HypoVereinsbank
UniCredit Group

UniCredit Bank AG 2009 Annual Report

Published by:
UniCredit Bank AG
Head Office
D-80311 Munich
www.hvb.de
Registrar of companies: Munich HRB 421 48
Layout: Mercurio S. r. L., Milan
Typesetting: Layoutsatz 2000 GmbH & Co. KG, Munich
Printed by: Mediahaus Biering
Print deadline: 22 March 2010
Publication date: 8 April 2010
Printed in Germany

Contents

Business Situation and Trends

Upon its entry in the Commercial Register on 15 December 2009, we changed our legal company name from Bayerische Hypo- und Vereinsbank Aktiengesellschaft to UniCredit Bank AG (referred to below as “HVB”).

Underlying conditions and general comments on the business situation

The financial crisis had a major knock-on effect on the global economy. For the first time since the Federal Republic of Germany was formed, a deep recession in industrialised nations and some emerging economies caused the global economy to decline by around 1% last year, with the US economy shrinking by 2.4%. The collapse in world trade, evidenced by a 10% decline since the insolvency of investment bank Lehman Brothers, finally came to a halt in spring of 2009. The main factor behind this was the decisive action taken by central banks in applying expansionary monetary policies, which increasingly stabilised the situation on the financial markets as the year wore on. The US Federal Reserve slashed its federal funds rate to a target range of 0.00% to 0.25%, while the ECB also cut its key interest rates to 1.0%. At the same time, numerous state stimulus packages also helped to greatly reduce economic uncertainty. Building on developments in Asia in general and China in particular, the global economy started to pick up pace again towards the end of the year.

The European economy contracted severely by some 4% in 2009. The main contributing factor in some countries, such as Spain and the UK, was the collapse in the property market. In other countries, notably Germany, the temporary collapse in world trade and global industrial demand left deep scars in the export sector. Exports picked up again as of spring 2009, driven by the fiscal packages coupled with effects of the inventory cycle caused by companies massively reducing their stocks during the recession. The German labour market has performed relatively well to date, with an expansion of short-time working schemes and a reduction in collectively agreed working hours making a substantial contribution to the fairly moderate rise in unemployment. Nevertheless, this has also caused a large decline in take-home pay. Germany slipped into a consumer recession following the end of the general economic recession in the second half of 2009, exacerbated by the expiry of the car scrappage scheme which had briefly driven up demand in the automotive industry at the start of 2009. Private consumption rose slightly over 2009 as a whole, climbing a projected 0.3% (forecast for 2010: minus 1.6%; euro zone: 0.0%).

As expected, the 2009 financial year was dominated by the financial crisis spreading to the real economy, and the stabilisation measures implemented by governments and central banks. The first quarter of 2009 was marked by anxious financial and capital markets, which was reflected in sharp losses on stock markets and extreme widening in spreads on credit markets. This trend reached its peak in March 2009. The fiscal stimulus packages implemented around the world coupled with state support measures for banks and the provision of liquidity by central banks finally helped to lift the mood. As a result, the situation on the equity and credit markets eased considerably later on in 2009.

The earnings position of banks provided a mixed picture for the 2009 financial year. The difficult economic environment together with the expectation of rising bankruptcies led to much higher risk provisioning rates in some cases, which individual banks succeeded in offsetting with rising earnings to a greater or lesser extent. In terms of operating income, the very strong recovery in net trading income helped in part to boost earnings following the impact of the previous year. Moreover, the sales volume from the placement of corporate and government bonds picked up again, leading to higher operating income. In addition, banks benefited from the increased provision of liquidity and beneficial funding terms by central banks. Risk-weighted assets were reduced and equity capital reinforced in preparation for the higher capitalisation requirements in the future.

In this generally difficult but unexpectedly improved situation on the capital markets compared with the previous year, HVB generated a strong operating profit of €2,401 million in the 2009 financial year. This represents a sharp increase of €4.4 billion over the previous year figure (loss of €2 billion), which was heavily impacted by the financial crisis. This sharp rise was primarily generated by the strong recovery of net income from financial operations, which rose by almost €4.4 billion compared with the heavy losses in 2008. Hence, we managed to surpass the targets named in the Management Report of the 2008 Annual Report. The cost-income ratio (ratio of operating costs to total operating revenues) improved by 66.8 percentage points to the excellent figure of 52.6%. Provisions for losses on loans and receivables, which benefited in 2008 from the success in reducing the special portfolios allocated to the Other segment, remained within the range forecasted.

HVB was able to continue to improve its excellent capital base during the year under review. Therefore, the shareholders' equity shown in the balance sheet rose by €1.6 billion, to €21.0 billion, compared to year-end 2008. With a significant reduction in risk-weighted assets at the end of December 2009 compared to the end of 2008, the core capital ratio (Tier 1 ratio) in accordance with Basel II rose to 18.2%, after 14.3% at year-end 2008, which is an excellent level by both national and international standards.

After the global financial crisis weakened in the course of 2009, an easing in the liquidity situation became increasingly apparent. In this environment, the liquidity of HVB remained at an adequate level at all times, including in the period under review. The funding risk remained low on account of the broad funding base in terms of products, markets and investor groups, meaning that adequate funding of our lending operations was ensured at all times. The longer-term funding of our lending operations developed well. Even in the financial crisis, funding instruments, such as our Pfandbriefs, continued to represent important sources of funding, thanks to their outstanding credit rating and liquidity whilst funding via private placements also developed well. At 1.43, the liquidity ratio of HVB compliant with Section 11 of the German Banking Act (Kreditwesengesetz, KWG) at 31 December 2009 was much higher than the figure at year-end 2008 (1.19).

With our diversified business model, high capital base, solid funding foundation and a good market position in our core business areas, we remain a reliable partner for our customers and investors. As an integral part of one of the biggest and strongest banking groups in Europe – UniCredit Group – HVB is in an excellent position to leverage its regional strengths in the international network of UniCredit Group for the benefit of its customers.

Business Situation and Trends (Continued)

Operating performance

In the year under review, the excellent profit before tax of €1,957 million was primarily shaped by the improvement in net income from financial operations as a result of the easing up on money and capital markets.

Net interest income

Net interest income improved year-on-year, growing 4.7%, or €216 million, to €4,832 million.

The rise in net interest income results primarily from interest-earning operations, with interest expense decreasing more strongly than interest income mainly on account of lower interest rates. At the same time, income from shares in affiliated companies rose by €180 million. In contrast, there was a significant decline in current income from equity securities and other variable-yield securities (down €406 million), which is primarily attributable to lower income from securities held for trading purposes, while the current income from participating interests fell sharply due to the substantial decline in dividends paid by private equity funds.

Net fees and commissions

The development of net fees and commissions reflects the persistently difficult environment and, in particular, the related restraint exercised by investors. At €1,095 million, net fees and commissions of HVB in the year under review are €115 million lower than the pleasing result recorded in the previous year (€1,210 million). For the most part, this development is due to the substantial decline in net fees and commissions in the securities and depositary business. At the same time, the sales and revenue-dependent commission for shares and investment funds fell significantly; however, commissions generated from fixed-income securities increased due to our customers' more conservative investment behaviour. In addition, there was a decline in income from brokerage activities, such as for real estate funds and insurance.

Net income from financial operations

The net income from financial operations of HVB in the 2009 financial year amounts to €1,209 million after a loss of €3,149 million was reported in the previous year due to the extreme turmoil on money and capital markets.

2009 income statement and important events in the 2009 financial year

	2009	2008	CHANGE	
INCOME STATEMENT	€ millions	€ millions	€ millions	in %
Net interest income	4,832	4,616	216	4.7
Net fees and commissions	1,095	1,210	(115)	(9.5)
Net income from financial operations	1,209	(3,149)	4,358	
General administrative expenses	(3,841)	(3,271)	(570)	17.4
Payroll costs	(2,264)	(1,734)	(530)	30.6
Other administrative expenses[1]	(1,577)	(1,537)	(40)	2.6
Other operating income less other operating expenses	164	62	102	> 100.0
Operating result before provisions for losses on loans and receivables	**3,459**	**(532)**	**3,991**	
Provisions for losses on loans and receivables	(1,058)	(1,468)	410	(27.9)
Operating result	**2,401**	**(2,000)**	**4,401**	
Other income less other expenses	(444)	(181)	(263)	>(100.0)
Profit/(Loss) before tax	**1,957**	**(2,181)**	**4,138**	
Taxes	(324)	(170)	(154)	90.6
Net income/(Loss)	**1,633**	**(2,351)**	**3,984**	
Withdrawal from/transfer to reserve for own shares	3	(3)	6	
Withdrawal from other retained earnings	—	2,354	(2,354)	(100.0)
Transfer to other retained earnings	(3)	—	(3)	
Profit available for distribution	**1,633**	**—**	**1,633**	

1 including standard depreciation on property, plant and equipment

Besides the recovery in the entire capital market, the very good result in the year under review can largely be attributed to the substantial increases in the Fixed Income (fixed-income and foreign-exchange products) and Equities (equity and index products) units and, in particular, the Credit Markets (credit-related products and credit derivatives) and Capital Markets (IPOs, capital increases, bonds) units.

General administrative expenses
Compared with 2008, general administrative expenses increased by €570 million, to €3,841 million. This sharp rise is mainly due to the payroll costs, which were up by €530 million over the previous year. This is primarily attributable to additions to pension provisions (in connection with the transfer of assets and obligations from HVB to HVB Trust Pensionsfonds AG) and to severance pay resulting from restructuring measures. At the same time, contributions to the pension guarantee association increased. These effects were only able to be partially offset by the reduction in headcount and the related decrease in wages and salaries. One of the reasons for the lower number of personnel is the use of outsourcing measures, which resulted in higher operating expenditures under other administrative expenses.

Other administrative expenses, including standard depreciation on property, plant and equipment, rose year-on-year by €40 million (+2.6%). This includes both cost increases due to outsourcing activities, which led to a shift from payroll costs to administrative expenses and higher contributions to the guarantee schemes of German banks. Due to our strict cost management, the rise in other administrative expenses has nevertheless turned out to be very moderate.

Other operating income less other operating expenses
Net income of €164 million accrued for other operating income less other operating expenses in 2009 (2008: €62 million). This rise is primarily attributable to the reversal of provisions.

Operating result before provisions for losses on loans and receivables
Due to the very favourable development in net income from financial operations, for which a heavy loss was posted in the previous year on account of the financial crisis, the operating profit rose sharply by €4,561 million, to €7,300 million, compared with the previous year. This caused an improvement of €3,991 million in the operating result before provisions for losses on loans and receivables to €3,459 million (2008: a loss of €532 million) despite the non-recurrent expenses contained in the general administrative expenses.

Provisions for losses on loans and receivables
The cost of provisions for losses on loans and receivables, including the net income from securities held for liquidity purposes, amounts to €1,058 million and is thus €410 million lower than the 2008 figure. At the same time, the charges arising from lending operations were up by €463 million, to €1,222 million, due to the significantly deteriorating credit situation despite the reversal of general loan-loss provisions of €198 million. A profit of €164 million was generated from securities held for liquidity purposes, which is mainly attributable to disposals in connection with the transfer of assets to HVB Trust Pensionsfonds AG. In 2008, a loss of €709 million was reported for securities held for liquidity purposes, notably on account of write-downs on our holdings of fixed-income securities as a result of the financial crisis.

Other income less other expenses
The net expense of €444 million includes expenses of €223 million in losses absorbed from subsidiaries, €61 million in write-downs and impairments in participating interests and shares in affiliated companies, €212 million in impairments on private equity companies and €103 million in gains on disposals of our holdings.

Profit before tax
The profit before tax of €1,957 million is particularly shaped by the strong recovery on capital markets and the related improvement in net income from financial operations. In contrast, the previous year's result (a loss of €2,181 million) was still severely impacted by the net loss from financial operations caused by the financial crisis in particular.

Business Situation and Trends (Continued)

Taxes
The expense for taxes on income stands at €322 million (2008: an expense of €149 million). Other taxes amount to €2 million.

Net income for the year and appropriation of net income
Net income totalled €1,633 million (2008: loss after tax of €2,351 million), which also represents the profit available for distribution. At the Annual General Meeting of Shareholders, we will propose that a dividend of €1,633 million be paid to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €2.03 per share of common stock and per share of preferred stock, an advance dividend of €0.064 per share of preferred stock and a retroactive payment on the advance share of profits of €0.064 per share of preferred stock for 2008.

Balance sheet
HVB's total assets amounted to €309.1 billion at 31 December 2009. Compared with the 2008 year-end total, this represents a significant decline of €64.4 billion, or 17.2%, which is primarily attributable to deleveraging measures, such as specific measures taken to reduce trading positions.

On the assets side, loans and receivables with banks declined by €12.3 billion, which is largely attributable to time deposits (down €4.6 billion) and securities repurchase agreements (down €4.9 billion). Among other things, the decline in loans and receivables with customers of €24.9 billion is due to fewer mortgage loans (down €8.1 billion), time deposits (down €4.2 billion) and also to securities repurchase agreements (down €6.1 billion). The reason for the decrease of €22.8 billion in bonds and other fixed-income securities was chiefly the specific reduction of trading positions. In addition, equity securities and other variable-yield securities fell by €2.6 billion and other assets by €2.7 billion on account of lower premiums paid on options pending. In contrast, balances with central banks rose by €1.1 billion.

On the liabilities side, deposits from banks fell a substantial €35.5 billion, which is almost exclusively due to time deposits (down €26.9 billion) and securities repurchase agreements (down €12.0 billion).

Deposits from customers also dropped significantly by €29.8 billion, to €124.6 billion, mainly as a result of the decrease in time deposits (down €12.3 billion) and securities repurchase agreements (down €11.3 billion), whereas savings deposits rose slightly.

At 31 December 2009, shareholders' equity had increased by €1.6 billion, to €21.0 billion, compared with the previous year. This growth is completely due to the net income for the year. The capital reserve and the retained earnings remain unchanged.

Risk-weighted assets compliant with Basel II totalled €93.9 billion at 31 December 2009 (31 December 2008: €114.1 billion). The risk equivalent amounts to €3.9 billion for the market risk, and €5.8 billion for the operational risks. Total risk-weighted assets stood at €103.6 billion at 31 December 2009, after €133.5 billion at year-end 2008.

At 31 December 2009, our core capital for solvency purposes (compliant with the German Banking Act, KWG) totalled €18.9 billion according to the approved financial statements. Equity funds, which consist of core capital and supplementary capital for solvency purposes, amount to €23.5 billion. This gives rise to a core capital ratio of 20.1% compliant with Basel II (including market risk and operational risk), and an equity funds ratio of 25.0% compliant with Basel II.

A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 of the German Banking Act (KWG). This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if the ratio is at least 1.00. At HVB, this figure rose to 1.43 at the end of December 2009, after 1.19 at year-end 2008 and 1.38 at the end of September 2009.

Offices

HVB maintained 618 bank offices in Germany and 27 offices abroad in the 2009 financial year.

Offices, broken down by region

		ADDITIONS	REDUCTIONS		
	2008	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	2009
Germany					
Baden-Wuerttemberg	25	—	—	—	25
Bavaria	371	—	(1)	—	370
Berlin	9	—	—	—	9
Brandenburg	8	—	—	—	8
Bremen	—	—	—	—	—
Hamburg	27	—	—	(3)	24
Hesse	14	—	(2)	(1)	11
Lower Saxony	25	—	—	—	25
Mecklenburg-Western Pomerania	8	—	—	—	8
North Rhine-Westphalia	17	—	—	—	17
Rhineland-Palatinate	22	—	—	—	22
Saarland	9	—	—	—	9
Saxony	11	—	—	—	11
Saxony-Anhalt	12	—	(1)	—	11
Schleswig-Holstein	62	—	(3)	—	59
Thuringia	9	—	—	—	9
Subtotal	**629**	**—**	**(7)**	**(4)**	**618**
Other regions					
Europe	11	—	(2)	—	9
Americas	6	—	—	—	6
Asia	10	1	—	—	11
Africa	1	—	—	—	1
Australia	—	—	—	—	—
Subtotal	**28**	**1**	**(2)**	**—**	**27**
Total	**657**	**1**	**(9)**	**(4)**	**645**

Structure and business operations

Legal structure

HVB was formed in 1998 through the merger of Bayerische Vereinsbank Aktiengesellschaft and Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft. It is the parent company of HVB Group, which is headquartered in Munich. HVB has been an affiliated company of UniCredit S.p.A. (UniCredit), Rome, Italy, since November 2005.

Since registering the transfer of the shares held by minority shareholders of UniCredit Bank AG to UniCredit S.p.A., as adopted at the Annual General Meeting of Shareholders in June 2007, in the Commercial Register maintained by Munich Local Court compliant with Section 327a of the German Stock Corporation Act (Aktiengesetz, AktG), 100% of the capital stock of UniCredit Bank AG, Munich, has been held by the majority shareholder, UniCredit S.p.A. Thus, trading in HVB shares has officially ceased. HVB does, however, remain listed on securities exchanges as an issuer of debt instruments such as Pfandbriefs, bonds and certificates.

The Management Board and Supervisory Board proposed to the Annual General Meeting that the company name entered in the Commercial Register be changed from Bayerische Hypo- und Vereinsbank Aktiengesellschaft to UniCredit Bank AG. The Extraordinary Shareholders' Meeting of HVB on 30 September 2009 passed a resolution to amend the Articles of Association required to do this. The change in the company name became effective once it was entered in the Commercial Register on 15 December 2009.

Business Situation and Trends (Continued)

Business segments

As part of the measures for the strategic reorientation of the former Markets & Investment Banking and Corporates & Commercial Real Estate Financing divisions, these divisions were merged for the first time in the third quarter of 2009 to form the new Corporate & Investment Banking division. Consequently, HVB now consists of the following divisions: Corporate & Investment Banking, Retail, and Wealth Management. Also shown is a segment called "Other" that covers Global Business Services and Group Corporate Centre activities. Global Banking Services also includes the Special Credit Portfolio defined in 2006, including the residual holdings from the Real Estate Restructuring customer portfolio.

Main products, sales markets, competitive position and facilities

HVB 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 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 has a well-developed network of branches in Germany via which it serves its customers. The Bank is traditionally particularly strong in Bavaria and northern Germany with market shares of around 15% in Bavaria and around 10% in Hamburg and Lower Saxony.

HVB is well positioned in the highly sophisticated German banking market, benefiting from the diversified total revenues of the Corporate & Investment Banking, Retail and Wealth Management divisions.

In the 2009 financial year, we adjusted our business model, in particular in the Corporates & Commercial Real Estate Financing and Markets & Investment Banking divisions to cater to changes in the market. Therefore, we launched the new Corporate & Investment Banking division by merging the former Corporates & Commercial Real Estate Financing division with the Markets & Investment Banking division. The new division focuses more strongly on customers in all business sectors and their different requirements, and greater emphasis is placed on the customer relationship overall.

In corporate banking, we have always had 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 combined with direct access to the capital market. Thus, the future of investment banking is closely related to corporate banking. As a fundamental reorientation is underway in investment banking as a result of the financial and economic crisis, we have defined measures to focus our new business model on the core markets of Germany, Italy and Austria with customer-oriented products and to selectively serve other markets. Among other things, we will gradually discontinue proprietary trading and concentrate even more strongly on our customers in the core countries of UniCredit Group in which large customers of UniCredit Group and HVB are given the best possible service. This model is indispensable also in order to meet customer requirements for the investment products offered by modern wealth management and retail operations.

The personalised relationship model that we have branded as Wealth Management is aimed at the wealthiest private customers who have been doing business with the Bank for many years. The concept combines the expertise available at HVB with the expertise and international branding of one of the leading private banking institutions in Europe. Based on a clear strategic orientation with a focus on the most attractive private-banking customer segments and a customer-centric, all-round, personalised relationship model, HVB has succeeded in expanding its position among the leading private-banking players in Germany.

HVB 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 international 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 strategic assets resulting from our integration into UniCredit Group. 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 by region is shown in the section entitled "Offices" in the Management Report.

Organisation of management and control, and internal management

The Management Board of HVB is directly responsible for managing the Bank. It develops the strategic orientation of the Bank 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 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 match the organisational structure of the Bank, which is divided into customer groups (business divisions) and functions. In addition to the Board Spokesman, the Management Board also consists of the heads of the Retail, Wealth Management and Corporate & Investment Banking divisions as well as the Chief Financial Officer, the Chief Risk Officer and the Board member in charge of Human Resources Management and Global Banking Services. Based on a resolution adopted at the meeting of HVB's Supervisory Board on 19 May 2009, Peter Buschbeck was appointed to the Management Board of HVB with effect from 1 August 2009. Mr Buschbeck is responsible for the Retail division on the Management Board. His predecessor, Willibald Cernko, resigned from the Management Board of HVB on 30 September 2009 and was appointed Chairman of the Management Board of Bank Austria from 1 October 2009. As announced by the Management Board of HVB on 5 June 2009, Henning Giesecke left the Bank with effect from 31 July 2009. The Supervisory Board appointed Andrea Varese as his successor as Chief Risk Officer with effect from 1 August 2009 at its meeting held on 30 July 2009.

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, including the risk situation as well as compliance issues.

The Supervisory Board of the Bank 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 include appointing and dismissing members of the Management Board and specifying the total compensation of the individual members of the Management Board. In addition, certain types of transactions may only be conducted with the approval of the Supervisory Board by law or because the Supervisory Board has made these subject to its approval. 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. With effect from the end of the Extraordinary Shareholders' Meeting on 5 February 2009, three shareholder representatives resigned from the Supervisory Board; three new shareholder representatives were elected to the Supervisory Board in their place for the remaining terms of offices. Sergio Ermotti, Deputy CEO of UniCredit Group, was elected the new Chairman of the Supervisory Board of HVB at the subsequent meeting of the Bank's Supervisory Board on 5 February 2009. He thus succeeds Alessandro Profumo, CEO of UniCredit Group, at the top of the Supervisory Board as Chairman. Dr Wolfgang Sprissler, former Board Spokesman of HVB, was appointed to the Supervisory Board by the Extraordinary Shareholders'

Business Situation and Trends (Continued)

Meeting on 5 February 2009 and elected an additional Deputy Chairman by the Supervisory Board. Ranieri de Marchis resigned from the Supervisory Board on 23 July 2009. The Extraordinary Shareholders' Meeting on 1 July 2009 appointed Marina Natale to the Supervisory Board for the remaining term of office.

HVB comprehensively conducts risk management which covers, in particular, strategies, risk-taking capacity, risk management and risk controlling processes and takes account of the main risks. The Chief Risk Officer, who reports to the Audit Committee of the Supervisory Board on a regular basis, is responsible for monitoring and coordinating the main risk-policy activities. Please see 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 is given in the section entitled "List of Executives and Outside Directorships" in the notes to the annual financial statements.

HVB'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.

Relations with related parties

We have prepared a separate report on our relationships with related parties in the 2009 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act (AktG):

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

Events after 31 December 2009

The Supervisory Board of HVB approved the acquisition of essential parts of the markets and investment banking operations of Bank Austria/CAIB including the markets activities of Bank Austria and its CAIB UK brokerage subsidiary headquartered in London. In return, HVB is paying a purchase price of €1.24 billion plus the overcapitalisation kept on the books based on an independent opinion of the value drawn up by an external expert.

The acquisition of CAIB AG and the subsequent integration of its business operations will create further potential for growth, profitability and enhancement of the operating efficiency of HVB. In addition, risk management and controlling will be optimised. Overall, the transaction offers the Bank and its customers a better starting position to respond swiftly and more efficiently to changes in the market. The transaction is subject to the required regulatory approvals and is planned to be executed on 1 June 2010.

Outlook

The Management Report and the rest of the Annual Report include statements, expectations and forecasts concerning the future. These statements are based on plans and estimates that are supported by the information 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 2010

We expect the global economy to expand by 3.5% in 2010, with the United States growing by 2.5% and the euro zone by just 0.9%. Inflation rose again across the globe at the turn of the year. This resulted from a rebound in oil prices to over $70 per barrel (forecast for year-end 2010: $90 per barrel). In general, though, price rises remain very subdued.

Nonetheless, the exporting industry in the euro zone could benefit from a weaker exchange rate this year. After the euro had appreciated hugely against the US dollar in 2009, the weak growth outlook for peripheral countries in the euro zone in particular served to depress the exchange rate from over $1.50 to about $1.35. We expect the euro to strengthen slightly, to $1.38, through to the end of 2010. Separately from this, the very high levels of both private and public debt, and the associated major need for consolidation, are likely to slow economic expansion over the coming years.

The corporate mood in Germany has lightened again at the start of 2010. The Ifo Business Climate Index rose sharply to 95.8 points at the beginning of the year, after falling to as low as 82.2 points in the wake of the economic crisis. This can be viewed as clear evidence that the global economic recovery is not likely to come to a premature end. Important factors temporarily lifting the pace of economic expansion – the effect of the inventory cycle and the fiscal stimulus – will decline, causing the recovery to slacken again as the year wears on. Besides decreasing export growth, economic performance will also be depressed by a weaker domestic economy in 2010.

Capital spending on equipment is only expected to increase by a moderate 1% in Germany in 2010, following a fall of 20% in 2009, and to decline by a further 1.5% in the euro zone as a whole. High unit labour costs will continue to put pressure on the labour market in Germany, probably causing unemployment to rise again sharply during the course of the year (forecast for 2010: 8.9%). We expect German GDP to increase by 1.7% this year – driven by greater demand for exports (forecast for 2010: plus 8% after minus 14% in 2009) – following a contraction of 5.0% in 2009.

The high level of liquidity currently available on the market as a result of the expansionary monetary policies applied by central banks is not considered likely to stoke inflation at the present time. The US Federal Reserve is expected to raise its federal funds rate by 1 percentage point to 1.25% by the end of the year. At the same time, we assume that the ECB will not raise interest rates before the end of 2010. We expect inflation to average just under 1% in Germany in 2010, following on from 0.3% in the past year. The central banks will only gradually return to a more restrictive monetary policy so as not to jeopardise the incipient recovery that is surrounded by so much uncertainty nor trigger new turmoil on the financial markets.

Sector development 2010

The economic recovery that set in during the second half of 2009 is expected to continue through the current year, although at a slower pace. Unemployment rates are set to rise sharply, public finances to deteriorate, and the number of defaults at US banks to increase. Moreover, financial institutions will be affected by weak performance in key sectors, such as the automotive industry and commercial property. The banks will continue to face challenges, such as risk provisioning rates that remain persistently high overall, declining central bank liquidity and a flatter yield curve.

One of the key questions will concern the shape of future relations between the financial world and the real economy, and the likely regulatory, political and social restrictions which might have unexpected consequences when aggregated across the globe. It remains to be seen how well the financial sector will succeed in coming to terms with the new realities, not least because of the complex contours of a new international financial and economic system currently in flux at many levels.

Development of HVB

HVB expects that the unexpectedly strong economic recovery in 2009 will not recur with the same intensity in the 2010 financial year. Generally, economic conditions will continue to be difficult both in Germany and worldwide and marked by considerable uncertainty.

Business Situation and Trends (Continued)

Hence, the financial sector will continue to face major challenges in the 2010 financial year. Against this backdrop and on the basis of our plans for the 2010 financial year, based mainly on the statements made above under the general economic outlook for 2010, we anticipate that the total revenues of HVB will largely stabilise at the level of the year under review. Adjusted for inflation, total operating costs will probably remain almost unchanged compared with last year. Apart from the change in total revenues – and particularly net income from financial operations – the development of provisions for losses on loans and receivables will be the main factor influencing the earnings situation. At present, we assume that provisions for losses on loans and receivables in the 2010 financial year, adjusted for the non-recurring effects from the reversal of general loan-loss provisions in 2009, will not significantly exceed the level in 2009 despite our expectation that the difficult credit situation will persist.

It remains unclear, however, whether the current economic programmes will prove to be effective and the financial markets will continue to return to normal. Consequently, our performance in the 2010 financial year also remains dependent on the further development of the real economy and on financial markets. With its good strategic orientation and excellent capital resources, HVB is in a good overall position to effectively exploit the opportunities that may arise from further volatility that can be expected on the financial markets and from a slow recovery in the real economy.

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

HVB is an important part of one of the largest, top-performing and strategically well-positioned banking groups in Europe: UniCredit Group. It is one of the largest financial institutions in Germany and has core competence within UniCredit Group for all of the customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of the entire UniCredit Group. HVB operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Hence, HVB, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers. With its well-balanced business model focusing on sustainability and its excellent capital base, HVB stands for reliability, stability and safety and can fully leverage the opportunities that arise from this network:

– Proactively exploiting opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany.
– Leveraging the advantage from the strong capital base and liquidity to swiftly and flexibly respond to expansion opportunities arising on the market. HVB is already well equipped for any tightening of regulatory requirements and will be able to actively operate in the market even in that kind of scenario. In addition, any arising market opportunities can be exploited, such as the buy-back of hybrid capital instruments which has already been carried out successfully.

– Continuing to build up the Corporate & Investment Banking division into a leading integrated European corporate and investment bank that focuses all its activities on customers rather than on specific customer relationship models. An integrated value added chain consisting of network and product specialists is the strategy pursued in this connection in order to offer top quality advisory services based on a creative, solution-based approach. In this positioning, our investment banking operations will also be well equipped to tap further earnings potential and benefit from a sustained and long-term customer relationship.
– Good positioning in the affluent retail business with a 6% market share for HVB Group will enable further growth. More new customers can be won in this business in the new financial year.
– Exploiting further cross-selling potential in all customer groups and the opportunities to support customers demanding cross-border financial services in other core markets of UniCredit Group as well as further improving total revenues by creating and using new products for all customer segments through product factories with tailored solutions. With our programme One4C, which provides for a resegmentation of our small and mid-sized corporate customers and affluent private customers, we are aiming at a consistent orientation of the Bank to a sustainable customer business model, using it to achieve even closer and more targeted relationship management for the benefit of customers.
– Generating further earnings potential in the lending business is just one of the focuses of new business activities whilst retaining consistent risk management and risk-adjusted pricing.
– Further optimising operating costs: by applying strict cost management in Germany, which includes the realisation of synergies by optimising all production capacity, the rationalisation of overlapping functions and the optimisation of process flows; and by boosting efficiency by centralising IT functions, which includes rolling out a standard core banking system across the entire UniCredit Group. In particular, we benefit from the organisation of HVB which fits seamlessly into the structure of UniCredit Group. This enables us to benefit from best-practice solutions throughout the Group without delay.
– Exploiting opportunities as an attractive employer for employees and managers. Both the size of UniCredit Group and the strategic positioning of HVB have a beneficial impact on the recruitment of managers and employees. Supporting female managers at junior level is an explicit part of the strategy.

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

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

Risk Report

HVB as a risk-taking 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 as part of 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.

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

1 Risk management

For risk management purposes, the Bank defines its overall risk strategy at the level of HVB Group and its divisional risk strategies at the level of the divisions. Starting from this, the available capital cushion is used to assess the risk-taking capacity on the basis of the business plans.

The individual divisions are responsible for implementing the risk strategies defined for them within HVB Group through the targeted and controlled assumption of risk positions. In doing so, they check that the risks they assume are worthwhile taking risk/return considerations into account.

In addition, limits are applied to ensure that the available regulatory capital and risk-taking capacity are not exceeded.

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 allocated limits, the subsequent risk control process involves risk reporting. This in turn provides management with information relevant to decision-making processes.

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 risk management functions within the framework of competencies defined by the HVB Management Board. Important bodies operating at the over-all bank level are the Risk Committee (known as the Strategic Credit Committee until the end of 2008) and the Asset Liability Committee.

Risk Committee (RC)

With the exception of liquidity risk, strategic and fundamental issues related to all risk categories are discussed and decided on by the Risk Committee (RC) in its capacity as a management and decision-making body with responsibility for all areas. The role of the RC 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 RC are primarily:
- credit policies and other risk policies (for instance reputational risk)
- the risk strategy of HVB Group and division-related risk strategies
- credit portfolio reviews and measures
- reports on market and operational risk
- specification of risk tolerance
- risk classification processes (including validation reports)
- credit organisation principles and risk-related aspects with regard to process/processing standards in the credit business
- major changes or updates of the product range in the lending business
- the amount of risk premiums (transfer prices)
- country limits.

The RC is chaired by the Chief Risk Officer (CRO) and has representatives from all the divisions and, from the back-office side, Market Risk Control, Strategic Risk Management & Control, MIB Credit Operations, Recovery Management, Corporate Customers and Wealth Management Lending, and Retail Lending.

The Asset Liability Committee

The Asset Liability Committee makes decisions at its monthly meetings on asset/liability management of HVB 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 the resources of liquidity and capital
– coordination between the requirements of the divisions for financial resources and the business strategy.

Risk monitoring

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

Audit Committee of the Supervisory Board

In 2009, the Management Board provided the Audit Committee of the Supervisory Board with information on the risk situation and risk management of the Bank at five meetings. The Supervisory Board received timely, detailed reports of relevant risks to the Bank and on the performance of the loan portfolios and risk strategies.

To monitor the effectiveness of the internal control system and risk management system, the Audit Committee also examined these systems and the planned improvement measures in detail at one of its meetings on the basis of documents and verbal explanations from the Management Board.

Chief Risk Officer (CRO)

The organisational structure of the Chief Risk Officer (CRO) also made it possible to achieve further increases in efficiency in 2009. After the final processing of the true sales transactions signed in the previous years, the Portfolio Analysis and Transactions (SCA) unit was dissolved and the remaining after-sales management activities were transferred to the Workout department. At the end of 2009 the CRO was responsible for the departments listed below. The departments listed perform tasks for both HVB Group and HVB:

– Strategic Risk Management and Control includes operational and strategic risk-control units strongly focused on credit risk. The main tasks related to credit risk are the review and implementation of risk policies (general and special credit policies and risk policies), the design of credit approval processes, the methods and instruments for rating/scoring, risk measurement, early identification of risk, and the control 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 internal capital. The unit also creates the common risk strategy that encompasses all risk types, and monitors the Bank's risk-taking capacity. In addition to identifying, measuring and limiting risk, it also focuses on the assessment of future market trends and risks, and the possible courses of action resulting from these assessments.

– Market Risk Control is concerned with market risk as well as issuer and counterparty risk in HVB. 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 CRO, 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 making lending decisions for exposures from the assigned industry segments and presenting them to both the Credit Committee and industry-oriented risk management. These risk-management signals are a part of the risk strategy for corporate banking activities. Similarly, regional teams in Asia and the Americas have been part of SRM since the end of 2008. Other important areas of responsibility include specialised business analysis of corporate customers, staff training in credit-related topics, and industry analysis/ratings. The approval process in the senior risk manager organisation was simplified by introducing six global industry team leaders at the UniCredit Group level and regional industry team leaders at the HVB Group level as of November 2008. The same applies for CRM with regard to the corresponding global transaction team leaders at the UniCredit Group level.

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-taking lending business for customer segments covering small and mid-sized companies and wealthy retail customers. In particular, the core tasks of these units consist of a 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 the ongoing monitoring of 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.

– Unless the approval authority rests with the front office (Retail), the Retail Lending unit of the CRO Back Office department makes lending decisions and handles the processing of lending business for the Retail division. Regional credit teams are allowed to prepare credit requests and make lending decisions for credit exposures up to an approval limit of €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, evaluating 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 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 Leveraged Finance, Project Finance, and Collateral Management. Along with the approval of credit requests and/or the preparation of lending decisions for the approval authorities, this includes such tasks as the ongoing monitoring of individual loans and portfolios. Credit risk strategies and policies for this part of our lending portfolio are defined in close cooperation with the other areas. In addition, the Financial Institutions/Banks credit units in Singapore, Tokyo and New York, and the Structured Finance – Special Products credit unit in New York were closed in 2009 and their credit exposures were transferred to Munich and London.

– 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 designed to ensure 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 the best-possible terms during the workout phase.

Chief Financial Officer

An area in the Chief Financial Officer organisation that plays a major role in risk monitoring is the Asset Liability Management department, which is described in this section. Other such areas are the Finance department and the Planning and Controlling department, which are described in detail in the next section, “Essential characteristics of the internal control and risk management systems with regard to the financial reporting process”.

Asset Liability Management

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

Internal Audit department

The Internal Audit department is a process-independent instrument of the Management Board and is required to report directly to it. According to its internal regulations, the Management Board bears the overall responsibility for setting up the Internal Audit department and ensuring that it functions properly. In 2009, operational responsibility for the audit function was assigned to the Board spokesman.

The Internal Audit department is responsible for auditing and assessing all the Bank's operational and business processes, including its branches and offices. For this purpose, a risk-based selection of individual operational and business processes is carried out in order to set scheduling priorities. The Minimum Requirements for Risk Management (MaRisk) stipulate that all operational and business processes must be audited at least every three years, if deemed useful and appropriate. In the case of activities and processes deemed to be of lower priority in terms of risk considerations, it is permissible to deviate from the three-year interval. Operational and business processes subject to especially high levels of risk are audited at least once a year. If the need arises or if instructed to do so, the Internal Audit department also takes action in various subsidiaries.

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

While the units subject to auditing activities and the responsible Management Board members are kept informed by having the audit reports forwarded to them, the Management Board as a whole is provided with an annual report which includes a comprehensive overview of audit results as well as major deficiencies, severe deficiencies and particularly severe deficiencies as defined in the Minimum Requirements for Risk Management (MaRisk), including the critical findings as defined in the Group audit policies, the measures taken, and their current status. In addition, the Audit Committee of the Supervisory Board reports on current trends and results in auditing activities on behalf of the responsible Management Board member during its regular meetings with the head of the Internal Audit department.

Essential characteristics of the internal control and risk management systems with regard to the financial reporting process

The German Accounting Law Modernisation Act (BilMoG) has expanded and modified the regulations in Section 289 of the German Commercial Code (HGB) regarding the contents of management reports in consolidated financial statements for capital-market-oriented companies as defined in Section 264d HGB. For financial years starting after 31 December 2008, a description of the main features of the internal control system (ICS) and risk management system (RMS) with respect to the process of preparing the financial statements must be included in the management report.

The RMS is formulated in broad terms and refers above all to strategic management, the identification and assessment of risks, and the approach to the assumption or avoidance of risk. The respective risk types are described in detail in the sections entitled "Risk types and risk measurement" and "Risk types in detail" in the present Risk Report. The ICS, by contrast, relates to the operational monitoring and management of risk.

With regard to the process of preparing the financial statements, the ICS and RMS encompass the policies, processes and measures needed to ensure the effectiveness and economic efficiency of preparing the financial statements and to ensure compliance with the relevant legal regulations as well as covering risk and mapping valuation units. It ensures that assets and debts are correctly classified, recognised and measured in the financial statements.

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

Risk Report (Continued)

1 Responsibilities for the ICS and RMS in connection with financial reporting

Responsibilities of the Management Board and Supervisory Board

The Management Board manages the Bank under its own responsibility and works with the Bank's other governing bodies and committees in a spirit of trust in the best interests of the Bank. The related responsibilities include overall responsibility for preparing the annual financial statements. The Management Board states that, to the best of its knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Bank (excerpt from the Management Board declaration in this Annual Report).

The Management Board determines the extent and orientation of the ICS and RMS specifically geared to the Bank under its own responsibility, taking measures for the continuing development of the systems and their adaptation to changing conditions. Value systems such as the Integrity Charter, the Code of Conduct and compliance rules have been applied in all UniCredit Group countries for many years, and hence also in HVB. These value systems comprise the basis for responsible action on the part of employees, including those involved in the financial reporting process. Despite all of the risk-reducing measures set up within the framework of the ICS and RMS, even systems and processes designed to be appropriate and functional cannot ensure absolute certainty in the identification and management of risk.

Responsibility for the financial reporting process and, in particular, for the annual financial statements rests with the CFO organisation. In particular concerning the valuation of financial instruments and receivables, the CFO is supported by the CRO. The COO is responsible for the IT systems required for the financial reporting process.

To support it in the performance of its duties including those relating to the financial reporting process, the Supervisory Board set up an Audit Committee made up of five members of the Supervisory Board. The Audit Committee looks at the development of the financial position, assets and liabilities, and profit and loss on a regular, ongoing basis particularly in connection with the annual financial statements. To monitor the effectiveness of the ICS and RMS, including the financial reporting process, the Audit Committee also examined these systems and the planned improvements in detail at one of its meetings in 2009 on the basis of documents and verbal explanations provided by the Management Board. In the process of preparing the annual financial statements, the Supervisory Board is responsible for adopting the annual report. To enable these tasks to be performed, the financial statement documents, including the Management Board's proposal for appropriation of profits together with the auditor's report, are submitted to the Supervisory Board. The Audit Committee examines these documents in great detail during a so-called preliminary audit. The chairman of the Audit Committee reports to the plenary Supervisory Board on the results of the Audit Committee's audit. The independent auditor reports on the findings of the audit, specifically including the main weaknesses of the ICS and RMS, and provides detailed answers to questions from 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 Board explains the financial statements in detail at these meetings. The Supervisory Board checks and discusses at length all the documents submitted and, as the final result of its own audit, adopts the annual financial statements and approves the consolidated financial statements.

Tasks and responsibilities of the independent auditor

The Supervisory Board commissioned the independent auditor KPMG AG Wirtschaftsprüfungsgesellschaft to audit the annual financial statements including the account records, the Management Report and the risk early warning system. In addition, the auditors audited the report by the Management Board on relationships with related companies in accordance with Section 313 of the German Stock Corporation Act (Aktiengesetz, AktG). This audit report was prepared in accordance with the principles of IDW Standard 450, and according to the German Audit Report Regulation (Prüfberichtsverordnung, PrüfbV). In accordance with Section 25a of the German Banking Act (Kreditwesengesetz, KWG), the auditor must verify whether a proper business organisation, in particular including appropriate and effective risk management, has indeed been established. The Management Report is also the subject of the audit. In this regard, the audit must determine whether the Management Report presents an accurate picture of the situation of HVB. Within the framework of the audit, the internal control system is also audited and assessed to the extent that it serves to ensure proper financial reporting. The chairman of the Audit Committee attended the final discussion of the CEO, CFO and CRO with the auditor of the financial statements.

Status and tasks of the Internal Audit department
The Internal Audit department also has a number of important tasks related to the implementation of an efficient ICS and RMS. These are described above in the section entitled "Management and monitoring of risks in HVB".

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

Organisational structure and tasks of the CFO organisation
For purposes of financial reporting processes, the Chief Financial Officer (CFO) organisation is essentially broken down into the following areas, from which the responsible Management Board member can draw on staff with the required skills and experience:

– A number of departments within the **Finance (CFF) unit** are assigned to deal with financial reporting processes. The Corporate Finance Accounting (CFA) and MIB Accounting (CFM) departments are in charge of accounting in the narrow sense of the word. Responsibility for the management and administration of participating interests rests with the Corporate Finance Shareholdings (CFS) department. The Tax Affairs (CFT) department is responsible for all tax-related concerns of HVB, including its foreign branches. The Regulatory Reporting (CFR) department is required to submit reports pursuant to Principle I of the banking supervisory regulations and the German Solvency Regulation (Solvabilitätsverordnung, SolvV), which has replaced that principle. In addition, this department is responsible for reporting in line with banking supervisory regulations such as Principle II (basic principle of bank liquidity) and the German Liquidity Regulation (Liquiditätsverordnung, LiqV) that replaced it; in particular, it is also responsible for the evidence of large and million-euro loans, and loans to executives. The MIB Accounting (CFM) department is responsible for financial reporting on the market and investment banking activities of HVB; it is also responsible for the local accounting units of HVB foreign branches. HVB's financial statements are prepared by the CFA department. In addition, this department has functional responsibility for the financial reporting systems used at HVB and for fundamental accounting questions under IFRS, and prepares the consolidated financial statements. Moreover, it is in charge of management reporting in accordance with IFRS and preparing external reporting in the annual report of HVB.

– For purposes of the financial reporting process, the **Operations and Credit Treasury (CFP) department** is essentially responsible for providing and developing processes, systems and services for the CFO organisation, in particular the Finance department. In addition, this department supports the CFO in project management for the planning and controlling of budgets and for the risk management of operational risks within the CFO organisation. Moreover, the department is also responsible for implementing various projects (e.g. BilMoG, corporate governance).

– **Asset Liability Management (GAL)** notably includes liquidity management and asset/liability management. Its tasks are described in the section entitled "Departments and committees" of this Risk Report.

– **Regional Planning & Controlling (CFC)** is entrusted with central business management and cost management. In this context, this department is responsible for the preparation of income budgets and income projections. In addition, it is in charge of reporting income concentration risks.

Process of preparing HVB's financial statements
The primary entry and processing of business transactions is largely performed by the departments responsible on a standardised basis in compliance with the principle of dual control (separate entry and approval). When doing so, they can access information contained in the Bank's Operating Guidelines (ZADs) for bank operations in general, and financial reporting in particular, on the Intranet.

Data for the domestic banking business, including lending activities in the mortgage business and Pfandbrief business, is to a large extent automated by means of a financial database that pools all relevant data from numerous upstream systems. Data from the foreign branches is posted and formatted at the individual branches and submitted to the accounting system via the central interface and validated centrally.

Risk Report (Continued)

Accounting for trading transactions and securities portfolios is carried out in an independent department within the CFO organisation. This unit is also responsible for the related valuation and booking standards as well as analysing and commenting on the results. The relevant transaction data are delivered by the systems managing the respective portfolios. However, transactions allocated to the trading or banking book are executed by the operational business units. Responsibility for the valuation of trading portfolios in front-office systems rests with the employees in the trading departments. Depending on the market parameters and asset classes, market data is delivered both by the trading departments and external sources, such as Bloomberg, Reuters, MarkIT, etc. In accordance with the segregation of functions, the further processing of HVB trades is handled by the back office in Global Banking Services (GBS), which reports to the COO unit of the Management Board. This ensures that the processing of trades is independent of the trading departments.

Checking transactions to ensure compliance with market pricing and monitoring counterparty and issuer positions are carried out by the Risk Control department, which reports to the CRO. To check valuations carried out by the Trading department, the Risk Control department validates the market data used by the trading department independently of the accounting department, and carries out regular reviews of valuation models. The trading income calculated for purposes of financial reporting is checked against the front-office result in a monthly process that serves as the basis for the daily information provided to the Management Board members.

Responsibility for checking, creating and adjusting loan-loss provisions in the lending business rests with the respective restructuring and workout units outside the CFO department. When an exposure is transferred to a restructuring or workout unit, its value is reviewed. The restructuring or workout specialist is responsible for calculating any required loan-loss provision. When determining the amount of a loan-loss provision, factors specified in the Operating Guidelines must be taken into account. The proposal by the responsible restructuring or workout specialist to create a loan-loss provision must be submitted to the appropriate lending approval authority or the Loan Loss Provision Committee (LLP Committee) for approval. The Management Board is informed about the current risk provision situation within the framework of the LLP Committee and as required by current developments. When risk provisions are entered in the RiskON credit risk system, they are also shown in the accounts. General allowances pursuant to the German Commercial Code and portfolio allowances pursuant to HGB accounting rules are calculated centrally by the Accounting department.

The calculation and approval of provisions in the non-lending business is carried out in accordance with the specified approval authority regulations and is regulated under central Operating Guidelines from the Accounting department, which are recorded in the Bank's Operating Guidelines (ZAD). The final booking of provisions and the assessment to ensure compliance with accounting standards is carried out centrally by the Accounting department.

The involvement of external third parties in the process of preparing the financial statements is limited primarily to the valuation of and accounting for pension provisions by the external service provider Hewitt Associates GmbH (formerly BodeHewitt AG & Co. KG).

A standardised process (the new product process) for developing and introducing new products is contained in the Bank's Operating Guidelines (ZADs). This process makes a basic distinction between trading and credit products. Under the new product process, all concerned departments are involved in such a way that they have veto rights and are authorised to enforce adjustments up to and including the termination of the new product process.

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

To prepare the annual financial statements, HVB uses the standard software "SAP Balance Analyzer (BA)" and "Business Warehouse" from SAP AG. The BA concept is based on the mainly automated linking of a large number of upstream systems relevant to financial reporting. In BA, data is processed both at the individual transaction level and in sub-ledgers. The accounting-related systems are reconciled with the sub-ledgers on a regular basis. Checks of balances carried forward are systematically performed during the process of preparing the financial statements.

Within UniCredit Group, the technical system management in connection with preparing the financial statements is outsourced to the responsible IT subsidiary, UniCredit Global Information Services S.C.p.A. (UGIS). The process is monitored by the central support unit in the CFP department, which reports to the Chief Financial Officer (CFO). The technical support processes in the central support unit are regulated in the Operating Guidelines. The backup and archiving of data from application systems are carried out under the responsibility of UGIS, and are regulated under outsourcing contracts. Data backups are based primarily on the central backup systems for the mainframe computers and the storage networks for the open systems. The data is redundantly mirrored in Munich and Verona.

The required protection against unauthorised access and compliance with the functional segregation in using the Bank's financial reporting application systems is ensured in particular through the concept of job profiles and the processes for creating these profiles. The job profiles are created and maintained in the individual departments, which are also responsible for approving access privileges and maintaining the segregation of functions.

Process documentation
As a UniCredit Group company, HVB is obliged to comply with Law 262, which was passed in Italy in 2005. The basic objective is to improve the reliability of financial reporting. In addition, the following aspects apply to the processes relevant to financial reporting:
– improved corporate governance
– improved internal control systems
– heightened risk awareness
– systematisation of the control environment.

In conjunction with the requirements under Law 262 and the legal requirements under the German Accounting Law Modernisation Act (BilMoG), a number of accounting processes, including the controls contained in these processes, were documented in the course of implementing the internal control system (ICS) and risk management system (RMS) at HVB. In terms of methodology, the introduction and risk assessment of processes is based on the international standard "Internal Control – Integrated Framework" issued by the Treadway Commission's Committee of Sponsoring Organizations (COSO) and thus on a solid methodological framework. The corresponding process descriptions include detailed presentations of both the individual process steps and the organisational units affected by the processes. At the same time, risk and control descriptions, including their evaluations, are carried out and documented.

The focus of the risk and monitoring analysis is on identifying and evaluating the risks relevant to financial reporting. The identified risk potential is reduced as far as possible through defined monitoring steps. Periodic random sampling serves to document the implementation of these controls and provide adequate records thereof. If the controls do not sufficiently reduce risks, suitable measures are ordered to eliminate the identified deficiencies. The timely implementation of these measures is tracked under a remediation plan and reviewed on a quarterly basis.

New processes are subject to half-yearly reviews by the persons responsible for the process in order to identify any organisational changes or content changes. If necessary, the documentation is modified and a new risk assessment is performed.

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

In the course of the ongoing development of the internal control system (ICS) and risk management system (RMS), the Bank plans to carry out additional projects to further strengthen the ICS and RMS. Moreover, with the current process documentation serving as a starting point, further relevant processes will be gradually added and assessed, and integrated into the routine ICS and RMS operations. To support the Management Board in the ongoing development and efficient monitoring of the ICS and RMS, a special unit was set up for this purpose within the CFO organisation at the beginning of 2010.

When changes are made to the legal standards and regulations for financial reporting, they must be assessed to determine what consequences, if any, they have for the financial reporting processes. The processing responsibility in terms of content rests with the unit in the Finance department in charge of fundamental accounting issues. In case of amendments or new regulations that would have a substantial impact on the accounting processes, a corresponding project is established, which takes all measures into account such as IT adaptations, working procedures, booking instructions, etc., across all departments.

Risk Report (Continued)

The Bank plans to introduce a new core banking system (EuroSIG). In the course of introducing this system, system adaptations of ICS and RMS will also be required.

Risk types and risk measurement

1 Relevant risk types

At HVB, 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
– reputational risk
– strategic risk.

2 Risk measurement methods

With the exception of liquidity risk, reputational risk 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 term "internal capital" replaces the previously used term "economic capital" in risk measurement and is used consistently across UniCredit Group. The internal capital is the sum of the economic capital broken down by risk type and the economic capital of small legal entities. For these HVB Group entities, we do not consider it necessary to carry out risk measurement broken down by risk type due to the small amount of risk involved. This risk is now shown separately and was formerly included in the risk arising from our shareholdings/financial investments.

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

The calculation of the economic capital by risk type still takes into account risk-reducing portfolio 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, reputational 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 to statutory requirements and, to an even greater extent, regulatory requirements. In 2009, we continued with the harmonisation of methodologies initiated in the course of integration into UniCredit Group. For example, the method for calculating of business risk was further standardised for the 31 December 2009 reporting date. For the calculation of market risk, we implemented the standards resulting from the updated Minimum Requirements for Risk Management (MaRisk) and greater selectivity between market and default risk for the banking book, including reclassified portfolios. For more information, please refer to the respective chapters. In 2010, we plan to broaden the components of internal capital to include the capital cushion. In this way, the assessment of economic capital adequacy will reflect possible modelling risks as well as cyclical fluctuations in economic capital by risk type.

Overall bank management

1 Overall bank management at the Group level

The focus of the value-oriented management of HVB is on the measurement of all business activities in terms of risk/return considerations, with risk/return targets set for all of the Group's business segments. Under this concept, risks are seen as costs which are charged to the departments in the form of standardised risk costs and equity costs. They are specified for the divisions in the annual planning process and monitored over the course of the year, parallel to the management of the overall bank risk based on the calculation of the regulatory and economic capital requirements and the ability to take risk.

Within the framework of our dual management principle, the divisions are allocated both regulatory (or used core) capital and internal capital. Both resources are expected to yield an appropriate return, which is derived from the expectations of the capital market and which has to be earned by our business units.

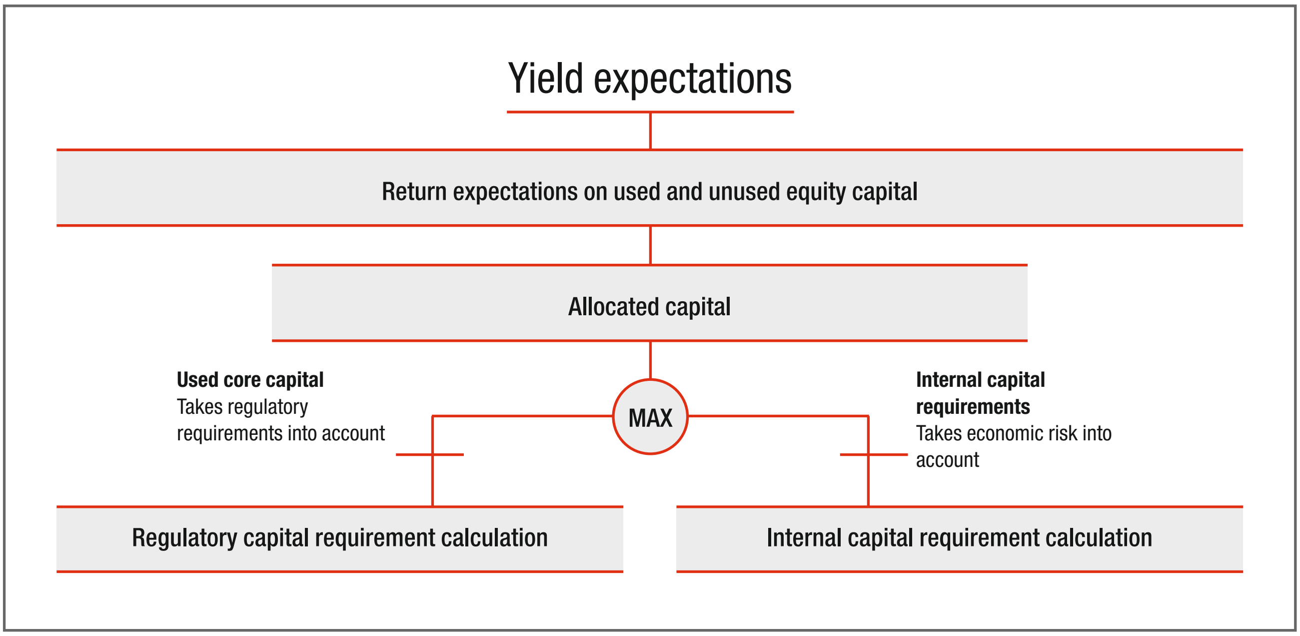
In the future, economic yield expectations will be calculated using the allocated capital principle that was introduced by UCG across the entire group in 2009. Under this principle, the Group ensures that at least the regulatory capital requirement is met at all times.

The most important parameters for overall bank management are economic value added and RARORAC (risk-adjusted return on risk-adjusted capital).

The economic value added expresses the extra value generated within the framework of value-based management in euros. It is calculated as the difference between the net profit (less minorities) and the return expectations on invested or allocated capital.

RARORAC is the ratio of economic value added to used core capital (allocated capital) and indicates the value created for each unit of allocated capital.

The hands-on management of sales takes place within the divisions and is individually adapted to specific business needs within the overall bank-management parameters.



Risk Report (Continued)

2 Regulatory capital adequacy

Used core capital

For purposes of planning and controlling in accordance with Basel II, the divisions are required to have core capital backing for credit, market and operational risks equal to an average of 6.4% of equivalent risk-weighted assets. Furthermore, the expected return on investment is derived from the average used core capital. In line with the management logic, the core capital is carried exclusive of hybrid capital (= core tier 1 capital).

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 arising from credit risk positions)
– Core capital ratio 2 (ratio of core capital to the sum of risk-weighted assets arising from credit risk posititons and the equivalent risk-weighted assets from market and operational risk positions)
– Equity funds ratio (ratio of equity funds to the sum of risk-weighted assets arising from credit risk positions and the equivalent risk-weighted assets arising from market and operational risk positions).

To determine the appropriate capital funding, we have essentially defined the following process:

– Based on our (multi-) year plan, we prepare a monthly, rolling eight-quarter projection for ongoing forecasting of our capital ratios in accordance with the German Banking Act (KWG).
– Reports on the actual ratios and significant effects on them are submitted every month to the Asset Liability Committee, which decides on the appropriate action should the actual ratios deviate significantly from plan.
– The Management Board is informed on a monthly basis of the risk-weighted asset budget utilisation of the divisions.

3 Economic capital adequacy

The future internal capital requirements of the divisions 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 internal 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 internal capital and the assessment of HVB Group's risk-taking capacity.

Within the framework of the changes to segment allocations carried out in the first half of 2009 we also updated the parameters for calculating business risk. As an advancement in methodology, we switched from present value as the basis for calculating present risk to a period-based viewpoint. This permits a better assessment of the risk-taking capacity, as the period-view is now included in both the internal capital and the capital cushion in connection with business risk. For calculating the economic capital for market risk, we have implemented the requirements resulting from the updated Minimum Requirements for Risk Management (MaRisk). For the banking book, including the reclassified portfolios, the calculation focuses on the general market risk. As in the past, the specific risks for these items are shown in terms of economic capital for default risk. In addition, we reviewed and adjusted the correlation matrix for the aggregation of risk types for 2009. The measures described above result in an increase in economic capital at 31 December 2008 from €5.7 billion to €5.9 billion. At 31 December 2009, the internal capital of HVB amounted to €5.7 billion, taking into account all risk-reducing diversification effects.

The 2009 increase in HVB's internal capital in the area of market risk and risks arising from shareholdings/financial investments is attributable to the ongoing financial crisis. This has also contributed to a decline in business risk in the Corporate & Investment Banking division in addition to the method adjustments described above. Default risk primarily reflects our successful measures to manage risk during the financial crisis, at the same time influencing the development of economic capital, in particular in Corporate & Investment Banking and Other/consolidation. The increase in economic capital for operational risk resulted from the development of loss events in the year under review, including the provisions for legal risks. In Corporate & Investment Banking, the overall development is dominated by the combined effects of rising market risk, operational risk and risks arising from shareholdings/financial investments as well as the relief provided by decreasing default risk. The decline in economic capital for the Retail devision and Other/consolidation reflects the trend in default risk.

Internal capital after portfolio effects (confidence level 99.97%)

	2009		2008[2]	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Market risk	1,846	32.6	873	14.8
Default risk	2,565	45.3	3,918	66.4
Business risk	204	3.6	285	4.8
Operational risk	547	9.7	462	7.8
Risks arising from our own real estate portfolio	34	0.6	46	0.8
Risks arising from our shareholdings/financial investments	465	8.2	316	5.4
Economic capital	**5,661**	**100.0**	**5,900**	**100.0**
Economic capital of small legal entities[1]	0	0.0	0	0.0
Internal capital of HVB	**5,661**	**100.0**	**5,900**	**100.0**

1 HVB units for which we do not consider it necessary to measure risk broken down by risk type on account of the low risk content. They were previously included in risks arising from shareholdings/financial investments.
2 including the effects from the reorganisation for business risk and the adjustment of the correlation matrix for 2009 and the method adjustments in business and market risk.

Internal capital after portfolio effects (confidence level 99.97%)

	2009		2008[1]	
Broken down by division	**€ millions**	**in %**	**€ millions**	**in %**
Corporate & Investment Banking	4,809	84.9	4,276	72.5
Retail	351	6.2	426	7.2
Wealth Management	60	1.1	68	1.2
Other/consolidation	441	7.8	1,130	19.1
Internal capital of HVB	**5,661**	**100.0**	**5,900**	**100.0**

1 including the effects from the reorganisation for business risk and the adjustment of the correlation matrix for 2009 and the method adjustments in business and market risk

In a quarterly analysis of our risk-taking capacity, we measure our internal capital at the HVB level against the Group-level capital cushion available to us to cover risk. In addition, this sustainability analysis is carried out with a corresponding forecasting horizon as a component of our planning process. The detailed annual plan for 2009 was based on the figures and targets of the three-year plan prepared in 2008. The analysis of our risk-taking 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).

Risk Report (Continued)

According to our internal definition, the capital cushion is made up of IFRS capital components, participatory certificates and hybrid capital as well as the actual result. Minority interests are included and goodwill is deducted. The corresponding amounts of these components can be found in Notes 50, 70 and 78 of the Annual Report of HVB Group. The capital cushion for HVB Group amounted to €22.7 billion at the end of 2009 (equivalent year-end 2008: €24.2 billion). The year-on-year decrease results primarily from the reduction of in hybrid capital instruments and declining other reserves due to the planned full disbursement of our consolidated profit. With internal capital of €7.5 billion, the capital cushion of HVB Group divided by the internal capital yields a ratio of approximately 304% (equivalent year-end 2008: 340%), or a 32.9% ratio of internal capital to the capital cushion (equivalent year-end 2008: 29.4%). We see this as a comfortable value because the capital cushion would be sufficient to cover the potential economic loss determined by us for a second event – even one in the same order of magnitude. The 3.5 percentage point rise in the utilisation ratio for HVB Group as compared with the previous year is attributable to the growth in internal capital (5%) as well as the 6% decrease in the capital cushion. In view of the continuing effects of the financial crisis, we regard this development to be within the expected range. We will continue to monitor it closely in 2010 and will integrate the assessment of capital adequacy more closely into the operational side of our activities, also with regard to the economic aspects.

Even taking into account the results of risk type-specific stress results, we had a substantial buffer in the capital cushion at the HVB Group level over the entire financial year. Since the end of 2009 we have implemented a stress test encompassing all risk types, which also points to a comfortable level of economic capital adequacy. We expect a similar situation with regard to the risk profile and economic capital adequacy for 2010. In addition, we will adapt the correlation matrix for the aggregation of risk types for 2010 to adress a significantly changed market environment as the result of the financial crisis. As a result, we expect an increase in our economic capital.

4 Risk strategy

For 2009, the Management Board has approved a risk strategy consistent with the business strategy, taking into account all risk types relevant to HVB and the internal capital. A major element of this risk strategy is maintaining HVB's risk-taking capacity. HVB's risk strategy is updated annually and if necessary, during the course of the year, taking into account the current market and risk situation and developments in risk management instruments. The strategy includes both qualitative and quantitative elements. The focus is both on the risk strategy covering all divisions and risk types as well as the partial strategies geared towards an implementation that sets parameters for individual portfolios or risk types. 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 following risk categories: credit risk, counterparty risk, issuer risk and country risk.

Credit risk

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

Counterparty risk

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

Issuer risk

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

Country risk

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

Default risk is managed on the basis of an integrated concept of defined policies, approval authority structures and risk-assessment processes. The introduction of fair-value hedge accounting for credit risk did not result in any changes in the management of default risk.

With reference to default risk, the HVB 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. 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 for exposures in excess of a certain amount in all divisions. They take risk responsibility for their assigned portfolios and manage those risks.

Credit equivalents (exposure values) of the respective 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.

Country risk

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

Credit risk strategy

The credit risk strategy implemented in HVB is characterised by both comprehensive management elements and sub-strategies for various portfolios. Limits are set for key portfolios and, in addition, instruments are specified for the management of risk concentrations (in countries, industries and for individual borrowers). Alongside these quantitative "guideposts" for credit risk, the willingness to assume risk is defined by standards for credit approval and credit portfolio management.

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 and regulatory capital coverage under Basel II (IRB approach), as well as 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 has a wide range of rating and scoring processes tailored to the needs of its 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.

Risk Report (Continued)

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.

The (further) development of various rating processes takes into account historical data covering an entire economic cycle. Specifically, this means that a customer's probability of default contains a through-the-cycle component, which ensures that the rating permits not only a short-term, but also a long-term statement on the quality of the customer. Due to the differing characteristics of the customer portfolios under examination, this long-term component has varying effects, which are quantified with the aid of so-called long-term factors and are also taken into account in pricing. In addition, credit risk stress tests are performed on a regular basis for the overall portfolio and, thus, for the corresponding rating processes.

In 2009, we focused primarily on the following areas:
– development of a new rating process for foreign SME customers
– further development of the rating process for special financing in the real estate segment (income-producing real estate)
– development of the wind energy rating process
– update of the IAA models (internal assessment approach) for asset-backed commercial paper programmes in accordance with rating agency requirements.

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 or not the loan is subject to mandatory disclosure pursuant to Section 18 of the German Banking Act (KWG). The rating must be adjusted at least once a year on the basis of up-to-date rating documents. In the case of material economic changes or risk-relevant changes to 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 only use 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.

This body of regulations is rounded off by various monitoring activities and the tracking of collateral-related default data as well as for example, the regular analysis of risk concentrations.

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, the valuation of collateral takes into account cost quotas and discount effects using the average time needed for realisation. 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.

Since mid-2009, ship mortgages have been counted as collateral regardless of whether or not they relate to special financing transactions. In addition, a process was developed for the valuation of pledges related to wind power financing transactions. After approval by the regulatory authorities, this form of collateral can also be applied to reduce risk.

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. The core responsibilities of these specialists are to monitor the valuation principles and 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, counterparty and issuer risks on a worldwide basis. Issuer risk is calculated for the banking book, including the reclassified portfolios. The internal default risk model is an internally devised model that offers the advantage of methodology and parameters perfectly matching our portfolio. The IT platform used in connection with the internal default risk model makes it possible to determine the credit value-at-risk and regulatory capital requirements under Basel II in a manner consistent with the input parameters (PD, LGD and EAD), credit-risk reduction techniques (land charges, guarantees, etc.) and available data. Country risk is also determined by means of a portfolio model that consistently includes the corresponding risk parameters (PD, LGD) and correlations to default risk.

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 or interest rates). Depending on the customer group, these sensitivities are determined on the basis of historical time series such as C-Dax or private insolvencies.

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 in order to determine expected losses. For this purpose, thousands of macroeconomic scenarios representing cases of both strong and weak economic performance scenarios are randomly generated. For each scenario, the model determines the default probability of the customers (clusters), and, thus, the amount of loss. The examination of all scenarios yields a loss distribution that serves as the basis for calculating the credit value-at-risk.

For 2010, we plan to introduce the credit portfolio model of UniCredit Group, which also takes into account insights we gained from the financial crisis. This new model, to be used everywhere in UniCredit Group, represents an enhancement of our model, and will be used to ensure consistent management and planning across the entire group. Our simulation methods will also be expanded through importance sampling. In addition, unexpected losses (in the form of credit value-at-risk) will be allocated in the future through the expected shortfall.

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 collateral on hand. Expected loss is a key parameter in risk management. Among other things, it is used for risk identification, as both an absolute and a relative value in pricing, and for profitability calculations.

Risk Report (Continued)

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 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 calculating 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).

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 an 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 sub-portfolios 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.

In scenarios on possible economic trends, we make distinctions in terms of the severity of an economic downturn as well as regional variations. In addition to these economic scenarios we also examine political crises, including their effect on individual countries and the global economy as a whole. In the year of the financial and economic crisis we repeatedly focused on scenarios related to the possible course of the crisis and identifying possible risks in the crisis in order to derive scenarios.

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 capital costs adjusted to reflect the current parameters and bank management. 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, particularly against the backdrop of the turmoil on the financial markets.

Measuring country risk

At HVB 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 every month, taking into account correlations to credit risk. Due to the small number of countries, country portfolios tend by their nature to be rather undiversified. Thus, the use of an internal portfolio model enables us to achieve important management effects that go beyond the provisions of the Solvency Regulation.

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

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

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

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 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. As part of our risk management activities, we reduced the lines for counterparty risk for financial institutions across the entire Group in 2009. To further reduce risk relating to financial institutions, HVB also intends to make increased use of derivative exchanges in their function as a central counterparty. 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. By taking into account the correlation to default risk, transactions with high levels of country risk and a greater correlation with the overall portfolio are given a higher weighting for inclusion in regional risk limits than transactions with lower 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.

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.

The internal reporting function provides support in risk monitoring particularly at the portfolio level. 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
The financial and economic crisis had a major impact on the credit and counterparty exposures of HVB in 2009. Therefore, we reduced our volume of business with other banks and focused on first-class borrowers. At the same time we engaged in active risk and credit line management with corporate customers (for instance through the elimination of credit lines that were not economically necessary). The end result of these activities was a decrease of €40.7 billion (18.0%) in credit and counterparty exposure, to €185.1 billion.

The issuer exposure of HVB for non-trading and ACPM decreased by €6.1 billion to €33.2 billion in 2009 (2008: €39.3 billion).

Risk Report (Continued)

The decrease in the exposure was distributed across almost all industry sectors. Sectors showing relatively large declines were above all banking and insurance (€15.1 billion), food/consumer goods/services (€5.3 billion), mechanical engineering/steel (€4.1 billion) and construction (€4.1 billion), to some extent as a result of measures already introduced in the course of portfolio optimisation and continued in 2010. The exposure to retail customers decreased by €6.2 billion. Increases in exposures, by contrast, were seen in the public sector (€2.0 billion) and automotive (€1.5 billion) segments. The concentration of the issuer portfolio in the banking and insurance industry and the public sector industry sectors already seen in past years became more pronounced in 2009, with the issuer exposure decreasing by €3.8 billion to €17.6 billion in the banking and insurance segment and increasing by €1.4 billion to €12.5 billion in the public sector segment. At the same time, the overall share of the remaining industry sectors fell by 8.0 percentage points and is now at 9.3%.

The core portfolio, defined as the overall HVB portfolio excluding the remaining exposures assigned to the former Real Estate Restructuring segment, decreased by 17.9% in 2009 to €184.1 billion. The most substantial drop was seen in the Corporate & Investment Banking division, formed during the course of the year from the former Markets & Investment Banking division and the Corporates & Commercial Real Estate Financing division, with a decrease of €30.0 billion (18.2%) as compared with the reorganised exposure at the end of 2008. In 2010 we will continue in this area to apply our proven portfolio optimisation and risk control measures. For instance, we intend to make systematic use of special loans and government default guarantees. Moreover, we will actively support our corporate customers in navigating the aftermath of the financial and economic crisis and take decisive action to utilise growth opportunities. In the Retail division our exposure showed a year-on-year decrease of €4.7 billion (11.3%) and the exposure in the Wealth Management division was down by €0.4 billion (8.0%). The decrease under Other/consolidation is primarily due to the planned disposal of the non-strategic portfolios.

Because the syndicated market remains difficult amid the financial crisis, it is a major challenge to place existing leverage buyout (LBO) financing. As these loans generally involve higher credit exposures than most, they give rise to greater concentration risks in the portfolio.
The issuer exposure primarily arises in the Corporate & Investment Banking division.

In 2009, the credit and counterparty exposure in rating classes 1–4 decreased by €29.4 billion (27.3%), mainly as a result of decreased exposure in business with banks. Consequently, the share of these rating classes in the overall core portfolio decreased by 5.4 percentage points. Exposures in rating classes 5–8 decreased by €11.0 billion. As expected, the financial and economic crisis will continue to have an impact in 2010. However, we plan to limit the impact on the loan portfolio through active management of risks and collateral. Decisions on new corporate lending in 2010 will be made mainly on the basis of current corporate figures and a well-founded assessment of the quality of the company and its future prospects, with the front office, back office, and risk management continuing to work closely together. We hope that measures of this kind are enough to offset the negative cyclical effects of Basel II. Exposures in rating classes 9 and 10 increased by €2.7 billion. In this special segment we still expect major challenges because the bankruptcy forecast in the retail sector as well as the SME sector indicates that a further increase can be expected in 2010.

At 87.1%, the issuer exposure in 2009 was concentrated largely on issuers classified as free of default risk in the rating classes 1–4. Among issuers free of default risk the issuer exposure increased €1.5 billion to €11.9 billion, and issuer exposure in the rating classes 1–4 decreased €8.2 billion to €17.0 billion. Issuer risk in the rating classes 9 and 10 amounted to €0.4 billion.
More details on the credit portfolio can be found in the Notes of this Annual Report.

Under credit risk and counterparty risk there were significant shifts in the risk contributions of the divisions in terms of expected loss and value-at-risk. The share of risk from Corporate & Investment Banking increased both in terms of expected loss and value-at-risk, by 9.5 and 7.4 percentage points, respectively. Both expected loss and value-at-risk decreased in the Retail division and in the Other/consolidation segment. In Wealth Management both risk ratios decreased slightly from an already low level. The simulated calculations and stress tests showed that an increase in expected loss and value-at-risk is possible in 2010 (particularly in Corporate & Investment Banking). Consequently, the Bank initiated additional measures at an early stage to limit or avoid any detrimental effects through active risk management.

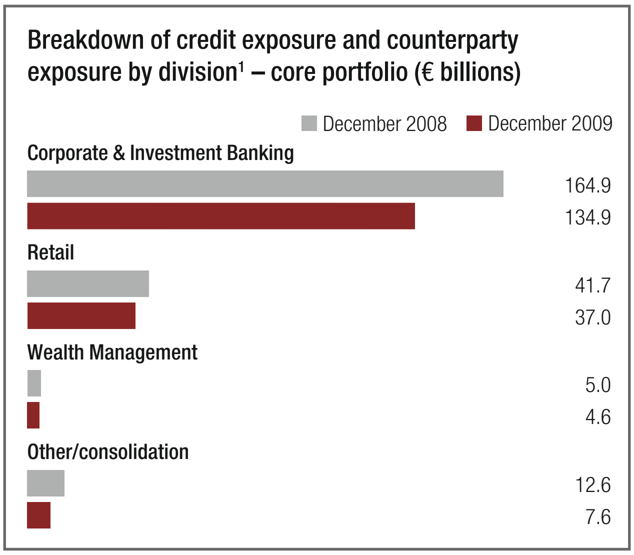
Gains in valuation from the lending business of HVB shown in the Income Statement amounted to €1,222 million in 2009.

Breakdown of credit exposure and counterparty exposure by industry sector (€ billions)

Industry sector	2009	2008
Construction	31.3	35.4
Banking and insurance	28.9	44.0
Retail customers	27.6	33.8
Food/consumer goods/services	19.4	24.7
Public sector	14.5	12.5
Transportation	11.3	12.3
Chemicals, health, pharmaceuticals	11.0	12.3
Utilities	8.5	10.5
Mechanical engineering, steel	8.1	12.2
Automotive	7.3	5.8
Electrical, IT, communications	4.8	5.6
Other	4.5	5.6
Mineral oil	4.1	6.8
Media, printing, paper	3.8	4.3
Total	**185.1**	**225.8**

Breakdown of issuer exposure by industry sector (€ billions)

Industry sector	2009	2008
Banking and insurance	17.6	21.4
Public sector	12.5	11.1
Automotive	0.7	1.0
Other	0.5	0.9
Food/consumer goods/services	0.5	1.2
Utilities	0.3	1.0
Electrical, IT, communications	0.3	0.8
Construction	0.3	0.5
Media, printing, paper	0.1	0.4
Retail customers	0.1	0.0
Chemicals, health, pharmaceuticals	0.1	0.3
Mechanical engineering, steel	0.1	0.1
Transportation	0.1	0.3
Mineral oil	0.0	0.3
Total	**33.2**	**39.3**



1 including the effects of the reorganisation

Risk Report (Continued)

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

Rating	2009 € billions	2009 in %	2008 € billions	2008 in %
Free of default risk	7.4	4.1	6.0	2.7
Not rated	6.3	3.4	10.1	4.5
Rating classes 1–4	78.4	42.6	107.8	48.0
Rating classes 5–8	83.3	45.2	94.3	42.1
Rating classes 9–10	8.7	4.7	6.0	2.7
Total	**184.1**	**100.0**	**224.2**	**100.0**

Breakdown of issuer exposure by rating class – core portfolio

Rating	2009 € billions	2009 in %	2008 € billions	2008 in %
Free of default risk	11.9	35.9	10.4	26.5
Not rated	2.9	8.7	2.9	7.4
Rating classes 1–4	17.0	51.2	25.2	64.1
Rating classes 5–8	1.0	3.0	0.8	2.0
Rating classes 9–10	0.4	1.2	0.0	0.0
Total	**33.2**	**100.0**	**39.3**	**100.0**

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

(in %)

Broken down by divisions	EXPECTED LOSS 2009	EXPECTED LOSS 2008	VALUE-AT-RISK 2009	VALUE-AT-RISK 2008
Corporate & Investment Banking	74.7	65.2	88.6	81.2
Retail	16.1	19.7	7.2	8.9
Wealth Management	1.0	1.1	0.8	0.9
Other/consolidation	8.2	14.0	3.4	9.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Country risk year-on-year

In the year under review, the exposures of HVB entailing country risk decreased by €20.4 billion to €47.4 billion. This reduction largely reflects the cautious risk strategy in 2009 in response to the financial crisis as well as the decrease in net exposure in the UK from €34.7 billion to €22.1 billion in connection with trading activities.

Approximately 96% of the total exposure (2008: 97%) relates to countries with rating classes 1–4. Only €2.0 billion relates to countries with rating classes 5–9 (2008: €2.1 billion). At 64%, the majority of the exposure is in western Europe (2008: 62%), with the remainder showing satisfactory regional diversification.

At 60% of the total, trading activities made up most of the portfolio (2008: 62%). In the lending segment, 33% of net exposure entailing country risk were disbursed (2008: 32%).

To address the increased financial market risks, a strict risk strategy was pursued for selected countries using various measures such as limit reductions and/or restrictions on new business in specified products. In line with the defined processes and regulations, the HVB Group portfolio will be further optimised through targeted exposure reductions and diversification as deliberate steps to face up to the challenges of the financial crisis.

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

Country exposure[1] and country value-at-risk by rating class (€ millions)

	EXPOSURE		VALUE-AT-RISK[2]	
Rating	**2009**	**2008**	**2009**	**2008**
Rating classes 1–4	45,375	65,754	18.2	31.1
Rating classes 5–8	2,036	2,091	24.2	23.0
Rating class 9	5	0	0.8	0.0
Total	**47,416**	**67,845**	**43.2**	**54.4**

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

Country exposure[1] by region and product category (€ millions)

	LENDING		TRADING		ISSUER RISK		TOTAL	
Region	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Western Europe	8,502	8,657	20,757	32,598	869	1,093	30,128	42,348
Asia/Pacific	2,190	5,830	3,669	4,321	339	635	6,198	10,786
North America	1,266	1,662	2,794	3,215	1,437	799	5,497	5,676
Eastern Europe	2,691	3,430	898	1,110	163	202	3,752	4,742
Central and South America	709	1,450	48	854	725	1,490	1,482	3,794
Africa	273	352	86	138	0	9	359	499
Total	**15,631**	**21,381**	**28,252**	**42,236**	**3,533**	**4,228**	**47,416**	**67,845**

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

Risk Report (Continued)

Top ten countries by exposure[1] across all rating classes (€ millions)

Country	EXPOSURE 2009	EXPOSURE 2008	VALUE-AT-RISK[2] 2009	VALUE-AT-RISK[2] 2008
UK	22,101	34,673	5.9	4.4
Switzerland	5,223	3,732	0.3	0.2
USA	4,105	3,715	0.0	0.0
Singapore	2,653	2,792	0.2	0.3
Russian Federation	2,002	2,426	5.4	9.4
Denmark	1,384	1,803	0.1	0.1
Turkey	909	1,152	7.9	9.2
Canada	859	1,038	0.0	0.0
Norway	837	1,094	0.0	0.0
China	657	1,011	0.2	0.2
Total	**40,730**	**53,436**	**20.0**	**23.8**

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

Financial derivatives
Financial derivatives, which are used primarily to manage market price risk (in particular risk arising from interest rate fluctuations and currency fluctuations) arising from trading activities, and also serve to provide cover for on- and off-balance-sheet items within asset/liability management or, in the case of credit derivatives, are used to manage credit risk, bear counterparty risk.

The positive fair values are relevant for purposes of default risk as replacement values for the OTC derivatives, which represent the potential costs that HVB would incur to replace all of the original contracts with equivalent transactions in case of simultaneous default by all counterparties.

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case-scenario) for HVB at year-end 2009 totalled €84.7 billion (31 December 2008: €124.5 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 amounted to €15.9 billion at 31 December 2009 (31 December 2008: €18.7 billion).

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

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	2009	2008	2009	2008	2009	2008
Interest rate derivatives	**966,594**	**1,109,114**	**801,291**	**2,876,999**	**3,217,077**	**61,019**	**68,619**	**60,013**	**67,032**
OTC products									
Forward rate agreements	110,331	50,960	—	161,291	139,762	269	227	123	322
Interest rate swaps	712,797	810,134	654,497	2,177,428	2,538,589	56,371	63,716	54,451	60,596
Interest rate options									
– purchased	45,166	108,548	68,456	222,170	233,537	4,345	4,653	—	1
– written	36,121	112,005	76,077	224,203	223,884	28	17	5,429	6,088
Other interest rate derivatives	415	10	—	425	65	6	6	10	25
Exchange-traded products									
Interest rate futures	54,361	27,242	1,585	83,188	70,688	—	—	—	—
Interest rate options	7,403	215	676	8,294	10,552	—	—	—	—
Foreign exchange derivatives	**292,637**	**115,075**	**58,597**	**466,309**	**496,487**	**9,508**	**21,855**	**9,581**	**19,569**
OTC products									
Foreign exchange forwards	216,446	15,474	344	232,264	246,773	3,407	9,694	3,278	8,252
Cross-currency swaps	31,082	84,869	57,196	173,147	159,459	5,070	9,307	5,176	8,585
Foreign exchange options									
– purchased	22,472	7,392	522	30,386	45,588	1,030	2,850	—	—
– written	22,634	7,340	535	30,509	44,613	1	4	1,127	2,732
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	3	—	—	3	54	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Equity/index derivatives	**79,438**	**100,265**	**7,102**	**186,805**	**198,164**	**9,214**	**13,902**	**11,745**	**16,067**
OTC products									
Equity/index swaps	11,534	8,011	508	20,053	17,690	787	1,769	495	1,016
Equity/index options									
– purchased	13,130	18,025	988	32,143	43,450	4,164	6,550	—	4
– written	21,415	42,162	4,556	68,133	83,894	38	48	5,507	8,071
Other equity/index derivatives	1,860	429	89	2,378	128	219	29	2	—
Exchange-traded products									
Equity/index futures	204	—	—	204	990	9	17	5	13
Equity/index options	31,295	31,638	961	63,894	52,012	3,997	5,489	5,736	6,963
Credit derivatives[1]	**41,587**	**240,604**	**44,247**	**326,438**	**402,564**	**4,318**	**18,497**	**4,684**	**17,862**
Other transactions	**4,066**	**3,093**	**154**	**7,313**	**9,972**	**786**	**1,585**	**1,104**	**1,818**
Total	**1,384,322**	**1,568,151**	**911,391**	**3,863,864**	**4,324,264**	**84,845**	**124,458**	**87,127**	**122,348**

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

Risk Report (Continued)

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €675,720 million at 31 December 2009 (thereof credit derivatives: €6,162 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2009	2008	2009	2008
Central governments and central banks	594	641	536	379
Banks	67,717	99,732	70,617	99,516
Financial institutions	12,839	19,181	14,358	20,155
Other companies and private individuals	3,695	4,904	1,616	2,298
Total	**84,845**	**124,458**	**87,127**	**122,348**

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	2009	2008	2009	2008	2009	2008
Banking book	**10**	**397**	**325**	**732**	**4,912**	**15**	**100**	**19**	**249**
Protection buyer									
Credit default swaps	—	39	150	189	3,302	15	91	—	8
Total return swaps	—	—	—	—	725	—	—	—	200
Credit-linked notes	10	8	—	18	90	—	9	—	—
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	—	350	175	525	777	—	—	19	37
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	18	—	—	—	4
Other	—	—	—	—	—	—	—	—	—
Trading book	**41,577**	**240,207**	**43,922**	**325,706**	**397,652**	**4,303**	**18,397**	**4,665**	**17,613**
Protection buyer									
Credit default swaps	18,020	114,834	21,849	154,703	192,297	2,745	17,927	1,499	226
Total return swaps	—	2	171	173	207	12	38	6	—
Credit-linked notes	536	1,320	215	2,071	2,124	130	232	21	25
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	21,376	121,415	21,579	164,370	201,926	1,404	197	3,087	17,282
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	1,645	2,636	108	4,389	1,098	12	3	52	80
Other	—	—	—	—	—	—	—	—	—
Total	**41,587**	**240,604**	**44,247**	**326,438**	**402,564**	**4,318**	**18,497**	**4,684**	**17,862**

Credit derivatives by reference asset (€ millions)

	NOMINAL AMOUNT					
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	OTHER	TOTAL 2009	TOTAL 2008
Public sector bonds	39,631	—	922	—	40,553	33,988
Corporate bonds	277,513	—	1,603	—	279,116	363,853
Equities	32	—	—	—	32	80
Other assets	2,611	173	3,953	—	6,737	4,643
Total	**319,787**	**173**	**6,478**	**—**	**326,438**	**402,564**

Single-name credit derivatives made up 50.8% of the total; multi-name credit derivatives, relating to baskets or indices, accounted for a share of 49.2%.

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 and banking books. Market risk comprises the risk categories: interest rate, foreign exchange, equity, credit spread and commodity risk.

Our market risks are managed in the Corporate & Investment Banking division and in the various treasury units of our subsidiaries. In 2009, the focus was on the consolidation of risk-taking transactions and the reduction of proprietary trading activities. In this context, additional non-liquid financial instruments from our portfolio of assets held for trading were reclassified in accordance with IAS 39.50.

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 and banking 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, 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 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 that 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. However, the specific market risks are modelled using a sensitivity approach. 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 general and specific market risks and within the specific market risks. At the end of 2008, HVB 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 not only for internal reporting, but also regulatory reporting. Due to the link via a sensitivity-based approach instead of an interface permitting full valuation, HVB must take a qualitative add-on into account. Across HVB Group as a whole, appropriate procedures are applied, primarily based on value-at-risk approaches.

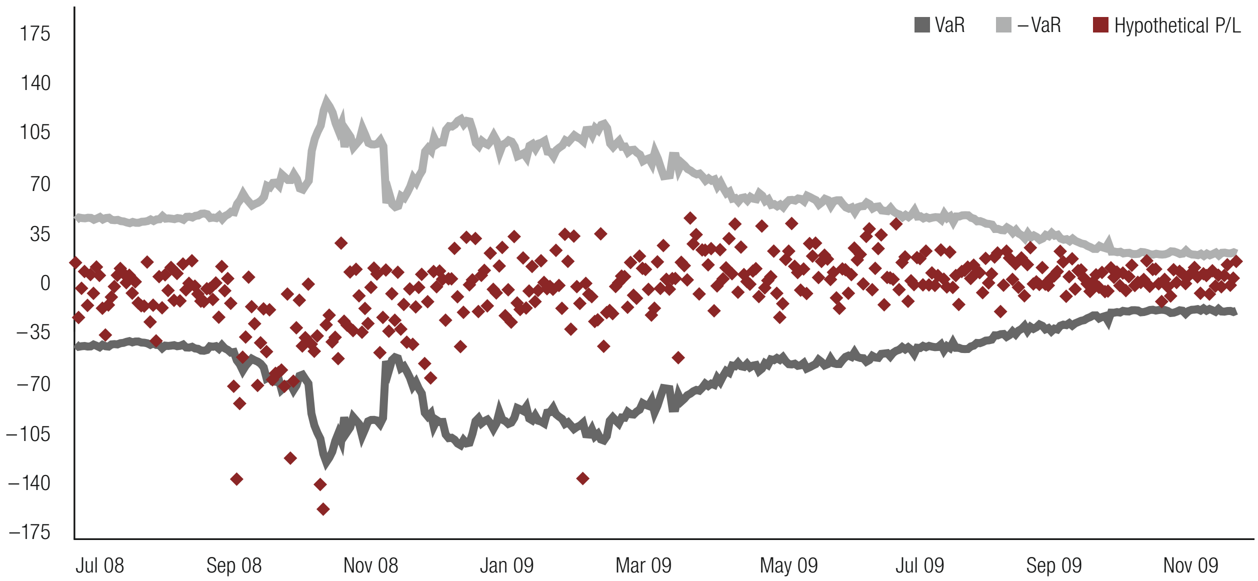
Risk Report (Continued)

In 2010, we plan to introduce a new internal model for determining market risk in cooperation with the UniCredit Group in the interests of allowing group-wide standardisation and consolidation. The new model will be based on the historical simulation approach. At present, we are working on the parameters and plan to complete the acceptance process for the new model in the second half of 2010. This may result in a significant change in the value-at-risk (VaR) values and hence in the economic capital for market price risk. Another priority in 2010 will be the implementation of extensions required under Basel II (incremental risk charge, comprehensive risk measure, stressed VaR and IRB).

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 2009, there was one back-testing exception to report (see diagram "Back-testing of internal model: HVB trading activities in second half of 2008 and all of 2009 (€ millions)"). On that date, the hypothetical loss was greater than the forecasted value-at-risk value. Because of the high number of exceptions in the second half of 2008, driven by the sharply increased market volatilities and widening credit spreads, the German Financial Supervisory Authority (BaFin) ordered a temporary increase in the quantitative add-on for calculating regulatory capital. Starting with the regulatory reporting at the end of September 2009 we have no longer been required to apply this add-on.

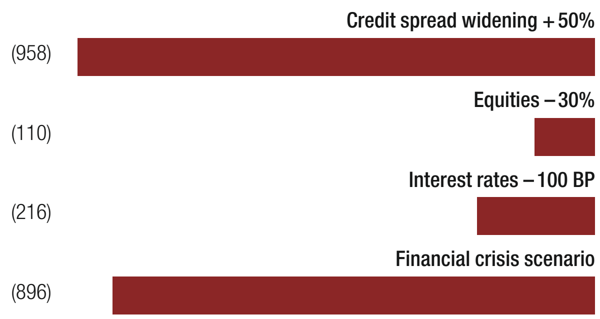
In addition to calculating the value-at-risk, we continually conduct stress tests for HVB Group to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, currency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

Back-testing of internal model: HVB trading activities in second half of 2008 and all of 2009 (€ millions)



To evaluate the effects of a financial crisis on a regular basis, we introduced the stress test scenario "Financial crisis". This scenario reflects the trend in the financial crisis in the third quarter of 2008. To take into account the low market liquidity, the time horizon for this scenario was expanded to include a full quarter. The most significant stress result at 31 December 2009, at minus €958 million (previous year: minus €1,732 million), results from a 50% widening of the credit spreads.

HVB stress testing at 31 December 2009 (€ millions)



Risk monitoring

The market risk positions in the trading and banking books are monitored using a uniform, hierarchical limit system that restricts the loss potential from market risk. Outside the market risk limits, the Management Board is directly responsible for some exposures, such as participating interests and portfolios reclassified under IAS 39.50B since July 2009.

All HVB transactions worldwide involving market risk 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 and adjusted as required. HVB's overall limit for the Corporate & Investment Banking division (CIB) was initially increased from €72 million to €145 million in 2009, and was later reduced to €75 million over the course of the year. Apart from declining volatilities, the limit reduction was also driven by removing reclassified portfolios from the overall limit. Positions outside the CIB division are grouped together in HVB under "Other". A limit of €8 million was applicable for these positions throughout 2009.

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 Corporate & 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, and thus performs spot checks on the risk situation even during daily market trading.

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

Quantification and specification

The table below shows the aggregate market risks of our trading positions in HVB over the course of last year. The reduction in market risks in the third quarter and especially in the fourth quarter resulted from lower credit spreads and reduced volatilities as well as a reduction in portfolios and/or the transfer of portfolios to the banking book.

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

	AVERAGE 2009[1]	31/12/2009	30/9/2009	30/6/2009	31/3/2009	31/12/2008
Interest rate positions (incl. credit spread risks)	50	22	37	58	83	118
Foreign exchange derivatives	4	2	2	6	7	5
Equity/index positions	6	5	7	5	5	10
Diversification effect[2]	(10)	(8)	(10)	(13)	(12)	(21)
HVB	**50**	**21**	**36**	**56**	**85**	**112**

1 arithmetic mean of the four quarter-end dates
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)

Limited market risk of HVB (value-at-risk, 99% confidence level, one-day holding period) (€ millions)

	AVERAGE 2009[1]	31/12/2009	30/9/2009	30/6/2009	31/3/2009
HVB	**89**	**34**	**47**	**118**	**157**
Market risk limit[2]		75	75	145	145

1 arithmetic mean of the four quarter-end dates
2 positions outside of CIB are grouped together under HVB Other (2009 limit = €8 million)

Whereas the limited market risk of HVB at 30 June 2009 still included the reclassified portfolios, the values at 30 September 2009 and 31 December 2009 are shown without those portfolios.

The substantial reduction in market risk from €142 million at the end of 2008 to €34 million at the end of 2009 was the result of a sharp decrease in market volatilities and a significant narrowing of credit spreads. A further reduction resulted from the removal of the reclassified portfolios from the value-at-risk limit.

With the reclassified portfolios included, the market risks of HVB are as follows:

Market risk of HVB including reclassified portfolios (value-at-risk, 99% confidence level, one-day holding period) (€ millions)

	AVERAGE SECOND HALF OF 2009[1]	31/12/2009	30/9/2009
HVB with reclassified portfolios	**70**	**58**	**82**

1 arithmetic mean of the last two quarters

At year-end, the banking book of HVB contained market risks of €49 million with a one-day holding period (31 December 2008: €66 million). The market risks of the reclassified portfolios, taken in isolation, amount to €36 million (previous year: €69 million). The market risks of the remaining banking book positions show a market risk of €24 million (previous year: €56 million).

A 10% appreciation of all foreign currencies (FX sensitivity) results in a decrease of €27.58 million in the portfolio value (0.12% of the regulatory capital) in the banking book of HVB (31 December 2008: a decrease of €39.36 million with an appreciation of foreign exchange positions).

Value change in case of a FX 10% appreciation
at 31 December 2009 (€ millions)

HVB BANKING BOOK	
Total	(27.58)
USD	(8.38)
GBP	(17.69)
AUD	(2.42)
CHF	1.92
JPY	0.85
SGD	0.33
Other	(2.19)

A 20% decline in all equity and hedge fund prices results in a decrease of €76.61 million in the portfolio value (0.33% of regulatory capital) in the banking book of HVB (31 December 2008: €95.35 million).

Value change in case of a 20% decrease in equity prices
at 31 December 2009 (€ millions)

HVB BANKING BOOK	
Total	(76.61)
Equity products	(0.06)
Hedge Funds	(76.55)

When determining the effects of a shift in the yield curve, we consider two different variations:
– without the hedging effect from the equity capital model book (pursuant to the guidelines from the update of the Minimum Requirements for Risk Management, MaRisk)
– taking into account the hedging effect (as in internal risk management).

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 €423.82 million (1.86% of the regulatory capital) in the banking book of HVB. If the hedge effect of the equity capital model book is taken into account, this scenario results in a value increase of €71.46 million (31 December 2008: a decrease of €13.55 million).

Value change in case of an interest shock of +100 BPS at 31 December 2009 (€ millions)

	TOTAL	UP TO 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS
HVB banking book – without hedge effect of equity capital model book	(423.82)	(7.15)	(395.01)	(21.66)
HVB banking book – with hedge effect	71.46	58.64	8.90	3.92

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.

In compliance with the Circular issued on 6 November 2007 by 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. We also carried out this valuation with and without the hedging effect from the equity capital model book. With a notional utilisation of 0.77% (previous year: 0.07%) (or 2.33% excluding the model book – previous year: 2.59%) of its regulatory equity capital at 31 December 2009, HVB is well below the reportable outlier value of 20% stipulated by the banking supervisory authorities. Without the valuation effects of the reclassified portfolios, the rate of equity capital utilisation is 0.65% (previous year: 0.14%).

In addition, a dynamic simulation of the net interest income is carried out for HVB 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 interest shock of minus 100 basis points would result in a €291 million decrease in net interest income within the next 12 months (31 December 2008 + 100 basis points: €87 million).

For the calculation of economic capital for market risk, we have implemented the requirements resulting from the updated Minimum Requirements for Risk Management (MaRisk). For the banking book, including the reclassified portfolios, we have focussed on calculating the general market risk. As in the past, the specific risks for these items are shown in terms of economic capital for default risk.

At €1.8 billion, the economic capital for market risks at HVB has increased by €1.0 billion over the comparable previous-year figure because of the financial crisis. Here, too, the hedging effect from the equity capital model book is not taken into account.

Risk Report (Continued)

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.

Fair value adjustments (FVAs) are used to reflect valuation uncertainties related to the market liquidity of securities and derivatives in the accounts for both the trading book and the banking book. The FVAs include among other things a premium 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 global financial crisis eased over the course of 2009 in response to packages of measures undertaken by various central banks and governments. For instance, there was further significant reduction in the CDS spreads of many banks during 2009. We believe that further developments will depend on the markets' response to the expiration of measures implemented around the world, among other factors. Therefore, in our opinion, it is too early to sound the all-clear.

HVB was generally quite successful in avoiding the turmoil in the funding markets thanks to a good liquidity situation, a solid financing structure and the liquidity management measures it undertook. Based on the analyses we have carried out so far, we expect our overall liquidity to remain adequate. However, it will be important to monitor the possible effects on the funding of HVB that may result from the expiration of the global support measures by central banks and governments.

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 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.

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 is well-managed due to diversified funding with regard to products, markets and investor groups.

Again in 2009 we were able to obtain appropriate funding for our long-term lending business in accordance with our planning.

We are able to cope with the effects of the change in the funding spreads to a very large extent because the internal fund 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 "Market risk".

The rules and principles of liquidity management are specified in a Liquidity Policy of HVB Group passed by the Management Board. Among other things, the HVB Liquidity Policy defines risk strategy identifies the main risk drivers and specifies the risk appetite. Both for the short-term liquidity risk and the funding risk, the policy defines appropriate measures for identifying risk and management instruments for limiting them. The liquidity policy is implemented by the operational business units and is coordinated and monitored for HVB by the Asset Liability Management department.

Measurement methods

Short-term liquidity risk

To measure short-term liquidity risk, cash flows are produced on a daily basis. The resulting balances are compared with the available liquidity reserves, which consist primarily of the available highly liquid securities eligible at all times as collateral for central bank borrowings. 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 HVB units. In 2010, this limit system will be extended to a period of three months.

Furthermore, stress scenarios based on the liquidity profiles of the units of HVB are simulated at regular intervals. These stress scenarios take into account internal influences (e.g. possible HVB-specific problems), external factors (e.g. disruptions in global financial markets) and a combination of internal and external factors established over the course of 2009.

In addition to this internal measurement methodology, HVB and its domestic subsidiaries engaged in banking activities are subject to the regulatory standards defined in the German Liquidity Regulation (LiqV) for short-term liquidity risk.

Funding risk

To measure funding risk, long-term funding needs are determined through a coordinated process, which is based on the expected business development reported. The 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. Limiting maturity mismatches between the long-term assets and liabilities ensures a balanced funding structure in defined maturity buckets.

Risk monitoring

The monitoring of our liquidity situation has been entrusted to our Asset Liability Management unit. For all intents and purposes, monitoring our liquidity situation involves analysing and managing 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 ratios are monitored monthly.

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

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

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

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

Quantification and specification

Conditions on the money and capital markets in the early months of 2009 were dominated by high volatility. The situation in the markets calmed down over the second half of 2009. Despite the initial market turmoil, the liquidity situation of HVB remained at an adequate level at all times.

Short-term liquidity

Within the framework of our limit system, which operates under conservative assumptions, we showed an overall positive balance of short-term liquidity of €38.8 billion (previous year: €16.8 billion) in HVB for the next banking day at the end of December 2009. 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 €36.6 billion at year-end (previous year: €13.0 billion). The improvements are the result of the management measures undertaken, among other factors.

Risk Report (Continued)

The stress tests we conduct on a regular basis showed that liquidity reserves at the end of 2009 were sufficient to cover liquidity requirements resulting from the defined scenarios.

The requirements of the German Liquidity Regulation (LiqV) were met at all times in the year under review. The funds available to HVB exceeded its payment obligations for the following month by an average of €41.7 billion in 2009 (previous year: €33.4 billion) and by €49.5 billion at 31 December 2009.

Funding risk

The funding risk of HVB was again quite low in 2009 due to our broad funding base with regard to products, markets and investor groups. This ensured that we were able to obtain adequate funding for our lending operations at all times. HVB obtained longer-term financing with a volume of €10.0 billion (previous year: €9.2 billion) on the capital market during 2009. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

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 the Solvency Regulation (SolvV), this definition also includes legal risks.

Within the framework of our annually updated risk strategy, it is our objective to reduce operational risk to a reasonable level from an economic standpoint – meaning not necessarily to the lowest possible level. This economically optimal level depends on the underlying risk profile, the costs and the effectiveness of existing and potential measures (cost/benefit considerations) and the defined willingness to assume risk. Risks that are potentially grave or could seriously damage the Bank must be subject to planned measures that go beyond mere profitability concerns. To make the risk strategy concrete, bank-wide and division-specific areas of activity are defined.

The identification, analysis and management of operational risk are the responsibility of the respective divisions of HVB. 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 & Corporate Affairs (RET) unit is responsible for managing legal risk as well as strategic and operational compliance. Consequently, RET oversees the introduction, and compliance with, all relevant rules and regulations by HVB 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, and the relevant departments of HVB Group companies, where present.

Measurement methods

To quantify the operational risk of HVB, we apply the Advanced Measurement Model used across the entire UniCredit Group, which is based on the loss distribution approach. 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 also calculated using the UniCredit Group-wide Advanced Measurement Approach measurement model. Only our own data are 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 is thus carried out on a stand-alone basis.

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

Risk monitoring

The focus in risk monitoring is on the further development of risk surveys and scenario analysis, the ongoing monitoring of relevant risks and ad-hoc analysis 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. In addition, regular communication takes place with UniCredit Holding regarding the Group-wide exchange of information.

Operational Risk Control keeps the Chief Risk Officer, the Risk Committee, the Management Board of HVB and the Audit Committee of the Supervisory Board informed about any loss events that occur as well as 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
For purposes of calculating regulatory capital for operational risk, HVB is now covered by the AMA with its high quality standards. Employing the AMA means that HVB achieves capital savings of well over 10% compared with the Standard Approach.

The economic capital for operational risks of HVB amounted to €0.5 billion at the end of 2009 (equivalent year-end 2008: €0.5 billion). These figures reflect the effect of the update of the correlation matrix for the aggregation of risk types carried out in 2009.

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

Outsourcing
Outsourcing involves the transfer of activities to other service providers. This also involves a transfer of some of the operational risk. However, residual risks and the risks from the outsourcing relationship remain with the Bank. The operational risk managers and the central Operational Risk Control function help the project managers and the heads of the retained organisations to prepare and/or update the related risk analysis.

The following outsourcing projects that received risk analysis support in 2009 warrant special mention:
– In April 2009, the operational Facility & Infrastructure Management function was transferred to STRABAG Property and Facility Services GmbH.
– In May 2009, the former HVB Information Services GmbH subsidiary was integrated into UniCredit Global Information Services S.C.p.A. (UGIS), the global IT company of UniCredit Group.
– In July 2009, the transfer of the securities transaction settlement function and the HypoVereinsbank depots to CACEIS Bank Deutschland GmbH (CACEIS) was successfully completed. As the final step in this outsourcing move, expected to take place in 2010, the IT systems still being operated by UGIS will be transferred to a service provider selected by CACEIS.
– In September 2009, the IT department of the HVB London branch was outsourced to UGIS.

In the first half of 2010, we plan to pool all real estate units and real estate related services in a centre of competence at our HVB Immobilien AG subsidiary.

In the year under review, the Outsourcing Tracking Office was established as a centre of competence for HVB managing the outsourcing process, and to enhance the transparency of existing outsourcing activities in the Global Banking Services division. To ensure high quality and comparable risk assessment standards, this involves close cooperation with the operational risk organisation.

In 2010, we will continue to develop the methods and processes to monitor our outsourcing activities in accordance with practical requirements. 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 the retained organisations to monitor the outsourced areas.

IT risks
With the new statutory regulations on the flat tax on capital income taking effect at the end of 2008/beginning of 2009, the corresponding IT applications and processes were put in place in HVB. Despite the accompanying risk analysis and measures, there were implementation delays in this area, partly as a result of late external explanations on the implementation of the tax regulations. This led to other delays, for instance in the mailing of the annual tax certificates, which resulted in customer complaints. The backlog was cleared up by the second half of 2009. To ensure the processing of all relevant transactions for the 2009 annual certificates, a follow-up process on the flat tax was launched in the second half of the year.

Risk Report (Continued)

At the beginning of December 2009, the decision was taken to postpone the rollout date for the new EuroSIG IT platform in HVB to gain greater security and reliability for customers and employees. Although the key milestones were achieved in all project areas – above all with the adaptations to the sales and customer-related applications – additional testing activities are to be carried out in some areas as the basis for improvements. The adjustments still required as well as the rollout are to be completed as quickly as possible. The new rollout date will be determined by eight criteria which are intended, among other factors, to mitigate the increased operational risk inherent in such major projects.

Financial crisis

HVB addressed the risks of the continuing financial crisis through the optimisation of the processes related to payments, among other steps. The available filters allow payments to certain financial institutions to be selected more easily and, if necessary, to be stopped or rerouted. At the same time, the processes related to the selection of existing claims and liabilities were refined so that HVB can quickly obtain an overview of required measures. These processes and Group-wide cooperation within UniCredit Group will be further refined and improved in 2010.

Due to the extreme market developments in recent financial years and the increasingly strict regulatory environment, we continued to review 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, tighter guidelines were developed for the derivatives business with the goal of further reducing speculative and optimisation transactions, in order to reduce risks to our customers.

Further measures

– In response to the stricter amendments to the German Securities Trading Act (WpHG), we introduced consultation record sheets in our investment advisory activities effective as of January 2010 to ensure greater protection and to make the process more understandable and transparent to investors.
– To reduce current risk in connection with credit cards, countermeasures were put in place, including the addition of chips to credit cards (to be completed in 2010).
– The introduction of the mTAN process with the transmission of the TAN numbers needed for online banking by text message resulted in a significant reduction in loss events previously associated with online banking.

Business continuity management

The effectiveness of the crisis management function was again tested by exercises in 2009. The "New Influenza" pandemic task force took appropriate measures beginning in May 2009, updated the pandemic plan and adapted it to the new situation. A UniCredit Group crisis management policy was published in September.

In 2010, in addition to the general ongoing development of our operational risk management, we will be focussing more closely in particular on the use of the new EuroSIG system platform, the harmonisation of the system environment and processes in the Corporate & Investment Banking division, and general fraud prevention.

Legal risks

Medienfonds lawsuit

Numerous investors who invested in VIP Medienfonds 4 GmbH & Co. KG have filed complaints and lawsuits against UniCredit Bank AG. The main reason for these actions is the fact that the tax deferrals, which were originally part of the benefits achieved by the investment, will no longer apply according to the current position of the tax authorities. UniCredit Bank AG did not market the fund, but it did grant investment finance loans to all investors for a portion of the investment amount; moreover, to collateralise the fund, UniCredit Bank AG assumed various payment obligations of film distribution companies vis-à-vis the fund.
At the end of 2009 suits were pending against UniCredit Bank AG for a total value in dispute in the low triple-digit million euro range.
The complaints and suits against the Bank are based on the allegation that the Bank culpably violated its obligations to provide information prior to signing the contracts as it was aware that the fund's structure and execution allegedly made it highly risky in tax respects. 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 the investors whereas some suits have been dismissed. So far, none of the rulings on these matters are final. Munich Higher Regional Court has started a test case procedure 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 UniCredit Bank AG, with regard to the banking services it provided.

Some investors based their claims on formal deficiencies regarding the investment finance loans granted to investors in order to be able to unwind their whole investment vis-à-vis the Bank.
From today's perspective, the situation in the legal proceedings and the outcome of the claims of investors is unclear. The Bank has set up adequate provisions for these proceedings. In order to amicably settle the alleged claims and to bring the complex lawsuits to a reasonable end, UniCredit Bank AG recently decided to make a settlement offer to the investors jointly with another German bank which was involved and which marketed the predominant part of the fund share.

Real estate finance/financing of purchases of shares in real estate funds

UniCredit Bank AG will not suffer negative legal consequences if customers cancel their property loan agreements under the Doorstep Transactions Act (Haustürwiderrufsgesetz). According to the law and the opinion on this subject expressed in the German Supreme Court's (Bundesgerichtshof) established practice, the customer, who is required to prove 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 its failure to notify the customer of his 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 in such cases.

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 assumes that legal risks will not arise from these cases.

Judgements from the German Supreme Court recently also confirmed the already narrow conditions for a possible obligation on the part of the Bank to give information and advice. The German Supreme Court makes it easier for investors to provide evidence of violations of a bank's obligation to give information only in cases of institutionalised collaboration between the bank funding the acquisition of the property and the seller of the property. Recent judgements also indicate that a bank's liability cannot be ruled out completely if it advised the customer on the acquisition of the property and received commission from the seller for selling the property. Based on our experience so far, we do not expect any negative effects for UniCredit Bank AG in this respect either.

If a bank finances the purchase of shares in real estate funds for the borrower with a loan not secured by a real property lien, the borrower can – if the transaction is a so-called related transaction – contest the claim of the financing bank to repayment on the basis of objections which the borrower is entitled to assert against the seller or agent in the fund transaction on account of having received incorrect advice. 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 crisis

As a result of the dramatic developments in global financial markets in recent months, there has been an above-average number of complaints from customers with investments in securities negatively affected by this crisis or customers who entered into derivative transactions with UniCredit Bank AG. So far customers have only rarely filed lawsuits based on claims of allegedly insufficient disclosure or of improper advice that was either inappropriate for the investor or inappropriate regarding the form of the investment.
Three class actions were raised in the USA against our American brokerage subsidiary, UniCredit Capital Markets, Inc., along with numerous other defendants. The reason behind these actions is that both Lehman Brothers Holding and Merrill Lynch issued securities. Although UniCredit Capital Markets was part of the underwriting consortium for some of the securities in dispute, it neither received nor sold the securities specified in the claims. Based on the appraisals of our external lawyers, the Bank has decided not to set up any provisions in this regard.

Risk Report (Continued)

Lawsuits in connection with Primeo notes
UniCredit Bank AG had issued several tranches of notes whose potential return was to be calculated by reference to the performance of a synthetic hypothetical investment in the Primeo fund. The nominal value of the notes issued by UniCredit Bank AG was around €27 million for the Primeo-referenced notes. Legal proceedings have been commenced in Germany in connection with the issuance of said Primeo linked notes, which also named UniCredit Bank AG as a defendant. From today's perspective, the outcome of the proceedings is open.

Trade tax allocation/Hypo Real Estate Bank AG
Up to and including 2001, UniCredit Bank AG was the controlling entity of a consolidated group under trade tax law. In this respect, it collected or, as the case may be, refunded trade tax allocations (Gewerbesteuerumlagen) to various subsidiaries which belonged, according to the former statutory trade tax model, to the trade tax group of the Bank or its legal predecessors. Hypo Real Estate Bank AG (and Hypo Real Estate International AG which has been merged with Hypo Real Estate Bank AG in the meantime and was later renamed Deutsche Pfandbriefbank AG) has filed a lawsuit with Munich Regional Court I (Landgericht) demanding the reimbursement of approximately €80 million plus interest in excess trade tax allocations paid. On 29 April 2008, Munich Regional Court I ruled in favour of the plaintiffs. UniCredit Bank AG appealed against this ruling, as in its view – on the basis of external legal opinions – said decision was not convincing. On 16 December 2009 at the hearing before Munich Higher Regional Court (Oberlandesgericht), UniCredit Bank AG approved a settlement agreement requiring the Bank to pay €46.5 million including interest to settle this dispute. The settlement is final and legally binding in the meantime. Hence, the dispute has been settled amicably.

Arbitration proceedings on the cash settlement for Vereins- und Westbank AG
The Extraordinary Shareholders' Meeting of Vereins- und Westbank AG held on 24 June 2004 approved the transfer of shares of minority shareholders of Vereins- und Westbank AG to UniCredit Bank AG. After settlement of the legal challenges to this move, UniCredit Bank 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 settlement reviewed in special judicial proceedings pursuant to Section 1 (3) of the Act on the Procedure Regarding the Compensation of Minority Shareholders (Spruchverfahrensgesetz). In a ruling dated 2 March 2006, the Regional Court (Landgericht) of Hamburg increased the cash settlement to €37.20 per share on the basis of its own assessment. The Bank has appealed against this decision. The Bank assumes 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.

Court proceedings of UniCredit Bank AG shareholders
Numerous (former) shareholders of UniCredit Bank AG filed a suit challenging the resolutions adopted by Annual General Meeting of the Bank on 12 May 2005. Munich Regional Court I (Landgericht) has dismissed the suit insofar as it challenges the election of Supervisory Board members and the auditor of the annual financial statements; the ruling is not yet final.

Legal proceedings relating to the restructuring of the Bank
Numerous (former) minority shareholders filed suits challenging the resolutions of the Extraordinary Shareholders' Meeting of UniCredit Bank AG on 25 October 2006 approving the sale and transfer of the shares held by the Bank in Bank Austria Creditanstalt AG ("Bank Austria") and in HVB Bank Ukraine to UniCredit S.p.A. and the shares held in Closed Joint Stock Company International Moscow Bank (IMB) (renamed as ZAO UniCredit Bank, Moscow in December 2007, but still referred to as IMB below) and in HVB Bank Latvia AS (later renamed as AS UniCredit Bank, Riga) to Bank Austria Creditanstalt AG, and the branches of the Bank in Vilnius and Tallinn to AS UniCredit Bank, Riga, asking the court to declare these resolutions null and void. The former minority shareholders filed their lawsuits on the basis of alleged deficiencies of formalities in connection with the invitation to attend the Extraordinary Shareholders' Meeting of 25 October 2006, the manner in which the meeting was conducted, and the allegedly inadequate purchase price paid for the units sold. In a ruling of 31 January 2008, Munich Regional Court I declared the resolutions passed at the Extraordinary Shareholders' Meeting on 25 October 2006 null and void solely for formal reasons. The court was of the opinion that the Business Combination Agreement ("BCA") entered into by the Bank and UniCredit S.p.A. on 12 June 2005 was not described in sufficient detail in the invitation to attend the above-mentioned meeting, particularly with regard to the provisions of the BCA on the court of arbitration and the choice of law. Moreover, the court stated that shareholders' questions regarding the hypothetical effects of specific alternative valuation parameters were not answered adequately. The court did not decide on the issue of the allegedly inadequate purchase price paid for the purchased units. At the same time, based on a petition filed by some minority shareholders, the court declared that the BCA should have been submitted to the general shareholders' meeting of the company for approval because it represented a "hidden" domination agreement.

UniCredit Bank AG believes that such ruling is not convincing since the provisions of the BCA considered by the court to be material were not material for the purchase agreements submitted to the Extraordinary Shareholders' Meeting on 25 October 2006, which contain their own arrangements anyway, and since answering the question regarding individual alternative valuation parameters – even if at all possible to do so correctly at the Extraordinary Shareholders' Meeting and without taking into account contrary effects induced by modified parameters – would have done nothing to change the specific purchase agreements submitted for approval. Consequently, the Bank has appealed against this ruling.

As a precaution the resolutions passed by the Extraordinary Shareholders' Meeting of 25 October 2006 were confirmed at UniCredit Bank AG's Annual General Meeting of Shareholders on 29 and 30 July 2008. Numerous suits were filed against said confirmatory resolutions some of which are based on formal errors. Most, however, claim that the purchase price for the sale of the participating interests and branches was too low and inadequate. As a precaution, the resolutions and the confirmatory resolutions were confirmed once again at the Extraordinary Shareholders' Meeting of UniCredit Bank AG on 5 February 2009.

In a ruling dated 29 October 2008, Munich Higher Regional Court suspended the appeal against the suits challenging the resolutions of the Extraordinary Shareholders' Meeting of UniCredit Bank AG of 25 October 2006 until such time as a final court decision is passed on the suits challenging the confirmatory resolutions adopted during the Annual General Meeting of Shareholders of UniCredit Bank AG on 29 and 30 July 2008. On 10 December 2009 Munich Regional Court I dismissed the suits against the resolutions adopted at the Annual General Meeting of Shareholders on 29 and 30 July 2008 including the suits against the confirmatory resolutions adopted at this meeting. Some shareholders appealed against this ruling which is why a final decision has not yet been passed.

One former shareholder filed a separate suit asking the court to declare that UniCredit does not have rights stemming from shares in the Company especially those acquired in connection with the takeover offer in 2005; the suit was dismissed by Munich Regional Court I on 27 November 2008 as inadmissible; the plaintiff appealed against this ruling but withdrew the appeal in 2009. Thus, the action has been concluded in the Bank's favour.

The Annual General Meeting of Shareholders of UniCredit Bank AG passed a resolution dated 26 and 27 June 2007 in favour of asserting alleged claims for damages against UniCredit S.p.A. and its legal representatives and against the governing bodies of the Bank due to the alleged damage to the Bank's assets as a result of the sale of the Bank Austria shares as well as due to the BCA concluded between the Bank and UniCredit S.p.A., and appointed Dr Thomas Heidel, a solicitor, as a special representative. The Bank's now sole shareholder, UniCredit S.p.A., filed a lawsuit challenging this resolution. In its ruling of 27 August 2008, Munich Higher Regional Court stated that the resolution adopted during UniCredit Bank AG's Annual General Meeting of Shareholders on 26 and 27 June 2007 on the assertion of claims for damages due to damage caused to the Bank's assets and on the appointment of the special representative was partly invalid with regard to the enforcement of alleged claims for damages in connection with the conclusion of the BCA (lit. d of item 10 of the agenda of the Annual General Meeting of Shareholders in 2007). The special representative and other former minority shareholders of the Bank have filed an appeal against this decision and the denial of leave to appeal with the German Federal Supreme Court, a step also taken by UniCredit, the Bank's sole shareholder since 15 September 2008. A final ruling has not yet been made.

An Extraordinary Shareholders' Meeting of UniCredit Bank AG on 10 November 2008 revoked the resolution dated 26/27 June 2007 regarding the appointment of the special representative to assert alleged claims for damages due to the sale of Bank Austria and the conclusion of the BCA (item 10 of the agenda of the Annual General Meeting of Shareholders in 2007) and resolved that the appointed special representative be dismissed from office with immediate effect. Munich Higher Regional Court on 3 March 2010 dismissed the claims raised against the revocation of the resolutions to assert alleged claims for damages and to dismiss the special representative from office. This ruling is not yet final and binding.

Risk Report (Continued)

In letters dated 27 and 28 December 2007, the special representative demanded that UniCredit S.p.A. return the Bank Austria shares sold to it. After UniCredit S.p.A. rejected this request, the special representative, on 20 February 2008, filed a suit against UniCredit S.p.A., Alessandro Profumo, Dr Wolfgang Sprissler and Rolf Friedhofen as joint and severally liable for the return of the Bank Austria shares (and alternatively for claims for damages of at least €13.9 billion), and in addition to compensate any losses suffered by UniCredit Bank AG through the sale and transfer of said shares ("Heidel action") referring to the "hedge fund claims" mentioned below. On 10 July 2008 the special representative extended his suit and asserted additional alleged claims for damages amounting to least €2.92 billion against the defendants named above; the special representative alleges that UniCredit Bank AG suffered damages for at least the amount stated in connection with the contribution of the investment banking business of UniCredit Banca Mobiliare S.p.A. ("UBM"). The defendants are convinced that the alleged claims are unfounded.
In a ruling dated 2 June 2009, Munich Regional Court I ordered the stay of said proceedings until such time as a final decision has been passed in the suits challenging the resolutions of the Annual General Shareholders' Meeting dated 26/27 June 2007 (to assert alleged claims for damages and appointment of Dr Thomas Heidel) as well as the suits challenging the resolutions of the Annual General Meeting of Shareholders dated 10 November 2008 (revocation and dismissal of the special representative).

The Annual General Meeting of Shareholders of UniCredit Bank AG dated 26/27 June 2007 passed a resolution approving the transfer of the shares of the minority shareholders to the majority shareholder UniCredit S.p.A. in exchange for an appropriate cash settlement (€38.26 per share); at the same Annual General Meeting of Shareholders a resolution was passed to ratify the actions of the members of the Management Board and Supervisory Board in the 2006 financial year. 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 external shareholders.
Our Bank filed a motion on 7 December 2007, asking the court to grant clearance for the transfer resolution to be entered in the Commercial Register, notwithstanding the lawsuits challenging this resolution and asking the court to declare the transfer resolution null and void. After Munich Regional Court I had granted clearance in its decision on 24 April 2008, Munich Higher Regional Court dismissed the special appeals in its ruling of 3 September 2008. As a result the transfer resolution was entered in the Commercial Register on 15 September 2008. Since that date UniCredit has been the sole shareholder of UniCredit Bank AG.

In a decision on the merits of the case dated 28 August 2008, Munich Regional Court I dismissed the suits challenging all the resolutions adopted during the Annual General Meeting of Shareholders on 26 and 27 June 2007 and requesting them to be declared null and void, in particular the suit against the resolution to transfer the shares. In its decision passed on 27 August 2009, Munich Higher Regional Court rejected the appeals filed in this connection. The resolutions adopted at the Annual General Meeting of Shareholders on 26/27 June 2007 – especially the squeeze-out resolution – are thus binding irrespective of the fact that a constitutional complaint has been filed against the decision of the Higher Regional Court.

A total of eight hedge funds with headquarters in the United States of America, the Virgin Islands, the Cayman Islands, British West Indies and Bermuda, claiming that they are minority shareholders of our Bank, have filed suits against UniCredit S.p.A., Alessandro Profumo and Dr Wolfgang Sprissler, seeking (i) payment of €17.35 billion in damages to UniCredit Bank AG and (ii) payment by UniCredit of a guaranteed dividend starting from 19 November 2005 onwards ("hedge fund suits"); in their suits the plaintiffs argue that the sale of the shares in Bank Austria to UniCredit S.p.A. as well as the sale and transfer of further entities (especially CEE units and the asset management companies) sold to companies affiliated with UniCredit in each case were sold at a price significantly below market value. Another (former) shareholder, Verbraucherzentrale für Kapitalanleger e.V. (VzfK), filed another suit based on alleged damages against UniCredit Bank AG, Mr. Profumo and Dr Sprissler on similar grounds and asking for €173.5 million. On 29 July 2009, Munich Regional Court I decided to join the claims.
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 claims for damages are without foundation.
The plaintiffs of the hedge fund suits and another shareholder have also filed suits against the Bank, making the same arguments as mentioned above, seeking to have the 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. The proceedings have been suspended until final ruling has been passed on the hedge fund suits.

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 serious losses in earnings, thereby diminishing the market value of a company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour, and 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 associated with business risk. Within the framework of the changes to segment allocations carried out in the first half of 2009, we also updated the parameters for identifying business risk. As an advancement in methodology, we switched in 2009 from present value as the basis for calculating present risk to a period-based viewpoint. This permits a better assessment of the risk-taking capacity because the period-based viewpoint is now used both for the internal capital and the capital cushion when calculating business risk.

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.

The concentration of revenues with individual customers or in divisions, products or regions represents a substantial business strategyrelated risk for the Bank. Risks from concentrations of revenues are addressed by such measures as regular monitoring by the Controlling department because the avoidance of these risks is a key indicator of sustainable diversification and thus the ability of the business model to withstand crises. During the current crisis the broad diversification of HVB as a universal bank has proved particularly valuable.

Quantification and specification

The earnings-at-risk (the measure of unexpected fluctuations in earnings), without taking into account the diversification effects between risk types, decreased by €0.1 billion in the year under review to €0.4 billion, taking into account the update of the parameters and methodological advancements. The calculated economic capital for business risks of HVB amounted to €0.2 billion at year-end 2009 (equivalent year-end 2008: €0.3 billion). These figures also reflect the effects of the switch from a present value-based to a period-based viewpoint and the update of the correlation matrix for aggregating risk types carried out in 2009.

As in past years, we implemented a number of projects for process improvements and cost savings. In the year under review, we successfully continued the Delivery-on-Restructuring efficiency programme, which is designed to eliminate 2,500 positions in the period from 2008 to 2010. The completion of this programme is already assured due to the personnel measures taken.

In response to additional regulatory requirements for risk management (MaRisk) and in view of the public debate on remuneration systems, HVB has set up a Remuneration Committee. The task of this committee is to make sustainable earnings criteria the guiding principle for the structure of remuneration systems. In this context, the possibility cannot be ruled out that the realignment of salaries and bonuses may result in personnel changes that will affect HVB's human capital.

Risk Report (Continued)

The Other/consolidation segment again achieved efficiency gains in the Global Banking Services sub-segment, partly through outsourcing and partly through the Group-wide integration of IT and back-office functions. The uniform management of Group-wide workout units and external service providers generated clear cost benefits. Issues related to outsourcing and IT risk are discussed in detail under Operational Risk.

6 Risks arising from our own real estate portfolio

Risk management

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

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

Since 1 October 2007, HVB has been has been responsible for all strategic properties under its jurisdiction. Our strategic properties include all properties used by the Bank. In 2010 we plan to retain the strategic properties in the HVB portfolio.

The infrastructure and facility management activities of HVB were outsourced to the external service provider STRABAG Property and Facility Services GmbH with effect from 1 April 2009. Since then, a retained organisation remaining with HVB has provided the interface to the service provider.

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 indices for office rents. In addition, risk-reducing correlations between individual regional property markets are included.

The real estate economic capital for HVB at the end of 2009 amounted to €34 million (previous year: €46 million). These figures reflect the effect of the update of the correlation matrix for the aggregation of risk types carried out in 2009.

7 Risks arising from our shareholdings/financial investments

Risk management

We classify potential losses resulting from changes in market prices of our portfolio of listed and unlisted shareholdings, financial investments and corresponding fund shares under this risk type (operational subsidiaries of HVB Group are excluded). The overall portfolio is managed by the Management Board. Responsibility in HVB for preparing business strategies, and thus risk strategies, in connection with shareholdings/investments rests with the divisions and competence lines. Subsidiaries and participating interests are to be seen as instruments for achieving divisional strategies.

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 share-price fluctuations. In the case of investments in unlisted companies, we apply the carrying amounts as market value estimates as well as the volatilities of industry-specific indices.

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 promptly, analysed and reported to the Chief Financial Officer and, as needed, appropriately taken into account in the form of write-downs.

All investments are either considered strategic and allocated to a division or competence line, 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 2009 despite the sale of Vereinsbank Victoria Bauspar AG to Wüstenrot Bausparkasse. There are no plans for major changes. Additional investments in private equity funds were made only on a highly selective basis with the objective of achieving an appropriate risk/return balance with a broadly diversified portfolio. Investments are focussed on European buyout funds. The reduction of the non-strategic portfolio is progressing as planned. From a material standpoint, the disposal of our shareholding in the ERGO Versicherungsgruppe AG warrants a special mention.

Quantification and specification

The value-at-risk, without taking into account the diversification effects between risk types, increased by €0.1 billion to €0.9 billion. The economic capital of HVB increased by €0.1 billion to €0.5 billion. These figures reflect the effects of the update of the correlation matrix for the aggregation of risk types carried out in 2009 and also show the impact of the ongoing financial crisis.

8 Reputational risk

Risk management

Reputational risk is the present or future risk to earnings or capital arising from an unfavourable view of the Bank's image by customers, counterparties, shareholders, investors, rating agencies or supervisory authorities.

The assessment and valuation of reputational risk is a part of HVB's general risk strategy. Since July 2009, this work has been performed by the Reputational Risk Council of HVB, comprising the Chief Risk Officer and the head of Corporates Sale.

In our lending activities, special-sector policies are already being applied in addition to the general credit policy. The objective of these policies is to implement a particularly sensitive approach in certain industries, for instance the defence industry and utilities. This means not entering into certain business transactions in doubtful cases. In addition, it is mandatory to apply the International Finance Corporation Performance Standards of the World Bank with the related Environment Health & Safety Guidelines. In the project finance business the regulations defined in the Equator Principles must be applied as well. The policies also serve as the basis of our activities in asset management, in particular in the selection of funds.

The policies are developed in the course of a dialogue with non-governmental organisations such as the World Wide Fund for Nature (WWF). The Bank's objective is to take into account the interests of environmental and human rights organisations in addition to the economic interests of its customers.

Through the application of these policies, we are attempting to take into account the expectations of stakeholders and so rule out the possibility of damage to the Bank's reputation.

Quantification and specification

Since July 2009, incidents involving a potential reputational risk, such as grey-area cases as defined in the sector policies, are ruled on by the Management Board and documented by the Corporate Sustainability unit. IT-based documentation is not planned at present. We will continue to apply this proven process in 2010.

9 Strategic risk

The strategic risks of HVB are the same as those of HVB Group, so they are presented from the Group point of view.

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; in addition, some of them may be difficult to reverse.

Risk Report (Continued)

Notwithstanding the fact that HVB Group is part of UniCredit Group, the management of strategic risk lies within the corporate management responsibilities of the Management Board, which determines the risk positioning of HVB Group by defining the Bank's strategic orientation.

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

Risk monitoring
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 key business areas Corporate & Investment Banking, Retail, and Wealth Management, concentrating on its core market of Germany. Against this backdrop, the overall economic trend in Germany as well as the development of changes to the international financial and capital markets are of great importance for the assets, liabilities, financial position, and profit or loss of HVB Group.

In general terms, there is a risk that the economic recovery that began in the second half of 2009 will not be repeated to the same degree in 2010 and that economic conditions will remain difficult both worldwide and in Germany. In particular, a weak trend in important sectors such as the automotive and automotive supply industry, engineering and commercial real estate coupled with a rising unemployment rate could have a detrimental effect on loan-loss provisions. Decreasing central bank liquidity and a flat yield curve could negatively impact the capital markets and thus, indirectly, our total revenues.

As a whole, the overall economic environment will be subject to numerous sources of uncertainty in 2010 and the financial sector will continue to face major challenges during the year. For example, if we experience renewed turmoil on the financial markets, such as insolvencies in the financial sector or sovereign defaults, 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
HVB Group is responsible for the regional management of the German market and is also the centre of competence for the markets and investment banking operations of UniCredit Group. This gives rise to a balanced, solid business model built upon several pillars. Depending on developments on external markets, it is possible that imbalances in earnings contributions may arise.

The strategic objective of our Corporate & Investment Banking division is to be a leading, integrated European corporate and investment bank, offering our customers added value through specific relationship models geared to individual customers' needs. Despite the customer-oriented approach of our investment banking activities and the gradual elimination of proprietary trading, income naturally remains relatively volatile. Although investment banking is very profitable in a normal market environment, it is subject to increased income risks in difficult market situations.

Risks from the consolidation of the banking market
The German and international banking and financial markets have now been consolidating for many years. As a result of the uncertainty surrounding the consolidation and concentration in the German banking sector, it remains unclear how potential earnings will be divided among competitors in the future and at what cost market share can be won. The assets, liabilities, financial position, and profit or loss of HVB Group could be affected by an associated increase in the market power of its competitors. HVB Group does, however, have a functioning business model, a strong capital base and adequate liquid funds that will enable it to actively exploit suitable opportunities quickly and flexibly. In addition, HVB Group can leverage the international network of UniCredit Group for the benefit of its customers.

Risks from modified competitive conditions in the German financial sector
The German financial services market as HVB Group's core market 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, the loss of confidence on the part of customers and investors caused by the financial crisis has given rise to an ongoing trend for simpler, more traditional products. This development could be reinforced by the already tough competitive conditions. HVB Group nevertheless has funds available for possible expansions with regard to its balanced business model and very strong capital base, and has good chances of enhancing its market and earnings position. At the same time, 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.

Uncertainty about macroeconomic developments and risks from increasingly stringent regulatory requirements
The international discussion about the future regulatory environment for banks has many facets and the outcome is hard to assess at present in terms of complexity and cumulative effect. The regulatory environment will be tightened up across the board as a consequence of the financial crisis. It is possible, for instance, that the required core capital ratio will be raised and further regulatory ratios introduced. Besides increasing funding costs, the cost of implementing regulatory requirements and for updating IT systems accordingly will also rise in this context. Given our strong capital base, we believe we are well prepared for any modified capital requirements.

Risks from the imposition of new types of taxes to make banks contribute to the cost of the financial crisis
Several ways of making banks contribute to the cost of the financial crisis are currently being discussed internationally. Things like taxes on proprietary trading activities, taxes on financial transactions, and taxes on variable elements of remuneration paid to bank employees with comparatively high incomes are being cited. Actual draft laws are already being promoted in individual countries. The major industrialised nations can be expected to agree upon a coordinated approach. Besides extracting a contribution to the costs, these measures also have a political purpose. Should any of these issues currently under discussions actually be translated into new tax laws, HVB Group could face additional costs.

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 used to assess HVB Group, the result could be a downgrade. Such a change in the rating could make it harder to tap capital markets, with higher funding costs having a negative effect on the assets, liabilities, financial position, and profit or loss of HVB Group.

Income Statement of UniCredit Bank AG

For the year ended 31 December 2009

Expenses

(€ millions)

				2009	2008
1	**Interest payable**			6,403	12,308
2	**Fees and commissions payable**			919	1,046
3	**Net loss on financial operations**			—	3,149
4	**General administrative expense**				
	a) payroll costs				
	aa) wages and salaries	1,544			1,386
	ab) social security costs and expenses for				
	pensions and other employee benefits	720			348
			2,264		1,734
	including: for pensions				
	€530 million				(150)
	b) other administrative expenses		1,472		1,401
				3,736	3,135
5	**Amortisation, depreciation and impairment losses**				
	on intangible and tangible assets			106	159
6	**Other operating expenses**			203	114
7	**Write-downs and impairments for receivables and**				
	certain securities as well as additions to provisions				
	for losses on guarantees and indemnities			2,302	2,470
8	**Write-downs and impairments on participating**				
	interests, shares in affiliated companies				
	and investment securities			220	107
9	**Expenses from absorbed losses**			223	51
10	**Extraordinary expenses**			—	—
11	**Transfers to the special fund for general banking**				
	risks pursuant to Section 340g, Commercial Code			—	—
12	**Taxes on income**			322	149
13	**Other taxes, unless shown under**				
	"Other operating expenses"			2	21
14	**Net income**			1,633	—
Total expenses				**16,069**	**22,709**

Income

(€ millions)

		2009	2008
1 Interest income from			
a) loans and money market operations	8,217		12,164
b) fixed-income securities and government-inscribed debt	2,213		3,616
		10,430	15,780
2 Current income from			
a) equity securities and other variable-yield securities	426		832
b) participating interests	21		100
c) shares in affiliated companies	340		160
		787	1,092
3 Income earned under profit-pooling			
and profit-and-loss transfer			
agreements		18	52
4 Fees and commissions receivable		2,014	2,256
5 Net profit on financial operations		1,209	—
6 Write-ups on bad and doubtful debts and on certain			
securities as well as release of provisions for losses on			
guarantees and indemnities		1,244	1,002
7 Write-ups on participating interests,			
shares in affiliated companies and			
investment securities		—	—
8 Other operating income		367	176
9 Net loss		—	2,351
Total income		**16,069**	**22,709**
1 Net income/net loss		1,633	(2,351)
2 Withdrawal from retained earnings			
a) from legal reserve	—		—
b) from reserve for own shares	3		—
c) from other retained earnings	—		2,354
		3	2,354
3 Transfer to retained earnings			
a) to legal reserve	—		—
b) to reserve for own shares	—		3
c) to other retained earnings	3		—
		3	3
4 Profit available for distribution		1,633	—

Balance Sheet of UniCredit Bank AG

at 31 December 2009

Assets

(€ millions)

		31/12/2009	31/12/2008
1 Cash and cash balances			
a) cash on hand	495		536
b) balances with central banks	5,780		4,703
including: with Deutsche Bundesbank			
€4,707 million			(4,270)
		6,275	5,239
2 Treasury bills and other bills eligible			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	153		11
including: eligible for refinancing with			
Deutsche Bundesbank			
€152 million			(8)
b) bills of exchange	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
		153	11
3 Loans and receivables with banks			
a) repayable on demand	23,845		24,525
b) other loans and receivables	39,607		51,210
		63,452	75,735
including: mortgage loans			
€— million			(—)
municipal loans			
€752 million			(767)
4 Loans and receivables with customers		118,781	143,717
including: mortgage loans			
€53,428 million			(61,531)
municipal loans			
€13,673 million			(14,413)
other loans secured by			
real-estate liens			
€3,474 million			(3,671)
Amount carried forward:		188,661	224,702

Liabilities

(€ millions)

			31/12/2009	31/12/2008
1 Deposits from banks				
a) repayable on demand		16,910		12,966
b) with agreed maturity dates or periods of notice		46,379		85,866
			63,289	98,832
including: registered mortgage bonds in issue				
€1,344 million				(1,483)
registered public-sector bonds in issue				
€450 million				(445)
bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€1 million				(2)
and registered public-sector bonds				
€5 million				(3)
2 Deposits from customers				
a) Savings deposits				
aa) with agreed period of notice of three months	13,016			11,530
ab) with agreed period of notice				
of more than three months	72			110
		13,088		11,640
b) registered mortgage bonds in issue		9,962		10,590
c) registered public-sector bonds in issue		4,020		3,860
d) other debts				
da) repayable on demand	40,173			45,297
db) with agreed maturity dates or periods of notice	57,321			82,963
including: bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€40 million				(76)
and registered public-sector bonds				
€34 million				(60)
		97,494		128,260
			124,564	154,350
Amount carried forward:			187,853	253,182

Assets

(€ millions)

			31/12/2009	31/12/2008
Amount brought forward:			188,661	224,702
5 Bonds and other				
fixed-income securities				
a) money market paper				
aa) issued by public authorities	3			1,281
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(864)
ab) issued by other borrowers	6,835			12,197
including: those eligible for collateral for				
Deutschen Bundesbank advances				
€2,298 million				(7,506)
		6,838		13,478
b) bonds and notes				
ba) issued by public authorities	24,173			20,615
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€23,573 million				(20,109)
bb) issued by other borrowers	47,842			65,124
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€26,995 million				(34,974)
		72,015		85,739
c) own bonds		13,169		15,582
nominal value €14,907 million				(16,634)
			92,022	114,799
6 Equity securities and other variable-yield securities			10,044	12,663
7 Participating interests			1,053	1,091
including: in banks				
€21 million				(19)
in financial service institutions				
€— million				(—)
8 Shares in affiliated companies			2,915	3,014
including: in banks				
€1,123 million				(1,186)
in financial service institutions				
€240 million				(46)
Amount carried forward:			294,695	356,269

Liabilities

(€ millions)

			31/12/2009	31/12/2008
Amount brought forward:			187,853	253,182
3 Debt securities in issue				
a) bonds				
aa) mortgage bonds	19,256			19,556
ab) public-sector bonds	2,691			3,233
ac) other bonds	38,094			37,186
		60,041		59,975
b) other debt securities in issue		—		—
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(—)
			60,041	59,975
4 Trust liabilities			232	247
including: loans taken out on a trust basis				
€232 million				(247)
5 Other liabilities			30,559	28,162
6 Deferred income				
a) from issuing and lending operations		62		89
b) other		225		268
			287	357
7 Provisions				
a) provisions for pension fund				
and similar obligations		590		1,523
b) tax provisions		663		559
c) other provisions		2,195		2,019
			3,448	4,101
8 Subordinated liabilities			5,193	7,632
9 Participating certificates outstanding			205	205
including: those due in less than two years				
€50 million				(—)
10 Fund for general banking risks			291	291
Amount carried forward:			288,109	354,152

Balance Sheet of UniCredit Bank AG (Continued)

Assets

(€ millions)

		31/12/2009	31/12/2008
Amount brought forward:		294,695	356,269
9 Trust assets		232	247
including: loans granted on a trust basis			
€232 million			(247)
10 Intangible assets		189	261
11 Property, plant and equipment		287	314
12 Own shares		—	—
nominal value €— million			(—)
13 Other assets		13,497	16,155
14 Prepaid expenses			
a) from issuing and lending operations	93		134
b) other	83		106
		176	240
Total assets		309,076	373,486

Liabilities

(€ millions)

			31/12/2009	31/12/2008
Amount brought forward:			288,109	354,152
11 Shareholders' equity				
a) subscribed capital		2,407		2,407
divided into:				
787,830,072 shares of common				
bearer stock				
14,553,600 shares of registered				
non-voting preferred stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for own shares	—			3
cc) other retained earnings	7,136			7,133
		7,136		7,136
d) profit available for distribution		1,633		—
			20,967	19,334
Total liabilities and shareholders' equity			**309,076**	**373,486**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		32,070		39,976
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			32,070	39,976
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		31,373		41,912
			31,373	41,912

Notes

Legal basis

The annual financial statements of UniCredit Bank AG ("HVB") for the 2009 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (Handelsgesetzbuch – HGB), the German Stock Corporation Act (Aktiengesetz – AktG), the German Pfandbrief Act (Pfandbriefgesetz – PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

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

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

Accounting, valuation and disclosure

The German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) came into force at the end of May 2009. This law essentially contains simplifications to accounting rules for small companies, the implementation of EU directives (regarding amendments to accounting rules and statutory audits of annual accounts and consolidated accounts) and changes to accounting rules. Whereas the regulations regarding simplifications for small companies and the implementation of the EU directives became applicable when law came into force, the changes to accounting rules are not subject to mandatory first-time application for HVB until the 2010 financial year. Use has not been made of the option of applying these rules prematurely in the 2009 financial year.

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

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

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

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

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

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

Securities are shown under the items bonds and other fixed-income securities (asset item 5) and equity securities and other variable-yield securities (asset item 6). Depending on specific criteria like holding period and purpose, all securities are classified as held for trading purposes, as investment securities or as held for liquidity purposes (securities treated neither as held for trading purposes nor as investment securities). HVB's total holdings consist of 54.9% held for trading purposes, 23.8% held for liquidity purposes and 21.2% investment securities on the balance sheet date.

Investment securities are valued in accordance with the regulations set forth in Section 253 (2) 3, German Commercial Code, which only allow for write-downs to be taken in the event of probable permanent impairment. Securities held for liquidity purposes are valued strictly at the lower of the moving average value or the market price at the balance sheet date, as provided for in Section 253 (3) 1, German Commercial Code.

Securities held for liquidity purposes that are hedged by offsetting positions are treated in accordance with the valuation-unit principles. Consequently, HVB has established documented, predefined valuation units which are subject to strict preconditions; these are made up of underlying on-balance-sheet transactions (such as fixed-income securities) and associated hedging instruments (such as interest rate swaps) for the same type of risk. Within the individual valuation units, the results of valuing the individual financial instruments are netted. Any residual profit is disregarded when net income is computed; a loss is covered by appropriate provisions for anticipated losses on pending transactions.

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign currencies

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

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

Notes to the Balance Sheet

Breakdown by maturity of selected asset items

(€ millions)

			2009	2008
A 3 b)	Other loans and receivables with banks			
	with residual maturity of	less than 3 months	28,761	36,439
		at least 3 months but less than 1 year	4,888	7,044
		at least 1 year but less than 5 years	3,030	4,189
		5 years or more	2,928	3,538
A 4)	Loans and receivables with customers			
	with residual maturity of	less than 3 months	9,553	16,325
		at least 3 months but less than 1 year	10,084	11,798
		at least 1 year but less than 5 years	32,614	35,527
		5 years or more	55,239	66,884
		No fixed maturity	11,291	13,183
A 5)	Bonds and other fixed-income securities amounts due in the following year		26,929	29,394

Breakdown by maturity of selected liability items

(€ millions)

			2009	2008
L 1 b)	Deposits from banks			
	with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	27,012	64,177
		at least 3 months but less than 1 year	3,412	3,341
		at least 1 year but less than 5 years	8,215	9,702
		5 years or more	7,740	8,646
	Deposits from customers			
L 2 ab)	Savings deposits with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	3	3
		at least 3 months but less than 1 year	5	30
		at least 1 year but less than 5 years	24	33
		5 years or more	40	44
L 2 b)	Registered mortgage bonds in issue,			
L 2 c)	registered public-sector bonds in issue,			
L 2 db)	other debts with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	37,204	53,021
		at least 3 months but less than 1 year	10,821	9,533
		at least 1 year but less than 5 years	9,940	9,497
		5 years or more	13,338	25,362
	Debt securities in issue			
L 3 a)	Bonds amounts due in following year		23,367	18,745
L 3 b)	Other debt securities in issue			
	with residual maturity of	less than 3 months	—	—
		at least 3 months but less than 1 year	—	—
		at least 1 year but less than 5 years	—	—
		5 years or more	—	—

Notes to the Balance Sheet (Continued)

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

(€ millions)

	AFFILIATES 2009	AFFILIATES 2008	PARTICIPATING INTERESTS 2009	PARTICIPATING INTERESTS 2008
Loans and receivables with banks	21,608	32,902	395	538
Loans and receivables with customers	1,770	2,567	4,708	7,076
Bonds and other fixed-income securities	2,764	3,533	11,846	710
Deposits from banks	9,189	12,859	215	498
Deposits from customers	2,398	2,799	20,031	24,220
Debt securities in issue	1,956	1,616	—	—
Subordinated liabilities	1,599	1,615	—	—

Trust business

Trust business assets and liabilities break down as follows:

(€ millions)

	2009	2008
Loans and receivables with banks	87	90
Loans and receivables with customers	145	157
Equity securities and other variable-yield securities	—	—
Participating interests	—	—
Other assets	—	—
Trust assets	**232**	**247**
Deposits from banks	5	6
Deposits from customers	227	241
Debt securities in issue	—	—
Trust liabilities	**232**	**247**

Foreign-currency assets and liabilities

70.7% of HVB's foreign-currency holdings consist of US dollars, 10.8% of pounds sterling, 7.1% of Japanese yen and 3.6% of Swiss francs.

(€ millions)

	2009	2008
Assets	37,983	49,671
Liabilities	32,458	34,712

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

Subordinated asset items

The following balance sheet items contain subordinated assets:

(€ millions)

	2009	2008
Loans and receivables with banks	1,478	1,496
Loans and receivables with customers	600	812
Bonds and other fixed-income securities	3,623	4,862
Equity securities and other variable-yield securities	5	10
thereof: own participating certificates in market-smoothing portfolio	—	—

Marketable debt and equity securities

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

	TOTAL MARKETABLE SECURITIES 2009	TOTAL MARKETABLE SECURITIES 2008	OF WHICH: LISTED 2009	OF WHICH: LISTED 2008	OF WHICH: UNLISTED 2009	OF WHICH: UNLISTED 2008
Bonds and other						
fixed-income securities	92,022	114,799	64,157	78,526	27,864	36,273
Equity securities and other						
variable-yield securities	6,700	8,889	6,509	7,583	191	1,306
Participating interests	102	98	102	98	—	—
Shares in affiliated companies	264	262	264	262	—	—

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

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

Non-current securities contain financial instruments carried at an amount higher than their fair value. The carrying amount of these securities is €21,407 million and the fair value €20,473 million. Given the development of interest and rating risks, we do not believe that these securities have suffered a permanent loss of value.

As the intention to trade was withdrawn, securities held for trading purposes with a carrying amount of €9,155 million were reclassified as investment securities in the year under review.

Notes to the Balance Sheet (Continued)

Analysis of non-current assets

(€ millions)

	ACQUISITION/ PRODUCTION COST 1	ADDITIONS DURING FINANCIAL YEAR 2	DISPOSALS DURING FINANCIAL YEAR 3	RECLASSIFICATIONS DURING FINANCIAL YEAR[2] 4
Intangible assets	776	81	136	(1)
thereof: Goodwill	—	—	—	—
Software	776	53	136	(1)
Other intangible assets	—	28	—	—
Property, plant and equipment	627	7	36	(1)
thereof: Land and buildings used by HVB in				
its operations	292	—	—	—
Furniture and office equipment	335	7	36	(1)
Other non-current assets	21	—	—	—
	ACQUISITION COST			**CHANGES +/–[1]**
Participating interests	1,091			(38)
Shares in affiliated companies	3,014			(99)
Investment securities	16,217			5,430

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

Intangible assets

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

Non-scheduled amortisation is taken on unused software developments.

Other assets

(€ millions)

	2009	2008
Premiums paid on options pending	7,625	11,180
Offsetting valuation item from assets held for trading purposes	3,725	2,247
Claims to tax reimbursements	409	496
Variation margin DTB	408	415
Claims to dividends	352	181
Capital investments with life insurers	198	193
Collection paper, such as cheques, matured debentures, interest and dividend coupons	143	150
Equalisation item for revaluation of tied currency positions	74	961
Purchase price receivables	2	9
Merger-related differences in market values of VuW portfolios	—	28

(€ millions)

WRITE-UPS DURING FINANCIAL YEAR 5	DEPRECIATION/ AMORTISATION ACCUMULATED 6	SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 7	NON-SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 8	NET BOOK VALUE 31/12/2009 9	NET BOOK VALUE 31/12/2008 10
—	531	16	1	189	261
—	—	—	—	—	—
—	527	12	1	165	261
—	4	4	—	24	—
—	310	(4)	—	287	314
—	85	9	—	207	216
—	225	(13)	—	80	98
—	—	—	—	21	21
				NET BOOK VALUE 31/12/2009	**NET BOOK VALUE 31/12/2008**
				1,053	1,091
				20,915	3,014
				21,647	16,217

Prepaid expenses

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

(€ millions)

	2009	2008
Discounts on funds borrowed	93	134
Premiums on amounts receivable	—	—

Assets assigned or pledged as security for own liabilities

Assets totalling €57,748 million were assigned or pledged as security for the following liabilities:

(€ millions)

	2009	2008
Deposits from banks	39,019	45,794
Deposits from customers	18,729	30,399
Provisions for pension fund and similar obligations	590	1,523

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

As a seller under repurchase agreements, HVB entered into sales and repurchase transactions for securities with a book value of €51,380 million. These securities continue to be shown under HVB's assets, and the consideration received in return is stated under liabilities. They comprise mainly open-market transactions with Deutsche Bundesbank and international money market transactions.

At the same time, further assets totalling €14,892 million were pledged as security for securities lending transactions and exchange-traded derivatives.

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

Notes to the Balance Sheet (Continued)

Other liabilities

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

(€ millions)

	2009	2008
Premiums received on options pending	9,630	12,202
Liabilities from short securities positions	8,476	13,392
Obligations arising from debts assumed	1,341	1,355
Liabilities from allowances paid to and losses absorbed from subsidiaries	223	51
Variation margin DTB	188	401
Taxes payable	131	188
Banking book valuation reserves	55	66
Accrued interest on participating certificates outstanding	5	5
Merger-related differences in market values of VuW portfolios	—	19

Deferred income

Discounts on amounts receivable shown at nominal value totalled €44 million.

Provisions

Other provisions include the following items:

(€ millions)

	2009	2008
Provisions for losses on guarantees and indemnities	304	280
Anticipated losses on pending transactions	532	563
Provisions for uncertain liabilities	1,243	1,097
of which:		
Bonuses on savings plans	19	19
Anniversary bonus payments	72	79
Payments for early retirement, semi-retirement, etc.	18	28
Payments to employees	334	258
Restructuring provisions	116	79
Total other provisions	**2,195**	**2,019**

Subordinated liabilities

This item includes accrued interest of €98 million. HVB incurred interest expenses of €311 million in 2009.

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

On 5 February 2002, HVB issued a subordinated bond with a volume of €750 million. This subordinated bond matures on 5 February 2014. The coupon is 6%.

Participating certificates outstanding

The following table shows the breakdown of participating certificates outstanding:

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

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

In each case, the participating certificates grant holders an entitlement to an annual interest payment with priority over the entitlement of shareholders to dividend payments; the interest payments arising from the participating certificates are reduced if such payments would result in a net loss for the year. In the event of the interest payment being reduced, the shortfall is to be paid in the subsequent financial years, provided this does not result in a net loss for the year; a claim to such 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 for the 2009 financial year were made in full.

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

Shareholders' Equity

Analysis of shareholders' equity shown in the balance sheet

(€ millions)

Subscribed capital		
Balance at 1 January 2009	2,407	
Balance at 31 December 2009		2,407
Additional paid-in capital		
Balance at 1 January 2009	9,791	
Balance at 31 December 2009		9,791
Retained earnings		
Legal reserve		
Balance at 1 January 2009	—	
Balance at 31 December 2009		—
Reserve for own shares		
Balance at 1 January 2009	3	
Withdrawal from reserve for own shares	(3)	
Balance at 31 December 2009		—
Other retained earnings		
Balance at 1 January 2009	7,133	
Transfers arising from the reversal of the reserve for own shares	3	
Balance at 31 December 2009		7,136
Profit available for distribution		
Balance at 1 January 2009	—	
Net profit	1,633	
Balance at 31 December 2009		1,633
Shareholders' equity at 31 December 2009		20,967

Authorised capital increase

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

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

An amount of €155 million from the authorised capital increase was used for the transfer of the investment banking activities of the former UniCredit Banca Mobiliare S.p.A. (UBM) to HVB in April 2007 as a part of a capital increase against a contribution in kind. The remaining authorised capital increase which was available until 29 April 2009 has expired.

Conditional capital

No use was made of the authorisation to issue conditional capital that expired on 14 May 2008.

The conditional capital was consequently dissolved by way of a resolution adopted by the Annual General Meeting of Shareholders on 19 May 2009.

Holdings of UniCredit Bank AG stock in excess of 5%

(in %)

	2009	2008
UniCredit S.p.A.	100.0	100.0

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

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

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

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

Services performed for third parties

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

Breakdown of income by region

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

(€ millions)

	2009	2008
Germany	11,616	13,936
Rest of Europe	2,671	4,332
Americas	323	655
Asia	215	433

Breakdown of other operating income and expenses

This item primarily includes income from the reversal of provisions other than provisions for lending and securities operations (€177 million) and payroll costs and costs of materials passed on (€94 million).

Other operating expenses include the following:
– compensation and ex gratia payments (€71 million)
– additions to provisions other than provisions for lending and securities operations (€67 million)

Taxes on income

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

Net profit

HVB generated a net profit of €1,633 million in 2009. The reserve of €3 million for own shares set up in 2008 was reversed and transferred to other retained earnings. The profit available for distribution, which forms the basis for the appropriation of profit, amounts €1,633 million. We will propose to the Annual General Meeting of Shareholders that a dividend of €1,633 million be paid to our sole shareholder, UniCredit S.p.A. (UCI), Rome, Italy. This represents a dividend of around €2.03 per share of common stock and per share of preferred stock, an advance dividend of €0.064 per share of preferred stock and a retroactive payment on the advance share of profits of €0.064 per share of preferred stock for 2008.

Other Information

Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €32,070 million:

(€ millions)

	2009	2008
Loan guarantees	11,918	15,473
Guarantees and indemnities	18,893	22,493
Documentary credits	1,259	2,010

Irrevocable lending commitments totalling €31,373 million break down as follows:

(€ millions)

	2009	2008
Book credits	29,882	37,568
Mortgage and municipal loans	951	1,069
Guarantees	510	3,205
Bills of exchange	30	70

Other financial commitments arising from real estate and IT operations total €317 million (2008: €344 million). A large part of the total relates to contracts with subsidiaries. The contracts run for standard market periods, and no charges have been put off to future years.

At the balance sheet date, HVB had pledged securities worth €3,197 million as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main, Clearstream Banking S.A., Luxembourg and Clearstream Banking AG, Frankfurt am Main.

As part of real estate financing and development operations, HVB assumes rental obligations or issues rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by its H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. 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 €639 million at year-end 2009, and similar obligations for shares in cooperatives totalled €1 million. Under Section 22 (3) and Section 24 of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG), HVB was also liable for defaults on such calls in respect of one company for an aggregate of €1 million.

Under Section 26 of the German Private Limited Companies Act, HVB was liable for calls for additional capital of €5 million with regard to CMP Fonds I GmbH and of €57 million with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, at year-end 2009. In addition, under Article 5 (4) of the Articles of Association of Liquiditäts-Konsortialbank GmbH, HVB is jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

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

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

Auditor's fees

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

(€ millions)

	2009	2008
Fees for		
Auditing of the financial statements	6	5
Other auditing services	4	2
Tax consulting services	—	—
Other services	5	2

Other Information (Continued)

Statement of responsibility

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

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
DAB Bank AG, Munich[1]
2. Banks in other regions
HVB Singapore Limited, Singapore
UniCredit Luxembourg S.A., Luxembourg
3. Financial companies
Beteiligungs- und Handelsgesellschaft in Hamburg mit beschränkter Haftung, Hamburg
HVB Alternative Financial Products AG, Vienna
UniCredit Leasing GmbH, Hamburg
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 is also reduced to the same extent with regard to commitments of the relevant company that did not arise until after our shareholding decreased.

HVB no longer provides a Statement of Responsibility for companies which left HVB Group in a previous 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 earlier Statements of Responsibility.

Key capital ratios

Pursuant to Section 10 (1d) of the German Banking Act, equity capital for solvency purposes consists of the modified available capital and Tier 3 capital.

The modified available capital, consisting of core capital and supplementary capital, totalled €23,457 million at year-end. There was no Tier 3 capital. We have not allocated any unrealised reserves to supplementary capital compliant with Section 10 (2b) 1 No. 6 and 7 of the German Banking Act.

The liable funds totalling €23,340 million calculated in accordance with Section 10 (2) of the German Banking Act are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits.

Derivative financial instruments

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

Employees

The average number of staff employed was as follows:

	2009	2008
Staff (excluding trainees)	17,396	19,346
of whom: full-time	13,500	15,077
part-time	3,896	4,269
Trainees	1,046	1,025

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

	WOMEN	MEN	2009	2008
	(EXCLUDING TRAINEES)		TOTAL	
Staff's length of service				
25 years or more	15.7	19.1	17.2	16.3
15 to 25 years	36.8	25.7	31.7	29.2
10 to 15 years	14.4	12.8	13.7	14.4
5 to 10 years	23.1	23.1	23.1	13.0
less than 5 years	10.0	19.3	14.3	27.1

Emoluments

(€ millions)

	2009	2008
Members of the Management Board	6	8
Members of the Supervisory Board	1	1
Former members of the Management Board and their surviving dependants	10	10

At 31 December 2009, HVB had pension provisions for former members of the Management Board and their surviving dependants totalling €23 million (2008: €94 million) calculated in accordance with Section 6a of the German Income Tax Act using actuarial principles. Pension commitments to former HVB executives were transferred when HVB Trust Pensionsfonds AG was set up.

Loans to executive board members

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

	2009	2008
Members of the Management Board	1	3
Members of the Supervisory Board	5	1

Other Information (Continued)

Executive boards

Supervisory Board

Alessandro Profumo
Chairman
until 5 February 2009

Sergio Ermotti
Chairman[1]

Peter König
Deputy Chairman

Dr Lothar Meyer
Deputy Chairman[2]

Dr Wolfgang Sprissler
Deputy Chairman
since 5 February 2009

Gerhard Bayreuther

Aldo Bulgarelli

Beate Dura-Kempf

Paolo Fiorentino

Dario Frigerio
until 5 February 2009

Giulio Gambino

Klaus Grünewald

Karl Guha
since 5 February 2009

Ranieri de Marchis
until 23 July 2009

Beate Mensch

Marina Natale
since 24 July 2009

Roberto Nicastro

Vittorio Ogliengo
until 5 February 2009

Panagiotis Sfeliniotis

Professor Hans-Werner Sinn

Jutta Streit

Michael Voss

Jens-Uwe Wächter

Dr Susanne Weiss
since 5 February 2009

Management Board

Peter Buschbeck
since 1 August 2009

Willibald Cernko
until 30 September 2009

Lutz Diederichs

Rolf Friedhofen

Henning Giesecke
until 31 July 2009

Heinz Laber

Andrea Umberto Varese
since 1 August 2009

Dr Theodor Weimer
Board Spokesman

Andreas Wölfer

1 since 5 February 2009
2 until 5 February 2009

List of Executives and Outside Directorships[1]

Supervisory Board

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

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

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

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	PROVISIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Paolo Fiorentino Deputy CEO of UniCredit S.p.A., Head of Global Banking Services Strategic Business Area, member of the Management Committee of UniCredit S.p.A., Milan		UniCredit Bank Austria AG, Vienna[2] Bank Pekao SA, Warsaw (deputy chairman)[2] UniCredit Global Information Service S.p.A., Milan[2] Banca di Roma, Rome[2]
Dario Frigerio Head of Asset Management Division[5], member of the Management Committee of UniCredit S.p.A.[5], Milan until 5 February 2009		Pioneer Global Asset Management S.p.A., Milan[2] Pioneer Investment Management Ltd., Dublin[2] Pioneer Investment Management SGRp.A., Milan[2] Pioneer Alternative Investment Management, Dublin[2] Pioneer Investment Management USA Inc., Boston[2] Baroda Pioneer Asset Management, Mumbai[2] Finecobank S.p.A., Milan[2]
Giulio Gambino Employee, UniCredit Bank AG, Unterschleißheim		
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia IT AG, Karlsruhe	
Karl Guha Chief Risk Officer, member of the Management Committee of UniCredit S.p.A., Milan since 5 February 2009		
Ranieri de Marchis Head of Internal Audit of UniCredit S.p.A., Milan until 23 July 2009		UniCredit Audit S.p.A., Milan[2] Fondo Interbancario di Tutela dei Depositi, Milan
Beate Mensch Trade union secretary in the North Rhine-Westphalian division of ver.di-Vereinte Dienstleistungsgewerkschaft, unit 10, Cologne	DHL Freight GmbH, Bonn	
Marina Natale Chief Financial Officer of UniCredit S.p.A., member of the Management Committee of UniCredit S.p.A., Uboldo since 24 July 2009		

1 as of 31 December 2009
2 Group directorship
5 until 31 January 2010

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	PROVISIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Roberto Nicastro Deputy CEO of UniCredit S.p.A., Head of Retail Strategic Business Area, member of the Management Committee of UniCredit S.p.A., Milan		Zao UniCredit Bank[2] Banco di Sicilia[2] ABI – Italian Banking Association[2] UniCredit Bank Austria AG, Vienna[2] EFMA SARL (European Financial Management & Marketing Association), Paris (chairman)
Vittorio Ogliengo Head of Financing & Advisory, member of the Management Committee of UniCredit S.p.A., Parma until 5 February 2009		UniCredit Global Leasing S.p.A., Milan (chairman)[2] UniCredit Bank Austria AG, Vienna[2]
Panagiotis Sfeliniotis Employee, UniCredit Direct Services GmbH, Munich	UniCredit Direct Services GmbH, Munich	
Professor Hans-Werner Sinn President of the ifo Institute for Economic Research, Gauting	Thüga AG, Munich	
Jutta Streit Employee, UniCredit Bank AG, Augsburg		
Michael Voss Employee, UniCredit Bank AG, Gröbenzell		
Jens-Uwe Wächter Employee, UniCredit Bank AG, Himmelpforten		
Dr Susanne Weiss Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich since 5 February 2009	Giesecke & Devrient GmbH, Munich ROFA AG (chairman) Wacker Chemie AG	

1 as of 31 December 2009
2 Group directorship

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

Management Board

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Peter Buschbeck since 1 August 2009	Bankhaus Neelmeyer AG, Bremen (chairman)[2], since 1 October 2009 PlanetHome AG, Unterföhring near Munich (deputy chairman)[2], since 1 October 2009 UniCredit Direct Services GmbH, Munich (chairman)[2], since 1 October 2009	Wealth Management Capital Holding GmbH, Munich[2], since 1 October 2009
Willibald Cernko until 30 September 2009		card complete Service Bank AG, Vienna, Notartreuhandbank AG, Vienna (deputy chairman)
Lutz Diederichs	Deutsche Schiffsbank AG, Bremen/Hamburg, Köhler & Krenzer Fashion AG, Ehrenberg	UniCredit Leasing S.p.A., Bologna
Rolf Friedhofen	HVB Immobilien AG, Munich (deputy chairman)[2] HVB Trust Pensionsfonds AG, Munich[2], since 29 September 2009	Wealth Management Capital Holding GmbH, Munich (deputy chairman)[2]
Henning Giesecke until 31 July 2009	Endurance Capital AG, Munich (deputy chairman), Rothenberger AG, Kelkheim	
Heinz Laber	Internationales Immobilien-Institut GmbH, Munich[2], since 23 October 2009 HVB Immobilien AG, Munich, (chairman)[2] HVB Trust Pensionsfonds AG, Munich[2], since 29 September 2009	BVV Versicherungsverein des Bankgewerbes a.G., Berlin UniCredit Business Partner Società Consortile per Azioni, Cologno Monzese, since 22 January 2009 UniCredit Global Information Services Società Consortile per Azioni, Milan, since 22 May 2009
Andrea Umberto Varese since 1 August 2009	HVB Immobilien AG, Munich[2]	Locat Croatia DOO, Zagreb Wealth Management Capital Holding GmbH, Munich[2] Zao Locat Leasing Russia, Moscow
Dr Theodor Weimer Spokesman	DAB Bank AG, Munich (chairman)[2], since 14 May 2009	UniCredit Luxembourg S.A., Luxembourg (deputy chairman)[2], since 1 July 2009
Andreas Wölfer		Schoellerbank Aktiengesellschaft, Vienna, since 11 March 2009 UniCredit Luxembourg S.A., Luxembourg (chairman)[2] UniCredit Private Banking S.p.A., Turin, since 7 May 2009 Wealth Management Capital Holding GmbH, Munich (deputy chairman)[2]

1 as of 31 December 2009
2 Group directorship

List of employees and outside directorships

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Carsten Dieck	UniCredit Leasing GmbH, Hamburg (deputy chairman)[2]
Matthias Glückert	Oechsler AG, Ansbach
Klaus Greger	Bankhaus Neelmeyer AG, Bremen (deputy chairman)[2] UniCredit Leasing GmbH, Hamburg (chairman)[2]
Dr Rainer Hauser	UniCredit Direct Services GmbH, Munich (deputy chairman)[2]
Dr Martin Hebertinger	UniCredit Direct Services GmbH, Munich[2] UniCredit Leasing GmbH, Hamburg[2]
Sven Loeckel	ConCardis Gesellschaft mit beschränkter Haftung, Frankfurt am Main
Martin Marsmann	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main
Dr Reiner Meisinger	AGROB Immobilien AG, Ismaning[2]
Jörg Pietzner	Bankhaus Neelmeyer AG, Bremen[2]
Dr Guido Schacht	AVAG Holding AG, Augsburg
Joachim Scheuenpflug	Bankhaus Neelmeyer AG, Bremen[2] PlanetHome AG, Unterföhring near Munich[2]
Federico Sforza	UniCredit Direct Services GmbH, Munich[2]
Stefan Sonnenberg	Bankhaus Neelmeyer AG, Bremen[2]
Gabriela Vetter	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main
Heike Wagner	WABCO GmbH, Hanover WABCO Holding GmbH, Hanover

1 as of 31 December 2009
2 Group directorship

Mortgage Banking

Coverage

(€ millions)

	2009	2008
A. Mortgage bonds		
Standard coverage		
1. Loans and receivables with banks		
Mortgage loans	—	—
2. Loans and receivables with customers		
Mortgage loans	32,055	36,132
Other eligible cover[1]		
1. Other lending to banks	—	400
2. Bonds and other fixed-income securities	2,313	649
3. Equalisation claims on government authorities	—	—
Subtotal	**34,368**	**37,181**
Total mortgage bonds requiring cover	29,874	30,908
Excess coverage	**4,494**	**6,273**
B. Public-sector bonds		
Standard coverage		
1. Loans and receivables with banks	906	837
Mortgage loans	—	—
Municipal loans	906	837
2. Loans and receivables with customers	8,184	9,260
including:		
mortgage loans	282	704
municipal loans	7,902	8,556
3. Bonds and other fixed-income securities	672	786
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**9,762**	**10,883**
Total public-sector bonds requiring cover	7,056	7,437
Excess coverage	**2,706**	**3,446**

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

Mortgage bonds outstanding and covering assets used

(€ millions)

	NOMINAL 2009	NOMINAL 2008	PRESENT VALUE 2009	PRESENT VALUE 2008	RISK PRESENT VALUE 2009	RISK PRESENT VALUE 2008
1. Mortgage bonds						
Covering assets[1]	34,368	37,181	36,737	39,441	38,063	41,086
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	29,874	30,908	32,045	32,926	33,512	34,830
Excess coverage	**4,494**	**6,273**	**4,692**	**6,515**	**4,551**	**6,256**
2. Public-sector bonds						
Covering assets[2]	9,762	10,883	10,395	11,567	10,019	11,113
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	7,056	7,437	7,602	7,963	7,245	7,528
Excess coverage	**2,706**	**3,446**	**2,793**	**3,604**	**2,774**	**3,585**

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

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

(€ millions)

	COVERING ASSETS 2009	COVERING ASSETS 2008	MORTGAGE BONDS 2009	MORTGAGE BONDS 2008
1. Mortgage bonds[1]				
less than 1 year	11,226	12,209	4,300	2,291
at least 1 year but less than 5 years	14,821	15,569	15,748	17,197
thereof: at least 1 year but less than 2 years	4,643	—	4,943	—
thereof: at least 2 years but less than 3 years	4,271	—	5,564	—
thereof: at least 3 years but less than 4 years	3,113	—	2,846	—
thereof: at least 4 years but less than 5 years	2,794	—	2,395	—
at least 5 years but less than 10 years	7,335	8,109	7,184	9,016
10 years or more	986	1,294	2,642	2,404
	34,368	**37,181**	**29,874**	**30,908**
2. Public-sector bonds[2]				
less than 1 year	3,745	4,196	1,670	1,844
at least 1 year but less than 5 years	3,329	3,750	2,036	2,013
thereof: at least 1 year but less than 2 years	1,250	—	654	—
thereof: at least 2 years but less than 3 years	740	—	414	—
thereof: at least 3 years but less than 4 years	620	—	375	—
thereof: at least 4 years but less than 5 years	719	—	593	—
at least 5 years but less than 10 years	1,982	2,224	2,012	2,154
10 years or more	706	713	1,338	1,426
	9,762	**10,883**	**7,056**	**7,437**

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act
2 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act
3 breakdown as per amended German Pfandbrief Act 2009 (no information available for 2008)

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

(€ millions)

	2009	2008
Mortgage covering assets		
up to and including €300,000	18,724	22,312
over €300,000 up to and including €5,000,000	8,966	9,754
more than €5,000,000	4,366	4,066
	32,056	**36,132**

Mortgage Banking (Continued)

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

(€ millions)

	MORTGAGE COVERING ASSETS			
	RESIDENTIAL PROPERTY		COMMERCIAL PROPERTY	
	2009	2008	2009	2008
1. Austria				
Office buildings	—	—	5	5
	—	**—**	**5**	**5**
2. France/Monaco				
Single-family houses	2	2	—	—
Multi-family houses	—	1	—	—
	2	**3**	**—**	**—**
3. Germany				
Apartments	7,010	8,600	—	—
Single-family houses	7,956	9,329	—	—
Multi-family houses	7,560	8,200	—	—
Office buildings	—	—	3,756	3,803
Commercial buildings	—	—	3,012	3,087
Industrial buildings	—	—	609	698
Other commercially used buildings	—	—	745	732
Buildings under construction	791	896	522	686
Building sites	30	33	53	55
	23,347	**27,058**	**8,697**	**9,061**
4. Italy/San Marino				
Single-family houses	1	1	—	—
	1	**1**	**—**	**—**
5. Luxembourg				
Office buildings	—	—	3	3
	—	**—**	**3**	**3**
6. Spain				
Single-family houses	1	1	—	—
	1	**1**	**—**	**—**
	23,351	**27,063**	**8,705**	**9,069**

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

(€ millions)

	COVERING ASSETS	
	2009	2008
1. Austria		
Central government	200	200
	200	**200**
2. Germany		
Central government	10	62
Regional authorities	3,053	3,377
Public-sector authorities	4,429	4,665
Other	1,884	2,283
	9,376	**10,387**
3. Greece		
Central government	136	236
Other	—	10
	136	**246**
4. Spain		
Public-sector authorities	50	50
	50	**50**
	9,762	**10,883**

Mortgage Banking (Continued)

Payments in arrears

Payments in arrears on mortgages and public-sector loans and receivables due between 1 October 2008 and 30 September 2009 break down as follows:

(€ millions)

	COVERING ASSETS	
	2009	2008
1. Payments in arrears on mortgages		
Germany	7	14
	7	**14**
2. Payments in arrears on public-sector loans and receivables		
Germany		
Regional authorities[1]	—	—
Other[1]	1	2
	1	**2**

1 officially guaranteed loans and receivables

Foreclosures and sequestrations

		OF WHICH:	
		COMMERCIAL PROPERTY 2009	RESIDENTIAL PROPERTY 2009
1. Foreclosures and sequestrations			
	NUMBER OF PROCEEDINGS		
a) Pending at 31 December 2009			
Foreclosure proceedings	364	13	351
Sequestration proceedings	13	3	10
Foreclosure and sequestration proceedings	241	12	229
	618	**28**	**590**
(comparative figures from 2008	376	24	352)
b) Foreclosures finalised in 2009	**123**	**6**	**117**
(comparative figures from 2008	1 036	65	971)
2. Properties auctioned or repossessed			
The Pfandbrief bank did not have to repossess any properties during the year			
under review to prevent losses on mortgage loans			

Interest in arrears

Interest in arrears on mortgage-covering assets due between 1 October 2008 and 30 September 2009 totalled €3 million.

Arrears break down as follows:

(€ millions)

	2009	2008
Commercial property	1	1
Residential property	2	3

The present annual financial statements were prepared on 9 March 2010.

UniCredit Bank AG
The Management Board


Buschbeck


Diederichs


Friedhofen


Varese


Laber


Dr Weimer


Wölfer

Declaration by the Management Board

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

Munich, 9 March 2010

UniCredit Bank AG
The Management Board

Buschbeck Diederichs Friedhofen Varese

Laber Dr Weimer Wölfer

Auditor’s Report

We have issued the following unqualified auditor’s report:

“Auditor’s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of UniCredit Bank AG (until 14 December 2009 Bayerische Hypo- und Vereinsbank AG), Munich, for the business year from 1 January to 31 December 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 10 March 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski
Wirtschaftsprüfer

Pfeiffer
Wirtschaftsprüfer

Financial Calendar

Important Dates 2010

Publication of the 2009 annual results	18 March 2010
Interim Report at 31 March 2010	12 May 2010
Half-yearly Financial Report at 30 June 2010	4 August 2010
Interim Report at 30 September 2010	10 November 2010

Contacts

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

Internet

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

Publications

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

Ordering

To order more copies of the annual report or one of the publications listed here, please contact our Reporting Service by
calling +49 (0)89 85709286 or
faxing +49 (0)89 85709287.

The paper used for this report has been certified according to the criteria set by the Forest Stewardship Council (FSC).
FSC has developed strict socioecological standards for forest management.
These are designed to curb uncontrolled deforestation and other environmental destruction; they also protect human rights.
All products carrying the FSC label pass through the processing and trading chain.
Thus, the FSC rules also apply to paper-processors such as printing companies.

HypoVereinsbank
UniCredit Group

50060663