structure and, based on an extensive HR report, personnel development. Upon proposal by the Remuneration & Nomination Committee, members left the Management Board by mutual consent and new members were appointed to the Management Board.

Corporate governance
The Supervisory Board again addressed corporate governance topics in depth in 2008.

Although only listed companies are obliged to state to what extent they comply with the recommendations given by German Corporate Governance Code, the Management Board and the Supervisory Board have decided that, even after delisting following the entry of the squeeze-out resolution in the Commercial Register, HVB will voluntarily comply with the Corporate Governance Code to the extent that the provisions can be applied to an unlisted company.

At its meeting on December 1, 2008, the Supervisory Board examined the efficiency of its work based on the Code. Furthermore, the Supervisory Board dealt with the structure of compensation paid to members of the Management Board, whereby there was no change in the three-part compensation system in 2008 compared to the prior year. Please refer to the Compensation Report for further details.

Finally, the Supervisory Board adopted a statement of compliance in accordance with Section 161 of the German Stock Corporation Act in December 2008, whereby six of the Code's recommendations were not followed in 2008. Further details on this issue are contained in the joint Corporate Governance Report of the Management Board and the Supervisory Board (see the section of the present Annual Report entitled "Corporate Governance and Compensation Report").

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. One member of the Supervisory Board attended fewer than half of the meetings held in 2008 due to prior commitments that could not be postponed.

Main focus of committee work
The Supervisory Board has set up three standing committees that support the work of the Supervisory Board. A description is given of tasks performed by committees in the Corporate Governance report; their composition is shown in the chapter "Supervisory Board" of this Annual Report.

Remuneration & Nomination Committee
The Remuneration & Nomination Committee met six times last year. Two resolutions were adopted by written circular. In particular it discussed executive appointments. A topic of discussion was also remuneration levels for the Management Board, in which connection details were defined for the remuneration and targets for 2008. Moreover, the Remuneration & Nomination Committee granted its approval to the Management Board members who wished to accept seats on supervisory boards of other companies.

Audit Committee
The Audit Committee had five meetings last year, one of which was an extraordinary meeting. Dr Lothar Meyer, former chairman of the Management Board of ERGO Versicherungsgruppe AG, chairs this committee. In particular, the Audit Committee examined the preliminary audit of the annual financial statements and consolidated financial statements, the report on relationships with related parties and discussed the Half-yearly Financial Report and the interim reports at March 31 and September 30, 2008. The auditor was present when the Half-Yearly Financial Report was discussed and gave a report on the results of the audit review of the data contained in the Half-Yearly Financial Report which were forwarded to UniCredit.

The Committee considered the international financial crisis and its effects on HVB in great depth. At all five meetings, the committee requested the Chief Risk Officer (CRO) to submit an extensive portfolio report and had the development of credit risk, market risk and operational risk explained on the basis of the documents. In this connection, the committee focused on the liquidity and funding situation at three meetings.

Compliant with the Minimum Requirements for the Risk Management of Credit Institutions, the risk strategy for 2008 and regular MaRisk reports were submitted to the committee. Based on the reports, the committee was able to satisfy itself that the risks are identified at an early stage and are adequately managed.

The committee also solicited reports on the status of the reviews of internal bank rating systems to satisfy equity capital requirements compliant with Basel II by the German Federal Financial Supervisory Authority.

To prepare for the election of the independent auditors for the 2008 financial year by the Annual General Meeting, the committee assessed the independence of the proposed auditors. For this purpose, it received a detailed statement from the auditors on facts which might limit their independence. Following this, the Audit Committee reached the conclusion that the facts presented were not detrimental to the auditors' independence. The committee had the auditor explain the plan, the main points of the audit and the fee proposal, and gave the audit assignment, setting the fee. Furthermore the committee gave its consent in individual cases to the appointment of the auditor for audit-related tasks.

Another topic of discussion in the Audit Committee were the reports of the Audit department on the internal auditing results from the first three quarters of 2008. Furthermore, the auditors' report on the annual audit of the securities account business was discussed in detail, the outcome of which was that the securities account business is conducted in due form and the rules of conduct and reporting duties are normally complied with in accordance with the German Securities Trading Act. On the issue of compliance, the committee solicited a report on the observance of regulations on securities compliance and on compliance with data protection regulations.

Finally, the committee considered the effects of Italian Law 262 (Savings Law) on HVB which legislates for an internal control system for financial reporting – as is also provided in the German Accounting Law Modernisation Act.

Negotiating Committee

Once more the Negotiating Committee required by law did not have to convene in the past year.

The chairmen of the Board Committees reported to the Supervisory Board meetings on the topics discussed at the committee meetings, and on the results of these discussions and any votes held.

Audit and approval of the 2008 financial statements

The annual financial statements and management report of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, as well as the consolidated financial statements and management's discussion and analysis for the 2008 financial year prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, were audited by KPMG. The independent auditor issued an unqualified opinion in both cases.

Compliant with Section 25 a of the German Banking Act and Section 91 (2) of the German Stock Corporation Act, the independent auditor also examined the monitoring systems set up by the Bank to detect risk at an early stage. The independent auditor came to the conclusion that the risk early warning system installed is suitable for identifying at an early stage developments that endanger the continued operation of the Company and confirmed that the management report for HVB AG and management's discussion and analysis for the Group present a true and fair view of the risks of future business development. The Chairman of the Audit Committee attended the final discussion of the Management Board with the independent auditor.

The financial statements listed above were forwarded to the Supervisory Board, together with the auditor's report. The Audit Committee examined these documents in great detail during the preliminary audit. The lead auditor reported on the findings of the audit and provided detailed answers to the questions of the members of the Supervisory Board at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. In addition, the Management

Report of the Supervisory Board (Continued)

Board explained the financial statements in detail at these meetings. Acting on behalf of the indisposed Chairman of the Audit Committe, a member of the Audit Committee also reported to the full Supervisory Board on the findings of the review by the committee. The Supervisory Board concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. It determined that, on the basis of its own examination of HVB AG's financial statements, the consolidated financial statements, the management report and management's discussion and analysis, no objections were to be raised. At its meeting on March 12, 2009, the Supervisory Board therefore approved the annual financial statements prepared by the Management Board. At the same meeting, the Supervisory Board also approved the consolidated financial statements prepared by the Management Board.

UniCredit has held a majority interest in the share capital of HVB AG since November 17, 2005 and 100% of the share capital of HVB AG since September 15, 2008. Consequently, the Management Board has also produced a report on relationships of Bayerische Hypo- und Vereinsbank AG with related companies for the 2008 financial year in accordance with Section 312 of the German Stock Corporation Act. The report contains the following concluding statement by the Management Board.

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

KPMG audited this report and issued the following opinion:
"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relationships with related parties and the related audit report by KPMG were also forwarded to the Supervisory Board. In the course of the preliminary audit, the Audit Committee and then the Supervisory Board considered these documents in depth at the meeting devoted to the annual financial statements. The Supervisory Board checked the information for plausibility and consistency and carefully examined individual legal transactions between HVB and UniCredit and its affiliated companies together with other cost-generating measures initiated by UniCredit. KPMG took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. Acting on behalf of the indisposed Chairman of the Audit Committe, a member of the Audit Committee also reported to the full Supervisory Board on the findings of the review by the committee. The Supervisory Board concurred with the results of the audit by KPMG after intensive deliberations. Based on the final outcome of its own examination of the report on relationships of Bayerische Hypo- und Vereinsbank AG with related parties in the 2008 financial year prepared by the Management Board compliant with Section 312 of the German Stock Corporation Act, which did not identify any deficiencies, no objections are to be made about the final declaration of the Management Board in this report.

Personnel

In its meeting on April 9, 2008, the Supervisory Board resolved to further develop the Bank's management structure and reduce the Management Board from its previously ten members to six. With effect from April 30, 2008, the following gentlemen resigned from the Management Board by mutual consent: Willibald Cernko (Retail), Dr Stefan Schmittmann (Corporates & Commercial Real Estate Financing), Matthias Sohler (Chief Operating Officer), Andrea Umberto Varese (Chief Risk Officer) and Andreas Wölfer (Wealth Management). Henning Giesecke (Chief Risk Officer) was appointed to the Management Board with effect from May 1, 2008.

Since then, the Board Spokesman, Dr Wolfgang Sprissler, was responsible for the Retail and Wealth Management sales divisions (in addition to his other responsibilities). The Board members previously responsible for these divisions, Willibald Cernko and Andreas Wölfer, continued to be in charge of, and assume responsibility for the respective business operations in Germany even after this date.

With effect from May 1, 2008, Ronald Seilheimer was put in charge of the Corporates & Commercial Real Estate Financing division on the Management Board in addition to his responsibilities for the Markets & Investment Banking division. At the same time, Lutz Diederichs assumed responsibility for corporate banking operations in Germany.

The function of Chief Operating Officer on the Management Board was transferred to Heinz Laber with effect from May 1, 2008. As Director of Labour Relations he continues to be responsible for Human Resources Management.

On June 5, 2008, Stefan Ermisch resigned from the Management Board by mutual consent. Mr Ermisch was responsible in the Markets & Investment Banking division for the internal organisation as well as for the integration and establishment of the global investment banking activities of the UniCredit Group at HVB.

On December 31, 2008, the previous Board Spokesman, Dr Wolfgang Sprissler, retired and resigned from the Management Board. Ronald Seilheimer, whose appointment ended, also resigned from the Management Board by mutual consent at the same time. The Management Board elected Dr Theodor Weimer to succeed Dr Sprissler as Board Spokesman, and he was appointed to the Management Board with effect from January 1, 2009. Dr Weimer had previously been the Executive Chairman of Global Investment Banking in the UniCredit Group and the holder of general power of attorney of HVB with responsibility for the Markets & Investment Banking division and corporate banking operations. Apart from his function as Board Spokesman, Dr Weimer also oversees the Markets & Investment Banking division and has remained the Executive Chairman of Global Investment Banking in the UniCredit Group. Furthermore, Dr Weimer is a member of the Management Committee of UniCredit S.p.A. as the Country Chairman for Germany.

With effect from January 1, 2009, the following gentlemen were also reappointed to the Management Board: Willibald Cernko (Retail) and Andreas Wölfer (Wealth Management). Finally, Lutz Diederichs (Corporates & Commercial Real Estate Financing) has been a member of our Bank's Management Board since January 1, 2009.

The Supervisory Board thanks the members who have left the Management Board of HVB for their dedication and achievements on this board. Our thanks goes especially to the previous Board Spokesman, Dr Sprissler. Dr Sprissler had served on the Bank's Management Board since 1996 and, with tireless commitment, greatly influenced the Bank's development, especially after 2006 as Board Spokesman. The Supervisory Board has very great respect for his achievements at the top level of the Bank after the combination with the UniCredit Group.

At the close of the Annual General Meeting on July 29/30, 2008, the five-year term of office of all the Supervisory Board mandates ended. The Annual General Meeting re-elected all of the shareholder representatives to 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, the following members resigned from the Supervisory Board on account of the previous elections conducted in compliance with the Co-Determination Act: Günter Guderley, Stephan Hofmeister who joined the Supervisory Board as a deputy member in place of Hanns-Peter Kreuser who resigned from the Supervisory Board upon his retirement on June 30, 2008, Friedrich Koch, Maria-Magdalena Stadler and Ursula Titze. The new members joining the Supervisory Board as employee representatives were Gerhard Bayreuther, Giulio Gambino, Beate Mensch, Jutta Streit and Michael Voss.

Report of the Supervisory Board (Continued)

The Chairman, Alessandro Profumo, the Deputy Chairman, Peter König, and the additional Deputy Chairman, Dr Lothar Meyer, received a vote of confidence at the inaugural Supervisory Board meeting following the Annual General Meeting.

At the beginning of 2009, there was another change in the composition of the Supervisory Board. With effect from the end of the Extraordinary Shareholders' Meeting on February 5, 2009, the previous Chairman of the Supervisory Board, Alessandro Profumo, resigned from the Supervisory Board together with Dario Frigerio and Vittorio Ogliengo. Dr Susanne Weiss, Karl Guha and Dr Wolfgang Sprissler were elected to the Supervisory Board in their place with effect from the end of this meeting for the remaining terms of offices of the former members. At the following Supervisory Board meeting, Sergio Ermotti was elected Chairman of the Supervisory Board and Dr Sprissler as an additional Deputy Chairman. Dr Meyer had resigned from office as an additional Deputy Chairman of the Supervisory Board before this, but had retained his other functions on the Supervisory Board, particularly the chairmanship of the Audit Committee.

The Supervisory Board would like to thank all the resigned members for their committed and valuable work on this board. This thanks goes especially to the previous Chairman of the Supervisory Board, Alessandro Profumo, who, as Chairman of the Supervisory Board, made a significant contribution to HVB's successful integration into the UniCredit Group after December 2005.

Wilhelm Zeitler passed away on January 12, 2008. After serving successfully on the Management Board of Vereinsbank in Nürnberg AG and on the Management Board of Westfalenbank AG in Bochum, he was appointed to the Management Board of Bayerische Hypotheken- und Wechsel- Bank AG in 1979 and remained a member until 1986. After this, he sat on the bank's Advisory Board until 1992. Dr Wilhelm Arendts passed away on April 28, 2008. He had been a member of the Management Board of Bayerische Hypotheken- und Wechsel-Bank AG from 1964 to 1988, acting as its spokesman after 1976 and remaining closely connected to this bank afterwards as a member of its Supervisory Board until 1995. Dr Norbert Juchem passed away on January 15, 2009. After being appointed to the Management Board of Bayerische Vereinsbank in 1991, he then served on the Management Board of the merged HypoVereinsbank until 2002. Dr Eberhard Martini passed away on January 29, 2009. He had been a member of the Management Board of Bayerische Hypotheken- und Wechsel-Bank AG from 1983 to 1998, serving as its spokesman after 1988. Following this, he served on the Supervisory Board of HypoVereinsbank until the end of 1999. With tireless commitment, great skill, a sense of responsibility and sound judgement, the deceased gentlemen made an exemplary contribution to the Bank's development. This applies particularly to the two former Board Spokesmen, Dr Arendts and Dr Martini, who dedicated their entire working lives to the Bank and as Board Spokesmen had a crucial role in the Bank's development. In this connection Dr Martini was one of the people who paved the way for the merger between Bayerische Hypotheken- und Wechsel-Bank and Bayerische Vereinsbank. Both Board Spokesmen also made a significant contribution to the Hypo Foundation of Culture being able to establish itself with resounding success with its Kunsthalle in Munich. We will continue to hold the memory of the deceased gentlemen in the highest esteem.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work in the past year. They have all contributed to HypoVereinsbank being able to perform relatively well in the 2008 financial year in spite of the severe turmoil caused by the financial crisis.

Munich, March 12, 2009
The Supervisory Board

Sergio Ermotti
Chairman

Corporate Governance and Compensation Report

Corporate governance: guiding principle

Good corporate governance entails the responsible management of enterprises. It is of vital importance for achieving corporate objectives and a sustained increase in company value, thus helping to strengthen the confidence of shareholders and investors in the capital market.

Legal basis

As it is headquartered in Germany, Bayerische Hypo- und Vereinsbank (HVB AG) operates within the legal framework provided by the German Stock Corporation Act, the German Co-determination Act, banking supervisory and capital market law, and the German Corporate Governance Code. Since its delisting following registration of the squeeze-out resolution on September 15, 2008, HVB AG has complied with the German Corporate Governance Code on a voluntary basis to the extent that its provisions are applicable to a non-listed company with a single shareholder. In 2008, HVB AG complied with the recommendations given by the German Corporate Governance Code as amended on June 14, 2007 and June 6, 2008 with six deviations. The deviations are described in detail in accordance with the "comply or explain" principle in the statement on compliance with the German Corporate Governance Code issued by the Management Board and Supervisory board on December 23, 2008. The full text of the statement, complete with comments on the deviations, is reproduced below under the heading "Statement of compliance with the German Corporate Governance Code". The statement of compliance has also been made permanently available on the Company's website.

HVB AG follows the series of suggestions provided in the Corporate Governance Code with two exceptions:

– On co-determined supervisory boards, the shareholder representatives and employee representatives are each required to prepare Supervisory Board meeting separately, if appropriate in conjunction with members of the Management Board. In 2008, no preparatory meetings were held by the shareholder representatives.

– The remuneration paid to members of the Supervisory Board does not include any components linked to the company's long-term success. A large majority of our Supervisory Board members are required to surrender the Supervisory Board compensation, which means that no individual Supervisory Board member would profit from an appropriate regulation.

The German Securities Trading Act contains additional statutory regulations aimed at promoting transparency and preventing misuse of insider information. In particular, these statutes contain regulations covering a ban insider trading, ad-hoc publication and announcements of investments in listed companies when the stake reaches, exceeds or falls below certain thresholds. In addition, the statutory regulations on combating money laundering, the directives issued in the connection and data protection regulations must be observed. There are separate units in the Bank responsible for ensuring compliance with, and implementation of, these regulations.

Articles of Association, internal regulations, guidelines, compliance guidelines, Integrity Charter

Apart from defining legal principles regulating the management and monitoring of joint stock companies, other rules governing these matters at HVB AG are the Articles of Association adopted by the Annual General Meeting of Shareholders and the respective internal regulations adopted by the Management Board and the Supervisory Board. In particular, the Supervisory Board's by-laws contain statements on transactions requiring approval and details on disclosure and reporting obligations. The Bank has introduced Compliance Guidelines and employee guidelines for dealings in securities and real estate. Compliance with these regulations is monitored by the Bank's compliance officer and his/her staff. Furthermore, the Integrity Charter is a common set of values connecting all the companies of the UniCredit Group which is supported by the introduction of an ombudsman system. It contains guidelines on management board members and employees' conduct at the workplace and lays down standards of behaviour for all employees in companies throughout the UniCredit Group. In addition to this, a Code of Conduct is in force for HVB AG. This code summarises existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all HVB employees.

Effective corporate supervision: Supervisory Board, committees

The Bank's Supervisory Board has 20 members. In compliance with the German Co-Determination Act, it includes equal numbers of representatives of the shareholders and employees. When new members of the Supervisory Board are appointed, care is taken to ensure that they have the required knowledge and skills and do not serve on governing bodies or perform advisory functions for key competitors. The members of the Supervisory Board are obliged to act in the interests of the company. Under the Supervisory Board's by-laws, any conflicts of interest must be disclosed to the Supervisory Board. To avoid any conflicts of interest, one member of the Supervisory Board abstained from a voting procedure during 2008, for instance. Further

Corporate Governance and Compensation Report (Continued)

details in this connection are provided in the Report of the Supervisory Board in this Annual Report. A summary of the mandates held by members of the Supervisory Board on other statutory supervisory boards or comparable supervisory bodies is published in the notes to the annual financial statements of HVB AG. Due to the international composition of the Supervisory Board, sworn interpreters are present at Supervisory Board meetings to simultaneously translate the contributions made by each Supervisory Board member to ensure that they are understood.

Under the German Stock Corporation Act, the tasks of management and supervision must be kept strictly separated. The task of the Supervisory Board is to monitor and advise the Management Board as it conducts business. Key tasks of the Supervisory Board include the appointment and dismissal of members of the Management Board. In addition, certain types of transactions require the Supervisory Board's approval, either by law or because the Supervisory Board has made them subject to this restriction. This applies primarily to capital market measures and – in accordance with the internal rules of the Supervisory Board of HVB AG – to investments and disposals exceeding a certain amount. To support its work, the Supervisory Board set up three standing committees in 2008. The composition and tasks of the committees are as follows:

Remuneration & Nomination Committee

– The Remuneration & Nomination Committee, comprised of the chairman of the Supervisory Board and the two deputy chairmen, is primarily concerned with succession planning for the Management Board and determines the remuneration of its members, including the remuneration structure.

Audit Committee

– The Audit Committee, which usually conducts four meetings a year, has five members. It is responsible in particular for preparing the Supervisory Board's decision on the approval of the annual financial statements and consolidated financial statements, for conducting a preliminary audit on the report on relationships with related parties and for elucidating the half-yearly financial report and interim reports. In addition, this committee prepares the Supervisory Board's proposal for the election of the independent auditor by the Annual General Meeting of Shareholders. The Audit Committee is also responsible for the appointment of the auditor for the annual financial statements and the consolidated financial statements on the basis of the resolution adopted by the Annual General Meeting of Shareholders, including the specification of the main areas subject to special scrutiny and the fee. The regular reports prepared by the internal auditing department on its findings are another topic addressed by the Audit Committee.

Furthermore, the Audit Committee regularly discusses the risk situation and risk management using appropriate reports submitted by the Management Board. The risk situation and the early identification of risks are of fundamental importance for the company's continuing existence. The Minimum Requirements for Risk Management laid down by the German Financial Supervisory Authority require risk reports to be presented to the Management Board and the Supervisory Board each quarter. Moreover, management must review the risk strategy at least once a year and discuss it with the Supervisory Board. This ensures that the Supervisory Board is provided with detailed reports on a regular basis, particularly on the risk strategy, credit risks, market risks and operational risks as well as liquidity and reputation risks.

The Audit Committee is also tasked with looking at compliance issues.

Negotiating Committee

– The Negotiating Committee, which has two shareholder representatives and two employee representatives, is responsible for submitting proposals to the Supervisory Board pertaining to the appointment or dismissal of members of the Management Board when a vote by the Supervisory Board does not yield the required two-thirds majority. The Negotiating Committee required by law did not have to convene in the past year.

The chairmen of the committees report in detail on the committees' activities at plenary meetings of the Supervisory Board.

Management Board

The Management Board is directly responsible for managing the company and works with the other bodies of the company and the employee representatives in the interests of the company in an atmosphere of trust. It develops the strategic orientation of the company, coordinates this with the Supervisory Board 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 a departure from this rule, for the period from May 1 to December 31, 2008, responsibility on the Management Board for the Retail and Wealth Management business divisions rested with the Board spokesman and for the Corporates & Commercial Real Estate Financing division with the Management Board member responsible for Markets & Investment Banking. Since January 1, 2009, the Management Board of HVB AG has consisted of seven members. These are the Board spokesman, who is also responsible for the Markets & Investment Banking division, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the Head of Human Resources Management (HRM), who is also responsible for the Global Banking Services subsegment (GBS) and acts as Director of Labour Relations, and the heads of the remaining operating divisions: Retail, Wealth Management and Corporates & Commercial Real Estate Financing. The Board Spokesman, Dr Weimer, is member of UniCredit's Management Committee and Country Chairman Germany for UniCredit Group.

The Management Board of HVB AG provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning, including budget deviations, strategic development, the course of business, the state of the company, including the risk situation, and compliance issues. The reports are generally submitted in text form; documents relevant for decision-making are made available to the Supervisory Board as soon as possible before the meeting.

Directors' dealings and shares held by members of the Management Board and Supervisory Board

Compliant with Section 15 a of the German Securities Trading Act, members of the Management Board and the Supervisory Board, and certain people closely related to them, are required to disclosed transactions involving shares of HVB AG, or financial instruments based on such shares, to the extent that such transactions exceed a figure of €5,000.00 in a calendar year.

HVB AG has not been notified of any such transactions for the 2008 financial year.

When the squeeze-out was filed in the Commercial Register on September 15, 2008, all shares were transferred to UniCredit S.p.A. by force of law.

Consequently, the members of the Management Board and the Supervisory Board do not hold any shares of HVB AG any more.

Shareholders, Annual General Meeting

Since the squeeze-out was filed in the Commercial Register on September 15, 2008, the rights in the Annual General Meeting of Shareholders have been exercised by the sole shareholder, UniCredit S.p.A.

Risk management

HVB AG conducts extensive risk monitoring and risk management, encompassing its subsidiaries. The monitoring systems are geared to identifying risks at an early stage. Risk control and risk management are combined under the area of responsibility of the Chief Risk Officer, who reports to the Audit Committee of the Supervisory Board on a regular basis. Please refer to the Risk Report for further details.

Communication, transparency

HVB AG greatly values regular and prompt and communication with its customers, its owner, its employees and the general public. Press releases and reports provide information on the state of the company. Information that could have a substantial impact on share and market prices as defined in Section 12 of the German Securities Trading Act is published in ad-hoc communications and is also made available on the company's website. In addition, the spokesman of the Management Board and the CFO of HVB AG report in the context of reporting communications on issues important to the company and current business results in communications on results and at press telephone conferences held regularly, the dates of which are published in a financial calendar.

2008 statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act

The Management Board and Supervisory Board issued the following statement of compliance on December 23, 2008, which has also been made permanently available on the website of HVB AG.

"The Management Board and Supervisory Board of Bayerische Hypo- und Vereinsbank Aktiengesellschaft (HVB AG) hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" announced by the Federal Ministry of Justice in the official part of the Federal Gazette have been complied with until the delisting that took place at the close of September 15, 2008 with the following deviations below-mentioned. Taken as a basis hereby is the version of the German Governance Code of June 14, 2007 for the time in between December 3, 2007 (date of the last statement of compliance) and August 7, 2008. For the Corporate Governance practice of HVB AG since August 8, 2008 the statement does refer to the recommendations of the German Corporate Governance Code in the version of June 6, 2008.

Corporate Governance and Compensation Report (Continued)

- Clause 3.8 (3) of the Corporate Governance Code stipulates that an appropriate deductible must be agreed if the Company takes out D&O insurance for the Management Board and Supervisory Board.

  The current insurance policy does not provide for a deductible.

- According Clause 4.2.2 of the Code in its version of June 6, 2008, in response to a proposal from the committee that deals with Management Board contracts, the plenary Supervisory Board is to resolve on the remuneration system for the Management Board, including the essential contractual elements, and to review all these items on a regular basis.

  In response to a proposal by the Remuneration & Nomination Committee, the plenary Supervisory Board of HVB AG is to discuss the structure of remuneration paid to the Management Board and review the status thereof regularly. The resolution concerning the employment contracts with the individual members of the Management Board has been delegated to the Remuneration & Nomination Committee.

- According to Clause 4.2.3 (6) of the Code, stock options and comparable instruments shall be related to demanding, relevant comparison parameters. In addition, according to Clause 4.2.3 (8) the Supervisory Board shall agree a possibility of limitation (cap) for extraordinary, unforeseen developments.

  The direct compensation of HVB AG Management Board members in 2008 has three components, containing both fixed and variable features: fixed compensation, variable compensation as a bonus featuring profit-related components (short-term incentive) and a long-term incentive. As part of the long-term incentive, members of the Management Board participate in the UniCredit Group's Stock Option & Performance Shares Plan. This plan includes both stock options on UniCredit shares and performance shares in the form of UniCredit shares. This long-term incentive provides: (i) in relation to performance shares in parts for parameters to be drawn on for comparison purposes: (ii) in relation to stock options neither for parameters to be drawn on for comparison purposes nor for performance targets; no form of limitation (cap) was greed for extraordinary, unforeseeable developments.

- In accordance with Clause 4.2.3 sentence 9 of the Code in its version of June 6, 2008, it is to be ensured that payments to a Management Board member in the event of early termination of such a mandate without good cause, including fringe benefits, shall not exceed the equivalent of two years' remuneration payments (severance cap), with no payments being made for the residual term of the employment agreement.

  All new employment contracts with Management Board members do not provide for severance payments. Some of the employment contracts with Management Board members – depending on length of service in the Bank – do not fully comply with this recommendation.

- According to Clause 5.3.3 of the Code, the Supervisory Board is to establish a nomination committee which shall consist exclusively of shareholder representatives and is to propose names of suitable candidates to the Supervisory Board for the latter's election nominations.

  In view of the structure of the Company with a single major shareholder and the current composition of the Supervisory Board, the Supervisory Board considers that it may dispense with the formation of a nomination committee.

- According to Clause 7.1.2 sentence 4 of the Code, the interim reports are to be accessible to the public within 45 days of the end of the reporting period. The half-year results and, therefore, the information of relevance with regard to the capital markets for the first six months of fiscal 2008, were published on August 4, 2008, i.e. within the 45-day period; the Half-yearly Financial Report was made accessible – in accordance with legal requirements – to the public only on August 29, 2008.

Also after the delisting that took place at the close of September 15, 2008, Bayerische Hypo- und Vereinsbank Aktiengesellschaft (HVB AG) continues to submit itself to the provisions of the German Corporate Governance Code on a voluntary basis, to the extent that the provisions can be extended to apply to a company without a public listing. Accordingly, the Management Board and Supervisory Board of HVB AG hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette in the version of June 6, 2008 have been complied with even after the delisting that took place at the close of September 15, 2008 except for the departures mentioned above and except for such recommendations of the code which do only apply according to their purpose for companies with a public listing and companies with several shareholders, and that such compliance will continue in the future."

Compensation Report

In compliance with the German Corporate Governance Code, the basic principles underlying the system of compensation for the Management Board of HVB AG are explained below. In addition, the amount of compensation paid to members of the Supervisory Board is described in detail and shown individually, broken down into remuneration components.

1. Structure of compensation paid to members of the Management Board for 2008

It is the task of the plenary sessions of the Supervisory Board to discuss and regularly review a proposal put forward by the Remuneration & Nomination Committee of the Supervisory Board on the structure of the compensation paid to members of the Management Board. Details of the compensation are determined by the Remuneration & Nomination Committee. The direct compensation has three components and comprises fixed and variable elements: fixed compensation, variable compensation as a bonus featuring profit-related components (short-term incentive) and a long-term incentive.

The variable components are especially important as these are linked to success in meeting the targets agreed for the financial year and the targets in the strategic multiyear plan and can considerably exceed the fixed salary. Competitive profit-related compensation and postponing payment to the near or far future as a result of participation in the long-term incentive plan of the UniCredit Group is intended to ensure that the management is bound to the company and to support the sustainable success of the company.

To ensure that the compensation for the responsibilities assumed by Management Board members is commensurate with market conditions, an external specialist performed a market survey on behalf of UniCredit which covered Management Board positions and included similar companies. The compensation paid to members of the Management Board of HVB AG was stipulated by the Remuneration & Nomination Committee taking account of this survey.

1.1 Fixed salary

The fixed salary is equivalent to the level paid in similar companies. It is disbursed in 12 monthly amounts.

1.2 Bonus (short-term incentive)

The bonus is a short-term incentive, the size of which depends on certain targets agreed with all members of the Management Board being met. The targets are shown in scorecards and include team targets, core targets and competency targets. The competency targets comprise targets from the field of values and leadership. The normal weighting is: team targets 20%, core targets 50% and competency targets 30%.

There are no more than two team targets. One is based in principle on the after-tax profit of HVB Group and the other in principle on the economic value added (EVA) of HVB Group. In the case of Management Board members who are responsible for a business division, the core targets normally consist of the contribution of the HVB division to the profit of the UniCredit Group division and the EVA of the HVB division. For the other members of the Management Board, this component generally comprises financial or operating targets. The two competency targets are defined in line with the responsibility of the respective members of the Management Board on the basis of nine management competence factors, which include growth orientation, team culture, ability to implement, and so on.

Targets mainly relating to quantities, but also some quality targets, are agreed with the members of the Management Board. A relatively narrow range is defined for meeting the quantitative targets. If the lowest value in the range is not achieved, zero points are awarded for the target. If the highest value is achieved, the Management Board member receives the highest number of points for this target. The Remuneration & Nomination Committee decides on the quality targets for target achievement.

The weighted total amount of points gained from each target results in the target achievement. A bonus is paid if a specified number of points is achieved. Compliant with UniCredit's treatment of this issue, the target value and maximum bonus have been defined as reference values since 2007. This maximum bonus can be claimed whenever a total number of 120 points is achieved in the scorecard. This means that the bonus has a maximum upper limit. If targets are met 100%, the target value is paid.

Corporate Governance and Compensation Report (Continued)

1.3 Long-term incentive
Each Management Board member took part in the 2008 Stock Option & Performance Shares Plan (long-term incentive plan) of the UniCredit Group. This plan consists of two components.

On the one hand, each Management Board member is granted a certain number of options which can be exercised if the beneficiary is still working for the UniCredit Group four years (vesting) after the allotment. Each option entitles the Board member to purchase a UniCredit share at a price which was fixed before the option was issued. The option may be exercised within a period of six years after vesting (or nine years after vesting in the case of options issued up to and including 2006). In 2008, the Management Board of HVB AG was granted a total of 1,454,150 stock options at a strike price of €4.185 per share.

On the other hand, each Management Board member is promised a specific number of UniCredit shares (to be transferred free of charge) on condition that the relevant targets in UniCredit's strategic plan are met at the end of the third full year after the allotment and the beneficiary is still working for the UniCredit Group. The Management Board of HVB AG received commitments for 355,158 performance shares in 2008.

HVB AG normally reimburses the cost of participating in the long-term incentive plan to UniCredit at the time of vesting. The beneficiary pays the taxes on the benefits gained. These are the value of the share less the fixed purchase price when the option is exercised in the case of stock options and the value of the share at the time of granting in the case of performance shares.

1.4 Additional comments
Up until April 30, 2008, two members of the Management Board had corporate employment contracts with UniCredit besides the employment contract with HVB through which they only earned a fixed salary. Consequently, these two members of the Management Board received a fixed base salary together with a bonus and long-term incentive from UniCredit as a result of the corporate employment contract. To the extent that these members of the Management Board worked for HVB AG, the Remuneration & Nomination Committee of HVB AG decided upon the terms of employment, including targets and remuneration, and HVB AG reimbursed the cost of remuneration to UniCredit.

Compensation paid to members of the Management Board for positions on supervisory boards of Group companies is surrendered to HVB AG.

The Annual General Meeting of Shareholders of May 23, 2006 invoked what is referred to as the opt-out clause of the Act on Disclosure of Management Board Remuneration and resolved that the remuneration received by Management Board members will not be disclosed on an individualised basis. Subsequent to the registration of the Squeeze-out resolution on September 15, 2008 into the commercial register, HVB is not listed anymore.

The compensation paid to members of the Management Board for the 2008 financial year totalled €8 million (previous year: €13 million).

1.5 Compensation paid to members of the Management Board

	FIXED SALARY		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVE[1]		TOTAL	€ millions
	2008	2007	2008	2007	2008	2007	2008	2007
Management Board of HVB AG	3	5	4	7	1	1	8	13
Supervisory Board of HVB AG								
for Supervisory Board activities	0.8	0.8	0.4[2]	0.3[3]	0	0	1.2	1.1
Former members of the Management Board of HVB AG								
and their surviving dependants							10	9
Transitional allowances for former members of the								
Management Board							8	0

1 cash value of share-based compensation
2 relates to 2007 financial year, disbursed in 2008
3 relates to 2006 financial year, disbursed in 2007

Details of share-based compensation (long-term incentive)

MEMBERS OF THE MANAGEMENT BOARD OF HVB AG	UNITS	MONETARY VALUE IN €	MONETARY VALUE IN €
		FAIR VALUE OF EACH OPTION ON THE DATE OF GRANTING	FAIR VALUE ON THE DATE OF GRANTING IN TOTAL
Options			
Stock options 2007[1]	880,324	1.3292	1,170,126.66
Stock options 2008	1,454,150	0.6552	952,759.08
		FAIR VALUE OF EACH PERFORMANCE SHARE ON THE DATE OF COMMITMENT	FAIR VALUE ON THE DATE OF COMMITMENT IN TOTAL
Performance shares			
Performance shares 2007[1]	265,730	6.079	1,615,372.67
Performance shares 2008	355,158	3.4800	1,235,949.84

1 including corporate employment contracts

The fair value on the date of granting is recorded by HVB AG as an expense on the basis of the expected number of options exercised/performance shares granted over the period or vesting period of the respective programme.

1.6 Pension commitments

Besides direct remuneration, Management Board members have received pension commitments. Except for three members of the Management Board, the Management Board members take part in the fund-linked deferred compensation scheme (FDC) which is also available to the Bank's employees. HVB AG has fixed the contribution as 20% of the fixed salary and the short-term incentive, subject to a cap of €200,000 per business year. It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from HVB AG.

HVB AG credits the deferred compensation amounts to the Management Board member's capital account and invests them in a fund, currently the Pioneer Total Return Fund. HVB AG guarantees an annual return of 2.75%. A higher yield is initially used for allocation to a fluctuation reserve amounting to 10% of the separate funds for FDC. Any surplus return is credited to the Management Board member in due proportion. The fluctuation reserve is used to offset any actuarial losses.

Corporate Governance and Compensation Report (Continued)

When the beneficiary becomes entitled to receive benefits, the capital credit balance is converted into a pension for life. In the process, the actuarial calculations applicable at the time, in particular life expectancy, are taken as a basis. An annual adjustment of 1% is granted for the pension; this fulfils the Bank's obligation to adjust pension commitments. Alternatively, the capital can be disbursed if the eligible Management Board member has applied for this two years before the insured event occurs.

Notwithstanding the pension arrangements described, HVB AG had undertaken to provide one member of the Management Board a retirement pension for a fixed amount each year. Contributions are paid to a pension fund for another member of the Management Board. HVB AG has not agreed any pension commitments with a further member of the Management Board who has a corporate employment contract.

Provisions for pensions of €4,244,086 payable to active members of the Management Board were transferred to provisions for retired members of the Management Board in 2008 on account of the changes on the Management Board. €175,547 of this total was deferred compensation invested in a fund in 2008.

The pension provisions of HVB AG for former members of the Management Board and their surviving dependants increased to €94 million at December 31, 2008 (2007: €90 million) accordingly. Under IFRS, the value for pension provisions for retired members of the Management Board amount to €120 million.

The compensation paid to former members of the Management Board and their surviving dependants amounted to €10 million in 2008.

1.7 Fringe benefits

Other fringe benefits are of no material significance. The members of the Management Board can also use their company car for private purposes, among other things. The Bank paid the premiums for an accident insurance policy valid 24-hours a day and a sum insured of €511,000 in the event of death and €1,024,000 in the event of complete disability. Furthermore, members of the Management Board receive the same preferential terms for bank services as the Bank's employees.

1.8 Commitments to pay a transitional allowance

If a contract is not extended for reasons for which the member of the Management Board is not responsible, a transitional allowance of at least one year's salary (fixed salary and bonus), but a maximum of three years' salary depending on the length of service, is usually paid; the maximum amount of three years' salary is paid after 20 years of services. The transitional allowance is limited to the annual salaries (fixed salary and bonus) still outstanding until the minimum retirement age in each case.

Irrespective of the expiry of the employment contract at the end of the initially agreed term, the new contracts of the members of the Management Board do not contain any severance agreements in the event of the premature termination of Management Board activities without good cause. Neither do the contracts contain any commitments to make payments in respect of early termination of Management Board activities as a result of a change of control (change of control clause).

2. Compensation paid to members of the Supervisory Board

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Articles of Association of HVB AG. The currently applicable arrangements under these articles are based on a resolution adopted by the Annual General Meeting of Shareholders on May 23, 2006. The compensation is divided into a fixed and a variable, dividend-dependent component. Under the terms of the arrangements, the members of the Supervisory Board receive fixed compensation of €25,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the Supervisory Board is entitled to a fixed annual compensation of €120,000 payable upon conclusion of the financial year, which is used to compensate committee members on the basis of a corresponding Supervisory Board resolution. According to this resolution, the members of the Audit Committee receive annual compensation of €20,000 each for the 2008 financial year. The chairman of the committee receives twice this amount. The members of the Remuneration & Nomination Committee and the members of the statutory Negotiating Committee, which only meets if required, received no separate compensation for committee work. In addition, the members of the Supervisory Board are reimbursed their expenses and the value-added tax payable on their Supervisory Board functions. Where they sit on the Management Committee of UniCredit, the members of the Supervisory Board transfer to UniCredit the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty.

Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the financial year received pro rata compensation.

The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2008, expense allowances totalling €74,737.58 were paid to members of the Supervisory Board. No remuneration was paid in the 2008 financial year for services provided personally.

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2008.

Compensation of members of the Supervisory Board

			€	
	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo, Chairman[1]	50,000.—	11,561.64	61,561.64	(42,077.38)[11]
Sergio Ermotti, Chairman[2]	25,000.—		25,000.—	(17,087.50)[11]
Peter König, Deputy Chairman	37,500.—	20,000.—	57,500.—	
Dr Lothar Meyer, Deputy Chairman[3]	37,500.—	40,000.—	77,500.—	
Dr Wolfgang Sprissler, Deputy Chairman[4]				
Gerhard Bayreuther[5]	10,547.95	8,438.36	18,986.31	
Aldo Bulgarelli	25,000.—	8,438.36	33,438.36	(22,855.12)[11]
Beate Dura-Kempf	25,000.—		25,000.—	
Paolo Fiorentino	25,000.—		25,000.—	(17,087.50)[11]
Dario Frigerio[6]	25,000.—		25,000.—	(17,087.50)[11]
Giulio Gambino[5]	10,547.95		10,547.95	
Klaus Grünewald	25,000.—		25,000.—	
Günter Guderley[7]	14,452.05	11,561.64	26,013.69	
Karl Guha[8]				
Stephan Hofmeister[9]	2,054.79		2,054.79	
Friedrich Koch[7]	14,452.05		14,452.05	
Hanns-Peter Kreuser[10]	12,397.26		12,397.26	
Ranieri de Marchis	25,000.—	20,000.—	45,000.—	(30,757.50)[11]
Beate Mensch[5]	10,547.95		10,547.95	
Roberto Nicastro	25,000.—		25,000.—	(17,087.50)[11]
Vittorio Ogliengo[6]	25,000.—		25,000.—	(17,087.50)[11]
Panagiotis Sfeliniotis	25,000.—		25,000.—	
Professor Hans-Werner Sinn	25,000.—		25,000.—	
Maria-Magdalena Stadler[7]	14,452.05		14,452.05	
Jutta Streit[5]	10,547.95		10,547.95	
Ursula Titze[7]	14,452.05		14,452.05	
Michael Voss[5]	10,547.95		10,547.95	
Jens-Uwe Wächter	25,000.—		25,000.—	
Dr Susanne Weiss[8]				
Total	**550,000.—**	**120,000.—**	**670,000,—**	**586,127.50[11]**

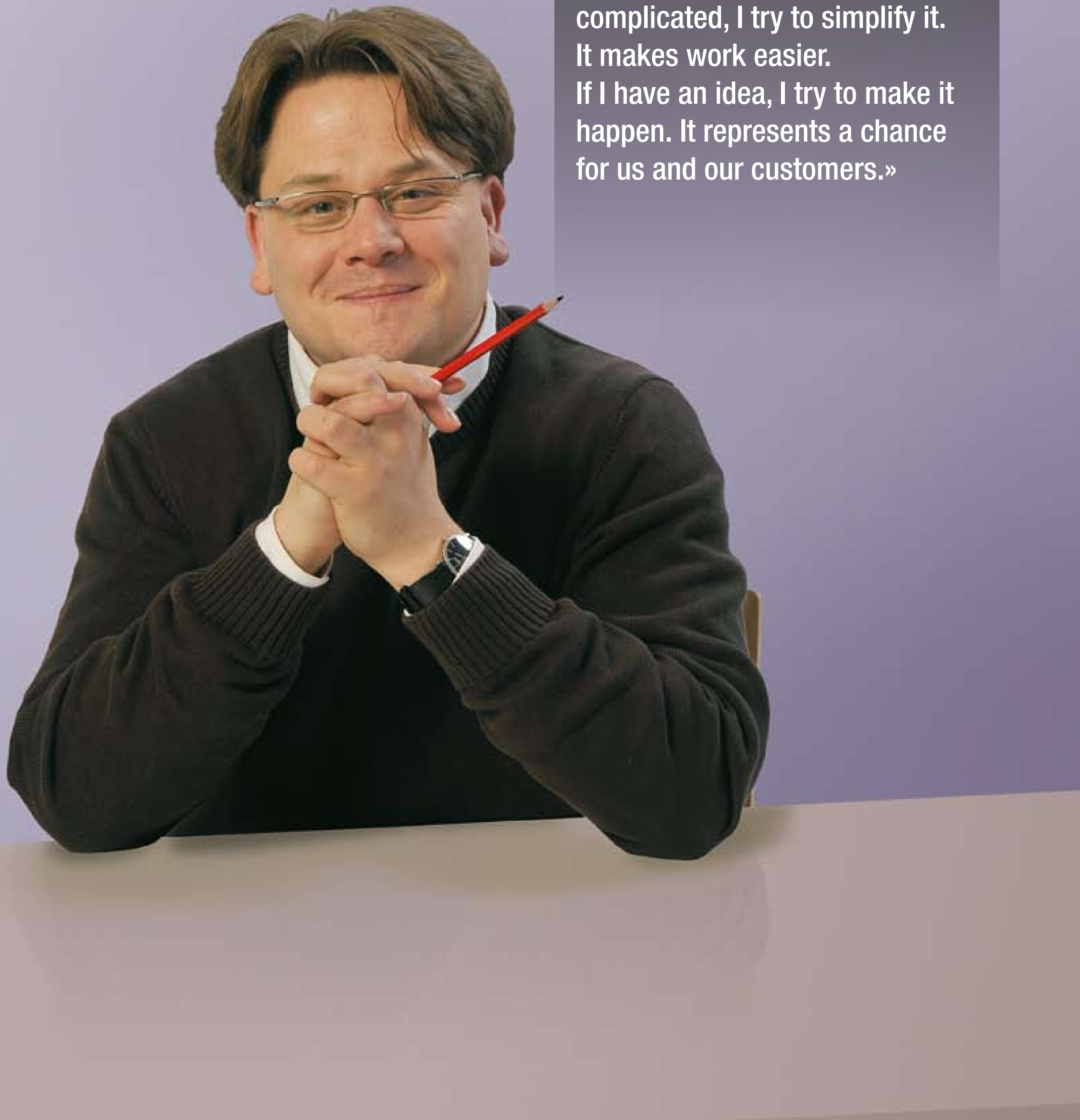
1 member and chairman until February 5, 2009
2 chairman since February 5, 2009
3 deputy chairman until February 5, 2009
4 member and deputy chairman since February 5, 2009
5 member since July 30, 2008
6 member until February 5, 2009
7 member until July 30, 2008
8 member since February 5, 2009
9 member from July 1 to July 30, 2008
10 member until June 30, 2008
11 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

Munich, March 12, 2009

The Management Board The Supervisory Board

Stefan Beck
Germany

«If I see a light left on, I turn it off. It saves the environment.
If I see a problem, I try to solve it. It improves our processes.
If I see something is too complicated, I try to simplify it. It makes work easier.
If I have an idea, I try to make it happen. It represents a chance for us and our customers.»



Additional Information

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
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Annual Report (English/German)
Interim reports (English/German)
for the first, second and third quarters
CSR Short Report 2007/08
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www.hvb.de/annualreport
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Summary of Quarterly Financial Data

€ millions	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Operating performance				
Net interest income	942	977	1,118	1,222
Net fees and commissions	398	383	337	335
Net trading income	(647)	318	(490)	(1,092)
Net other expenses/income	34	23	49	41
TOTAL REVENUES	**727**	**1,701**	**1,014**	**506**
Operating costs	(871)	(888)	(854)	(882)
OPERATING PROFIT/(LOSS)	**(144)**	**813**	**160**	**(376)**
Provisions for risks and charges	—	(21)	5	10
Write-down on goodwill	—	—	—	—
Restructuring costs	—	—	(2)	(24)
Net write-downs of loans and provisions for guarantees and commitments	(187)	(69)	(361)	(143)
Net income from investments	13	(39)	(98)	(132)
PROFIT/(LOSS) BEFORE TAX	**(318)**	**684**	**(296)**	**(665)**
Income tax for the period	81	(201)	11	55
NET PROFIT/(LOSS)	**(237)**	**483**	**(285)**	**(610)**
Minorities	(45)	(7)	27	3
NET PROFIT/(LOSS) OF HVB GROUP	**(282)**	**476**	**(258)**	**(607)**
Earnings per share (€), HVB Group	(0.35)	0.59	(0.32)	(0.76)

Summary of Annual Financial Data

				€ millions
	2008	2007	2006	2005
Operating performance				
Net interest	4,059	3,753	3,148	3,166
Dividends and other income from equity investments	200	376	251	259
Net interest income	**4,259**	**4,129**	**3,399**	**3,425**
Net fees and commissions	1,453	1,721	1,753	1,723
Net trading income	(1,911)	592	768	376
Net other expenses/income	147	169	32	(311)
Net non-interest income	**(311)**	**2,482**	**2,553**	**1,788**
TOTAL REVENUES	**3,948**	**6,611**	**5,952**	**5,213**
Payroll costs	(1,961)	(2,067)	(2,216)	(2,212)
Other administrative expenses	(1,281)	(1,250)	(1,166)	(1,260)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(253)	(259)	(313)	(413)
Operating costs	**(3,495)**	**(3,576)**	**(3,695)**	**(3,885)**
OPERATING PROFIT	**453**	**3,035**	**2,257**	**1,328**
Provisions for risks and charges	(6)	(161)	(164)	(87)
Write-down on goodwill	—	—	—	—
Restructuring costs	(26)	13	(60)	(438)
Net write-downs of loans and provisions for guarantees and commitments	(760)	(536)	(933)	(979)
Net income from investments	(256)	611	671	69
Other non-operating expenses	—	—	(153)	—
PROFIT/(LOSS) BEFORE TAX	**(595)**	**2,962**	**1,618**	**(107)**
Income tax for the period	(54)	(794)	125	(14)
NET PROFIT/(LOSS)	**(649)**	**2,168**	**1,743**	**(121)**
Minorities	(22)	(118)	(103)	(6)
NET PROFIT/(LOSS) OF HVB GROUP	**(671)**	**2,050**	**1,640**	**(127)**
Profit after tax of discontinued operations	—	3,698	3,457	1,158
Minorities in profit of discontinued operations	—	—	(677)	(389)
NET PROFIT/(LOSS) OF HVB GROUP, including discontinued operations	**(671)**	**5,748**	**4,420**	**642**
Earnings per share (€), HVB Group (adjusted)[1]	(0.84)	2.03	1.50	0.39
Earnings per share (€), HVB Group	(0.84)	2.60	2.18	(0.17)

1 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and non-recurring tax charges arising from German tax reforms;
2006 adjusted for the gain on disposal of Activest companies and Munich Re, valuation expenses for the announced disposal of a portfolio of non-strategic real estate, restructuring costs, changes in the method of calculating write-downs of loans and provisions for guarantees and commitments, and other non-operating expenses;
2005 adjusted for restructuring costs and further non-recurring charges arising from loan-loss provisions due to additional general provisions for losses on specific loans and advances

HVB Group[1]				
	2008	2007	2006	2005
Key indicators (%)				
Return on equity after taxes, adjusted[2, 3]	(8.9)	13.3	11.1	2.5
Return on equity after taxes[2]	(8.9)	17.6	15.9	(1.1)
Cost-income ratio (based on total revenues)	88.5	54.1	62.1	74.5
Balance sheet figures (€ billions)				
Total assets	458.6	422.1	343.6	351.7
Shareholders' equity	23.0	24.0	21.9	20.5
Key capital ratios compliant with German Banking Act (KWG)				
Core capital (€ billions)	21.2	23.6[4]	21.6[5]	21.9[5]
Risk-weighted assets (€ billions) (including equivalents for market risks)	160.9	145.5	144.9	159.6
Core capital ratio (%) (calculated based on risk-weighted				
assets, including equivalents for market risks)	13.2	16.2[4]	14.9[5]	13.7[5]
Employees	24,638	24,784	25,738	27,353
Offices	852	846	788	

1 without discontinued operations
2 return on equity relating to 6.8% tied equity capital as a proportion of average risk-weighted assets
3 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and non-recurring tax charges arising from German tax reforms;
2006 adjusted for the gain on disposal of Activest companies and Munich Re, valuation expenses for the announced disposal of a portfolio of non-strategic real estate, restructuring costs, changes in the method of calculating write-downs of loans and provisions for guarantees and commitments, and other non-operating expenses;
2005 adjusted for restructuring costs and further non-recurring charges arising from loan-loss provisions due to additional general provisions for losses on specific loans and advances
4 pro forma: based on approved annual financial statements, including the transfer of €3.7 billion to reserves approved by the Annual General Meeting of Shareholders on July 30, 2008
5 pro forma: including the inflow to shareholders' equity from the disposal of discontinued operations

Summary of Annual Financial Data (Continued)

HVB Group, including discontinued operations				€ millions
	2005	2004	2003	2002
Operating performance				
Net interest income	5,885	5,662	5,881	5,936
Provisions for losses on loans and advances	1,513	1,795	2,313	3,292
Net interest income after provisions for losses on loans and advances	4,372	3,867	3,568	2,644
Net commission income	3,240	2,845	2,795	2,672
Trading profit	926	728	820	787
General administrative expenses	6,582	6,118	6,371	6,896
Balance of other operating income and expenses	(143)	23	620	180
OPERATING PROFIT (LOSS)	**1,813**	**1,345**	**1,432**	**(613)**
Net income from investments	321	14	(1,806)	587
Amortisation of goodwill	—	165	1,134	395
Restructuring costs	546	250	—	283
Allocation to special provisions for bad debts	—	2,500	—	—
Balance of other income and expenses	(289)	(357)	(638)	(149)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES/				
NET INCOME (LOSS) BEFORE TAXES	**1,299**	**(1,913)**	**(2,146)**	**(853)**
Taxes on income	262	224	296	(3)
NET INCOME (LOSS) AFTER TAXES	**1,037**	**(2,137)**	**(2,442)**	**(850)**
Minority interest in net income (loss)	(395)	(288)	(197)	41
NET INCOME (LOSS) ADJUSTED FOR MINORITY INTEREST	**642**	**(2,425)**	**(2,639)**	**(809)**
Earnings per share (€, adjusted)[1]	1.55	0.70	0.54	(0.77)
Earnings per share (€)	0.86	(3.48)	(4.92)	(1.51)

1 2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances;
2004 figures adjusted for amortisation of goodwill, restructuring costs, and allocation to special provisions for bad debts;
2003 figures adjusted for amortisation of goodwill, current income and expenses from norisbank, Bank von Ernst, Bankhaus Bethmann-Maffei, and the non-scheduled items defined in the consolidated financial statements for 2003;
2002 figures adjusted for amortisation of goodwill

HVB Group, including discontinued operations	2005	2004	2003	2002
Key indicators (%)				
Return on equity after taxes (adjusted)[1, 2]	10.2	3.9	2.1	(2.8)
Return on equity after taxes[1]	5.6	(19.3)	(19.7)	(5.4)
Cost-income ratio (based on operating revenues)	66.4	66.1	63.0	72.0
Balance sheet figures (€ billions)				
Total assets	493.7	467.4	479.5	535.8
Total volume of lending	332.6	324.6	338.3	375.8
Shareholders' equity	15.4	14.0	10.3	11.3
Key capital ratios compliant with BIS rules[3]				
Core capital (€ billions)	16.0	15.7	14.4	14.6
Risk assets (€ billions)	245.5	238.6	241.8	285.6
Core capital ratio (%)	6.5	6.6[4]	5.9	5.1
Share information				
Share price (€)				
Year-end (€)	25.61	16.70	17.62[5]	15.22
High (€)	26.85	21.13	19.26[5]	42.55
Low (€)	16.30	12.86	5.47[5]	11.75
Market capitalisation (€ billions)	19.2	12.5	9.8[6]	8.2
Employees	61,251	57,806	60,214	64,254
Branch offices	2,316	2,036	2,062	2,073

1 return on equity calculated on the basis of average IFRS equity capital
2 2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances;
2004 figures adjusted for amortisation of goodwill, restructuring costs, and allocation to special provisions for bad debts;
2003 figures adjusted for amortisation of goodwill, current income and expenses from norisbank, Bank von Ernst, Bankhaus Bethmann-Maffei, and the non-scheduled items defined in the consolidated financial statements for 2003;
2002 figures adjusted for amortisation of goodwill
3 as per approved financial statements
4 6.2% taking into account the effects of consolidation to be incorporated from the start of 2005
5 HVB share price adjusted for rights markdown
6 before capital increase

«A client started up an international business venture, but he was worried about how to manage all his banking activities from Italy. In just a couple of days, we had gotten in touch with our colleagues in Germany and Austria and we had set up what was needed. Professionalism and an international network are our values for business sustainability.»

Marco Scarrico
Italy

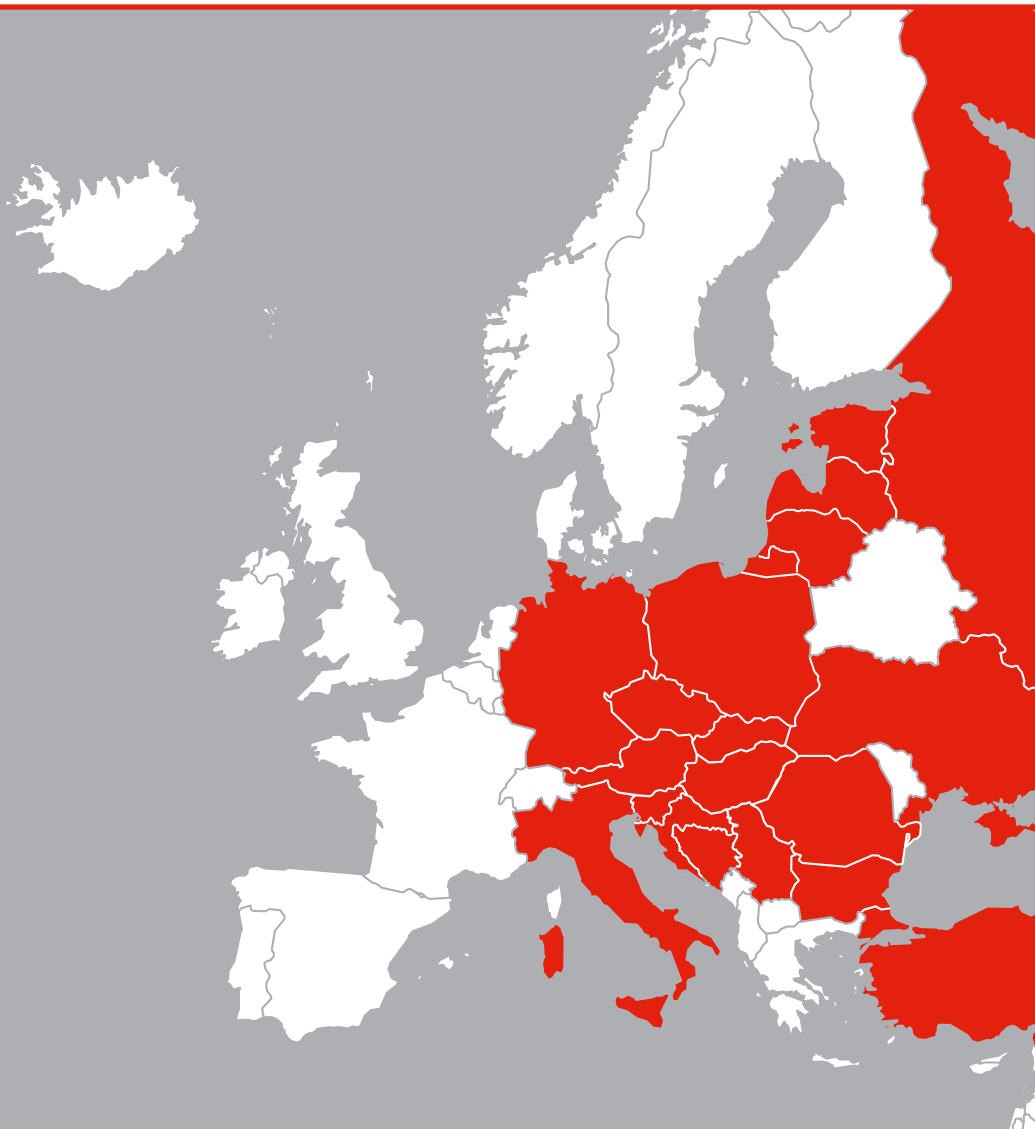
Annex: UniCredit Group Profile

UniCredit Group Profile

Highlights

UniCredit Group operates in 22 European countries, with more than 174,000 employees and over 10,200 branches.

UniCredit Group benefits from a strong European identity, extensive international presence and broad customer base. Its strategic position in Western and Eastern Europe allows it to have one of the region's highest market shares.



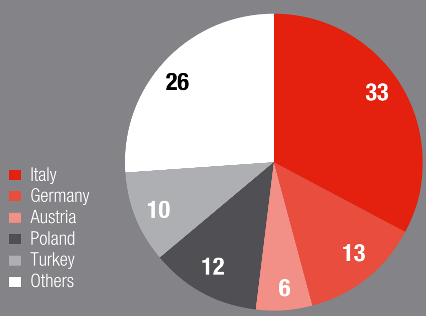
■ Countries where UniCredit Group has banking subsidiaries or banks in which it has a significant equity interest.

EMPLOYEES[1]

over 174,000

1 FTE = number of employees including delegation from, excluding delegation to and unpaid leaves. All the people are counted for the rate of presence (paid quota). This number includes Apprentices.

EMPLOYEES BY COUNTRY[1] (%)

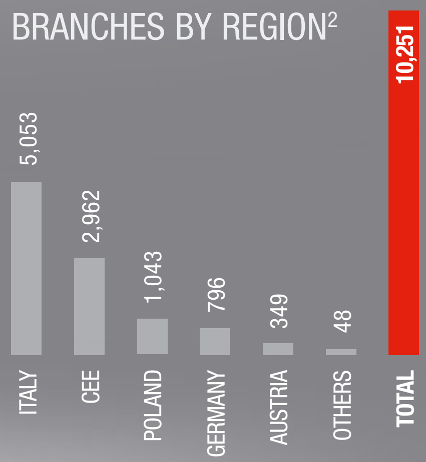


BRANCHES[2]

over 10,200

2 These figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services branches. The increase over 31 December 2007 is partly due to the inclusion of Ukrsotsbank (472 branches as at December 31, 2008).

BRANCHES BY REGION[2]

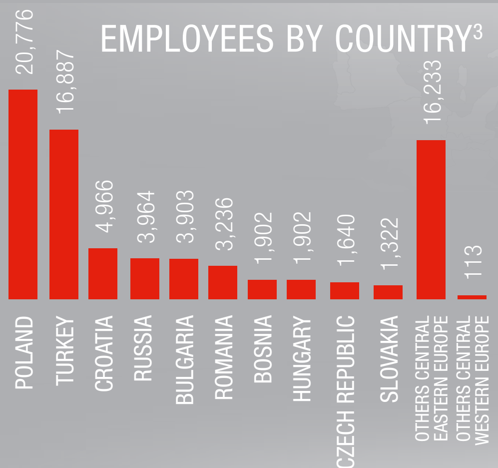


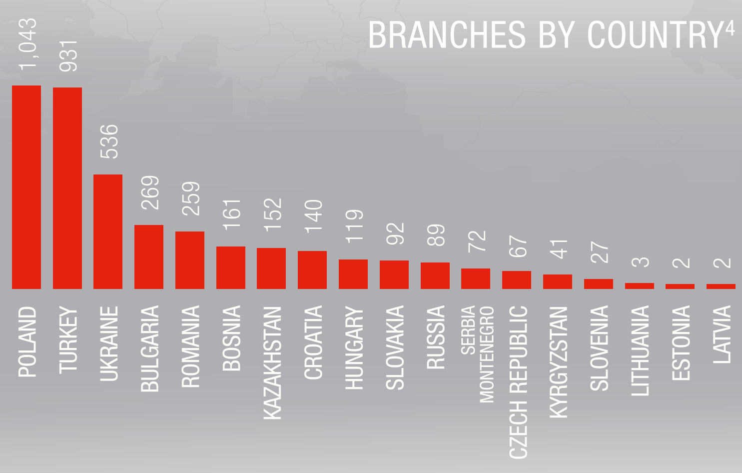
UniCredit Group Profile (Continued)

Focus on CEE

UniCredit Group is a market leader in Central and Eastern Europe. As long-term investor, its approach has always been the pursuit of growth through a well-articulated strategy, carefully executed that builds on the region's structural strengths.

Operating in 19 CEE countries, UniCredit Group benefits from geographical diversity and lends its strength to its local CEE banks in the form of substantial competitive advantages, which include its strong brand and reputation, its network's access to international markets and significant economies of scale.





Divisional Model

NETWORK MANAGEMENT

Retail Networks, Corporate Banking and Private Banking – in charge of customer coverage to maximise long-term value and customer satisfaction.

CENTRALISED PRODUCT FACTORIES/ KEY BUSINESS FUNCTIONS

Markets & Investment Banking, Asset Management, Leasing, Household Financing, Global Transaction Banking and Retail Marketing & Segments – as value added centres for all geographies.

Divisional Model

GLOBAL SERVICE FACTORIES

Back office, ICT, credit collection, procurement services and real estate – supplying network management divisions and product factories with specialised services.

MULTI-LOCAL APPROACH

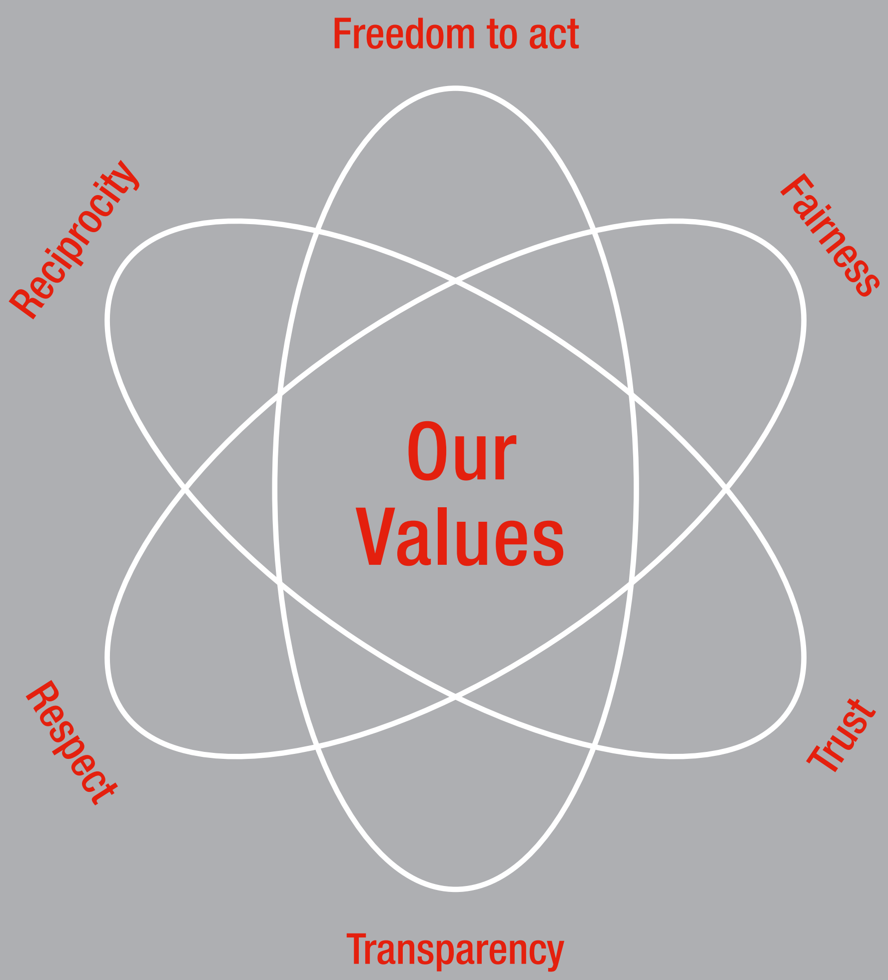
Empowering Group's local banks to oversee distribution network and customer relationships.

3 FTE = number of employees including delegation from, excluding delegation to and unpaid leaves. All the people are counted for the rate of presence (paid quota). This number includes Apprentices.

4 These figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

UniCredit Group Profile (Continued)

Our Values



For UniCredit Group, generating profit is an essential, but not sufficient, condition for success and growth over time. To ensure the sustainability of profits, the latter must be pursued with integrity, thereby building our reputation both internally and externally.

The Group created the Integrity Charter to reflect the shared Values that are the foundation of our identity. It is the guide for our day-to-day professional life and it sets forth our Values: **T**rust, **T**ransparency, **F**airness, **F**reedom to act, **R**espect and **R**eciprocity.

The Integrity Charter is the framework upon which our daily professional behaviours are based. It informs our actions when we are faced with both routine and unanticipated challenges at work and it helps us make consistent and responsible working decisions.

The Integrity Charter: the Foundation of Our Group's Identity

The Integrity Charter is a living document designed to evolve over time to be current with the ever-changing needs of the environment in which all UniCredit Group companies exist.

The creation of our integrity framework started in 2003, when we defined our core Values. In 2005, these Values were codified in the Integrity Charter, which was the year we first launched "**Integrity Charter Day**" in Italy. We have steadily extended this initiative, year by year, to include all of the countries and companies that comprise UniCredit Group. This annual event, devoted to our Values, provides a time each year to discuss "where we are" in our work to apply our Values to our professional life.

In 2006, in order to guarantee that Integrity Charter Values were properly applied among all colleagues in the Group, we established the **Restorative Justice System** and the Ombudsmen network. These two institutions commenced operations in 2007.

The Restorative Justice System is now operational in 15 countries and will be progressively extended across the entire Group.

All colleagues can consider the Restorative Justice System as a forum in which the dispute can be mediated through dialogue if relationships have been damaged by behaviour deemed inconsistent with the Values set out in the Integrity Charter. The Restorative Justice System is brought to life by a group-wide Ombudsmen network composed of Ombudsmen and Mediators.

The Ombudsmen are independent appointees who report directly to UniCredit Group's Chairman. The Mediators are third parties, external to UniCredit Group, who seek to facilitate dialogue between the involved parties.

The Restorative Justice System is testament to the fact that we strongly believe in the Integrity Charter and that we are committed to bringing our Values to life for each colleague in our Group.

Our Integrity Charter:

the Values that Drive our Business.

Mixed Sources
Product group from well-managed forests and other controlled sources
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UniCredit Group

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