HypoVereinsbank
UniCredit Group

Make it simple. It's *easy* with UniCredit.

2009 Annual Report

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.

HypoVereinsbank
UniCredit Group

Times change, but commitments do not. We emerged from 2009 with a renewed sense of purpose and direction. What was important to us before is even more important today. Namely, our customers.

Accordingly, we developed a new mission statement in 2009 to reinforce those principles and practices that we believe to be drivers of greater customer centricity. Emphasized in this mission is the desire to make banking as easy as possible for our customers by offering the kind of simple, straightforward solutions that can assist them in achieving their financial goals reliably and efficiently.

This is what we call "real-life banking". It means providing our clients with more than just financial services by giving them the right support at the right time and in the right way. It is about looking our customers in the eye, working closely with them to assess their real-life needs, and then using our expertise to deliver effective solutions through smooth and easy interactions.

We believe that our rigorous dedication to simplicity and transparency will continue to advance excellence in all that we do. It will also maintain and grow the trust of our customers – a trust that is exemplified in the following pages.

This year's report features photographs and personal stories from UniCredit Group customers across Europe, highlighting the concrete role that our company has played in their lives. Each of these individuals, who represent the foundation upon which we are structuring our shared future, has told us about a time we made their life easier.

2009 Annual Report

HypoVereinsbank Profile

- HypoVereinsbank (HVB) is one of the **leading financial institutions** in Germany. Our core competencies cover retail banking, corporate banking for small, medium-sized and large, internationally active corporate customers, wealth management and international capital markets.
- **Customer** satisfaction is the focal point of all our activities. We are committed to providing our customers with excellent, innovative and fast solutions across all business segments.
- HVB belongs to the European **UniCredit Group**. The Group holds a leading position in the wealthiest regions and fastest-growing markets in Europe, notably also in central and eastern Europe. HVB is the corporate **centre of competence for all capital market operations** across UniCredit Group.
- Germany plays an important role in the Group. We are committed to our regional origins. At the same time, as a fully integrated member of UniCredit Group and leading European bank, we want to develop a strong **cultural identity**. In this context, the company name is being changed from Bayerische Hypo- und Vereinsbank Aktiengesellschaft to UniCredit Bank AG to reflect the identity and branding of UniCredit Group. We are also committed to our **corporate citizenship**, promoting the common good in the countries where we operate.
- We offer our people excellent opportunities to further their careers throughout Europe, thereby strengthening an entrepreneurial spirit. At the same time, we ensure strict compliance with the Group-wide **Integrity Charter**, which encompasses the basic values our staff is expected to observe. We integrate our staff through Integrity Charter workshops and regular staff surveys. We also have a new corporate mission statement. Among other things, this **Mission Statement** includes the self-imposed obligation to create customer benefits and generate lasting value.

Financial Highlights

Key performance indicators

	2009	2008
Operating profit	€3,468m	€482m
Cost-income ratio (based on total revenues)	50.0%	87.9%
Profit before tax	€1,266m	€(595)m
Consolidated profit/(loss) (adjusted[1])	€1,013m	€(623)m
Consolidated profit/(loss)	€884m	€(649)m
Earnings per share (adjusted[1])	€1.18	€(0.80)
Earnings per share	€1.02	€(0.84)

Balance sheet figures

	31/12/2009	31/12/2008
Total assets	€363.4bn	€458.6bn
Shareholders' equity	€23.6bn	€23.0bn
Leverage ratio[2]	15.4	19.9

Key capital ratios compliant with Basel II

	31/12/2009	31/12/2008
Core capital	€20.4 bn	€21.2bn
Risk-weighted assets (including equivalents for market risk and operational risk)	€115.1bn	€148.2bn
Core capital ratio (Tier 1 ratio)[3]	17.8%	14.3%

	31/12/2009	31/12/2008
Employees	20,459	24,638
Branch offices	852	852

1 2009 and 2008 adjusted for restructuring costs
2 ratio of total assets to shareholders' equity compliant with IFRS
3 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Moody's	A1	P-1	stable	C–	7/10/2008	Aaa	Aa1	13/6/2008/ 17/6/2008
S & P	A	A-1	stable	—	18/3/2009	AAA	—	9/3/2010
Fitch Ratings	A +	F1+	stable	C	24/7/2009	AAA	AAA*	17/6/2008

* on review for possible downgrade since January 2010

Christian Hagn,
Hagn & Dr. Rübesamen Rechtsanwälte
Retail Client – Germany

«I've been a customer of HypoVereinsbank – UniCredit Group for many years. I especially value their trust and reliability as well as the quality of their consultation services and I have always counted on these values. I am more than satisfied, and I would highly recommend them to any new customers.»

It's easy with UniCredit.

Contents

Andreas Schmidt,
Bayerische Börse AG
Corporate Banking Client
Germany

«We have frequent personal contact with our relationship manager, whom we can easily reach anytime. We set great store by the offers we receive from him that are precisely tailored to our needs. We value the expertise and many product offerings we find at HypoVereinsbank – UniCredit Group. Our interactions with the bank go quickly and smoothly. We have been a loyal and satisfied customer for many years.»

It's easy with UniCredit.

Strategy and Results

Letter from the Supervisory Board Chairman

"UniCredit Bank AG: an integral part of UniCredit Group, one of Europe's leading banking networks"

Ladies and Gentlemen,

In 2009, we witnessed a distinct improvement in financial market conditions compared with the previous year. This was supported by state-driven economic stimulus programmes and expansive monetary policies worldwide. However, in macroeconomic terms, the recovery has yet to have a major impact.

Germany has experienced mixed results. Although it has benefited from improved economic conditions, the country's industrial capacity has declined and private consumption has remained sluggish. In capital markets, sentiment has generally turned positive since March 2009, yet the financial sector worldwide has faced increased regulatory, political and public scrutiny.

Indeed, there have been stringent and complex demands for material changes to the legal and regulatory framework, which will significantly impact business models. We view this as a positive development if done in a coordinated way across the board, which can serve to improve the reputation of the banking industry by restoring the confidence of customers, investors and stakeholders.

One key example of this emphasis relates to remuneration policies; in this respect, UniCredit Bank AG was one of the first banks in Germany to establish a Remuneration Committee. This committee develops the remuneration structure of our company and works to align all elements of remuneration to long-term, risk-adjusted corporate goals. We have changed the compensation system for our senior executives and will extend the same approach to employees at all levels. This exemplifies our commitment to sustainable business.

In the challenging environment of 2009, UniCredit Bank AG performed well, ending the year with a significant profit. I wish to extend my personal thanks to our clients, employees, management team and all other stakeholders: their trust, performance, strong commitment and ability to implement the values of our Group have delivered stability and profitability.

This performance reinforced the company's position as one of Germany's most stable and profitable banks, which resulted from a successful, diversified business model, a robust market position and strong focus on risk management before and during the crisis.

UniCredit Bank AG's core capital ratio remained high, by both national and international standards. Loan-loss provisions increased, reflecting the current operating environment, while risk-weighted assets were significantly reduced.

All of the Bank's divisions contributed to these positive results. In particular, the newly established Corporate & Investment Banking division was one of the most profitable, notwithstanding the high level of volatility that characterised 2009. During the year, we continued to realign our markets and investment banking activities, while increasing our customer-orientation, to facilitate a unified approach to clients within our European network.

As an integral part of UniCredit Group, one of Europe's leading banking networks, UniCredit Bank AG is equipped to provide all cross-border and cross-country financial services to its local and international customer base. UniCredit Bank AG benefits from economies of scale within the Group. This can be seen in areas including back office and IT, which are now routed into Group Factories, including UniCredit Business Partners and UniCredit Global Information Services.

The change of the Bank's legal name from Bayerische Hypo- und Vereinsbank Aktiengesellschaft to UniCredit Bank AG is another step towards full integration within the Group, reinforcing our commitment to the German market.

Customer centricity and sustainability represent two key pillars of UniCredit Group, and our new mission statement emphasises the importance of providing real long-term value for our customers and shareholders, while contributing to the communities in which we operate.

Looking ahead, given both the general business environment and the financial sector's changing requirements and conditions, 2010 will probably be a demanding year. However, I am confident that UniCredit Bank AG, with its strong financial and business foundation, is well positioned to meet the challenges ahead and to turn them into opportunities.

Sincerely,

Sergio Ermotti

Letter from the Management Board Spokesman

“Accepting the new realities – UniCredit Bank AG with the mission to create value for our customers”

Dear Customers, Investors and Partners,
Ladies and Gentlemen,

After the turmoil in the financial industry and the global economy in 2008, and especially following the bankruptcy of Lehman Brothers in September of that year, economic development proved to be robust in 2009. From March 2009 onwards, the recovery of the financial industry and the real economy occurred with astonishing speed – albeit under the protective shelter of governmental support and guarantees and after the creation of massive fiscal stimulus programmes. Rising equity prices – even if they were for the most part liquidity-driven – came as a surprise to many, with increases of up to 80%.

Despite the recovery on the markets, there is still great worldwide uncertainty in many organisations and a large fall-off in confidence among investors, taxpayers and politicians. The greatest concern centres on these key questions: how will the relationship between financial markets and the real economy develop in the future; what regulatory, political and social restrictions can be expected; and what are some of the unpredictable consequences that might accumulate globally. UniCredit Bank AG has decided to adapt to the new realities quickly and consistently, even if some of the ramifications are still in flux.

With these trends and issues in mind, we modified UniCredit Bank AG's business model to reflect the changing market requirements in the 2009 financial year. For example, we created a new Corporate & Investment Banking division (CIB), which incorporates the former Corporates & Commercial Real Estate Financing and Markets & Investment Banking divisions. Investment banking products were redesigned to be more customer-oriented and customer relations in general were brought to the forefront. This entailed an expansion of activities for some business lines and a contraction for others.

On the whole, our bank performed extremely well in 2009 in a market environment that continues to be challenging – though there are unexpectedly clear signs of recovery. HVB Group reports a large profit before taxes of €1,266 million for the past financial year, exceeding by almost €1.9 billion the previous year's negative result. The bank's operating profit totalled a strong €3,468 million, an increase of around €3 billion from the previous year's result, which was depressed by the financial crisis. Also the high profit after taxes of €884 million rose about €1,533 million year-on-year.

All divisions contributed to the good results. The new CIB division performed especially well, recording an operating profit of €3 billion following a loss of €275 million in the previous year. Operations involving our retail and business customers also proved quite satisfactory, contributing €162 million to our operating profit in spite of a reluctance to invest. In retail operations, we concentrated on closely correlating earnings and expenses. Wealth management activities were characterised by market insecurity, but still yielded a fairly strong operating profit of €82 million. Clients remained hesitant in securities transactions, redirecting their capital towards crisis-proof demand deposits.

Letter from the Management Board Spokesman (Continued)

We have adopted a new mission statement that applies to every individual who gives our bank a "face". The path to success for all of us in the Group and to satisfaction for all our stakeholders is found by creating value for our customers. This mission statement embodies our goal of acting responsibly towards all our customers and partners: we are the bank that stands for sustainable values; that lives up to its business responsibilities in the regions where it operates; and that is easy and straightforward to work with. It is important to me to live out this goal to an even greater extent and represent it with confidence in the years to come.

It was therefore very significant for us on the Management Board to make the common identity of the entire Group transparent. The visual modifications to our outward appearance were completed back in 2008. In September 2009, we decided to take a new legal name that identifies us as part of the European UniCredit Group: UniCredit Bank AG, instead of Bayerische Hypo- und Vereinsbank Aktiengesellschaft. This allows us to establish a link with UniCredit Group through our company name and to make that link visible to our customers and partners. The change was entered in the Commercial Register in mid-December 2009 and since then has been well received in the markets. The brand name remains "HypoVereinsbank".

Being part of UniCredit Group gives us an ideal platform for quickly and effectively seizing market opportunities and cushioning risk. Without this, we would not have come through the ongoing financial and world economic crisis as well as we have. Our future lies in leveraging the economies of scale and strategic assets that result from our integration with UniCredit Group even more consistently. UniCredit Group has a business model that consists of diversified divisions and regions with offices in 22 countries. In addition to the home markets of Germany, Austria and Italy, it is among the leading European banking groups with a strong foothold in central and eastern Europe. In my view, it is primarily our customers who will profit from this international franchise.

Above and beyond hierarchies and functions, we at HVB consider ourselves a "working family", meaning that we use our employees' diverse talents and skills to further our success and create a bank where we all enjoy working – because only together can we succeed. Our employees took on this mission in 2009, giving it life through many good initiatives and projects. I am truly gratified by the outcome of this approach and the many examples I see at the bank on a daily basis. There is something special that connects employees of HVB; we are well on our way to becoming a real working family.

We have much to thank our employees for. HVB depended on their hard work to a huge extent during the last financial year. Under the most difficult of conditions, they ensured that we enjoyed good earnings in 2009. A performance like this did not seem at all likely at the beginning of the year. Our employees successfully exploited the opportunities that arose from the financial crisis for the benefit of the bank and our customers. For this, we on the Management Board jointly express our special gratitude to all our employees. We will continue to rely on this high degree of motivation and hard work in the current year, in light of the new realities and uncertainties surrounding the many changes and challenges ahead.

The most important thing for us as banks and bank employees is to recall that customer trust is the greatest asset, especially in financial transactions. This confidence is something that we must recover. If our customers trust us, we will enjoy long-term, sustainable success and also the support of investors. Lip service is not enough; we must actively fight for trust and adapt our business systems to reflect the new realities – from customer advisory services to employee compensation.

Therefore, we have adopted clear new goals for the future. We will strengthen our relationships with customers, putting their needs even more at the centre of our thoughts and actions. We intend to reinforce our position in difficult markets and regions with products that our customers will understand. We will pursue these goals without neglecting productivity and risk management. Hard work and motivation are the foundations on which our actions and our success are built. We see social change and the accompanying changes in the banking system as an opportunity to build an authentic and open management culture and personnel development geared to the needs of the future. We want to recognise the signs of the times, actively utilising them as opportunities for our customers and for our bank. A special interest of mine in this context is the rapid and consistent development of our executives, among other things.

Ladies and gentlemen, 2010 will also be a year that will demand from us a high degree of flexibility, new ideas and a lot of work – and it will also bring new burdens. Uncertainty about necessary changes to the financial system, increasing pressure on the real economy and weak development in some branches of industry will continue to exert pressure on the earnings, costs and risks of our business. We must all face this great challenge – which I also see as an opportunity – with enthusiasm. HVB is especially well positioned for the time following the crisis and for the new emergent realities. To achieve our goals, we have at our disposal the strength of a European Group whose stated goal is to create value for its customers, and a powerful, motivated team. I am convinced that we are well equipped to cope with the coming financial year 2010, and wish the same applies to all the business partners, customers and investors of our bank.

Best regards,

Dr Theodor Weimer

Munich, 17 March 2010

> “HVB is especially well positioned for the time following the crisis and for the new emergent realities”

Summary of Results

Corporate & Investment Banking division (CIB)

- New CIB division formed by merging the earlier Corporates & Commercial Real Estate Financing and Markets & Investment Banking divisions
- The division comprises four separate product units – Markets, Financing & Advisory, Global Transaction Banking, and Leasing – that act as providers of innovative, specialised products
- CIB with products and services – including investment banking offerings – geared more closely to the needs of our corporate customers overall
- 2009: sharp rise in total revenues with stable operating costs
- Healthy profit before tax despite big increase in risk provisions

Retail division (PuG)

- Greater product penetration and demand-compliant advice for the target groups of mass markets, affluents and business customers
- 2009: profit before tax generated despite non-recurring restructuring costs, with further reduction in operating costs and declining risk provisions

Wealth Management division (WEM)

- Demand-compliant relationship management for wealthy customers, with personal advice at numerous locations in Germany
- 2009: solid profit before tax despite difficult environment and customer reticence

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

Divisional highlights[1]

(€ millions)

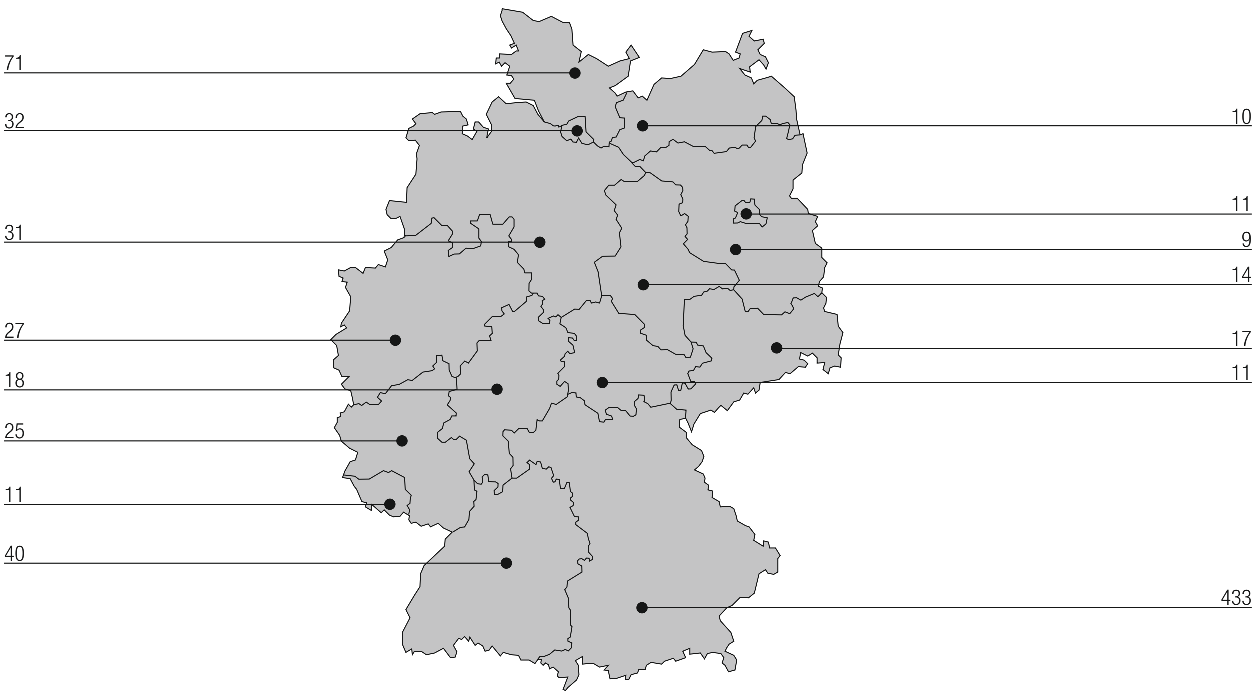
	CORPORATE & INVESTMENT BANKING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION
Total revenues				
2009	4,679	1,478	253	520
2008	1,392	1,741	302	542
Operating costs				
2009	(1,672)	(1,316)	(171)	(303)
2008	(1,667)	(1,442)	(181)	(205)
Operating profit/(loss)				
2009	3,007	162	82	217
2008	(275)	299	121	337
Profit/(loss) before tax				
2009	971	29	74	192
2008	(1,359)	208	121	435
Cost-income ratio[2] in %				
2009	35.7	89.0	67.6	—
2008	119.8	82.8	59.9	—

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

Facilities by division and state

STATE	CORPORATE & INVESTMENT BANKING	RETAIL	WEALTH MANAGEMENT
Baden-Wuerttemberg	10	25	5
Bavaria	42	371	20
Berlin	1	9	1
Brandenburg	1	8	
Hamburg	6	24	2
Hesse	3	11	4
Lower Saxony	5	25	1
Mecklenburg-Western Pomerania	2	8	
North Rhine-Westphalia	9	14	4
Rhineland-Palatinate	1	22	2
Saarland	1	9	1
Saxony	3	11	3
Saxony-Anhalt	2	11	1
Schleswig-Holstein	8	59	4
Thuringia	2	9	

HypoVereinsbank facilities in Germany



Global Banking Services

SERVICE HUBS TAP SYNERGIES AND INCREASE CUSTOMER FOCUS

Global Banking Services (GBS) combines interdisciplinary functions and services that are critical to ensuring business success. The departments subsumed under GBS include Organisation, Real Estate, Security and HR Service Centre, plus the Service Management department which oversees relations with the outsourced back office and IT functions. Added to this is the Recovery Management department, which supervises and monetizes non-performing loans.

COST MANAGEMENT STABILISES OPERATING COSTS DESPITE NON-RECURRING EXPENSES

UniCredit Bank AG (HVB) has practised strict cost and productivity management for many years now, which has served to underpin its business success. In light of the difficult market environment, cost discipline was one of the key issues of 2009. Last year, we already succeeded in achieving much of the targeted reduction of 2,500 in the headcount at the HVB Group under the Delivery on Restructuring project (DoR) scheduled for completion by the end of 2010. This again helped to cut total operating costs (see also the chapter "Human Resources" in this report for more information about DoR).

Furthermore, we again reduced the operating costs involved in operational workflows by constantly enhancing productivity and applying best practices from UniCredit Group. Pooling our purchasing activities in a standard procurement function for Germany and Austria also had a positive effect in this regard. Despite large-scale, non-recurring contributions to the deposit insurance scheme for German banks and the pension guarantee association among others, the operating costs of €3,462 million recorded by HVB Group were slightly lower than the level recorded last year (€3,495 million).

CENTRAL MANAGEMENT OF GROUP FACTORIES AND EXTERNAL SERVICE PROVIDERS

We continued to refine our standard business and operating model during the year under review. This involved pooling back office and IT services in Group-wide processing units: UniCredit Business Partner for back office services and UniCredit Global Information Services for IT services. At the same time, clearly defined back office services were outsourced to external service providers. This has helped to greatly reduce operating costs on the processing side.

The Service Management & Governance unit oversees the internal and external back office and IT service providers in line with cost and quality targets. It also acts as the interface to the sales units, pooling, coordinating and implementing their performance requirements. This unit became a centre of competence for outsourcing in 2009 to monitor the related compliance with all legal and regulatory requirements arising especially from Section 25a of the German Banking Act and the relevant MaRisk rules. The centre of competence's responsibilities already start in advance of the planning and implementation of an outsourcing project.

The use of standard methods and close process support ensure that uniform procedures are employed for the processes throughout the Bank and that the potential risks associated with the outsourcing (including strategic, reputational and operational risk) are identified. The inclusion of all relevant specialist departments is similarly ensured. In this context, the outsourcing centre of competence also acts as the coordinating office documenting all of HVB's outsourcing activities, which makes it the central point of contact for all questions relating to outsourcing, both internally and externally (such as for supervisory authorities).

Operating costs of HVB Group (€ millions)

BACK OFFICE SERVICE PROVIDER UNICREDIT BUSINESS PARTNER
Since 1 January 2009, the German branch of UniCredit Business Partner (UCBP) has performed the classic back office services of a bank, ranging from opening accounts and modifying master data to processing mortgage loans. HVB holds a participating interest of around 18% in UCBP. It proved possible to raise the already high standards of quality even further and tangibly reduce operating costs. Among other things, these cost cuts were made possible by offshoring simple services to Poland.

IT SERVICE FROM UNICREDIT GLOBAL INFORMATION SERVICES
Applying the international IT strategy of UniCredit Group was one of our top priorities in the year under review besides the successful implementation of key IT requirements arising from changes in the legal and regulatory environment, such as the flat tax on capital income. The successful integration of HVB Information Services into UniCredit Global Information Services, in which HVB holds a participating interest of around 25%, as of 1 May 2009 is a further step in the Group-wide consolidation of IT. The advantages this yields include the standardisation of the IT platforms and the exploitation of cross-border economies of scale. One crucial illustration of this standardisation is the EuroSIG project, which will see a uniform core banking system across UniCredit Group being rolled out at HVB (see also "Outlook" below).

OUTSOURCING OF SECURITIES HANDLING AND PAYMENT SERVICES
The service provider CACEIS Bank Germany, which belongs to the Crédit Agricole Group, has already being carrying out the formal aspects of our securities handling services since the start of 2008. The technical side of the project to outsource securities handling was also completed in July 2009. Since then, our securities activities have been handled on a client-capable IT platform, meaning that HVB will benefit from the fall in unit costs arising from further clients being handled on this platform. Handling operating costs were already reduced in the year under review.

Payment services were already outsourced to the Betriebs-Center für Banken in 2007. Based on the transaction-driven price model, payment operating costs again fell sharply in the year under review. Thus, the price model fully meets the expectations associated with outsourcing. In years like 2009, when there are fewer transactions, the related total costs decrease as well; in years with rising numbers of transactions, the average cost per transaction falls in line with a sliding price model. The Single Euro Payments Area (SEPA) Direct Debit service was added to the range of products we offer our retail and corporate customers in all distribution channels on time in 2009.

BANK-WIDE CONSOLIDATION OF STRATEGIC PROPERTY COMPETENCE
The outsourcing of technical and commercial facility management to Strabag Property and Facility Services GmbH together with infrastructure services was successfully completed in the year under review. Cost savings are already being achieved from transferring the work previously performed in-house and pooling all services with a single provider. The savings in self-used, owned and rented property will continue to growth in line with the long-term contractual arrangements.

The remaining property management units at HVB will be pooled in an existing subsidiary to form a centre of competence tasked with managing and marketing the property we own and rent. The optimisation of facility-utilisation concepts (in places like Frankfurt) helps to secure long-term cost efficiency.

In 2009, we started to lay the groundwork for a centre of competence that will manage and market the property we own and rent. The integration of these units into an existing subsidiary is planned for the first half of 2010. This represents a further step towards a business model for property management that is harmonised at UniCredit Group level.

Global Banking Services (Continued)

SEAMLESS BANK SECURITY

All security tasks and services were grouped together during the year under review and supplemented with essential, future-proof services. All activities – from physical, IT and cash security through to fraud prevention and crisis management – have been pooled in a single unit and efficiently dovetailed. This has enabled us to increase security for our branches, with things like transaction-oriented services such as our DirectBanking online offering and credit cards, and to boost customer satisfaction at the same time. The appointment of a Chief Security Officer for HVB and its subsidiaries has created clear responsibilities.

OUTLOOK: IT SYSTEMS AND CENTRAL SERVICE MANAGEMENT

EuroSIG is a uniform core bank platform for the entire corporate group. Programming and adaptation of the software has been completed, and the system will go live in the first half of 2010 following comprehensive tests. The roll-out of EuroSIG is being shadowed by intensive change management processes that are helping to train and prepare the employees involved for the changes that will affect them (see also the chapter "Human Resources" in this report). In addition, operating guidelines and bank processes were placed on practically a completely new footing.

The department responsible for overseeing the IT service provider UniCredit Global Information Services (UGIS) is being merged with the Back Office Service Management unit to create the new Service Management & Governance department. This will result in the process service providers and the IT service provider UGIS being overseen by a single, central department. The services remaining at HVB – including SWIFT administration, the handling of own and third party securities issues, and the mail and logistics services – have also been assigned to the new department. This will give HVB a central handling and service unit responsible for ensuring high quality at low cost and for implementing all legal and regulatory provisions relevant for outsourcing. This unit will gradually be expanded to encompass all the foreign branches of HVB.

We will continue to apply strict cost and productivity management in 2010 to go on boosting the efficiency of HVB.

Human Resources

EFFICIENCY AND FAIRNESS IN A PERSISTENTLY CHALLENGING ENVIRONMENT

The financial crisis again had a massive impact on the employment situation in the banking industry in 2009. As in the previous year, this resulted in many financial institutions making major reductions in their headcounts. UniCredit Bank AG (HVB), on the other hand, has restricted itself to the 2008–2010 efficiency-enhancement programme that had already been initiated prior to the financial crisis, calling for the elimination of a total of 2,500 positions at HVB Group.

The number of employees of HVB Group fell to 20,459 in 2009 (2008: 24,638), with the headcount at HVB decreasing as well (18,062 compared with 20,384 in 2008). In part, this was a consequence of the efficiency-enhancement programme known as Delivery on Restructuring (DoR). Around 1,500 positions were eliminated in 2009 without the need for compulsory redundancies, after around 500 posts left the Bank by mutual consent in 2008. The remaining 500 or so posts to be eliminated by the end of 2010 have already largely been secured by means of concluded agreements. At the same time, we consolidated securities handling activities, payment services, IT services and property management activities in companies both within and outside UniCredit Group. These outsourcing measures led to outward staff transfers and reduced our own headcount.

In addition, we leveraged all the potential for making working time more flexible:

- At 22.4%, the proportion of part-time workers at HVB remains high.
- 335 employees took advantage of the partial-retirement scheme.
- Added to this was natural fluctuation, which totalled 9% in the year under review (adjusted for special effects caused by spin-offs).

Internal employee transfers enabled us to largely meet our HR requirements for employees using in-house resources. The Manpower Management project creates a win-win situation by matching capacity to demand: in 2009, it resulted in more than 300 internal transfers being completed.

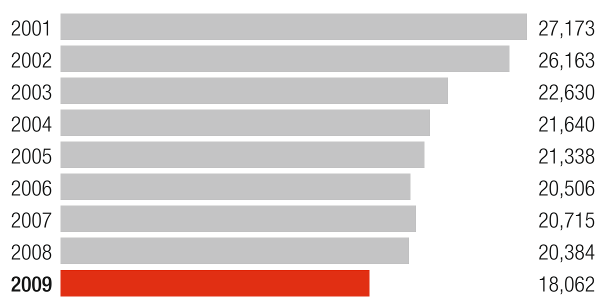
In these transfers as well as many other HR issues, our HR managers enjoyed a responsible relationship with the employee representatives. We succeeded in finding constructive solutions respecting everyone's interests in an ongoing dialogue with the Central Works Council and the Speakers' Committee for Senior Executives. We would like to express our specific thanks to everyone involved. Elections to the works council are being held in March 2010; we are certain that we will be able to continue our strong working relationship with the new employee representatives after the election.

During the year under review, the new function of HR Country Head was introduced with responsibility for all human resources issues throughout Germany, including those of the UniCredit subsidiaries in the country. This also entails taking greater account of the activities of the HVB subsidiaries. A workgroup of the UniCredit Group works councils was constituted in Germany at the same time.

The payroll costs of HVB Group were reduced to €1,822 million (2008: €1,961 million) in 2009, not least as a result of consistent cost management. At the end of 2009, we became the first major private bank in Germany to set up a Remuneration Committee. This body has been tasked with reviewing the appropriateness of our remuneration systems and tracking their development. Our prime goal is to gear the salaries of our management staff to sustainable company targets. In addition, our employees have the opportunity to benefit from the long-term success of UniCredit Group as part of a Group-wide employee share ownership programme.

Constant reduction of HVB Group payroll costs (€ millions)

HVB workforce



Human Resources (Continued)

CORPORATE CULTURE: A NEW RELATIONSHIP AS A WORKING FAMILY

The success of our Bank depends to a large extent on what every individual contributes as part of a Working Family, part of a community of employees cooperating with each other. As a member of UniCredit Group, HVB puts great faith in cross-division and cross-company networks and organisation teams. We run Working Family Days at various facilities together with workshops and events aimed at promoting the sense of belonging among staff, especially in more challenging times.

Our employees are called upon to comply with high ethical standards. The Integrity Charter, which summarises the values of UniCredit Group to which all employees are bound across the entire corporate group, was drawn up with this in mind. HVB again staged an Integrity Charter Day in 2009, highlighting success stories from teams of employees who have set an example with outstanding customer orientation. Our people are also expected to express their views in our annual People Survey. The results are used as the basis in every unit to draw up and implement action plans. These are drawn up at team and HVB level.

At HVB, we aim to both promote our employees' confidence in the Bank and reinforce their commitment to the public good. This in part is the purpose of our Corporate Volunteering Programme, which helps employees to perform voluntary work by granting them special leave and making parallel donations (see also the chapter "Corporate Social Responsibility" in this report). Our Gift Matching Programme should also be mentioned at this point. It was introduced as a key aspect of the UniCredit Group's Unidea Foundation to promote and advertise the concept of voluntary work among the employees of UniCredit Group.

EDUCATION AND DEVELOPMENT PROSPECTS

Despite the financial crisis, HVB has remained true to its principle of investing constantly in the training and development of talented junior staff. This includes apprentices making up more than 6% of the workforce across the board. The chance to work and study part-time has also been expanded, with the number of young colleagues taking advantage of this opportunity in Munich and Nuremberg rising during the year under review. We offer university graduates attractive entry-level and development prospects under our trainee programme; we roughly matched the proportion of 1% for new graduates in the workforce achieved in 2008.

Our JUMP! junior management programme aimed at young professionals offers a wide range of events, networking and mentoring options for around 30 participants, supplemented by a series of management training schemes and relevant specialist courses. EuroSIG, the new IT platform at UniCredit Group, was one of the subjects of our training programme in the year under review (see also the chapter "Global Banking Services" in this report).

Our Talent Center is responsible for recruiting, developing and overseeing promising junior staff. HVB has a wide-ranging talent management programme aimed at furthering talented specialists and managers in various phases of their career.

We promote the mobility of our people both within HVB and throughout the corporate group. Thus, the Young Bankers Go Europe programme gives apprentices the chance to work at other UniCredit Group companies for a set period of time. Our employees also have access to the Internal Job Market containing local and global positions. UniCredit Group's Global Job Model project aims to harmonise and standardise positions and processes with a view to making it easier for people to apply for open positions within the Group in other countries.

Our membership of UniCredit Group opens up international career development opportunities for our staff. This applies across all age groups and hierarchy levels. The UniQuest programme serves to further the careers of talented junior staff by giving them the chance to prepare for demanding tasks within the Group by attending events and also participating in international projects. The UniFuture development programme is designed for managers who demonstrate the potential to join the Group's leadership team. Added to this are processes serving to appraise potential and performance, like the Executive Development Plan and the Talent Management Review. We also offer specialist programmes that are geared specifically to the individual needs of the divisions and employee groups.

The annual performance review is the focal point of our staff development strategy. Employees discuss their personal performance and future prospects with their supervisors, with the outcome forming the basis for any continuing professional development activities to be undertaken. The performance review was revised in 2009 to place greater emphasis on the employees' assessment of their own potential and performance. The performance for 2009 is evaluated in accordance with the revised Leadership Competency Model.

DIVERSITY: EQUAL OPPORTUNITIES AND DEVELOPMENT PROSPECTS

Respecting and Promoting diversity is one of the fundamental values of UniCredit Group. Cultural diversity, or openness for other cultures, is seen notably in international projects and teams. A good example of applied diversity at HVB is the fact that our apprentices come not only from Germany but also from twelve other countries.

Promoting gender diversity is one of the top priorities for both UniCredit Group and HVB. This involves equal opportunities for both sexes and strong support for talented women. There is still much to be done in this respect at HVB. We have set ourselves the challenging goal of having women in 20% of the top 100 and the top 400 management positions by 2012.

We have decided to take a number of measures with view to achieving this goal:

- At least one woman must always be nominated in the selection procedure when management positions are being filled.
- The UniCredit Women's International Network (UWIN) promotes the professional development of women in positions of leadership. In Germany, the UWIN network connects female managers from all the divisions and staff offices in the Bank; it organises events, seminars and forums for participants to exchange notes.
- We also have a mentoring programme under which female managers (mentees) are mentored by senior managers and supported by a series of customised seminars.

In order to give even greater prominence to the issue of gender diversity, HVB became the first bank in Germany to set up a Women's Advisory Board. This committee comprises 30 top-class female entrepreneurs and managers (see also the list of members in the chapter "Supervisory Board, Trustees, Management Board and Women's Advisory Board" in this Annual Report). The goals of the Women's Advisory Board include acting as a source of ideas for the Management Board of HVB and addressing issues from the female standpoint. The members of the Advisory Board also serve as mentors to female managers.

Human Resources (Continued)

FAMILY-ORIENTED HR POLICY AND HEALTH PROMOTION

Our concept of a Working Family also encompasses promoting a healthy work-life balance. HVB is the first bank in Germany to be certified by the charitable Hertie Foundation under its Work and Family Audit for the fourth time.

Our employees make use of the extended period of parental leave and also receive allowances for child care. Our Family Service provides assistance for both child care and caring for elderly dependants. Employees also have the opportunity to take a sabbatical – a period of unpaid leave lasting between 12 and 24 months.

Promoting the health of our employees is another issue we take seriously. This is the prime concern of our Health Forum, which draws on the supports of several institutions within the Bank including the company medical service, the health and safety team, the works council, our staff restaurants and social services. The Forum is the platform for a number of offerings: information events and seminars on stress management, back pain and preventive medicine. Over the past year, some 10,849 employees made use of the preventive measures offered by the Health Forum.

Our sports and leisure club, known as the HVB Club, has around 8,000 members, of whom 4,400 are in Munich and 3,600 in regional club branches including Hamburg, Regensburg and Nuremberg. The Club provides a range of facilities in the fields of sport, wellness/fitness, and arts and culture.

OUTLOOK: EVOLVING VALUES AND A NEW REMUNERATION SYSTEM

In 2010, we aim to both reinforce relationships within HVB as a Working Family and promote a “Proud to be UniCredit” culture. Our new Mission Statement makes clear that UniCredit Group believes itself to be a “great place to work”. The Mission Statement contains a commitment to generating value for our customers and creating sustainable value for all our stakeholders. The values defined in the Integrity Charter form the foundation for our behaviour. The annual People Survey was already carried out in January 2010. The results of the survey will be used among other things to help refine our corporate culture.

Our other priorities include concluding new remuneration systems in conjunction with our Remuneration Committee. These will be built around sustainable corporate earnings. The Compensation Policy will be applicable equally for senior managers and, in a modified form, for all employees. Our aim here is to ensure that managers and staff alike take their cue from our sustainable company objectives.

The EuroSIG project will again form a focal point for our training programmes in 2010. Life-long learning and continuing professional development for older employees are key aspects of our commitment to establishing the topic age diversity more firmly at the heart of our Bank.

Corporate Sustainability

CREATING VALUE WITH CLEAR PRINCIPLES

We are convinced that only companies that act in accordance with the principles of sustainable business operation will be successful in the long run. It is not just the demands that society is making of banks that are growing in the wake of the financial crisis. It is more important than ever for responsible financial institutions to commit themselves to values and have a clear profile.

Corporate social responsibility (CSR) is the umbrella term frequently used to encompass the varied requirements of responsible corporate management. The relevant legislation currently in force is reinforced with principles we have set ourselves. We have defined clear rules regarding conflicts of interest, corruption and money laundering prevention, and correct behaviour towards our competitors in our Code of Conduct and Compliance Guidelines. In addition, we employ a set of indicators to measure our ecological-social performance and a range of measures to enhance our outcomes in this regard. Our CSR Short Report 2010 to be published in May 2010 will contain more information about our CSR policies and activities (for information on downloading or ordering a copy, please refer to the Financial Calendar in this report).

The UniCredit Group companies committed themselves to ethical behaviour many years ago by adopting a set of values known as the Integrity Charter. This encompasses six values against which we gauge our activities: fairness, transparency, respect, reciprocity, freedom and trust. The values defined in the Charter are communicated to our employees in workshops, and surveys are used to evaluate and fine-tune our response.

In addition, the Group has a new Mission Statement that forms the basis for our identity. It expresses a high aspiration which we aim to live up to (see www.hvb.de).

REPUTATION MANAGEMENT SHAPES STAKEHOLDER RELATIONSHIPS

UniCredit Bank AG (HVB) focuses on the long-term interests of its stakeholders. These include customers, employees and suppliers as well as local authorities and social groupings. We are convinced that it is in our long-term commercial interest and we can thus create sustainable value for our shareholders. We have employed surveys and polls in the past to help us evaluate these expectations and shape our activities accordingly.

We have now systematised this approach as part of a large-scale reputation management project and integrated it in our business model. The project has been built around a very broad survey of our stakeholders: customers from all divisions, the workforce, the works council, opinion leaders from industry, the media, politics and society, environmental and human rights organisations. The purpose of the survey is to gain an overview of both our actual reputation and the factors determining our reputation.

Personal responsibility is a fundamental principle at HVB. This means that every single employee is required to protect the Bank from reputational risks and boost its reputation. Moreover, we have set up a Reputational Risk Council (RRC) to reflect the requirements of our diverse business activities. Employees who are unable to deal with a reputational risk using the existing rules can call in the RRC, where a committee comprising the senior management of HVB decides upon the individual case after consulting the Corporate Sustainability department. In special cases, the corporate management of UniCredit Group may also be consulted.

CORPORATE MANAGEMENT: GUIDING RESPONSIBLE BEHAVIOUR

For many years now, HVB's corporate strategy has taken account of the principles of sustainable development and corporate social responsibility. Our innovative system of sustainability management has in the past resulted in HVB being included in the leading indexes, including the Dow Jones Sustainability Index and the FTSE4Good Index. Even if we are no longer a listed company, and hence no longer assessed by all the rating agencies as an independent unit, our commitment to sustainability is still examined and appraised. In 2009, for instance, we took first place in oekom research's sustainability ranking (a total of 65 banks worldwide were studied). Our understanding of responsible corporate management is broad-based:
- We take account of the expectations of our stakeholders and include them in the development of our sustainability policies.
- We create new earnings potential among things by means of sustainable investments, carbon solutions and finance for projects in key sectors such as renewable energy.

Corporate Sustainability (Continued)

- We minimise credit and liability risks by performing environmental risk audits and applying appropriate standards for project finance.
- Our internal environmental management system helps us to use resources more sparingly and reduce costs. Our system has been externally certified compliant with the international ISO 14.001 standard.

CLIMATE PROTECTION AS AN ETHICAL PRINCIPLE AND LINE OF BUSINESS

Climate protection represents a prime example for the dovetailing of the various aspects of responsible corporate management. We know from surveys just how important an issue this is for our stakeholders. For us, climate protection is simultaneously an ethical obligation and a line of business in which we successfully market a range of financial products and services. We sensitise our customers to climate protection issues and help them to reduce their carbon footprint with relevant advice, special loans for energy-efficiency measures and climate-friendly investment products.

We have also decided to lead by example. UniCredit Group has set itself the goal of cutting 30% from its carbon footprint by 2020. HVB for its part has decided to switch to electricity generated solely from renewable sources as of 2010.

We are involved in a number of initiatives relating to climate change. Thus, we cooperate with other leading German financial service providers and the German Federal Ministry of Education and Research in the "Finanz-Forum: Klimawandel". At regional level, we have joined forces with other players from industry, science, politics and society in the "München für Klimaschutz" alliance for climate protection in Munich. Through UniCredit Group, we participate in the Carbon Disclosure Project, which aims to publicise the climate risks of large companies, and are also one of the initial signatories of the Declaration on Climate Change of the United Nations Development Programme (UNEP-FI) published in 2007. This includes an undertaking by signatories to reduce their carbon footprint and to report on the results at regular intervals.

ENERGY EFFICIENCY, CREDIT CHECKS AND SUSTAINABLE INVESTMENTS

A forward-looking business strategy should not only take account of climate risks, it also needs to promote energy efficiency. We rely upon cooperation with competent partners in order to provide our customers with the best possible support. Together with B.A.U.M Consult and KfW Mittelstandsbank, we help our business and corporate customers to identify ways of saving energy, plan appropriate measures and finance their implementation.

We also insist upon compliance with environmental and social standards in our lending activities. The framework for this set by local, national and international laws together with the World Bank standards. We are a founder member of Equator Principles, a global industry standard for large-scale project finance. Within the framework of public subsidy programmes, HVB supports its customers by providing special loans for environmental investments, such as home modernisation and the installation of solar panels.

The emissions trading system, which is intended to limit emissions of greenhouse gases by applying a market approach, has opened up fresh business opportunities for us. The Corporate & Investment Banking division offers a comprehensive portfolio of products and services in emissions trading for our customers throughout Europe.

In the field of sustainable investments, we have over many years built up a broad range of products for various customer groups and needs, including individual or standardised asset-management mandates, investment funds or pension products. Now the focus is on marketing this portfolio to our customers more actively than in the past. One example of this is the explicit identification of sustainable products in HVB's list of retail offerings.

SOCIAL COMMITMENT: DONATIONS AND VOLUNTARY WORK

We collaborate closely with UniCredit Group's Unidea not-for-profit foundation on charitable projects. The foundation is an active provider of both social facilities and development aid, notably funding projects in the fields of microfinance, health care, social integration and education.

In this way, we support two Munich-based integration projects for children from migrant backgrounds:
- The Early Childhood Education project, an initiative devoted to promoting the language skills of young children of various nationalities whose parents are attending integration courses. Funding volume: €305,000.
- The "buntkicktgut" project, an intercultural street football league, with finance to help set up another age group. During 2009, the funding was extended to cover three years, with the project receiving a total of €285,000.

Other activities have been staged as well. In July 2009, we joined up with Bayern Munich to run the "buntkicktgut-open" tournament on the football club's training ground. 32 teams involving around 320 participants played against each other in various age groups. 60 students from the HVB student liaison programme volunteered to help organise the tournament over the weekend. The purpose of the event was for more than 300 children and adolescents from migrant families to learn how to resolve conflict peaceably and respect the rules of the game.

We also cooperate with Unidea in terms of donations made by our employees. In 2009, our people donated some €140,000 to charity. Unidea made a contribution of 75% of the amount as part of the Gift Matching Programme, thus matching the amount donated by employees. In addition, we promote voluntary work performed by our people as part of our Corporate Volunteering Programme. We do this by granting special paid leave to employees doing voluntary work and by making donations to the social organisations in which our people are active.

SOCIAL RESPONSIBILITY WITH A CLEAR COMMITMENT TO THE REGION

"As a leading European bank, we are dedicated to the development of the communities in which we live." This is one of the undertakings we have committed ourselves to in our Mission Statement. We carried out a pilot project in Nuremberg with a view to implementing this vision. To coincide with the launch of the ec card with the City of Nuremberg design, the idea arose to donate part of the card earnings to a worthy cause. We found a suitable social partner in the form of Lebenshilfe für Menschen mit Behinderung Nürnberg e.V., a charitable organisation helping people with disabilities in Nuremberg. Under the scheme, 2 Euros of each Nuremberg design ec card bought by customers and non customers in Nuremberg were donated to Lebenshilfe Nuremberg. In addition, staff in Nuremberg support the organisation on a voluntary basis, with 80 employees now assisting in 17 different areas of activity. More than 5,000 cards were sold as part of the promotion.

We also have an impact on the communities in which we live through our membership of organisations and initiatives. For instance, we are an initiator and founder member of BenE Munich, an initiative supported by the United Nations University promoting education in the field of sustainable development. At the same time, we are a member of the Verein für Umweltmanagement in Banken (VfU), the Forum Nachhaltige Geldanlagen and the Finanz-Forum: Klimawandel.

OUTLOOK: BURNISHING OUR REPUTATION AND PROMOTING CONSUMER PROTECTION

2010 will be dominated by the implementation of the reputation management project. We received the results of the broad-based stakeholder surveys in January 2010. Building on this, we will draw up action plans for all areas of the Bank and key sustainability indicators. Furthermore, we will run training courses to boost the awareness of our employees for reputational risk. As we did in 2009, we will run courses in our credit training programme on how to deal with environmental and social risks.

In the area of sustainable investments, we aim to expand the range of products we offer and simultaneously market them more actively. To achieve this will require additional training for relationship managers, which will remain a key issue over the coming year.

We are continuing our commitment to the communities in which we live. One facet of this will be to extend the ec card design scheme to further locations, while another will involve staging the "buntkicktgut-open 2010" street football tournament.

Wolfang M. Heckl,
Deutsches Museum
Corporate Banking Client
Germany

«The Deutsches Museum, a national institution dedicated to science and technology, has had a long-term business relationship with the bank. With more than 1.3 million visitors a year, our research museum sets an international standard by combining tradition with the future. Imparting scientific knowledge, in a way that can shape the career paths of young people and engage visitors in the evolution of technology, provides a foundation for future prosperity. We count on HypoVereinsbank – UniCredit Group – a globally oriented partner with deep local roots – for support as we look to the future.»

It's easy with UniCredit.

Financial Statements (1)

Management's Discussion and Analysis

Financial Review

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 the 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 in 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 of 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 Group generated a strong operating profit of €3,468 million in the 2009 financial year. This represents a sharp increase of around €3 billion over the figure of €482 million posted for 2008, which was heavily impacted by the financial crisis. The substantial rise of 74,3% in total revenues to €6,930 million is the main factor behind this pleasing development. This good operating revenue was generated mainly by the strong recovery of net trading income, which increased by almost €3 billion compared with the substantial net trading loss in the previous year.

At the same time, net interest income rose significantly by €269 million. In particular, the increases in total revenues coupled with a slight fall in operating costs (down 0.9%) as a result of our successful cost management programme led to a pleasing improvement in the cost-income ratio to the very good level of 50%. Despite the increase in net write-downs of loans and provisions for guarantees and commitments to €1,601 million and the extraordinary expenses arising from restructuring costs of €170 million, HVB Group recorded a very good profit before tax of €1,266 million – almost €1.9 billion above the loss reported in 2008. After deducting the income tax for the period, which increased by €328 million to €382 million, HVB Group generated a consolidated profit for the year of €884 million, after posting a loss of €649 million in the equivalent period last year. Adjusted for restructuring costs, the consolidated profit for the year even stands at €1.013 billion (2008 adjusted: a loss of €623 million).

All the operating divisions contributed to the profit before tax of HVB Group by posting positive results. The very good performance was driven largely by the operations of the new Corporate & Investment Banking division, which resulted from the merger of the previous Markets & Investment Banking and Corporates & Commercial Real Estate Financing divisions in the third quarter of 2009. The substantial improvement in total revenues of the Corporate & Investment Banking division is attributable to the sharp recovery in net trading income and the significant rise in net interest income. Despite the charges arising from net write-downs of loans and provisions for guarantees and commitments, which increased by 75.1% to €1,536 million compared with last year, and the loss in net income from investments (down €338 million), the division was able to record a profit before tax of €971 million (2008: a loss of €1,359 million). Adjusted for restructuring costs, the division generated a profit before tax of €1,058 million (2008 adjusted: a loss of €1,351 million).

In the case of the Wealth Management and Retail divisions, marked investor reticence in particular led to a decline in earnings compared with last year, which still benefited from a much more favourable market environment in the first half of 2008. Nevertheless, the Wealth Management division recorded a profit before tax of €74 million and, despite charges of €63 million arising from non-recurring restructuring measures, the Retail division recorded a profit of €29 million, which adjusted for these restructuring costs stands at €92 million.

HVB Group 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 €0.6 billion, to €23.6 billion. The leverage ratio (ratio of total assets to the shareholders' equity shown in the balance sheet) continued to improve – primarily on account of specific deleveraging measures – from 19.9 at year-end 2008, to 15.4 at the end of December 2009. 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 17.8%, 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 Group 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 UniCredit Bank AG 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 Group is in an excellent position to leverage its regional strengths in the international network of UniCredit Group for the benefit of its customers. Upon entry into the Commercial Register on 15 December 2009, we changed the previous legal company name from Bayerische Hypo- und Vereinsbank Aktiengesellschaft to UniCredit Bank AG (referred to below as HVB).

Financial Review (Continued)

Operating performance of HVB Group

The operating performance of HVB Group is described in detail below.

Net interest income

Compared with the previous year, total net interest income was up by €269 million, or 6.3%, to €4,528 million at year-end 2009.

In the process, net interest income rose substantially by €417 million, to €4,476 million. This pleasing development is primarily attributable to the significant year-on-year growth in interest income from trading operations as well as favourable effects arising from the amortisation of reclassified holdings compliant with IAS 39.50. Both developments have affected the Corporate & Investment Banking division, which recorded an increase of €676 million in net interest income. Rises in volumes and better interest margins in short-term lending transactions with corporate customers and multinationals also contributed to the increase in net interest income of this division. In the Retail and Wealth Management divisions, net interest income chiefly decreased due to falling interest margins in the deposit-taking business.

At €52 million, the income generated in 2009 from dividends and other income from equity investments was considerably lower than last year's figure (€200 million). This decline is attributable to lower dividends paid by private equity funds and by our shareholdings in line with the general market trend.

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 €1,187 million, net fees and commissions of HVB Group in the year under review are substantially below the pleasing result recorded in the previous year (€1,453 million). Fee and commission income in particular decreased in the securities business of the Retail and Wealth Management divisions as a result of our customers' ongoing restraint and the lower portfolio volume. This is the main reason for the 18.6% decline in net fees and commissions from management, brokerage and consultancy services, to €647 million, of the entire HVB Group. Moreover, the fee and commission income from lending operations fell by 15.6%, to €335 million, notably on account of lower income from the Leverage Finance, Project Finance and Structured Commodity Finance units in the Corporate & Investment Banking division. The result from services in connection with payments remained stable at €196 million compared with the previous year (€197 million).

Net trading income

In a more favourable market environment overall since the end of March 2009, the net trading income of HVB Group substantially recovered to reach a profit of €1,074 million at year-end 2009, after a high net trading loss of €1,882 million was recorded in the previous year due to the financial crisis. Besides the Fixed Income (fixed-income and foreign-exchange products) and Equities (equity and index products) units, the Credit Markets (credit-related products and credit derivatives) and Capital Markets (IPOs, capital increases, bonds) units in particular posted significant increases due to the recovery in the entire capital market.

Operating costs

Due to our efficient and sustainable cost management, we also succeeded in reducing total operating costs by 0.9%, to €3,462 million, in the year under review. In the process, payroll costs declined by 7.1%, primarily as a result of the reduction in headcount, despite higher expenses for the pension guarantee association. Due to the transfer of HVB Information Services GmbH & Co. KG (HVB IS) to UniCredit Global Information Services S.C.p.A. (UGIS) and other outsourcing measures, there was also a shift in payroll costs to other administrative expenses.

Besides the above-mentioned shift, other administrative expenses, including amortisation, depreciation and impairment losses on intangible and tangible assets, rose by a total of 6.9% partly as a result of higher payments for the deposit guarantee schemes of German banks.

Operating profit

In part on account of the tangible relaxation on financial markets, HVB Group generated a pleasing operating profit of €3,468 million, which is around €3 billion above last year's result of €482 million. The cost-income ratio in 2009 substantially improved to an excellent figure of 50.0% (2008: 87.9%) as a result of the pleasing development in total revenues.

Provisions for risks and charges
In 2009, additions to provisions for risks and charges totalled €151 million (2008: €6 million), which arose in particular on account of legal risks and risks in connection with real estate (e.g. rental guarantees).

Restructuring costs
In the 2009 financial year, HVB Group reports restructuring costs of €170 million, which are mainly due to staff downsizing measures. Most of the restructuring costs relate to the restructuring measures taken for the purpose of the strategic reorientation of the Corporate & Investment Banking division (€87 million). The remaining restructuring expenses arose in the Retail (€63 million), Wealth Management (€3 million) and Other/consolidation (€17 million) divisions.

Net write-downs of loans and provisions for guarantees and commitments
Net write-downs of loans and provisions for guarantees and commitments rose by €841 million, to €1,601 million, in a significantly deteriorated credit situation. Due to the economic environment, business with corporate customers of the Corporate & Investment Banking division has been particularly affected by this development. In contrast, the development of net write-downs of loans and provisions for guarantees and commitments in the Retail and Wealth Management divisions was more favourable, with the Retail division succeeding in reducing net write-downs of loans and provisions for guarantees and commitments by 12.5% compared with last year.

Net income from investments
The net loss from investments amounted to €280 million at the end of December 2009 after a loss of €285 million in the previous year. In the net loss from investments of the year under review, the write-downs and value adjustments on financial assets totalling €474 million were partially offset by gains of €194 million realised on disposals of financial assets.

The largest individual item of the realisation gains is the profit contained in the gains from available-for-sale financial assets realised on the sale of our shareholding in ERGO. Furthermore, we generated a profit of €46 million from the deconsolidation of the BodeHewitt subsidiary sold in the second quarter of 2009, which is reported under shares in affiliated companies. The net result of other financial investments in 2009 includes the gains on the sale of the FondsServiceBank unit of our DAB Bank AG subsidiary.

The write-downs and value adjustments on financial assets include valuation expenses of €405 million on available-for-sale financial assets, €328 million of which is attributable to impairments on private equity funds and direct investments and co-investments recognised in the third quarter of 2009 in particular, as well as €35 million for asset-backed securities. Moreover, value adjustments of €42 million on investment properties are reported. In addition, a valuation expense of €16 million is recognised under write-downs and value adjustments on shares in affiliated companies, which arose in connection with the sale of Vereinsbank Victoria Bauspar AG in July 2009.

The net loss from investments amounted to €285 million in 2008. The expenses arising from impairments on financial assets available-for-sale amount to €240 million, notably including impairments on asset-backed securities in this category together with impairment losses on Lehman bonds, Icelandic bonds and our shareholdings in Babcock & Brown. In addition, a loss of €83 million under net income from investments arose from investment properties.

Profit before tax
Despite the high level of net write-downs of loans and provisions for guarantees and commitments, the net loss from investments and restructuring costs, HVB Group generated a very good profit before tax of €1,266 million in the 2009 financial year due to the strong recovery in operations. This led to an increase of €1.9 billion in the profit before tax after reporting a loss before tax of €595 million in the previous year, notably on account of the net trading loss.

Income tax for the period and consolidated profit
Income tax rose to €382 million in the year under review after €54 million in 2008. This is mainly due to the significant improvement in performance in 2009. The income tax posted last year despite the loss before tax was primarily attributable to the tax charges of fully consolidated subsidiaries and foreign branches of HVB and, among other things, to the deferred tax assets not recognised in part for tax loss carryforwards which arose in the previous year.

After deducting taxes, HVB Group generated a pleasing consolidated profit of €884 million; adjusted for restructuring costs, this figure exeeds €1 billion (adjusted: €1,013 million). In the previous year, HVB Group had posted a loss of €649 million (adjusted: €623 million).

Financial Review (Continued)

Appropriation of net income
The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €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. (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.

Segment results by division
The divisions contributed the following amounts to the €1,266 million profit before tax of HVB Group:

Corporate & Investment Banking	€971 million
Retail	€29 million
Wealth Management	€74 million
Other/consolidation	€192 million.

The results of the segments were adversely affected by extraordinary expenses arising from non-recurring restructuring costs. Adjusted for restructuring costs, the following picture emerges:

Corporate & Investment Banking	€1,058 million
Retail	€92 million
Wealth Management	€77 million
Other/consolidation	€209 million.

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 to form the new Corporate & Investment Banking division in the third quarter of 2009.

Further changes in segment allocation are described in Note 27, "Notes to segment reporting by division".

The quarterly figures of the previous year and the current year under review have been adjusted accordingly.

The income statements for each segment and comments on the economic performance of the individual segments are provided in Note 28, "Income statement broken down by division" in this Annual Report. The tasks and objectives of each division are described in detail in Note 27, "Notes to segment reporting by division".

Financial situation

Total assets
The total assets of HVB Group amounted to €363.4 billion at the end of December 2009. Hence, compared with year-end 2008, the total assets significantly declined by €95.2 billion, or 20.8%, mainly through deleveraging measures, for example specific steps taken to reduce the financial assets held for trading. The leverage ratio, which HVB Group defines as the ratio of total assets to shareholders' equity shown in the balance sheet, continuously improved from 19.9 at year-end 2008 to 15.4 at the end of December 2009.

Financial assets held for trading fell by €65.6 billion, or 33.0%, to €133.4 billion compared with year-end 2008. There was a decline of €38.4 billion in the positive fair values from derivative financial instruments and €13.5 billion in holdings of fixed-interest securities. Furthermore, there was a reduction of €15.8 billion in other financial assets held for trading shown in the balance sheet, primarily due to the decrease in repurchase agreements (repos).

Loans and receivables with customers fell by €29.6 billion, to €145.9 billion. This decline is attributable to the lower holdings of repos, fewer mortgage loans and a decrease in loans and receivables, especially outside Germany.

The reclassification of financial instruments from financial assets held for trading to loans and receivables with banks and customers carried out overall in 2009 led to shifts in these balance sheet items which, however, did not affect the total assets (see also Note 73, "Application of reclassification rules according to IAS 39.50" et seq.).

As on the assets side, the decline in total liabilities is also attributable to the sharp drop of €42.7 billion in financial liabilities held for trading. In addition, there was a decrease in deposits from banks (down €33.2 billion) and in deposits from customers (down €18.5 billion). The reduction in deposits from banks includes the substantial decrease of €21.2 billion in deposits from central banks, and €12.0 billion in deposits from banks. Besides the deconsolidation effects of the sale of Vereinsbank Victoria Bauspar AG (€1.9 billion savings deposits) and fewer repos (down €10.4 billion), the reduced volume in customer deposits is attributable to fewer time deposits (down €11.5 billion). In contrast, credit balances on current accounts increased by €5.0 billion.

At the end of December 2009, shareholders' equity totalled €23.6 billion and had thus risen by €0.6 billion compared with the 2008 year-end total. The reason for this rise is primarily the consolidated profit of €0.9 billion generated in 2009, while a slight rise in the available-for-sale reserve was offset by a lower hedge reserve under changes in the valuation of financial instruments, which remained almost unaltered.

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

The risk-weighted assets for credit risks of HVB Group determined on the basis of Basel II (German Banking Act/German Solvency Regulation, KWG/SolvV) by applying partial use amounted to €102.9 billion at 31 December 2009 (including counterparty default risk in the trading book); at 31 December 2008, the comparable risk-weighted assets amounted to €126.0 billion. This total includes the holdings reclassified compliant with IAS from the trading book to the banking book. The total risk-weighted assets, including market and operational risk, amounted to €115.1 billion at 31 December 2009 (31 December 2008: €148.2 billion).

The total risk-weighted assets of HVB Group declined by €33.1 billion compared with year-end 2008. This decrease is mainly due to a decline of €23.1 billion in risk-weighted assets arising from credit risk, particularly on account of continued deleveraging measures, the sale of non-strategic shareholdings such as Vereinsbank Victoria Bauspar AG, and as a result of a reduction of the counterparty risk as well as various activities to optimise risk-weighted assets. Market risks fell by €8.3 billion, largely due to narrowing credit spreads. Operational risks declined by €1.7 billion, primarily driven by the deconsolidation of various subsidiaries such as Vereinsbank Victoria Bauspar AG and the former HVB IS.

The total lending volume resulting from the 15 current securitisation transactions of HVB Group serving to reduce risk-weighted assets amounted to €43.7 billion at 31 December 2009 (2008: €50.5 billion). Due to the resulting reduction in risk-weighted assets of a gross €21.5 billion, we have achieved an optimal value-added capital allocation. In 2009, a transaction with a total volume of €0.7 billion expired.

At 31 December 2009, the core capital of HVB Group compliant with the German Solvency Regulation (SolvV) totalled €20.4 billion and the equity capital €24.4 billion. This gives rise to a core capital ratio (including market risk and operational risk) under Basel II of 17.8% and an equity funds ratio of 21.2%.

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.

Corporate acquisitions and sales

Significant corporate acquisitions and sales of HVB Group are described below.

Further changes in the group of companies included in the Annual Report are provided in Note 5, "Companies included in consolidation".

With effect from 8 July 2009, HVB sold its 70% interest in Vereinsbank Victoria Bauspar AG (VVB). The purchase and transfer contract had already been signed with legally binding effect between HVB and Wüstenrot Bausparkasse AG on 15 May 2009. The sale of its interest in VVB represents a further step taken by HVB in disposing of companies that do not belong to its core operations. At the same time, building-society products remain a major element in HVB's range of offerings to private customers. For this reason, a long-term sales agreement was concluded with Wüstenrot Bausparkasse AG. VVB was deconsolidated from HVB Group in July 2009.

Financial Review (Continued)

Through the purchase contract of 30 June 2009, we sold our 72.25% interest in BodeHewitt AG & Co. KG and BodeHewitt Beteiligungs AG to our previous joint venture partner Hewitt Associates GmbH, Wiesbaden. BodeHewitt AG & Co. KG was deconsolidated from HVB Group with effect from 30 June 2009.

As part of pooling the IT services within UniCredit Group, the transformation of HVB Information Services GmbH, Munich, into a limited partnership was completed on 30 April 2009. With effect from 1 May 2009, HVB transferred its limited partnership shares in HVB Information Services GmbH & Co. KG (HVB IS) to UniCredit Global Information Services S.C.p.A. (UGIS), the global IT company of UniCredit Group, against the issue of new UGIS shares. HVB now holds an interest of 24.7% in UGIS. Pooling IT services makes it possible to make better use of economies of scale, press ahead with the international standardisation of IT platforms and benefit from the broad, international range of experience. UGIS was included in the group of consolidated companies of HVB Group with effect from 1 May 2009 using the equity method.

Corporate structure and business operations

Legal corporate 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 and hence a major part of UniCredit Group from that date as a subgroup.

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.

Main products, sales markets, competitive position and facilities

HVB Group offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, and international companies. Our range extends, for example, from mortgage loans, consumer loans and banking services for private customers, business loans and foreign trade financing through to funds products for all asset classes, advisory and brokerage services, securities transactions, liquidity and financial risk management, advisory services for affluent customers and investment banking products for corporate customers. HVB Group 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 Group 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 (CIB) 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 Group are given the best possible service. This model is indispensable for meeting 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 Group 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 Group has succeeded in expanding its position among the leading private-banking players in Germany.

HVB Group is part of an international banking group which offers its financial services on the European market in particular. This will enable us to combine our regional and divisional strength and local competence with the additional 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 Group by region is shown in Note 87, "Offices" in the notes to the consolidated financial statements.

Organisation of management and control, and internal management

The Management Board of HVB is the management body of HVB Group. It 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 in 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.

Financial Review (Continued)

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

The Supervisory Board of the Bank has 20 members and includes equal numbers of representatives of the shareholder 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' 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 includes its subsidiaries and 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 consolidated financial statements under Note 88, "Members of the Supervisory Board", and Note 89, "Members of the Management Board".

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

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

Management's Discussion and Analysis 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 information available to us at the present time. We assume no obligation to update these statements in the light of new information or future events. Known or unknown risks and uncertainties may be entailed in forward-looking statements, and the actual results and developments may thus differ significantly from those expected at present. Such discrepancies may result particularly from changes to the general economic situation and the competitive situation, developments on international capital markets, the possible default of borrowers or contracting parties in commercial transactions, the implementation of restructuring measures, amendments to national and international laws (notably 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 in 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.

Financial Review (Continued)

Development of HVB Group

HVB Group 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. 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 Group 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 trading income – the development of net write-downs of loans and provisions for guarantees and commitments will be the main factor influencing the earnings situation. At present, we assume that net write-downs of loans and provisions for guarantees and commitments in the 2010 financial year will not significantly exceed the level in 2009 despite our expectation that the difficult credit situation will persist.

The trends in results of HVB Group in 2010 named above are as follows for the individual operating divisions below.

HVB Group's performance in the 2010 financial year will again depend on the operating performance of the Corporate & Investment Banking division, in particular the earnings and the net write-downs of loans and provisions for guarantees and commitments of this division. For 2010, we expect an increase in total revenues, which should more than compensate for a rise in operating costs.

The operating performance in the Retail and Wealth Management divisions is expected to continue to be marked by uncertainties on markets and the related cautiousness on the part of customers. Against this backdrop, we anticipate a slight increase in total revenues with a moderate increase in operating costs, particularly in the Retail division.

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

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

Management and monitoring of risks in HVB Group

1 Risk management

For risk management purposes, the Bank defines its overall risk strategy at 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 Management Board. Important bodies operating at the HVB Group 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.

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 within HVB Group. The activities of the Chief Risk Officer in the year under review were supported by the Audit Committee of the Supervisory Board, various units under the Chief Financial Officer and the Audit department.

Audit Committee of the Supervisory Board

In 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 Group. Its tasks and competencies include ongoing, independent risk measurement and monitoring, responsibility for risk-measurement methods and their ongoing development, as well as reporting to the 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 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.

Risk Report (Continued)

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.

– 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 reintegrating 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 within HVB Group 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 HVB Group's 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 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 315 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 and consolidated 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 and consolidated financial statements. The Management Board states that, to the best of its knowledge and in accordance with applicable reporting principles, the annual and consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group (excerpt from the Management Board statement pursuant to Section 37y No.1 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) in the Consolidated Financial Statements of 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 Group. 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 and consolidated 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, particularly in connection with the interim reports, half-yearly financial reports and annual financial statements on a regular and ongoing basis. To monitor the effectiveness of the ICS 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 and consolidated financial statements, the Supervisory Board is responsible for adopting the annual report and approving the consolidated financial statements. 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 were mandated to audit the Bank's Consolidated Financial Statements and the Management's Discussion and Analysis prepared in accordance with the International Financial Reporting Standards (IFRS). 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 that, in particular, includes appropriate and effective risk management has indeed been established. Both the Management Report and the Management's Discussion and Analysis are 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 the Bank, and whether the Management's Discussion and Analysis presents an accurate picture of the situation of the Group. 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 Group".

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 reports of both HVB and HVB Group.

- 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. Moreover, the CFC prepares and validates the segment report prepared in accordance with IFRS that is published externally.

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 IFRS 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 Operating Guidelines. The back-up 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 Group 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 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 and consolidated financial statements, and the interim 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.

Consolidated financial statements under IFRS
As a subgroup of UniCredit Group and as a company active on the capital market, HVB Group prepares consolidated financial statements in accordance with the International Financial Accounting Standards (IFRS).

The consolidated financial statements are based on the standalone financial statements of HVB and the subsidiaries included in the consolidated financial statements as well as special-purpose entities on the basis of local accounting rules. These financial statements are converted by the reporting companies to the Group-wide standards in accordance with the UniCredit Group Accounting Principles and transformed to comply with the Group's position classifications. The financial information reported within the framework of the consolidated financial statements is included in the process of auditing the consolidated financial statements.

The figures for the consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system marketed by Tagetik Software S.R.L. This is used in the entire Group and networked across all Group companies. After the figures are entered into or transferred to this system by the Group companies, the system is shut down on the basis of phases in accordance with the consolidation process. This data can be changed only in exceptional cases and is reconciled with the subsidiary concerned.

Before data are delivered, coordination is carried out between the various Group companies with regard to their intercompany relationships. After completion of both the intercompany coordination and final data transfer, the technical consolidation process (profit and debt consolidation) takes place in the system. The necessary elimination of intercompany profits or losses is carried out manually, along with capital consolidation. In addition, it is possible to record further adjustment entries at Group level via manual slips that are logged by the system. The conversion of local currencies of Group companies into the required Group currency is performed by the system.

The consolidation process includes system-based validation checks at a diverse range of levels to minimise risks. In addition, plausibility checks are carried out on a regular basis.

Risk types and risk measurement

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

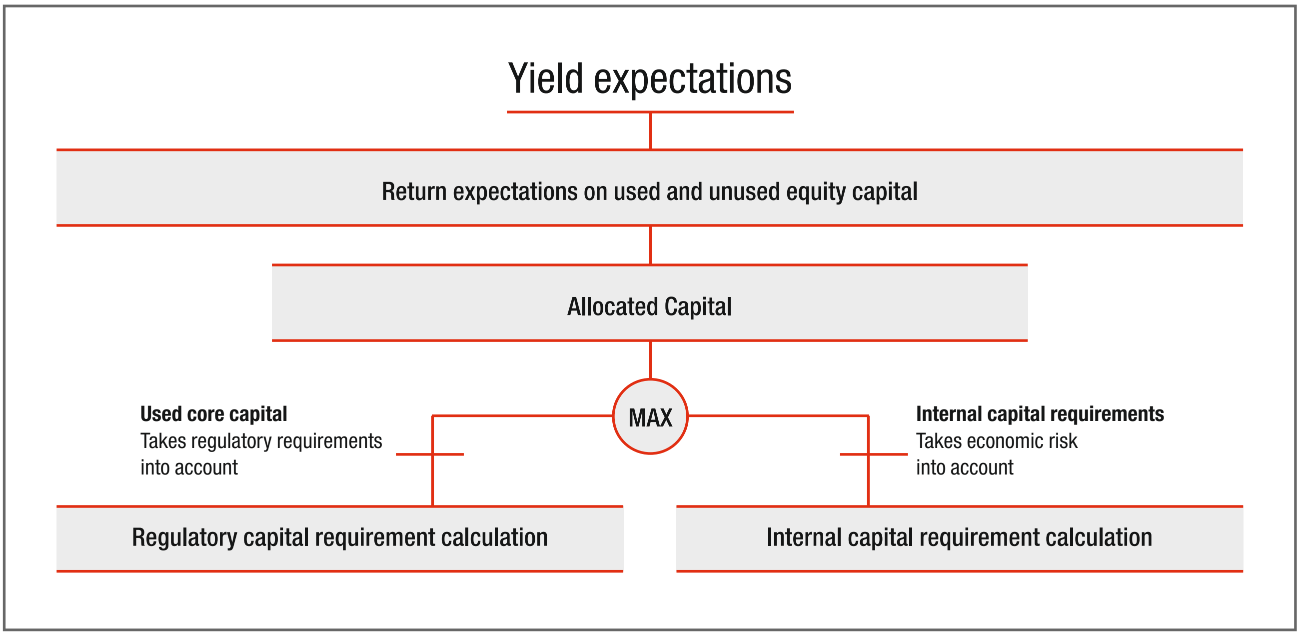
Overall bank management

1 Overall bank management at the Group level

The focus of the value-oriented management of HVB Group 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.



Risk Report (Continued)

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.

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 positions and the equivalent risk-weighted assets from market and operational risk positions)
- Equity funds ratio (ratio of equity funds to the sum of risk-weighted assets arising from credit risk positions and the equivalent risk-weighted assets arising from market and operational risk positions).

More detailed information on these ratios is contained in the section "Risk-weighted assets, key capital ratios and liquidity of HVB Group" in the Financial Review and in the Note "Key capital ratios (based on German Commercial Code)" in the present Annual Report.

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 (see section "Segment reporting" in the present Annual Report), 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 €6.8 billion to €7.1 billion. During 2009, the internal capital (including minority interests) for HVB Group increased to €7.5 billion at 31 December 2009, taking into account all risk-reducing diversification effects of HVB Group.

The 2009 increase in HVB Group'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 economic capital for small legal entities was impacted by initial consolidation effects together with changed allocations within the framework of our ongoing risk assessment. In Corporate & Investment Banking, the combined effects of rising market risk and risks arising from shareholdings/financial investments dominated the relief provided by decreasing default risk. The decline in economic capital for the Retail division and Other/consolidation reflects the trend in default risk.

In a quarterly analysis of our risk-taking capacity, we measure our internal capital against the capital cushion available to us to cover risk. In addition, this sustainability analysis is carried out with a corresponding forecasting horizon as a component of our planning process. The detailed annual plan for 2009 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).

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 55, 70 and 78 of this Annual Report. 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 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.

Internal capital after portfolio effects (confidence level 99.97%)

	2009		2008[2]	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Market risk	1,902	25.4	975	13.7
Default risk	3,111	41.6	4,046	56.8
Business risk	274	3.7	367	5.1
Operational risk	673	9.0	617	8.7
Risks arising from our own real estate portfolio	539	7.2	565	7.9
Risks arising from our shareholdings/financial investments	834	11.1	530	7.4
Economic capital	**7,333**	**98.0**	**7,100**	**99.6**
Economic capital of small legal entities[1]	148	2.0	26	0.4
Internal capital of HVB Group	**7,481**	**100.0**	**7,126**	**100.0**
Capital cushion of HVB Group	**22,738**		**24,206**	
Utilisation, in % HVB Group	**32.9**		**29.4**	

1 HVB Group 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

Risk Report (Continued)

Internal capital after portfolio effects (confidence level 99.97%)

	2009		2008[1]	
Broken down by division	€ millions	in %	€ millions	in %
Corporate & Investment Banking	5,761	77.0	4,678	65.6
Retail	437	5.9	527	7.4
Wealth Management	113	1.5	114	1.6
Other/consolidation	1,170	15.6	1,807	25.4
Internal capital of HVB Group	**7,481**	**100.0**	**7,126**	**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

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 a 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 Group and the internal capital. A major element of this risk strategy is maintaining HVB Group's risk-taking capacity. HVB Group'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 on both 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 Group units 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 Group.

Country risk

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

Credit risk strategy

The credit risk strategy implemented in HVB Group 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 Group 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. The subsidiaries of HVB have their own rating and scoring processes tailored to their own business activities.

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

Risk Report (Continued)

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 in HVB Group. 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 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.

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).

Risk Report (Continued)

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

Credit value-at-risk
The credit value-at-risk (unexpected loss) provides information about the maximum negative deviation of 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 Group.

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

A portfolio model building on this information is used to calculate the value-at-risk (VaR) stemming from country risks for HVB Group every month, 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 HVB Group level, credit risk concentrations with affiliated counterparties are limited by credit ratings together with a uniform methodology for all subsidiaries. For this purpose, we use a database encompassing all exposures of a borrower within HVB Group worldwide. This ensures that information 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 Group facilities engaged in trading activities. Each new trade is immediately entered and applied to the corresponding limit within an appropriate time frame. For counterparty risk, this applies to both replacement risk and settlement risk. For the latter, the risk for the future value date is limited and monitored right from the time the Bank enters into the transaction so that a concentration of payments on a single value date is prevented beforehand. This enables each trader to check current limit utilisation and lets the risk controller perform direct limit monitoring for each counterparty or issuer. 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 Group 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 €42.0 billion (17.2%) in credit and counterparty exposure, to €202.3 billion. The decrease in exposure took place almost entirely within HVB. For the remaining Group companies there was only a slight decrease in the exposure.

The issuer exposure of HVB Group for non-trading and ACPM decreased by €8.2 billion to €37.9 billion in 2009 (2008: €46.1 billion).

The decrease in exposure was distributed across almost all industry sectors. The main sectors showing relatively large declines were above all banking and insurance (down €13.5 billion), food/consumer goods/services (down €5.2 billion), mechanical engineering/steel (down €4.2 billion) and construction (down €4.2 billion). To some extent, this was the result of measures already introduced in the course of portfolio optimisation and continued in 2010. The exposure to retail customers decreased by €6.6 billion. Increases in exposures, by contrast, were seen in the public sector (€2.0 billion) and automotive (€1.6 billion) segments.
The concentration of the issuer portfolio in the banking and insurance industry and the public sector already seen in past years became more pronounced in 2009, with the issuer exposure decreasing by €5.2 billion to €21.3 billion in the banking and insurance segment and increasing by €1.0 billion to €13.0 billion in the public sector segment. At the same time, the overall share of the remaining industry sectors fell by 7.0 percentage points and is now at 9.5%.

The core portfolio, defined as the overall HVB Group portfolio excluding the remaining exposures assigned to the former Real Estate Restructuring segment, decreased by 17.1% in 2009 to €201.3 billion. With a decrease of €30.4 billion (16.9%) as compared with the reorganised exposure at the end of 2008, the most substantial drop was seen in the Corporate & Investment Banking division, which was set up out of the former Markets & Investment Banking and the Corporates & Commercial Real Estate Financing divisions over the course of the year. In 2010, we will continue to apply our proven portfolio optimisation and risk control measures in this area. 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 €6.0 billion (13.5%), while the exposure in the Wealth Management division was unchanged. The decrease under Other/consolidation is primarily due to the planned disposal of the non-strategic portfolios.

Risk Report (Continued)

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

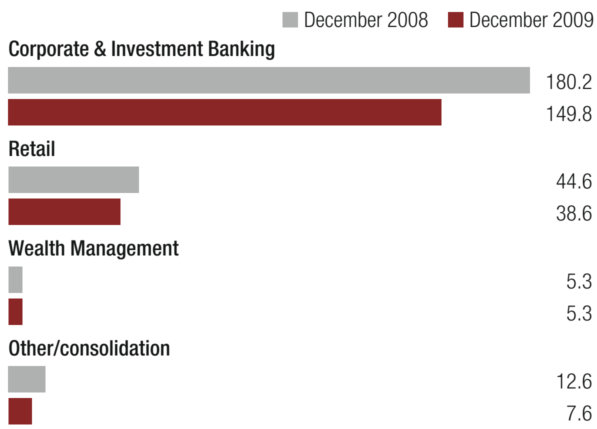
In 2009, the €33.4 billion decrease (27.2%) in credit and counterparty exposure in rating classes 1–4, mainly as a result of decreased exposure in business with banks, lowered the share of this group in the total core portfolio by 6.2 percentage points. Exposures in rating classes 5–8 decreased by €11.2 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 the 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 front office, back office and risk management continuing to work closely together. We hope that the results of these measures will be enough to offset the negative cyclical effects of Basel II. Exposures in rating classes 9 and 10 increased by €2.6 billion to €8.8 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 87.9%, 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 by €1.0 billion to €12.1 billion, and issuer exposure in the rating classes 1–4 decreased by €9.8 billion to €21.2 billion. Issuer risk in the rating classes 9 and 10 amounted to €0.4 billion.
More details on the quality and structure of the credit portfolio can be found in Notes 49 and 50 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 (by 12.2 percentage points) and value-at-risk (by 9.7 percentage points). 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 carried out showed that an increase in expected loss and value-at-risk is possible in 2010 (particularly in Corporate & Investment Banking). Therefore, the Bank initiated additional measures at an early stage to limit or avoid any detrimental effects through active risk management.

The net loan-loss provisions recognised in the income statement by HVB Group for 2009 amounted to €1,601 million. More details on net write-downs of loans and provisions for guarantees and commitments can be found in Notes 39, 49, 50 and 51 in this present Annual Report.

Breakdown of credit exposure and counterparty exposure by division[1] – core portfolio (€ billions)



1 including the effects of the reorganisation

Breakdown of credit exposure and counterparty exposure by industry sector

(€ billions)

Industry sector	2009	2008
Banking and insurance	32.8	46.3
Construction	31.7	35.9
Retail customers	28.7	35.3
Food/consumer goods/services	21.2	26.4
Public sector	14.6	12.6
Chemicals, health, pharmaceuticals	11.9	13.1
Transportation	11.8	12.8
Utilities	9.5	11.6
Other	9.4	12.7
Mechanical engineering, steel	8.8	13.0
Automotive	8.2	6.6
Electrical, IT, communications	5.4	6.3
Mineral oil	4.2	7.0
Media, printing, paper	4.1	4.7
HVB Group	**202.3**	**244.3**

Breakdown of issuer exposure by industry sector

(€ billions)

Industry sector	2009	2008
Banking and insurance	21.3	26.5
Public sector	13.0	12.0
Other	0.8	1.4
Automotive	0.7	1.0
Food/consumer goods/services	0.6	1.3
Construction	0.4	0.6
Utilities	0.4	1.0
Electrical, IT, communications	0.3	0.8
Retail customers	0.1	0.1
Media, printing, paper	0.1	0.4
Chemicals, health, pharmaceuticals	0.1	0.3
Mechanical engineering, steel	0.1	0.1
Transportation	0.0	0.3
Mineral oil	0.0	0.3
HVB Group	**37.9**	**46.1**

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

	2009		2008	
Rating	€ billions	in %	€ billions	in %
Free of default risk	7.5	3.7	6.1	2.5
Not rated	9.7	4.8	10.5	4.3
Rating classes 1–4	89.4	44.4	122.8	50.6
Rating classes 5–8	85.9	42.7	97.1	40.0
Rating classes 9–10	8.8	4.4	6.2	2.6
HVB Group	**201.3**	**100.0**	**242.7**	**100.0**

Breakdown of issuer exposure by rating class – core portfolio

	2009		2008	
Rating	€ billions	in %	€ billions	in %
Free of default risk	12.1	31.9	11.1	24.1
Not rated	3.2	8.4	3.2	6.9
Rating classes 1–4	21.2	56.0	31.0	67.3
Rating classes 5–8	1.0	2.6	0.8	1.7
Rating classes 9–10	0.4	1.1	0.0	0.0
HVB Group	**37.9**	**100.0**	**46.1**	**100.0**

Risk Report (Continued)

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

	EXPECTED LOSS		VALUE-AT-RISK	
Broken down by divisions	**2009**	**2008**	**2009**	**2008**
Corporate & Investment Banking	76.9	64.7	90.6	80.9
Retail	14.8	19.9	6.0	9.1
Wealth Management	1.0	1.7	0.7	1.3
Other/consolidation	7.3	13.7	2.7	8.7
HVB Group	**100.0**	**100.0**	**100.0**	**100.0**

Country risk year-on-year

In the year under review, the exposures of HVB Group entailing country risk decreased by €20.8 billion to €49.9 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 €35.1 billion to €22.3 billion in connection with trading activities.

Approximately 95% of the total exposure (2008: 97%) relates to countries with rating classes 1–4. Only €2.4 billion relates to countries with rating classes 5–9 (2008: €2.2 billion). At 63%, the majority of the exposure is in western Europe (2008: 62%), with the remainder showing satisfactory regional diversification.

At 58% of the total, trading activities made up most of the portfolio (2008: 61%). In the lending segment, 35% of net exposure entailing country risk were disbursed (2008: 33%).

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	47,551	68,451	20.6	34.5
Rating classes 5–8	2,360	2,224	25.0	24.6
Rating class 9	5	0	0.8	0.0
HVB Group	**49,916**	**70,675**	**46.4**	**59.1**

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)

Region	LENDING 2009	LENDING 2008	TRADING 2009	TRADING 2008	ISSUER RISK 2009	ISSUER RISK 2008	TOTAL 2009	TOTAL 2008
Western Europe	9,491	9,755	21,018	32,793	883	1,107	31,392	43,655
Asia/Pacific	2,477	6,080	3,669	4,323	339	635	6,485	11,038
North America	1,396	1,784	2,793	3,214	1,437	878	5,626	5,876
Eastern Europe	3,212	3,970	898	1,110	163	201	4,273	5,281
Central and South America	721	1,470	319	1,339	725	1,501	1,765	4,310
Africa	289	368	86	138	0	9	375	515
HVB Group	**17,586**	**23,427**	**28,783**	**42,917**	**3,547**	**4,331**	**49,916**	**70,675**

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

HVB Group: 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	22,337	35,059	5.9	4.4
Switzerland	5,930	4,391	0.3	0.3
USA	4,148	3,838	0.0	0.0
Singapore	2,662	2,792	0.2	0.3
Russian Federation	2,273	2,748	6.5	11.2
Denmark	1,576	1,895	0.1	0.1
Turkey	1,069	1,247	8.1	10.1
Norway	866	1,153	0.0	0.0
Canada	860	1,040	0.0	0.0
China	694	1,083	0.2	0.2
HVB Group	**42,415**	**55,246**	**21.3**	**26.6**

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

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case-scenario) for HVB Group at year-end 2009 totalled €84.6 billion (31 December 2008: €121.9 billion).

In accordance with the banking supervision regulations under Basel II (German Banking Act/Solvency Regulation), with so-called partial use based on individual risk weightings and the risk-reducing effects of existing, legally enforceable bilateral netting agreements and the collateral provided by borrowers, risk weighted assets for HVB Group amounted to €14.1 billion at 31 December 2009 (31 December 2008: €18.7 billion).

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

Risk Report (Continued)

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	**962,317**	**1,110,660**	**800,142**	**2,873,119**	**3,220,605**	**60,896**	**67,071**	**59,833**	**65,289**
OTC products									
Forward rate agreements	108,906	51,485	—	160,391	142,319	268	225	124	315
Interest rate swaps	709,945	811,204	653,348	2,174,497	2,539,609	56,250	62,269	54,271	59,011
Interest rate options									
– purchased	45,166	108,548	68,456	222,170	233,537	4,344	4,556	—	1
– written	36,121	111,956	76,077	224,154	223,835	28	15	5,428	5,937
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	**294,129**	**115,067**	**58,597**	**467,793**	**496,910**	**9,499**	**21,404**	**9,599**	**19,039**
OTC products									
Foreign exchange forwards	217,938	15,466	344	233,748	247,196	3,399	9,496	3,298	8,004
Cross-currency swaps	31,082	84,869	57,196	173,147	159,459	5,069	9,113	5,174	8,371
Foreign exchange options									
– purchased	22,472	7,392	522	30,386	45,588	1,030	2,791	—	—
– written	22,634	7,340	535	30,509	44,613	1	4	1,127	2,664
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**	**9,212**	**13,612**	**11,742**	**15,665**
OTC products									
Equity/index swaps	11,534	8,011	508	20,053	17,690	787	1,732	494	990
Equity/index options									
– purchased	13,130	18,025	988	32,143	43,450	4,163	6,413	—	4
– written	21,415	42,162	4,556	68,133	83,894	38	47	5,506	7,870
Other equity/index derivatives	1,860	429	89	2,378	128	219	29	2	—
Exchange-traded products									
Equity/index futures	204	—	—	204	990	9	16	5	12
Equity/index options	31,295	31,638	961	63,894	52,012	3,996	5,375	5,735	6,789
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**	**1,552**	**1,104**	**1,773**
HVB Group	**1,381,537**	**1,569,689**	**910,242**	**3,861,468**	**4,328,215**	**84,711**	**122,136**	**86,962**	**119,628**

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

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €673,538 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	593	630	536	371
Banks	67,606	97,865	70,523	97,269
Financial institutions	12,818	18,826	14,286	19,737
Other companies and private individuals	3,694	4,815	1,617	2,251
HVB Group	**84,711**	**122,136**	**86,962**	**119,628**

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	—	—	—	—	—	—	—	—	—
HVB Group	**41,587**	**240,604**	**44,247**	**326,438**	**402,564**	**4,318**	**18,497**	**4,684**	**17,862**

Risk Report (Continued)

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
HVB Group	**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.

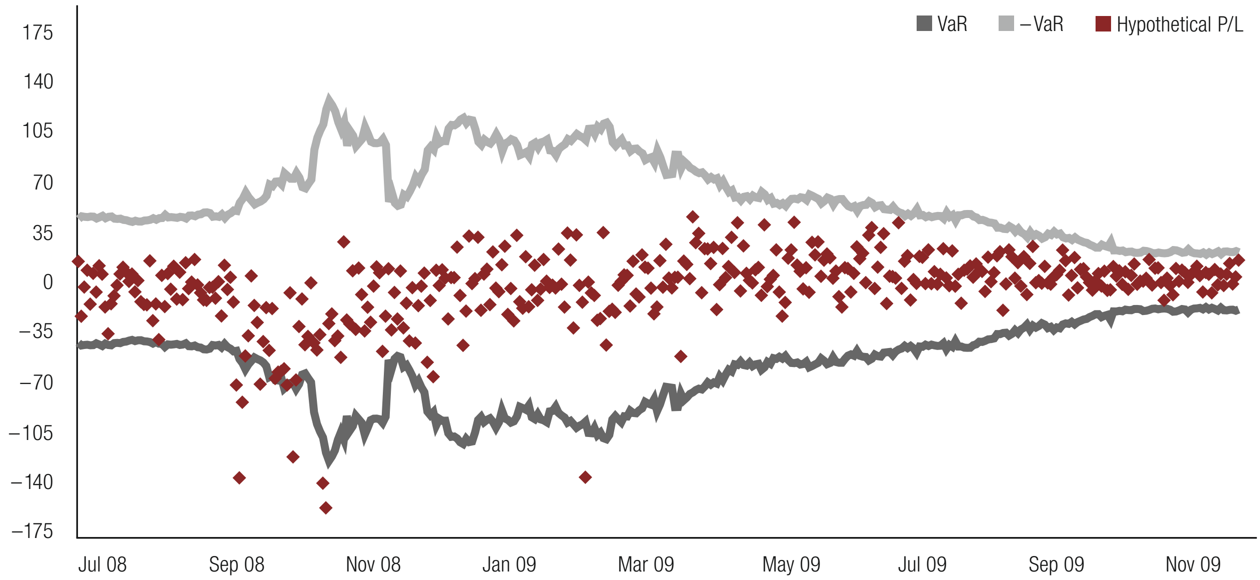
To calculate the value-at-risk at HVB we employ an internal model in full use that was given full regulatory approval at the end of 2005. The model takes into account both general and specific market risks. General market risks include the systematic risk from market movements not caused by individual 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.

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)



Risk Report (Continued)

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 €966 million (previous year: minus €1,754 million), results from a 50% widening of the credit spreads.

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 Group 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 Group and adjusted as required. The overall limit of HVB Group was initially increased from €86.5 million to €169 million in 2009 and was later reduced to €99 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.

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.

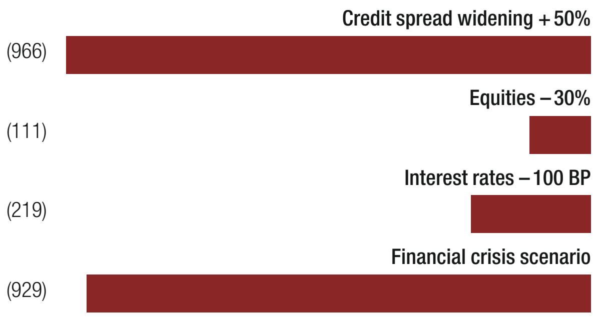
Market Risk Control has direct access to the front-office systems used in trading operations, and thus performs spot checks on the risk situation even during daily market trading.

In addition to the daily reports, the management is informed of a monthly basis on 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 Group 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.

HVB Group stress testing at 31 December 2009 (€ millions)



Market risk from trading positions of HVB Group (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)	51	22	38	59	84	118
Foreign exchange derivatives	5	3	2	6	8	5
Equity/index positions	5	5	7	5	5	10
Diversification effect[2]	(12)	(9)	(12)	(15)	(12)	(21)
HVB Group	**49**	**21**	**35**	**55**	**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

Limited market risk of HVB Group (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 Group	**97**	**37**	**54**	**127**	**168**
Market risk limit		99	99	169	169

1 arithmetic mean of the four quarter-end dates

Whereas the limited market risk of HVB Group 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 €146 million at the end of 2008 to €37 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 Group are as follows:

Market risk of HVB Group 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 Group with reclassified portfolios	**78**	**65**	**91**

1 arithmetic mean of the last two quarters

At year-end, the banking book of HVB Group contained market risks of €52 million with a one-day holding period (31 December 2008: €69 million). The market risks of the reclassified portfolios, taken in isolation, amounted to €36 million (previous year: €69 million). The market risks of the remaining banking book positions show a market risk of €25 million (previous year: €53 million).

A 10% appreciation of all foreign currencies (FX sensitivity) results in a decrease of €18.63 million in the portfolio value (0.08% of the regulatory capital) in the banking book of HVB Group (31 December 2008: a decrease of €39.57 million with an appreciation of foreign exchange positions).

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

HVB GROUP BANKING BOOK	
Total	(18.63)
USD	10.48
GBP	(23.57)
AUD	(2.94)
CHF	1.06
JPY	(1.29)
SGD	(0.66)
Other	(1.71)

Risk Report (Continued)

A 20% decline in all equity and hedge fund prices results in a decrease of €76.92 million in the portfolio value (0.33% of regulatory capital) in the banking book of HVB Group (31 December 2008: €95.50 million).

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

HVB GROUP BANKING BOOK	
Total	(76.92)
Equity products	(0.37)
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 €432.57 million (1.83% of the regulatory capital) in the banking book of HVB Group. If the hedge effect of the equity capital model book is taken into account, this scenario results in a value increase of €62.71 million (31 December 2008: a decrease of €47.31 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 Group banking book – without hedge effect of equity capital model book	(432.57)	(8.72)	(402.77)	(21.08)
HVB Group banking book – with hedge effect	62.71	57.07	1.14	4.50

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

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

In compliance with the Circular 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 0.66% (previous year: 0.22%) (or 2.27% excluding the model book – previous year: 2.62%) of its regulatory equity capital at 31 December 2009, HVB Group 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 0.54% (previous year: 0.30%).

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 €1.9 billion, the economic capital for market risks at HVB Group has increased by €0.9 billion over the comparable previous-year figure (€1.0 billion) because of the financial crisis. Here, too, the hedging effect from the equity capital model book is not taken into account.

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 Group 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 Group 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 Group per working day and limits the positions appropriately.

In addition, stress analyses based on various scenarios enables 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 Group 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 the relevant HVB Group units by the Asset Liability Management department.

Risk Report (Continued)

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 units of HVB Group. 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 Group are simulated at regular intervals. These stress scenarios take into account internal influences (e. g. possible HVB Group-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 incongruities, 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 Group 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 Group 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 €41.4 billion (previous year: €18.0 billion) in HVB Group 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 €38.4 billion at year-end (previous year: €14.9 billion). The improvements are the result of the management measures undertaken, among other factors.

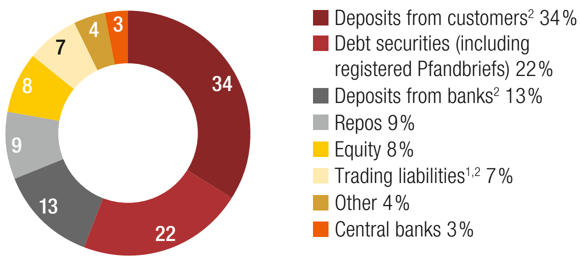
The stress tests we conduct on a regular basis showed that liquidity reserves at the end of 2009 were sufficient to cover liquidity requirements resulting from the defined scenarios.

The requirements of the German Liquidity Regulation (LiqV) were met at all times by the affected units of HVB Group during 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 Group 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 Group obtained longer-term funding with a volume of €10.0 billion (previous year: €10.7 billion) on the capital market during 2009. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Breakdown of sources of funding of HVB Group



1 without the item "Negative fair values arising from derivative financial instruments"
2 without the repos shown seperately

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 German 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 each HVB Group subsidiary or that of the relevant 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 of and compliance with, all relevant rules and regulations by HVB Group, and monitors compliance with legal requirements and the generally accepted principles of jurisprudence by HVB Group companies. This involves close cooperation with the management and divisions of HVB, and the relevant departments of HVB Group companies, where present.

Measurement methods

To quantify the operational risk of HVB and our major subsidiaries, 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 in 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.

Risk Report (Continued)

Since the beginning of 2009, our subsidiaries Bankhaus Neelmeyer AG, DAB Bank AG and UniCredit Leasing GmbH (including other leasing subsidiaries) have been included in the Advanced Measurement Approach (AMA) for regulatory purposes. For our UniCredit Luxembourg S.A. subsidiary, preparations for regulatory approval with regard to the AMA are planned for mid-2010.

The economic capital for operational risks is also calculated using the UniCredit Group-wide AMA 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 Group is thus carried out on a stand-alone basis.

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

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

The economic capital for operational risks of HVB Group amounted to €0.7 billion at the end of 2009 (equivalent year-end 2008: €0.6 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 Group 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.

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 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.

Risk Report (Continued)

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.

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.

Risk Report (Continued)

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.

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).

Risk Report (Continued)

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 (see chapter "Segment reporting" in the Notes to the Consolidated Financial Statements of the present Annual Report), 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 strategy-related 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 €0.5 billion, taking into account the update of the parameters and methodological advancements. The calculated economic capital for business risks of HVB Group amounted to €0.3 billion at year-end 2009 (equivalent year-end 2008: €0.4 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.

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.

Risk Report (Continued)

6 Risks arising from our own real estate portfolio

Risk management

We classify potential losses resulting from market fluctuations of our real estate portfolio under this risk type. This includes the portfolio of the property ownership companies of HVB and its special-purpose companies and shareholding companies as well as the portfolios of HVB Group subsidiaries. Real estate collateral is discussed under default risk.

Since 1 October 2007, the Logistics/Facility Management department of HVB has been responsible for strategic properties (i. e. properties used by the Bank) and HVB Immobilien AG for non-strategic buildings and land. Non-strategic properties include all properties not used by the Bank. The tasks of HVB Immobilien AG are divided into the areas of Portfolio Management/Sales and Asset Management/Property Development. The strategic real estate will be retained in 2010.

Measurement methods

We measure our real estate risks using a value-at-risk approach based on the market value of the properties and historical volatilities. The volatilities are determined using real estate indices for office rents. In addition, risk-reducing correlations between individual regional property markets are included.

Risk monitoring

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

As part of the controlling of risk and measures, both risks and measures have been subject to regular reviews since 2009. This represents an improvement in data quality and also results in greater risk awareness.

Again in 2010, the planned reduction of risk assets will include the reduction of the non-strategic real estate portfolio. In 2010, the overall economic trend is expected to be subdued, with a generally declining trend in property sales and rentals. The impact this will have on the achievement of targets cannot be forecast at present.

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.

Quantification and specification

The portfolio of non-strategic real estate and properties held by HVB Immobilien AG was reduced by approximately 9% in 2009 through disposals.

The Letting and Sales department operated successfully in 2009 and met its letting targets despite the difficult market environment.

The value-at-risk, without taking into account the diversification effects between risk types, was unchanged at €0.7 billion. The economic capital for real estate risk amounted to €0.5 billion for HVB Group at the end of 2009 (equivalent year-end 2008: €0.6 billion). These figures reflect the effect of the updated correlation matrix for the aggregation of risk types carried out in 2009. The real estate portfolio of HVB Group is located primarily in Munich, which accounts for 39% of the total.

7 Risks arising from our shareholdings/financial investments

Risk management

We classify potential losses resulting from fluctuations in market prices of our portfolio of listed and unlisted shareholdings, financial investments and corresponding fund shares under this risk type. Operational subsidiaries of HVB Group, whose risks are already separately identified and recorded as part of the other risk types, are excluded.

The Management Board is responsible for managing our overall portfolio of shareholdings/financial investments (including operational subsidiaries of HVB Group). The responsibility at HVB Group 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 direct and indirect 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 and co-investments/direct investments were also 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 as well as co-investments/direct investments. 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 special mention.

Quantification and specification
The value-at-risk, without taking into account the diversification effects between risk types, increased by €0.3 billion to €1.6 billion. The economic capital of HVB Group was €0.8 billion (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 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
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 has 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.

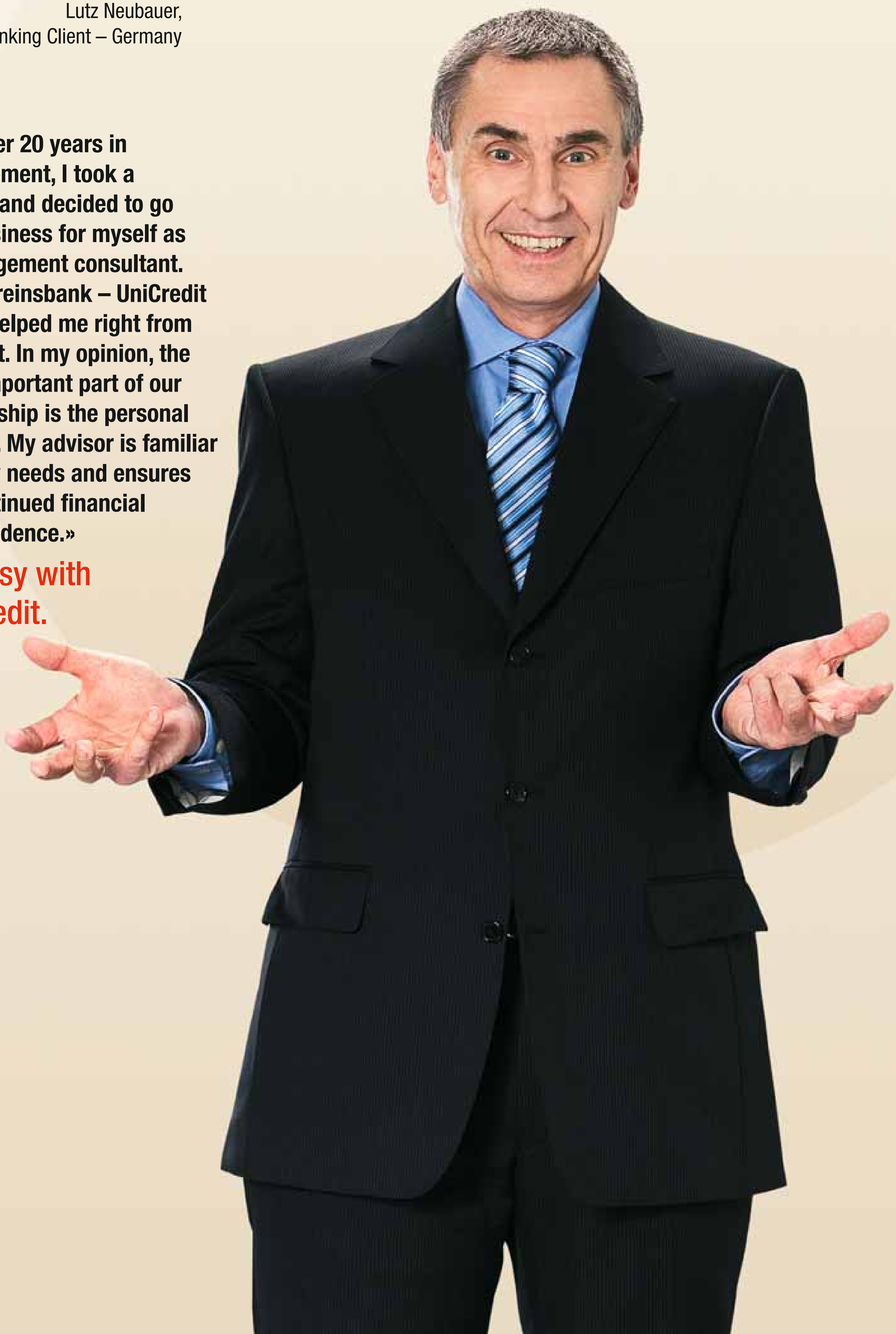
Risks from a change in HVB Group's rating

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.

Lutz Neubauer,
Private Banking Client – Germany

«After 20 years in management, I took a chance and decided to go into business for myself as a management consultant. HypoVereinsbank – UniCredit Group helped me right from the start. In my opinion, the most important part of our relationship is the personal contact. My advisor is familiar with my needs and ensures my continued financial independence.»

It's easy with UniCredit.



Financial Statements (2)

Consolidated Financial Statements

Consolidated Income Statement

for the year ended 31 December 2009

Income/Expenses	NOTES	2009 € millions	2008 € millions	CHANGE € millions	CHANGE in %
Net interest		4,476	4,059	+ 417	+ 10.3
Dividends and other income from equity investments		52	200	(148)	(74.0)
Net interest income	32	**4,528**	**4,259**	**+ 269**	**+ 6.3**
Net fees and commissions	33	1,187	1,453	(266)	(18.3)
Net trading income	34	1,074	(1,882)	+ 2,956	
Net other expenses/income	35	141	147	(6)	(4.1)
Net non-interest income		**2,402**	**(282)**	**+ 2,684**	
TOTAL REVENUES		**6,930**	**3,977**	**+ 2,953**	**+ 74.3**
Payroll costs		(1,822)	(1,961)	+ 139	(7.1)
Other administrative expenses		(1,418)	(1,281)	(137)	+ 10.7
Amortisation, depreciation and impairment					
losses on intangible and tangible assets		(222)	(253)	+ 31	(12.3)
Operating costs	36	**(3,462)**	**(3,495)**	**+ 33**	**(0.9)**
OPERATING PROFIT		**3,468**	**482**	**+ 2,986**	**>+ 100.0**
Provisions for risks and charges	37	(151)	(6)	(145)	>+ 100.0
Write-down on goodwill		—	—	—	—
Restructuring costs	38	(170)	(26)	(144)	>+ 100.0
Net write-downs of loans and provisions					
for guarantees and commitments	39	(1,601)	(760)	(841)	>+ 100.0
Net income from investments	40	(280)	(285)	+ 5	+ 1.8
PROFIT/(LOSS) BEFORE TAX		**1,266**	**(595)**	**+ 1,861**	
Income tax for the period	41	(382)	(54)	(328)	>+ 100.0
CONSOLIDATED PROFIT/(LOSS)		**884**	**(649)**	**+ 1,533**	
attributable to shareholder of UniCredit Bank AG		819	(671)	+ 1,490	
attributable to minorities		65	22	+ 43	>+ 100.0

Earnings per share

(in €)

	Notes	2009	2008
Earnings per share	42	1.02	(0.84)
Earnings per share (adjusted)[1]	42	1.18	(0.80)

1 2009 and 2008 adjusted for restructuring costs

Since no conversion rights or option rights on conditional capital existed at the closing date for 2009, there is no calculation of diluted earnings per share.

Statement of Other Comprehensive Income

(€ millions)

	2009	2008
Consolidated profit/(loss) recognised in the income statement	**884**	**(649)**
Income and expenses recognised in equity		
Changes from foreign currency translation and other changes	(36)	86
Changes from companies accounted for using the equity method	—	—
Actuarial profit on defined benefit plans (pension commitments)	(121)	73
Discontinued operations and assets held for sale	—	—
Change in valuation of financial instruments (AfS reserve)	106	(938)
Change in valuation of financial instruments (hedge reserve)	(196)	1,350
Taxes on income and expenses recognised in equity	96	(417)
Income and expenses recognised in equity	**(151)**	**154**
Total recognised in equity	**733**	**(495)**
of which		
attributable to shareholder of UniCredit Bank AG	697	(560)
attributable to minority interest	36	65

Balance Sheet

at 31 December 2009

Assets

	NOTES	2009 € millions	2008 € millions	CHANGE € millions	in %
Cash and cash balances	43	6,400	5,556	+ 844	+ 15.2
Financial assets held for trading	44	133,389	199,019	(65,630)	(33.0)
Financial assets at fair value through profit or loss	45	13,758	13,335	+ 423	+ 3.2
Available-for-sale financial assets	46	4,441	5,854	(1,413)	(24.1)
Shares in associates accounted for using the equity method					
and joint ventures accounted for using the equity method	47	88	32	+ 56	>+ 100.0
Held-to-maturity investments	48	2,679	6,020	(3,341)	(55.5)
Loans and receivables with banks	49	43,254	41,453	+ 1,801	+ 4.3
Loans and receivables with customers	50	145,919	175,518	(29,599)	(16.9)
Hedging derivatives	52	3,578	2,654	+ 924	+ 34.8
Hedge adjustment of hedged items					
in the fair value hedge portfolio		53	—	+ 53	
Property, plant and equipment	53	2,581	1,877	+ 704	+ 37.5
Investment properties	54	1,907	1,723	+ 184	+ 10.7
Intangible assets	55	656	795	(139)	(17.5)
of which: goodwill		424	424	—	—
Tax assets	56	2,612	2,792	(180)	(6.4)
of which: deferred tax assets		2,252	2,371	(119)	(5.0)
Non-current assets or disposal groups held for sale	57	4	4	—	—
Other assets	58	2,101	1,970	+ 131	+ 6.6
Total assets		**363,420**	**458,602**	**(95,182)**	**(20.8)**

Liabilities

	NOTES	2009	2008	CHANGE			
		€ millions	€ millions		€ millions		in %
Deposits from banks	60	50,704	83,867		(33,163)		(39.5)
Deposits from customers	61	96,490	114,962		(18,472)		(16.1)
Debt securities in issue	62	61,286	63,639		(2,353)		(3.7)
Financial liabilities held for trading	63	121,206	163,944		(42,738)		(26.1)
Hedging derivatives	64	1,369	617	+	752	>+	100.0
Hedge adjustment of hedged items							
in the fair value hedge portfolio	65	1,200	554	+	646	>+	100.0
Tax liabilities	66	1,849	1,938		(89)		(4.6)
of which: deferred tax liabilities		1,175	1,394		(219)		(15.7)
Liabilities of disposal groups held for sale	67	—	4		(4)		(100.0)
Other liabilities	68	4,179	4,562		(383)		(8.4)
Provisions	69	1,499	1,491	+	8	+	0.5
Shareholders' equity	70	23,638	23,024	+	614	+	2.7
Shareholders' equity attributable to							
shareholder of UniCredit Bank AG		22,870	22,217	+	653	+	2.9
Subscribed capital		2,407	2,407		—		—
Additional paid-in capital		9,791	9,791		—		—
Own shares		—	—		—		—
Other reserves		9,034	9,996		(962)		(9.6)
Change in valuation of financial instruments		5	23		(18)		(78.3)
AfS reserve		(190)	(306)	+	116	+	37.9
Hedge reserve		195	329		(134)		(40.7)
Consolidated profit		1,633	—	+	1,633		
Minority interest		768	807		(39)		(4.8)
Total shareholders' equity and liabilities		**363,420**	**458,602**		**(95,182)**		**(20.8)**

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €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. (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.

Statement of Changes in Shareholders' Equity

				OTHER RESERVES	
	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OWN SHARES	TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLI-GATIONS (IAS 19)
Shareholders' equity at 1/1/2008	**2,407**	**9,791**	**(2)**	**6,913**	**(189)**
Recognised income and expenses					
Consolidated profit/(loss) recognised					
in the consolidated income statement	**—**	**—**	**—**	**(671)**	**—**
Income and expenses recognised in equity					
Change in valuation of financial instruments not affecting income	—	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—	—
Actuarial losses on defined benefit plans	—	—	—	50	50
Reserve arising from foreign currency translation and other changes	—	—	2	43	—
Income and expenses recognised in equity	**—**	**—**	**2**	**93**	**50**
Total income and expenses recognised	**—**	**—**	**2**	**(578)**	**50**
Other changes recognised in equity					
Dividend payouts	—	—	—	—	—
Transfers from consolidated profit	—	—	—	3,672	—
Changes in group of consolidated companies	—	—	—	(11)	—
Total other changes in equity	**—**	**—**	**—**	**3,661**	**—**
Shareholders' equity at 31/12/2008	**2,407**	**9,791**	**—**	**9,996**	**(139)**
Shareholders' equity at 1/1/2009	**2,407**	**9,791**	**—**	**9,996**	**(139)**
Recognised income and expenses					
Consolidated profit/(loss) recognised in the					
consolidated income statement	**—**	**—**	**—**	**—**	**—**
Income and expenses recognised in equity					
Change in valuation of financial instruments not affecting income	—	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—	—
Actuarial losses on defined benefit plans	—	—	—	(84)	(84)
Reserve arising from foreign currency translation and other changes	—	—	—	(14)	—
Income and expenses recognised in equity	**—**	**—**	**—**	**(98)**	**(84)**
Total income and expenses recognised	**—**	**—**	**—**	**(98)**	**(84)**
Other changes recognised in equity					
Dividend payouts	—	—	—	—	—
Transfers to consolidated profit	—	—	—	(814)	—
Changes in group of consolidated companies	—	—	—	(50)	—
Total other changes in equity	**—**	**—**	**—**	**(864)**	**—**
Shareholders' equity at 31/12/2009	**2,407**	**9,791**	**—**	**9,034**	**(223)**

1 UniCredit Bank AG (HVB)

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS					
AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDER OF HVB[1]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
619	**(612)**	**4,074**	**23,190**	**808**	**23,998**
—	**—**	**—**	**(671)**	**22**	**(649)**
(924)	982	—	58	—	58
1	(41)	—	(40)	—	(40)
—	—	—	50	—	50
(2)	—	—	43	43	86
(925)	**941**	**—**	**111**	**43**	**154**
(925)	**941**	**—**	**(560)**	**65**	**(495)**
—	—	(402)	(402)	(68)	(470)
—	—	(3,672)	—	—	—
—	—	—	(11)	2	(9)
—	**—**	**(4,074)**	**(413)**	**(66)**	**(479)**
(306)	**329**	**—**	**22,217**	**807**	**23,024**
(306)	**329**	**—**	**22,217**	**807**	**23,024**
—	**—**	**819**	**819**	**65**	**884**
175	(4)	—	171	(2)	169
(70)	(130)	—	(200)	—	(200)
—	—	—	(84)	—	(84)
5	—	—	(9)	(27)	(36)
110	**(134)**	**—**	**(122)**	**(29)**	**(151)**
110	**(134)**	**819**	**697**	**36**	**733**
—	—	—	—	(54)	(54)
—	—	814	—	—	—
6	—	—	(44)	(21)	(65)
6	**—**	**814**	**(44)**	**(75)**	**(119)**
(190)	**195**	**1,633**	**22,870**	**768**	**23,638**

Cash Flow Statement

(€ millions)

	2009	2008
Consolidated profit/(loss)	**884**	**(649)**
Write-downs, provisions for losses on, and write-ups of,		
loans and receivables and additions to provisions for losses on guarantees and indemnities	1,678	831
Write-downs and depreciation less write-ups on long-term assets	620	617
Change in other non-cash positions	3,119	(2,064)
Profit from the sale of investments, property, plant and equipment	(194)	(29)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(4,781)	(4,443)
Subtotal	**1,326**	**(5,737)**
Change in assets and liabilities from operating activities		
after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	27,423	41,042
Loans and receivables with banks	(2,880)	1,456
Loans and receivables with customers	27,288	(14,690)
Other assets from operating activities	12	(84)
Deposits from banks	(33,110)	(3,279)
Deposits from customers	(15,955)	5,752
Debt securities in issue	611	(15,163)
Other liabilities from operating activities	(8,506)	(9,719)
Taxes on income paid	(109)	(469)
Interest received	11,791	15,871
Interest paid	(7,924)	(11,974)
Dividends received	415	946
Cash flows from operating activities	**382**	**3,952**
Proceeds from the sale of investments	5,475	1,869
Proceeds from the sale of property, plant and equipment	60	54
Payments for the acquisition of investments	(1,025)	(4,534)
Payments for the acquisition of property, plant and equipment	(969)	(312)
Effects of the change in the group of companies included in consolidation (including discontinued operations)	107	—
Cash flows from investing activities	**3,662**	**(2,923)**
Change in additional paid-in capital	—	—
Dividend payments	—	(402)
Other financing activities, net (subordinated and hybrid capital)	(2,864)	(1,792)
Other financing activities, net	(322)	89
Cash flows from financing activities	**(3,186)**	**(2,105)**

(€ millions)

	2009	2008
Cash and cash equivalents at end of previous period[1]	5,556	6,632
Net cash provided/used by operating activities	382	3,952
Net cash provided/used by investing activities	3,648	(2,923)
Net cash provided/used by financing activities	(3,186)	(2,105)
Effects of exchange rate changes	—	—
Less disposal groups held for sale and discontinued operations	—	—
Cash and cash equivalents at end of period[1]	6,400	5,556

1 The cash and cash equivalents are identical to the cash and cash balances shown in the balance sheet. We have modified the disclosure of balances with central banks in the balance sheet in compliance with IAS 1.68 (l) in conjunction with IAS 8.41 (see comments in Note 2, "Consistency").

Notes to the Consolidated Financial Statements

Consolidated financial statements in accordance with IFRS

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

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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 together with further regulations regarding the adoption of certain IFRSs within the framework of the EU endorsement in conjunction with Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS Regulation. Besides the standards defined as IFRS, the IFRSs also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All the standards and interpretations subject to mandatory adoption in the EU for the 2009 financial year have been applied. Section 315a of the German Commercial Code also contains national regulations to be applied alongside the IFRS by companies active on the capital market.

The statement regarding the Corporate Governance Code required by Section 161, German Stock Corporation Act (Aktiengesetz – AktG), has been published on our website at www.hvb.com/declarationofconformity. Our listed subsidiaries DAB Bank AG and AGROB Immobilien AG have posted an equivalent statement on their websites.

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

Compliant with Section 264b of the German Commercial Code, the following companies are exempted from the obligation to prepare a management report and to publish their annual financial statements:
– HVZ GmbH & Co. Objekt KG, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
– Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
– Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
– A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Munich
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Munich
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
– Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
– HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
– HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
– SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich
– Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
– TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich.

Compliant with Section 264 (3) of the German Commercial Code, the following companies are exempted from the obligation to publish their annual financial statements:
– Argentaurus Immobilien Vermietungs- und Verwaltungs GmbH, Munich
– GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH, Munich
– HVB Immobilien AG, Munich
– HVB Projekt GmbH, Munich
– HVB Tecta GmbH, Munich
– Interra Gesellschaft für Immobilienverwaltung mbH, Munich
– Orestos Immobilien- Verwaltungs GmbH, Munich.

Accounting and Valuation

1 Uniform Group accounting policies

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

2 Consistency

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

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

The consolidated financial statements are prepared under the assumption of a going concern. Accounting and valuation in accordance with IFRS contains values that have been determined properly using estimates and assumptions. The estimates and assumptions applied are based on past experience and other factors such as budgets, expectations and forecasts regarding future events which seem appropriate under the present circumstances. This mainly affects the determination of the fair value of certain financial assets and liabilities, net write-downs of loans and provisions for guarantees and commitments, deferred taxes and the accounting and valuation of provisions. The actual values may differ from the assumptions and estimates made.

The disclosure of deposits with central banks was changed in the balance sheet for the first time in the Half-yearly Financial Report for 2009 compliant with IAS 1.68 (l) in conjunction with IAS 8.41. Thus, the cash balances at central banks are shown under "Cash and cash balances" in line with the industry's usual disclosure practice, and no longer under "Loans and receivables with banks" as before.

In addition, we changed the disclosure of income and expenses relating to the valuation and realisation gains of private equity funds as well as direct and co-investments in the income statement compliant with IAS 8.41 for the first time in the Interim Report at 30 September 2009. These contributions to earnings are now reported under the item "Net income from investments" in the income statement and not under the item "Net trading income" as previously. Compliant with IAS 8.43, both changes have been made retrospectively. The comparison figures for the previous year and the previous quarters have been adjusted accordingly.

We applied fair value hedge accounting for credit risks (micro fair value hedge) for the first time in 2009. Compliant with IAS 39.86 (a), we use hedging instruments to hedge credit-induced risks that change the fair value of the hedged item. In doing so, we hedged the credit risks of selected hedged items such as loans and receivables with customers and irrevocable credit commitments (fixed obligations not recognised in the balance sheet) using credit default swaps (CDS).

Mostly in the first quarter of 2009, further financial assets held for trading, for which there was no active market at the time of reclassification, were prospectively reclassified as loans and receivables compliant with IAS 39.50 et seq. as was the case in 2008. For the most part, this relates to Pfandbriefs, government bonds and bank bonds. The intention to trade no longer exists with regard to the reclassified assets. Given the high quality of the assets concerned, HVB Group intends to retain the assets for a longer period. We have not reclassified any holdings from the available-for-sale portfolio.

Apart from this, the accounting and valuation principles applied in 2009 are the same as those applied in the consolidated financial statements for 2008, with the exception of the new IFRS rules to be applied as described in Note 3 below.

Accounting and Valuation (Continued)

3 Application of new reclassification rules
We applied the revised IAS 1, “Presentation of Financial Statements” for the first time in the 2009 financial year. The revised standard requires a separate statement of other comprehensive income to be included in the consolidated financial statements in addition to the traditional income statement.

In March 2009, the IASB issued amendments to IFRS 7 entitled “Improving Disclosures about Financial Instruments” which were already applicable in 2009. The amendments call for expanded disclosures regarding financial instruments measured at fair value in accordance with a three-level fair value hierarchy, showing the quality of the prices and parameters used in these valuation methods. Expanded qualitative and quantitative disclosures regarding liquidity risk are also required. We have met these requirements by providing further disclosures in the notes.

The new IFRS 8 “Operating Segments”, which is the subject of mandatory adoption in 2009, replaces the old IAS 14 regarding segment reporting. In accordance with the new standards, the segment report is based on what is known as the Management Approach. More detailed information regarding the method of segment reporting is provided in Note 27. The application of IFRS 8 had no significant impact on our existing segment reporting.

The amendments to IFRIC 9 cover the accounting treatment of embedded derivatives in connection with the reclassification of financial instruments. In line with the amendments, a reclassification of synthetic ABSs from the held-for-trading portfolio is not possible where they contain embedded derivatives that are not measured separately and carried at fair value. This did not have any impact on HVB Group, as we had already taken account of this clarifying interpretation when reclassifying financial instruments.

The other new interpretations (IFRIC 12, 13, 15, 16, 18) applicable in the 2009 financial year and minor amendments to IFRS standards did not give rise to any significant effects on the consolidated financial statements.

4 Published IFRSs that are not yet the subject of mandatory adoption and that have not been the subject of early adoption
The standards and interpretations newly published or revised by the IASB, which only become the subject of mandatory adoption for financial years beginning on or after 1 January 2010, have not been the subject of early adoption.

5 Companies included in consolidation
The group of companies included in consolidation by HVB Group encompasses 96 (2008: 87) subsidaries. The group of consolidated companies also includes 41 (2008: 33) companies and fund assets which SIC 12 requires to be consolidated as special purpose entities.

The group of companies included in consolidation has been defined taking into account materiality criteria. The fully consolidated subsidiaries prepared their annual financial statements for the period ended 31 December 2009. The group of consolidated companies does not include any companies that are not fully consolidated. With effect from 1 May 2009, HVB transferred the limited partner’s interests it held in HVB Information Services GmbH & Co. KG (HVB IS) to UniCredit Global Information Services Società Consortile per Azioni (UGIS) against the issue of new UGIS shares and now holds an interest of 24.7% in UGIS. HVB IS left the group of companies included in consolidation with effect from 1 May 2009 whereas UGIS was added to the group of companies included in consolidation with effect from 1 May 2009, being accounted for using the equity method. UGIS is currently the only company accounted for using the equity method that is consolidated.

In 2009 the following companies and fund assets, among others, were added to the group of companies included in consolidation at HVB Group:
– NXP Co-Investment Partners VIII, L.P., London
– UniCredit London Investments Limited, London (formerly UniCredit Finance & Investments Limited, London)
– Merkurhof Grundstücksgesellschaft mit beschränkter Haftung, Hamburg
– HVB Finance London Limited, London
– UniCredit Capital Markets, Inc., New York (formerly HVB Capital Markets Inc., New York)
– GELDILUX-TS-2009 S.A., Luxembourg
– UniCredit Global Information Services Società Consortile per Azioni, Milan
– Blue Capital Europa Immobilien GmbH & Co. Achte Objekte Großbritannien KG, Hamburg
– HVB Funding Trust, Wilmington
– HVB Funding Trust III, Wilmington
– Redstone Mortgages Limited, London

– European-Office-Fond, Munich
– Sofimmocentrale S.A., Brussels
– HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich
– HYPO-REAL Haus- und Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1, Munich
– HVB Asia Limited, Singapore
– Cameron Granville 2 Asset Management Inc., Global City, Taguig, Philippines
– Cameron Granville 3 Asset Management Inc., Global City, Taguig, Philippines
– Cameron Granville Asset Management (SPV-AMC), Inc., Global City, Taguig, Philippines
– AGROB Immobilien AG, Ismaning
– Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
– Tender Option Bonds USA: 11 special purposes entities used to securitise municipal loans in the United States
– Grand Central Funding Corp., New York
– Kinabalu Financial Products LLP, London
– Kinabalu Financial Solutions Limited, London

In 2009 the following companies and fund assets left the group of companies included in consolidation at HVB Group:
– HVB Information Services GmbH & Co. KG, Munich
– Hewitt Associates GmbH, Grünwald (formerly: BodeHewitt AG & Co, KG, Grünwald)
– Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich
– Euro ImmoProfil, Munich
– Ramius Fund of Funds Group, LLC (accounted for using the equity method), Dover
– Großkugel Immobilien- und Projektentwicklungs GmbH, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Ostragehege KG, Munich
– KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße I KG, Munich
– Ocean Breeze Finance S.A., Luxembourg, (Compartment II)
– HVB Hong Kong Limited, Hong Kong

In total, HVB Group has 261 affiliated and associated companies and joint ventures that were neither fully consolidated nor fully accounted for using the equity method as they do not have a material impact for the Group.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these affiliated companies which are not consolidated due to considerations of materiality makes up around 3.2% of the consolidated profit of HVB Group, while such companies provide around 0.2% of consolidated assets. The interests in these companies are carried as available-for-sale financial assets.

	2009	2008
Subsidiaries total	**343**	**367**
Consolidated companies	96	87
Non-consolidated companies	247	280
Joint ventures	**6**	**6**
of which:		
accounted for using the equity method	—	—
Associated companies	**9**	**10**
of which:		
accounted for using the equity method	1	1

HVB has applied the option given in Section 313 (4) of the German Commercial Code. The separate list of holdings drawn up in compliance with Section 313 (2) of the German Commercial Code contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not – together with other holdings. The full list of our shareholdings is published as part of the present financial statements by the operator of the electronic Federal Gazette in accordance with Section 325 (2) of the German Commercial Code and can be accessed via the homepage of the company register in accordance with Section 8b (2) of the German Commercial Code. It can also be called up on our homepage at www.hvb.de/annualreport.

Accounting and Valuation (Continued)

6 Principles of consolidation
Consolidation is performed by offsetting the purchase price of an affiliated company against the value of the interest held in the completely recalculated shareholders' equity at the time of acquisition, provided the transactions involved are not internal to UniCredit Group. This amount represents the difference between the assets and liabilities of the acquired company, measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under investments in associates, joint ventures and non-consolidated subsidiaries. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the divisions. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment at least once a year at cash-generating unit level. This involves comparing the carrying amount of the CGU with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell. Since the value in use far exceeds the carrying amount for the CGUs to which goodwill is allocated, the values in use have been used as the recoverable amount. When the values in use are calculated, the divisional plans are employed as the basis and a uniform rate of 10.2% for the cost of capital is used for discounting. No growth factor has been assumed for the government perpetuity.

IFRS 3 is not applicable to combinations of businesses under common control (IFRS 3.2c). IAS 8.10 requires an appropriate accounting and valuation method to be developed accordingly for such cases. Given that HVB Group is part of UniCredit Group, the carrying amounts of the parent company are retained for business combinations within the UniCredit Group. Any difference between the purchase price paid and the net carrying amount of the company acquired is recognised in equity under reserves.

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

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

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

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

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

The classes required by IFRS 7.6 are defined as follows:
– Cash and cash reserves
– Financial assets and liabilities held for trading
– Financial assets at fair value through profit or loss
– Available-for-sale financial assets (measured at cost)
– Available-for-sale financial assets (measured at fair value)
– Held-to-maturity investments
– Loans and receivables with banks (classified as loans and receivables)
– Loans and receivables with customers (classified as loans and receivables)
– Hedging derivatives
– Other liabilities (deposits from customers, deposits from banks, debt securities in issue)
– Liabilities from outstanding fund shares (for 2008 only)
– Financial guarantees and irrevocable lending commitments

Among other things, the balance sheet disclosures and earnings contributions of the financial instruments must be shown separately, broken down by the IAS 39 valuation categories. In the present consolidated financial statements, we have included these changes in the explanatory notes to the balance sheet and the income statement. The information required by IFRS 7 regarding risks in connection with financial instruments is also provided in the Risk Report within the Management's Discussion and Analysis. Compliant with IFRS 7.36 A, the maximum credit exposure is the same as the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees and lending commitments, the nominal amount disclosed in Note 79 for the guarantee/amount of the lending commitments not yet utilised.

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

Financial assets and liabilities at fair value through profit or loss
The "at fair value through profit or loss" category is divided into two categories:

– Financial assets and liabilities held for trading.

  Financial assets and liabilities classified as held for trading at the time of initial recognition are financial instruments acquired or incurred for the purpose of short-term profit-taking as a result of changes in market prices or of realising a profit margin. This category also includes all derivatives (apart from hedging derivatives) which qualify for hedge accounting. Financial assets and liabilities held-for-trading purposes are shown under financial assets and liabilities held for trading.

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

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

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

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

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

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

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

Accounting and Valuation (Continued)

– Equity instruments for which there is no quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost. Besides shares in unlisted companies, this primarily concerns investments in private equity funds, which we measure at cost. It is not possible to reliably determine a fair value for these equity instruments since there is no active market in these instruments and, especially with regard to investments in private equity funds, the Bank as shareholder with a small holding does not have enough influence to obtain the necessary data promptly for a model-based determination of fair value. Consequently, they are not included in the AfS reserve.

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

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

The fair value is determined in accordance with the following valuation hierarchy (IAS 39.48 et seq. in conjunction with IAS 39.AG 71 et seq.):

Listed prices on an active market are used as fair value:
– Prices on the closing date
– Prices shortly before the closing date to be adjusted to the extent that the economic data have changed materially since the date the price was determined

If there is no active market, the fair value is derived using valuation methods:
– The latest transactions between knowledgeable, willing parties in an arm's-length transaction for an identical financial instrument are used
– The amount is compared with the current fair value of a different, essentially identical financial instrument
– Valuation models are used (such as discounting of expected cash flows, option price models or other valuation models normally used by market players to value these financial instruments) as far as possible taking into account normal market valuation parameters

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

In addition to the method described above for the valuation or determination of fair values, the fair values in the hierarchy compliant with IFRS 7.27A are shown in Note 75 for further information. A three-level fair-value hierarchy is listed for every class of financial asset and financial liability carried at fair value in the balance sheet. Note 75 similarly contains a detailed description of this hierarchy, which is only used for the purpose of disclosure in the notes.

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

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

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

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

Hedge accounting
Hedges between financial instruments are recognised in accordance with the forms of the fair value hedge described in IAS 39. Since the end of 2008, HVB Group has changed the previously applied macro cash-flow hedge accounting to the fair value hedge similarly permitted by IAS 39 for interest-rate risks at the portfolio level; this is also described in the following in addition to the rules of the general fair value hedge.

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

In terms of the accounting treatment of hedges in asset/liability interest-rate risk management, we have adopted the change in the hedge-accounting method applied in Germany at the end of 2008 at our foreign offices in London and New York in 2009 as well. In place of the previously used macro cash-flow-hedge, we have prospectively applied the <u>fair-value-hedge portfolio for interest-rate risks</u> similarly permitted by IAS 39. The new approach to hedging the fair value with regard to a portfolio of interest-bearing financial assets and liabilities makes it largely possible to also reflect the usual bank risk-management procedures to hedge fixed interest-rate-risks in the balance sheet.

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

The cash flow hedge reserve existing at the changeover date and the offsetting clean fair values of the existing cash-flow-hedge derivatives are amortised over the remaining term of the hedging derivatives in net interest income. This means that they will have no overall impact on profit or loss in the future until they are fully amortised. The changes in value of the same hedged items and hedging derivatives, together with all new contracts arising after the changeover date are treated in accordance with the new fair-value-hedge portfolio model. To a minor extent, previous cash-flow-hedge derivatives have no longer been included in the new fair value hedge. Their portion of the cash-flow-hedge reserve was immediately taken to the income statement in net interest income. The subsequent measurement of these standalone derivatives is recognised in net trading income.

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

We applied fair value hedge accounting for credit risks (micro fair value hedge) for the first time in 2009 alongside the existing portfolio fair value hedge for interest rate risks. The purpose of hedge accounting for credit risks is to reduce the volatility in the income statement. This is done by including existing hedges in hedge accounting. Otherwise existing inconsistencies upon valuation (accounting mismatch) are corrected by hedge accounting.

Accounting and Valuation (Continued)

As part of hedge accounting for credit risks, the credit-induced changes in the fair value of a hedged item and the full-induced changes in the fair value of a hedging instrument are offset. Remaining-term effects need to be adjusted in this context.

These remaining-term effects lead to a change in the credit-induced fair value over time without the current market credit spread changing. Among other things, this includes a difference between the nominal amount and the credit-induced fair value at the inception of the hedge. Excluding the possibility of an impairment, the credit-induced fair value on the settlement date will correspond to the nominal amount of the hedged item. Any difference between the credit-risk-induced fair value and the nominal amount existing when the hedge is designated amortises over the remaining time (pull-to-par effect). Differences like this can arise when hedged items are designated at a later date rather than when originated, for instance, since the contractually agreed credit spread does not generally match the normal market credit spread at the inception of the hedge in such cases.

The change in the credit-induced fair value determined in this way (after adjustment for remaining-term effects) is taken to the income statement under effects arising from hedge accounting in net trading income. Where the hedged items are assets recognised in the balance sheet, the carrying amount is adjusted for the changes in the credit-induced fair value. Irrevocable credit commitments (fixed commitments not shown in the balance sheet), on the other hand, are not recognised in the balance sheet. The credit-related changes in the fair value relating to these are carried under other assets in the balance sheet.

We show the associated hedging instruments at their fair value as hedging derivatives; the changes in the fair value are similarly taken to the income statement as effects arising from hedge accounting in net trading income.

The hedge is terminated compliant with IAS 39.91 if either the hedging instrument or the hedged item expires, the hedge is no longer efficient or the Bank decides to terminate the hedge.

When the hedge is terminated, the credit-induced changes in the fair value accruing to that date with regard to the hedged risk (hedge adjustment) are amortised over the remaining term of the hedged item. This amortisation is disclosed in net interest income. If the hedged item similarly expires upon termination of the hedge exceptionally (in the event of early repayment by the borrower, for instance), the hedge adjustment accruing to that date is taken directly to the income statement.

If the hedging instrument does not expire at the end of the hedge, it is designated as held for trading and continues to be recognised at fair value under net trading income.

8 Assets held for trading purposes

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

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

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

9 Financial assets at fair value through profit or loss

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

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

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

Available-for-sale financial instruments also include shares in non-consolidated subsidiaries. Furthermore, joint ventures and associates not accounted for using the equity method are subsumed in available-for-sale financial instruments, provided they are not significant.

Listed companies are always carried at fair value. Where the fair value cannot be determined reliably for non-listed companies, they are valued at cost.

11 Shares in associated companies and joint ventures accounted for using the equity method
Investments in joint ventures and associated companies are accounted for using the equity method.

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

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

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

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

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

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

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

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

Held-to-maturity investments are handled similarly.

Accounting and Valuation (Continued)

During subsequent measurement, both changes in the anticipated future cash flows and the time effect arising from a reduction of the discounting period are taken into account. The difference between the newly determined present value of the anticipated future cash flows at each balance sheet date and the carrying amount at the previous balance sheet date is recognised as a reversal of, or an addition to, allowances for losses on loans and receivables.

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

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

Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made individually to cover all identifiable default risks arising from lending operations (loans, receivables and financial guarantees), with the amount of the expense being estimated. Specific loan-loss allowances are also determined on a collective basis for individual cases where the amounts involved are not significant. These allowances are recognised and disclosed within specific loan-loss allowances at HVB Group. Specific loan-loss allowances are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified as uncollectable and written off. Acute country-specific transfer risks are included in this process.

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

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

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

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

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

In the case of equity instruments carried at fair value, an impairment exists if the current fair value is significantly below the carrying amount or if the fair value has remained below the carrying amount for a prolonged period of time. Where this is the case, the difference between the current fair value and initial cost is recognised as profit or loss in the income statement. Such an impairment recognised in profit or loss has to be considered for the new cost basis required for the calculation of the AfS reserve. If the fair value rises in the future, the difference between a higher fair value and the initial cost adjusted as described is recognised in the AfS reserve under shareholders' equity.

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

15 Property, plant and equipment

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

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

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

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

16 Lease operations

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

HVB Group as lessor

Under finance leases, the lessor recognises the leased asset in the balance sheet as a receivable from the lessee at an amount equal to the net investment in the lease. The lease payments are broken down into the finance charge and the redemption payment. The redemption payment reduces the amount of the outstanding liability (net investment); the finance charge is treated as interest income. Interest and similar income are recognised on the basis of a constant, periodic rate of return relating to the net investment outstanding. The term "net investment" is defined in detail in Note 50, "Loans and receivables with customers". HVB Group currently leases mobile assets as a lessor under finance leases.

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

HVB Group as lessee

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

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

Lease payments relating to operating leases are recognised under other operating costs or, if they comprise rental expenses, under operating costs. The corresponding leasing assets are not recognised. Contracts in which HVB Group acts as lessee are comparatively insignificant.

17 Investment property

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

Accounting and Valuation (Continued)

We only made use of the provision set forth in IAS 40.32A for a defined portfolio of investment property until 30 September 2009. This regulation allows an entity to measure at fair value through profit or loss any investment properties whose fair value determines the extent of the repayment of liabilities linked to the investment properties, even if all other investment property is measured at amortised cost.

The fair values stated for this defined portfolio of investment properties were determined as part of an appraisal performed by external experts compliant with Section 194 of the German Building Code (Baugesetzbuch – BauGB). This involved determining fair values on the basis of sustainable rents. When these values were determined, non-recurring effects were taken into account such as differences between contractual rents and sustainable rents.

Current expenses and rental income from investment property is disclosed in net other expenses/income. Scheduled depreciation on such investments carried at amortised cost is included in operating expenses, whereas impairments are recognised in net income from investments. Changes in the value of investments carried at fair value through profit or loss are similarly included in net income from investments. No scheduled depreciation is recognised for these instruments as they are measured at fair value.

18 Intangible assets

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

19 Assets of discontinued operations and non-current assets or disposal groups held for sale

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

20 Liabilities

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

21 Financial liabilities held for trading

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

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

We act as market maker for the structured products we issue.

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

Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see Note 65). The hedge adjustments have been recognised on a gross basis in the balance sheet for one subsidiary for which asset and liability holdings can be hedged separately.

23 Other liabilities

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

Furthermore, shares held by other investors in the capital of a consolidated investment fund were disclosed under other liabilities up to the end of September 2009. Since these investors were entitled to return their shares in the fund at the redemption price at any time, their shares represent liabilities from the Group point of view. These liabilities are measured at the respective redemption price. Changes in the value of the redemption price were recognised in the income statement up to and including September 2009.

24 Provisions

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

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

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

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

The discount rate is based on the long-term interest rate for prime, fixed-yield corporate bonds at the balance sheet date. The amount of the provision shown in the balance sheet is calculated as the present value of the obligation determined at the end of the financial year less the fair value of the plan assets determined at the end of the financial year. The plan assets set up by UniCredit Bank AG and a number of subsidiaries to fund pension obligations are described in detail in Note 69, "Provisions".

25 Foreign currency translation

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

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

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

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

26 Income tax for the period

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

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

Segment Reporting

27 Notes to segment reporting by division

In segment reporting, the market-related activities of HVB Group are divided into the following globally active divisions: Corporate & Investment Banking, Retail, and Wealth Management.

Also shown is the Other/consolidation segment that covers Global Banking Services (GBS) and Group Corporate Centre activities and the effects of consolidation. The Special Credit Portfolio (SCP) defined in 2006 and the remaining holdings of the customer portfolio of Real Estate Restructuring are included in GBS.

Method of segment reporting

Segment reporting is based on the internal organisational and management structure together with internal financial reporting. In accordance with IFRS 8 (Operating Segments), segment reporting thus follows the Management Approach, which requires segment information to be presented externally in the same way as regularly used by the Management Board as the responsible management body when allocating resources (especially risk-weighted assets compliant with Basel II) to the business segments and assessing profitability (profit before tax). Since the income statement of HVB Group broken down by segment is reported internally to the Management Board of HVB down to profit before tax, we have also taken the profit before tax as the basis for external reporting. In this context, the segment data is determined in accordance with International Financial Reporting Standards (IFRS).

In segment reporting, the divisions operate as autonomous companies with their own equity resources and responsibility for profits and losses. The divisions are delimited by responsibility for serving customers. For a description of the customer groups assigned to the individual segments and the main components of the segments, please refer to the section entitled "Components of the segments of HVB Group" below.

The total revenues shown in the segments, such as net fees and commissions and net trading profit, are based almost exclusively on transactions involving external customers. Net interest income is assigned to the segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses. For this reason, a separate presentation broken down by external/internal revenues (total revenues) has not been included. The equity capital allocation used to calculate the return on investment on companies assigned to several divisions is based on a uniform core capital allocation for each division. This involves allocating 6.4% of core capital from risk-weighted assets to the divisions. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. We have used risk-weighted assets compliant with Basel II as the criterion for allocating tied equity capital since 1 January 2009. The figures for the previous year have been adjusted accordingly to reflect the modified allocation of tied equity capital. The percentage used to assess the equity capital allocated to the companies assigned to several divisions (HVB, UniCredit Luxembourg) equals the 5-year average of the 5-year euro swap rate plus a premium in the amount of the 5-year average of the 5-year UniCredit S.p.A. spread. This rate is set for one year in advance as part of each budgeting process. The percentage changed from 3.97% in 2008 to 4.30% for the 2009 financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

The income of €7 million from investments in associated companies relates to UGIS, a company accounted for using the equity method, and is assigned to the Other/consolidation segment. The amount involved is disclosed under net interest income in the income statement. The carrying amount of this company accounted for using the equity method is €88 million.

Operating costs, which contain payroll costs, other administrative expenses, amortisation, depreciation and impairment losses on tangible and other intangible assets (without goodwill), are allocated to the appropriate division according to causation. Global Banking Services and the Group Corporate Centre are treated as external service providers, charging the divisions for their services at a price which covers their costs. The method of charging the costs of general bank services that cannot be allocated directly involves identifying the overhead costs for each segment individually in the budgeting process, and setting them in the form of a fixed premium on the direct and indirect costs for the appropriate financial year. The vast majority of the depreciation and impairment losses taken on property, plant and equipment is posted by the Other/consolidation segment via the real estate companies of HVB Group included in the Global Banking Services activities.

Several changes were made to the segment assignments in 2009, the most important of which are listed below:

– As one of the measures implementing the strategic reorientation of the former Markets & Investment Banking and Corporates & Commercial Real Estate Financing divisions, these divisions were consolidated in the new Corporate & Investment Banking division for the first time in the third quarter of 2009. In doing so, we have geared the earlier investment banking activities more strongly to the needs of our corporate customers in response to the changed market environment.
– The DAB Group, which acts as a direct bank in HVB Group, was assigned to the Retail division for the first time in the second quarter of 2009. The DAB Group had previously been included in the Wealth Management division.
– Besides this, a number of smaller reorganisations have taken place, leading to modified assignments notably in net interest income and operating costs.

The figures for the comparable periods in the previous year have been adjusted to take account of these changes.

Components of the segments of HVB Group

Corporate & Investment Banking division

The Corporates & Commercial Real Estate Financing and Markets & Investment Banking divisions have been reorganised and consolidated to form a new division known as Corporate & Investment Banking (CIB). This move is intended to help HVB evolve into an integrated corporate and investment bank and can also be viewed as a consequence of the financial and economic crisis. The investment banking products have been revised to make them more accessible for customers and the customer relationship is more fully emphasised. The formation of CIB serves to secure a standardised business logic, a stricter, more uniform process and management environment, and an increase in efficiency.

In the new organisational structure, four independent product units act as suppliers of innovative, specialised products for the regional distribution network in corporate banking and for the other divisions. These are: Markets, Financing & Advisory (F&A), Global Transaction Banking (GTB) and Leasing. At the same time, Markets and F&A represent the centres of competence within UniCredit Group.

We serve our 78,000 or so corporate customers through our distribution network, concentrating on their needs in areas such as restructuring questions, growth and cross-border expansion. Our customers in Germany include corporations with revenues in excess of €3 million, the public sector, commercial real estate customers and institutionals. The corporate banking business provides various relationship models based on different customer requirements.

CIB covers all the banking needs of corporate customers. Lending is, and is set to remain, our core business, associated with an appropriate proportion of our customers' other financial activities. We aim to build stable, strategic business partnerships by leveraging physical and logical proximity, and providing high-quality advice and solutions in both commercial and investment banking. We play a creative role with the customer, actively driving and shaping strategic issues as part of a dialogue. This also includes our expertise in sector-specific underlying conditions and developments.

As part of a leading corporate and investment bank in Europe, we support our customers through our European network. The division also has a presence in all the key financial centres in the world.

Our markets activities focus on the oversight of IPOs and capital increases, and the syndication of equities, bond products and structured products. These operations are conducted primarily by the Equity Capital Markets unit for equity products and structured products based on equities, and the Debt Equity Markets unit for debt instruments such as corporate bonds, Pfandbriefs and debentures, and the associated risk transfer. The Corporate Treasury Sales unit provides professional financial risk management involving a wide range of advisory services and products covering all possible ways of hedging entrepreneurial risks, such as liquidity management (including asset management, deposits and investments), foreign exchange and innovative derivatives.

Segment Reporting (Continued)

F&A combines financing and advisory expertise in a heavily integrated product platform. The broad range of structured transactions in financing activities includes advising the customer on corporate strategy and, in M&A situations, on acquisition and project loans, more complex transactions, syndications and subordinated capital. Our global shipping activities now come under the F&A umbrella as well.

GTB pools our competencies (product development and services) in e-business, cash management and foreign trade financing. The Leasing unit covers everything from small contracts to special financing solutions for larger transactions.

Major subsidiaries assigned to this division include UniCredit Luxembourg S.A., which is assigned to several divisions, UniCredit Leasing Finance GmbH, HVB Global Assets Company L.P., HVB Capital Asia Ltd., and HVB Capital Partners AG.

Retail division

We divide our customers into three strategic target groups: mass market, affluents and business customers. In order to tie customers to the Bank, we serve the three target groups with different service models that reflect their individual needs. Our main aim in the mass-market target group is to increase product penetration by providing demand-based advice and expanding online banking. We are also looking to secure further growth in the target groups of affluents and business customers. To do so, we are continuing to invest in systematic customer contact, constantly refining both our needs-based approach and our products.

In our **mass market operations**, the Willkommenskonto continued to be warmly received by customers with demand remaining strong. The product again succeeded in gaining a number of awards over the past financial year.

Demand from customers for the EC cards with special designs remained high. The number of cards issued has now passed the 100,000 mark and the range of designs has been expanded to more than 150. As last year, we again succeeded in meeting the strong demand from our customers for overdraft facilities and consumer loans with market-based terms. In this area, the financial crisis did not lead to any bottlenecks whatsoever in terms of lending.

The cooperation with Wüstenrot Bausparkasse AG initiated during the last financial year enabled us to offer our customers attractive, competitive savings-and-loan products, for example one for owner-occupied residences financed as part of a state-subsidised pension scheme.

The continued uncertainty on the stockmarkets was also reflected among our **affluent customers**. Safe investments with capital guarantees proved extremely popular as a result.

Secure investments also dominated on the securities side. Therefore, we added a new product type, the HVB VermögensDepot privat Defensiv to our wealth management offerings, rounding out our portfolio of core investments. Strong inflows were also recorded by high quality bond funds, such as the F&C HVB Stiftungsfonds, as well as satellite investments used to diversify portfolios, such as alternative investments and closed-ended funds.

The successful insurance product HVB AktivRente was enhanced by a new line of funds, with a tax-optimised variant added at the end of the third quarter, targeted primarily at affluent and business customers.

The business model used by the securities experts for this customer segment was also modified. The specialists now focus on customers with an investment volume of more than €250,000, notably in the field of securities but also for pensions as well. In addition, the specialists are specifically targeting business customers with a view to meeting their private investment needs as well as to tying the customers more firmly to the Bank and drawing in new money.

Despite the difficult economic climate, HVB remained a reliable lender to the target group of **business customers** in 2009. We had already met our commitment to extend new credit lines worth €1 billion in 2009 after three quarters of the year. The strategic focus for lending products in 2009 was on state-backed special credit programmes that enabled our customers to meet their financing requirements to best effect.

Moreover, we have expanded our Business Class service model, which allows customers to use their same account managers for both business and private needs. We also extended the use of our all-round Business Dialog advisory tool in 2009.

In the fourth quarter of 2009, we rolled out an innovative account package known as HVB Konto4Business. Alongside an attractive account, the package features value-added services, such as access to the mailing factory of our cooperation partner Deutsche Post, specialist seminars and free marketing advice. This initiative enabled us to acquire more than a thousand new customers for our Bank in the fourth quarter of 2009 alone.

We manage our **real estate financing activities** across all target groups. We have continued to provide our mass-market, affluent and business customers with plenty of capital to finance property investments. In doing so, we not only used our own funding, but also offered our customers the full product range of the market from our 40 partner banks. We succeeded in enhancing the quality of the advice we provide, receiving top marks for this from the German Institute for Service Quality. We achieved attractive margins overall. By extending funds from the German reconstruction and development bank (KfW), we funded investments aimed at enhancing energy efficiency by renovating and modernising existing properties.

Wealth Management division

The Wealth Management division has set itself the goal of optimally meeting the specific expectations of wealthy customers with regard to a bank and the services it offers in line with demand. The division serves customers with an aggregate investment volume of €39 billion. Wealth Management is divided into three subdivisions.

HVB Wealth Management (WEM)

This unit serves 38,563 UniCredit Bank AG customers with assets under management of €21.4 billion. Our 500 or so employees offer individual, personal advice at 44 locations throughout Germany. Customers and customer groups with liquid assets in excess of €0.5 million are offered all-round, bespoke advice; the Family Office serves family groups with complex assets of more than €30 million.

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

Wealth Management Capital Holding (WMC)

WMC structures and issues sophisticated investment products that are perfectly and exclusively tailored to the Wealth Management customer group. It is one of the biggest initiators of closed-ended funds in Germany. Around 127,000 customers are served by some 236 employees in this unit.

UniCredit Luxembourg

HVB Banque Luxembourg S.A. was renamed UniCredit Luxembourg S.A. on 1 August 2009. UniCredit Luxembourg provides access to the financial centre of Luxembourg for the customers of HVB Group. Together with the HVB Wealth Management subdivision, UniCredit Luxembourg has devised solutions that enable its customers to benefit from the advantageous underlying conditions offered by Luxembourg as a financial centre. The Private Banking unit based on Luxembourg provides specialised portfolio solutions for 13,362 customers with an investment volume of €12.4 billion and employs 84 people.

Other/consolidation segment

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

Global Banking Services activities encompass purchasing, organisation, logistics and facility management, cost management and back-office functions for credit, accounts, foreign exchange, money market and derivatives. Payments, securities services and IT application development and operation have been outsourced. The Special Credit Portfolio (SCP) defined in 2006 is also included together with the remaining holdings from the Real Estate Restructuring portfolio.

The **Group Corporate Centre** activities include profit contributions that do not fall within the jurisdiction of the individual divisions. Among other items, this includes the profits and losses of consolidated subsidiaries for which HVB's strategic property management function is responsible, such as HVB Immobilien AG and its subsidiaries, and of non-consolidated holdings, provided they are not assigned to the divisions, together with the net income from securities holdings for which the Management Board is responsible. Also incorporated in this segment are the amounts arising from decisions taken by management with regard to asset/liability management.

Segment Reporting (Continued)

28 Income statement broken down by division

(€ millions)

	CORPORATE & INVESTMENT BANKING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION	HVB GROUP
TOTAL REVENUES					
2009	4,679	1,478	253	520	6,930
2008	1,392	1,741	302	542	3,977
Operating costs					
2009	(1,672)	(1,316)	(171)	(303)	(3,462)
2008	(1,667)	(1,442)	(181)	(205)	(3,495)
OPERATING PROFIT/(LOSS)					
2009	3,007	162	82	217	3,468
2008	(275)	299	121	337	482
Restructuring costs					
2009	(87)	(63)	(3)	(17)	(170)
2008	(8)	—	—	(18)	(26)
Net write-downs of loans					
and provisions for guarantees					
and commitments					
2009	(1,536)	(63)	4	(6)	(1,601)
2008	(877)	(72)	5	184	(760)
Net income from					
investments and other items[1]					
2009	(413)	(7)	(9)	(2)	(431)
2008	(199)	(19)	(5)	(68)	(291)
PROFIT/(LOSS) BEFORE TAX					
2009	971	29	74	192	1,266
2008	(1,359)	208	121	435	(595)

1 contains the following income statement items: provisions for risks and charges and net income from investments

Income statement of the Corporate & Investment Banking division (€ millions)

INCOME/EXPENSES	2009	2008	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Net interest income	**3,237**	**2,659**	**733**	**755**	**818**	**931**
Net fees and commissions	516	587	137	122	132	125
Net trading income	927	(1,874)	72	582	569	(296)
Net other expenses/income	(1)	20	(5)	2	2	—
Net non-interest income	**1,442**	**(1,267)**	**204**	**706**	**703**	**(171)**
TOTAL REVENUES	**4,679**	**1,392**	**937**	**1,461**	**1,521**	**760**
Payroll costs	(686)	(622)	(211)	(176)	(146)	(153)
Other administrative expenser	(976)	(1,038)	(228)	(247)	(250)	(251)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(10)	(7)	(6)	(1)	(1)	(2)
Operating costs	**(1,672)**	**(1,667)**	**(445)**	**(424)**	**(397)**	**(406)**
OPERATING PROFIT/(LOSS)	**3,007**	**(275)**	**492**	**1,037**	**1,124**	**354**
Restructuring costs	(87)	(8)	125	—	(163)	(49)
Net write-downs of loans and provisions for guarantees and commitments	(1,536)	(877)	(145)	(496)	(681)	(214)
Net income from investments and other items[1]	(413)	(199)	(111)	(213)	(75)	(14)
PROFIT/(LOSS) BEFORE TAX	**971**	**(1,359)**	**361**	**328**	**205**	**77**
Cost-income ratio in %	35.7	119.8	47.5	29.0	26.1	53.4

1 contains the following income statement items: provisions for risks and charges and net income from investments

Development of the Corporate & Investment Banking division

The total revenues of the Corporate & Investment Banking division increased by €3,287 million to €4,679 million during the year under review. With operating costs remaining roughly the same, this gave rise to a strong operating profit of €3,007 million. An operating loss of €275 million was generated in 2008 on the back of a net trading loss.

Net interest income improved greatly year-on-year, rising €578 million or 21.7%. This increase can be attributed primarily to much higher trading-related interest income together with the positive effects arising from the amortisation of assets reclassified compliant with IAS 39. Net interest income from our corporate banking operations improved as a result of higher volumes in the short-term bracket. Moreover, interest margins climbed across all areas of our lending operations. At the same time, the dividends included in net interest income declined essentially on account of lower dividend payouts by private equity funds.

Fee and commission income fell by €71 million, or 12.1%. This can be attributed to lower income from cash management, operations involving interest rate hedging instruments for corporate customers and reluctance on the part of market players, primarily affecting the Project Finance, Commodity Finance and Corporate Solutions units. At the same time, Corporate Finance Fees recorded better results again.

Net trading income improved strongly as a result of the recovery across the entire capital market, rising by €2,801 million compared with 2008 to €927 million (2008: net loss of €1,874 million). Besides the Fixed Income (fixed-income and foreign exchange products) and Equities (equity and index products) units, Credit Markets (credit-related products and credit derivatives) and Capital Markets (IPOs, capital increases, bonds) units in particular posted significant growth.

At €1,672 million, operating costs remained practically unchanged from the 2008 total of €1,667 million. The cost-income ratio improved to the excellent level of 35.7% (2008: 119.8%) as a result of the strong increase in total revenues.

Restructuring costs of €87 million were incurred as part of the strategic reorientation of the Corporate & Investment Banking division. The loss of €413 million reported under net income from investments and other items results chiefly from valuation expenses relating to private equity funds and direct and co-investments.

Net write-downs of loans and provisions for guarantees and commitments rose sharply to €1,536 million in 2009 (2008: €877 million) on account of the far worse credit environment. Despite the adverse effects caused by the net write-downs of loans and provisions for guarantees and commitments, the net loss from investments and other items, and the non-recurring restructuring costs, the division concluded the financial year with a pleasing profit before tax of €971 million (2008: loss of €1,359 million).

Segment Reporting (Continued)

Income statement of the Retail division (€ millions)

INCOME/EXPENSES	2009	2008	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Net interest income	**962**	**1,093**	**228**	**233**	**244**	**257**
Net fees and commissions	520	675	121	135	133	131
Net trading income	10	(26)	4	5	1	—
Net other expenses/income	(14)	(1)	(9)	(3)	(6)	4
Net non-interest income	**516**	**648**	**116**	**137**	**128**	**135**
TOTAL REVENUES	**1,478**	**1,741**	**344**	**370**	**372**	**392**
Payroll costs	(547)	(596)	(136)	(134)	(132)	(145)
Other administrative expenses	(756)	(832)	(184)	(190)	(184)	(198)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(13)	(14)	(3)	(3)	(4)	(3)
Operating costs	**(1,316)**	**(1,442)**	**(323)**	**(327)**	**(320)**	**(346)**
OPERATING PROFIT	**162**	**299**	**21**	**43**	**52**	**46**
Restructuring costs	(63)	—	(8)	—	(55)	—
Net write-downs of loans and provisions for guarantees and commitments	(63)	(72)	(8)	(13)	(6)	(36)
Net income from investments and other items[1]	(7)	(19)	1	1	(15)	6
PROFIT/(LOSS) BEFORE TAX	**29**	**208**	**6**	**31**	**(24)**	**16**
Cost-income ratio in %	89.0	82.8	93.9	88.4	86.0	88.3

1 contains the following income statement items: provisions for risks and charges and net income from investments

Development of the Retail division

The operating profit of the Retail division was again affected in 2009 by cautiousness on the part of customers due to the poor economic environment in the real economy stemming from the financial crisis. At €162 million, the total was below the good figure recorded for the previous year (€299 million), which was, however, generated for the most part in a much friendlier market environment in the first half of 2008.

Total revenues fell by around 15% year-on-year, primarily due to a decline in contributions to earnings from interest and service operations. Net interest income declined by around 12%, to €962 million, resulting on the deposit-taking side from lower interest margins. The decrease in net interest income on the lending side stems primarily from falling volumes, notably in real estate financing, together with the lack of new business involving Sofortkredit instant-approval loans. These loans have been passed on to the German branch of UniCredit Family Financing Bank S.p.A. since mid-2008 rather than being extended directly by HVB Group, generating fee and commission income rather than interest income. At €520 million, net fees and commissions were again affected by declining customer activities notably in securities operations, which was the main reason why the good figure of €675 million for the previous year could not be matched. Nonetheless, the development across the quarters shows a relatively stable performance in services activities. This was also helped by the fact that we reflected the trend for our customers to prefer security-oriented investments by successfully distributing innovative, new investment products reflecting the greater quality and security needs of our customers. Particularly important in this regard were various stepped coupon bonds and floaters, of which almost €3 billion were sold.

The cost-income ratio totalled 89.0% at the end of December 2009 after 82.8% at the same point last year. The decline in total revenues was partially offset by the savings in operating costs generated by consistent cost management. Within operating costs, payroll costs declined by €49 million or 8.2% – notably due to a reduction in the headcount – and other administrative expenses declined by €76 million or 9.1%.

At €63 million, the net write-downs of loans and provisions for guarantees and commitments in 2009 were below the previous-year total of €72 million.

Net income from investments and other items of €7 million includes expenses from the sale of Vereinsbank Victoria Bauspar AG largely offset by income from the sale of the FondsServiceBank unit recorded by our DAB Bank AG subsidiary.

Restructuring costs of €63 million give rise to non-recurring charges against earnings. Nevertheless, the division succeeded in generating a profit before tax of €29 million, or €92 million when adjusted for the non-recurring restructuring costs, after €208 million in the previous year.

Income statement of the Wealth Management division (€ millions)

INCOME/EXPENSES	2009	2008	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Net interest income	**95**	**116**	**25**	**23**	**22**	**25**
Net fees and commissions	151	189	34	37	40	40
Net trading income	—	(2)	—	—	—	—
Net other expenses/income	7	(1)	5	(1)	2	1
Net non-interest income	**158**	**186**	**39**	**36**	**42**	**41**
TOTAL REVENUES	**253**	**302**	**64**	**59**	**64**	**66**
Payroll costs	(70)	(74)	(16)	(18)	(17)	(19)
Other administrative expenses	(100)	(106)	(26)	(25)	(22)	(27)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(1)	(1)	—	—	(1)	—
Operating costs	**(171)**	**(181)**	**(42)**	**(43)**	**(40)**	**(46)**
OPERATING PROFIT	**82**	**121**	**22**	**16**	**24**	**20**
Restructuring costs	(3)	—	(2)	(1)	—	—
Net write-downs of loans and provisions for guarantees and commitments	4	5	(1)	4	3	(2)
Net income from investments and other items[1]	(9)	(5)	(7)	4	(6)	—
PROFIT BEFORE TAX	**74**	**121**	**12**	**23**	**21**	**18**
Cost-income ratio in %	67.6	59.9	65.6	72.9	62.5	69.7

1 contains the following income statement items: provisions for risks and charges and net income from investments

Development of the Wealth Management division

The Wealth Management division generated a profit before tax of €74 million in the 2009 financial year, which was dominated by difficult market conditions. This represents a year-on-year fall of around 39%.

There was a decline of 16% on the income side due to the much lower customer activity caused by uncertainty in the wake of the financial crisis. Net interest income decreased by €21 million, or 18%, to €95 million. This can be attributed in part to falling average deposit volumes coupled with negative margin developments, while Wealth Management Capital Holding (WMC) did not receive any dividend income in 2009. Net fees and commissions were badly affected in 2009 by the persistently low customer activity on account of the uncertainty on the capital markets and the weak performance of the real economy, declining by a total of 20%. Within this figure, the downward trend in traditional securities operations was partially offset by the successful distribution of security-oriented products.

The cost-income ratio rose by 7.7 percentage points in 2009, to 67.6%, as a result of the lower total revenues. The development of operating costs did compensate for this in part, with the implementation of cost-cutting measures in payroll costs and other administrative expenses helping to reduce total operating costs by 5.5%.

Income statement of the Other/consolidation segment (€ millions)

INCOME/EXPENSES	2009	2008	Q4 2009	Q3 2009	Q2 2009	Q1 2009
TOTAL REVENUES	**520**	**542**	**136**	**64**	**232**	**88**
Operating costs	**(303)**	**(205)**	**(59)**	**(73)**	**(115)**	**(56)**
OPERATING PROFIT/(LOSS)	**217**	**337**	**77**	**(9)**	**117**	**32**
Restructuring costs	(17)	(18)	(17)	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(6)	184	41	(14)	(2)	(31)
Net income from investments and other items[1]	(2)	(68)	66	(11)	(39)	(18)
PROFIT/(LOSS) BEFORE TAX	**192**	**435**	**167**	**(34)**	**76**	**(17)**

1 contains the following income statement items: provisions for risks and charges and net income from investments

Segment Reporting (Continued)

Development of the Other/consolidation segment
The Other/consolidation segment encompasses the Group Corporate Centre, Global Banking Services and consolidation effects. Global Banking Services also includes the Special Credit Portfolio defined in 2006 together with the remaining holdings in the Real Estate Restructuring customer portfolio.

The total revenues of this segment declined by €22 million, from €542 million in 2008 to €520 million in 2009. Within this total, net interest income fell sharply, due mainly to the strategic reduction in volumes in the Special Credit Portfolio and far lower dividend payments from our shareholdings. These effects were largely offset within total revenues by income relating to the buy-back of hybrid capital, income from interest rate hedges and a positive exchange rate difference compliant with IAS 21.28. Operating costs increased by €98 million year-on-year, primarily on account of higher payments into the deposit insurance schemes of German banks and the pension guarantee association. Operating profit declined to €217 million (2008: €337 million) on account of the rise in operating costs.

It was necessary to add a minor €6 million to net write-downs of loans and provisions for guarantees and commitments in the year under review, after a high net reversal of €184 million was recorded in 2008, essentially on account of success in reducing the special portfolios (former Real Estate Restructuring portfolio and Special Credit Portfolio). The profit before tax fell by €243 million to €192 million in 2009 after €435 million in 2008.

29 Balance sheet figures, broken down by division

(€ millions)

	CORPORATE & INVESTMENT BANKING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables with banks					
2009	41,009	721	7	1,517	**43,254**
2008	38,085	2,647	2	719	**41,453**
Loans and receivables with customers					
2009	101,977	34,185	4,672	5,085	**145,919**
2008	121,309	39,990	4,534	9,685	**175,518**
Goodwill					
2009	419	5	—	—	**424**
2008	421	3	—	—	**424**
Deposits from banks					
2009	43,834	2,447	221	4,202	**50,704**
2008	79,408	2,705	176	1,578	**83,867**
Deposits from customers					
2009	49,509	31,773	8,170	7,038	**96,490**
2008	66,661	34,754	8,997	4,550	**114,962**
Debt securities in issue					
2009	15,090	394	194	45,608	**61,286**
2008	10,057	593	302	52,687	**63,639**
Risk-weighted assets					
(including equivalents for market risks and					
additionally for Basel II operational risks)					
2009	95,898	9,348	1,486	8,370	**115,102**
2008	121,033	12,389	1,815	13,010	**148,247**

1 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in Note 57 and 67

30 Employees, broken down by operating and service division

	2009	2008
Corporate & Investment Banking	4,841	5,378
Retail	8,176	8,906
Wealth Management	797	823
Global Banking Services	1,901	4,462
Group Corporate Centre	4,744	5,069
Total	**20,459**	**24,638**

31 Segment reporting by region

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

Income statement, broken down by region (€ millions)

	GERMANY	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP
TOTAL REVENUES						
2009	7,199	426	47	99	(841)	6,930
2008	4,809	78	(24)	111	(997)	3,977
OPERATING PROFIT/ (LOSS)						
2009	3,198	435	156	41	(362)	3,468
2008	1,056	(361)	(94)	61	(180)	482

Total assets, broken down by region (€ millions)

	2009	2008
Germany	290,892	342,270
Rest of Europe	139,386	185,502
Americas	11,273	21,138
Asia	4,988	9,531
Consolidation	(83,119)	(99,839)
Total	**363,420**	**458,602**

Employees, broken down by region (€ millions)

	2009	2008
Germany	18,526	22,461
Rest of Europe	1,415	1,599
Africa	3	3
Americas	251	269
Asia	264	306
Total	**20,459**	**24,638**

Notes to the Income Statement

32 Net interest income

(€ millions)

	2009	2008
Interest income from		
lending and money market transactions	7,563	11,532
other interest income	3,496	5,216
Interest expense from		
deposits	(2,174)	(7,103)
debt securities in issue and other interest expenses	(4,409)	(5,586)
Net interest	**4,476**	**4,059**
Dividends and other income from equity investments		
Dividends and other similar income	45	202
Companies accounted for using the equity method	7	(2)
Total	**4,528**	**4,259**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €8,140 million and €5,669 million, respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

33 Net fees and commissions

(€ millions)

	2009	2008
Management, brokerage and consultancy services	647	795
Collection and payment services	196	197
Lending operations	335	397
Other service operations	9	64
Total	**1,187**	**1,453**

This item comprises the balance of fee and commission income of €2,160 million (2008: €2,535 million) and fee and commission expense of €973 million (2008: €1,082 million).

34 Net trading income

(€ millions)

	2009	2008
Net gains/(losses) on financial assets held for trading[1]	1,065	(1,655)
Effects arising from hedge accounting	30	6
Changes in fair value of hedged items	(428)	(499)
Changes in fair value of hedging derivatives	458	505
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	(73)	(206)
Other net trading income	52	(27)
Total	**1,074**	**(1,882)**

1 including dividends on financial assets held for trading
2 also including the valuation results of derivatives concluded to hedge financial assets through fair value at profit or loss (effect in 2009: €159 million; 2008: minus €579 million)

Other net trading income in the year under review includes positive effects from the partial buy-back of hybrid capital.

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

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

35 Net other expenses/income

(€ millions)

	2009	2008
Other income	399	288
Other expenses	(258)	(141)
Total	**141**	**147**

Net other expenses/income totalled €141 million in 2009 (previous year: €147 million). The total includes a net gain from income and current expenses regarding investment properties and from rental income less current expenses from mixed usage buildings (€104 million). At the same time, there were gains of €76 million on the sale of receivables and further income of €74 million arising from services performed and charged on.

Other expenses include effects of €73 million arising from the revaluation of assets as part of the initial consolidation of Redstone Mortgages Limited, London, and valuation expenses of €43 million accruing in connection with the acquisition of shares in real estate funds.

In addition to the net gain (rental expenses less current expenses) from investment properties and mixed usage buildings, the previous-year total included income from IT services performed for third parties by our former HVB Information Services GmbH subsidiary, the shares in which were transferred to the UniCredit Group IT service provider UGIS during 2009.

36 Operating costs

(€ millions)

	2009	2008
Payroll costs	**(1,822)**	**(1,961)**
Wages and salaries	(1,514)	(1,650)
Social security costs	(211)	(232)
Pension and other employee benefit costs	(97)	(79)
Other administrative expenses	**(1,418)**	**(1,281)**
Amortisation, depreciation and impairment losses	**(222)**	**(253)**
on property, plant and equipment	(116)	(126)
on software and other intangible assets, excluding goodwill	(106)	(127)
Total	**(3,462)**	**(3,495)**

UniCredit Group has two different share-based schemes: the long-term incentive programme and the employee share ownership plan, both of which are described below.

Long-term incentive programme

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

The following statements relate to all HVB Group executives covered by the long-term incentive programme. The information provided in Note 84 in this regard showing the emoluments paid to members of the Management Board merely relates to the stock options and performance shares granted to members of the Management Board.

The stock options grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. The options may only be exercised during a fixed period which starts after the lock-up period expires. If the beneficiary leaves UniCredit Group, the stock options are forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis in certain exceptional circumstances, such as disability, retirement or an employer leaving UniCredit Group.

Notes to the Income Statement (Continued)

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

No new stock options were granted in 2009.

Analysis of outstanding stock options

	2009			2008		
	NUMBER	AVERAGE STRIKE PRICE (in €)	AVERAGE MATURITY	NUMBER	AVERAGE STRIKE PRICE (in €)	AVERAGE MATURITY
Outstanding at start of period	**20,833,630**	**4.78**	**August 2018**	**8,562,797**	**6.02**	**November 2018**
Additions						
newly granted options	—	—	—	14,637,594[1]	4.19	July 2018
Releases						
forfeited stock options	4,221,182	4.87	August 2018	2,366,761	5.55	August 2018
exercised stock options	—	—	—	—	—	—
expired stock options	—	—	—	—	—	—
Total at end of period	**16,612,448**	**4.75**	**August 2018**	**20,833,630[1]**	**4.78**	**August 2018**
Exercisable options at end of period	1,780,000	4.82	December 2018	—	—	—

1 figures differ from previous year due to Group transfers

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

A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of three years, the relevant targets have been met and the recipient is still working for UniCredit Group; otherwise the performance shares are normally forfeited. The options may be acquired on a pro-rata basis in certain exceptional cases, such as disability, retirement or an employer leaving UniCredit Group.

The fair value for the performance shares is determined on the basis of the share price on the date when the performance shares were granted, taking into account a discount for expected dividend payments up until the grant date when the criteria are met.

No new performance shares were granted in 2009, with the exception of the shares arising from the capital increase.

Analysis of outstanding performance shares

	2009		2008	
	NUMBER	AVERAGE MATURITY	NUMBER	AVERAGE MATURITY
Outstanding at start of period	**6,398,643**	**March 2011**	**3,209,305**	**January 2010**
Additions				
increase in portfolio arising from capital increase				
from company funds	741,200	February 2011	—	—
newly granted performance shares	—	—	4,027,604[1]	December 2011
Releases				
forfeited performance shares	1,141,624	June 2011	838,266	June 2010
transferred performance shares	102,156	December 2008	—	—
expired performance shares	906,596	December 2008	—	—
Total at end of period	**4,989,467**	**July 2011**	**6,398,643[1]**	**March 2011**

1 figures differ from previous year due to Group transfers

The fair value on the date of granting is recorded as an expense for performance shares in the period that is decisive for fulfilling the respective criteria.

The expenses for both programmes (stock options and performance shares) totalled €3.1 million at HVB Group in 2009 and will be reimbursed to UniCredit S.p.A. when they fall due.

Employee share ownership plan
An employee share ownership plan has been set up enabling UniCredit Group employees to purchase UniCredit shares under favourable conditions.

Between January 2009 and December 2009, people participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). The plan offers the following advantages compared with buying the shares directly on the market:
– One free share (known as a discount share) for every 20 investment shares purchased under the plan (this represents a discount of 5%; the discount shares were allocated in January 2010);
– One additional free share (known as a matching share) for every five investment and discount shares purchased under the plan (this represents a discount of 21%). The matching shares will be allocated in January 2013 until when they are granted as "rights to matching shares".

Granting these free shares affords a maximum discount of 26% of the investment made possible. Added to this is a tax break that exists in Germany for such employee share-ownership plans.

The sale of all free shares (discount and matching shares or the right to them) is not permitted for a lock-up period of three years, meaning until January 2013. The rights to matching shares generally expire when employees sell investment shares or they cease to be employed by a UniCredit Group company before the lock-up period ends. In this case, however, the discount shares are retained. It is intended to operate the plan on an annual basis.

Notes to the Income Statement (Continued)

37 Provisions for risks and charges
Provisions for risks and charges amounted to €151 million in 2009. This total includes mainly additions to provisions for risks and charges relating to property (such as rental guarantees) and litigation risks.

In 2008, the balance of provisions for risks and charges totalled €6 million. Within this total, reversals of provisions for litigation risks were largely offset by additions to provisions for building reconversion obligations and rental guarantees.

38 Restructuring costs
HVB Group recorded restructuring costs of €170 million in 2009, resulting mainly from the elimination of positions. Most of the restructuring costs are a result of restructuring activities undertaken as part of the strategic reorientation of the Corporate & Investment Banking division (€87 million).
The remaining restructuring costs relate to the Retail (€63 million) and Wealth Management (€3 million) divisions and Other/consolidation (€17 million).

In 2008, the restructuring costs of €26 million related primarily to the consolidation of various back-office activities in UniCredit Group.

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

(€ millions)

	2009	2008
Additions	**(2,480)**	**(1,754)**
Allowances for losses on loans and receivables	(2,368)	(1,636)
Allowances for losses on guarantees and indemnities	(112)	(118)
Releases	**800**	**923**
Allowances for losses on loans and receivables	783	897
Allowances for losses on guarantees and indemnities	17	26
Recoveries from write-offs of loans and receivables	**77**	**71**
Gains on the disposal of impaired loans and receivables	**2**	**—**
Total	**(1,601)**	**(760)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €76 million in the year under review. The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €1,430 million (2008: €663 million).

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

(€ millions)

	2009	2008
Non-consolidated subsidiaries	—	—
Joint ventures	—	(2)
Associated companies	—	—
Other participating interests	—	(1)
Total[1]	**—**	**(3)**

1 2008: balance added

40 Net income from investments

(€ millions)

	2009	2008
Available-for-sale financial assets	(290)	(204)
Shares in affiliated companies	32	(1)
Companies accounted for using the equity method	(12)	—
Held-to-maturity investments	2	(17)
Land and buildings	13	20
Investment properties[1]	(42)	(83)
Other	17	—
Total	**(280)**	**(285)**

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

Net income from investments breaks down as follows: (€ millions)

	2009	2008
Gains on the disposal of	**194**	**55**
available-for-sale financial assets	115	36
shares in affiliated companies	47	(1)
companies accounted for using the equity method	(6)	—
held-to-maturity investments	8	—
land and buildings	13	20
other	17	—
Write-downs and value adjustments on	**(474)**	**(340)**
available-for-sale financial assets	(405)	(240)
shares in affiliated companies	(15)	—
companies accounted for using the equity method	(6)	—
held-to-maturity investments	(6)	(17)
investment properties[1]	(42)	(83)
Total	**(280)**	**(285)**

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

The net income from available-for-sale financial assets includes a net loss of €327 million (2008: net loss of €29 million) on private equity funds and direct and co-investments in the year under review. This total comprises value adjustments of €328 million (2008: €60 million) on available-for-sale financial assets carried under write-downs and value adjustments and gains of €1 million (2008: €31 million) on the disposal of available-for-sale financial assets.

The largest single item within gains on disposal of available-for-sale financial assets is a gain on the disposal of our holding in ERGO.

The largest single items included in the net income (gains on disposal less write-downs and value adjustments) of €32 million from shares in affiliated companies in 2009 are the gain of €46 million on the disposal of our BodeHewitt subsidiary and a write-down of €16 million compliant with IFRS 5 in connection with the sale of Vereinsbank Victoria Bauspar AG completed in July 2009.

The net income from other financial assets in 2009 contained positive effects in connection with the sale of the FondsServiceBank unit of our DAB Bank AG subsidiary.

The net loss of €221 million from available-for-sale financial assets and held-to-maturity investments in 2008 resulted primarily from negative effects from asset-backed securities, Lehman bonds, Icelandic bonds and our holding in Babcock & Brown carried in these categories.

41 Income taxes for the period

(€ millions)

	2009	2008
Current taxes	(398)	(185)
Deferred taxes	16	131
Total	**(382)**	**(54)**

The current tax expense for 2009 was reduced by €41 million on account of the tax income for previous years offset against tax expenses. In 2008, on the other hand, this item increased by €6 million tax expense for previous years.

The deferred tax income in the year under review comprises net income of €32 million from write-ups and write-downs of deferred tax assets as well as net deferred tax expenses of €16 million arising from the origination and utilisation of tax losses and deferred taxes from the origination and reversal of temporary differences.

The deferred tax income in 2008 comprised income from the recognition of deferred tax assets on tax loss carryforwards (€482 million) and a deferred tax expense arising from the origination and reversal of temporary differences (€351 million).

Notes to the Income Statement (Continued)

The differences between computed income tax and recognised income tax are shown in the following reconciliation: (€ millions)

	2009	2008
Profit before tax	1,266	(595)
Applicable tax rate	15.8%	15.8%
Computed income taxes	(200)	+ 94
Tax effects		
arising from previous years and changes in tax rates	+ 91	(5)
arising from foreign income	(99)	+ 129
arising from non-taxable income	+ 55	+ 42
arising from different tax laws	(140)	(51)
arising from non-deductible expenses	(70)	(46)
arising from valuation adjustments and the non-recognition		
of deferred taxes	(17)	(217)
arising from amortisation of goodwill	—	—
arising from other differences	(2)	—
Recognised income taxes	**(382)**	**(54)**

The tax rate applicable in the year under review remained unchanged at 15.8%. It comprises the current rate of corporate income tax in Germany of 15.0% and the solidarity surcharge of 5.5% of corporate income tax.

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

The item tax effects arising from different tax laws comprises primarily current and deferred trade tax in Germany for the current year calculated using tax rates which differ per municipality.

The deferred tax assets and liabilities are broken down as follows: (€ millions)

	2009	2008
Deferred tax liabilities		
Loans and receivables with banks and customers, incl. provisions for losses on loans and receivables	85	140
Financial assets/liabilities held for trading	102	147
Investments	78	169
Property, plant and equipment/intangible assets	76	69
Other assets/other liabilities/derivatives	555	680
Deposits from banks/customers	87	81
Other	192	108
Recognised deferred tax liabilities	**1,175**	**1,394**
Deferred tax assets		
Financial assets/liabilities held for trading	403	412
Investments	67	146
Property, plant and equipment/intangible assets	75	71
Provisions	296	277
Other assets/other liabilities/derivatives	568	287
Loans and receivables with banks and customers, incl. provisions for losses on loans and receivables	308	217
Losses carried forward	524	846
Other	11	115
Recognised deferred tax assets	**2,252**	**2,371**

German corporations are generally charged a corporate income tax rate of 15%, irrespective of any dividend distribution. Deferred taxes are measured for our domestic companies using the uniform corporate income tax rate of 15.8%, including the solidarity surcharge, and the municipal trade tax rate dependent on the applicable municipal trade tax multiplier. At HVB, this resulted in an unchanged overall valuation rate for deferred taxes of 31.4%.

Deferred tax assets of €21 million (2008: €24 million) were credited to the AfS reserve and deferred tax liabilities of €91 million (2008: €152 million) were offset against the hedge reserve. On account of the option set forth in IAS 19.93A, deferred tax assets of €101 million (2008: €64 million) were directly credited to shareholders' equity. In each case, the deferred tax items offset directly against reserves are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for tax loss carryforwards of HVB Group of €5,814 million (2008: €5,696 million), most of which do not expire, and for deductible temporary differences of €1,432 million (2008: €1,335 million).

The deferred tax assets recognised on tax loss carryforwards were calculated using plans of the individual divisions, which are based on segment-specific and general macroeconomic assumptions. The amounts were measured taking into account appropriate valuation discounts. The planning horizon remained unchanged at 5 years. Measurement was carried out taking into account possible restrictions of local regulations regarding time and the so-called minimum taxation rule for domestic tax loss carryforwards.

42 Earnings per share

	2009	2008
Consolidated profit/(loss) attributable to shareholders (€ millions)	819	(671)
Consolidated profit/(loss) attributable to shareholders (adjusted[1], € millions)	948	(645)
Average number of shares	802,383,672	802,383,672
Earnings per share (€)	1.02	(0.84)
Earnings per share (adjusted[1], €)	1.18	(0.80)

1 2009 and 2008 adjusted for restructuring costs

Notes to the Consolidated Balance Sheet

43 Cash and cash balances

(€ millions)

	2009	2008
Cash on hand	506	558
Cash balances at central banks[1]	5,894	4,998
Total[1]	**6,400**	**5,556**

1 we have changed the disclosure of deposits with central banks within the balance sheet compliant with IAS 1.68(i) in conjunction with IAS 8.41 (see comments in Note 2, "Consistency")

44 Financial assets held for trading

(€ millions)

	2009	2008
Balance-sheet assets		
Fixed-income securities	33,950	47,433
Equity instruments	6,586	4,521
Other financial assets held for trading	11,772	27,576
Positive fair value from derivative financial instruments	**81,081**	**119,489**
Total	**133,389**	**199,019**

The financial assets held for trading include €512 million (2008: €1,630 million) in subordinated assets.

Financial assets held for trading of related entities

(€ millions)

	2009	2008
Non-consolidated subsidiaries	15,173	19,815
Joint ventures	—	—
Associated companies	—	—
Other participating interests	299	104
Total	**15,472**	**19,919**

45 Financial assets at fair value through profit or loss

(€ millions)

	2009	2008
Fixed-income securities	11,266	10,522
Equity instruments	1	—
Investment certificates	1	1
Promissory notes	2,490	2,812
Other financial assets at fair value through profit or loss	—	—
Total	**13,758**	**13,335**

84% of the promissory notes were issued by the federal states and regional authorities in the Federal Republic of Germany. The remaining promissory notes were issued by European central and regional governments.

On account of the prime ratings of the promissory notes, the fair value fluctuations contain only minor effects from changes in credit ratings.

The financial assets at fair value through profit or loss include €274 million (2008: €287 million) in subordinated assets.

46 Available-for-sale financial assets

(€ millions)

	2009	2008
Fixed-income securities	2,433	2,828
Equity instruments	862	2,398
Other available-for-sale financial assets	475	344
Impaired assets	671	284
Total	**4,441**	**5,854**

Available-for-sale financial assets include financial instruments of €1,444 million (2008: €1,672 million) valued at cost compliant with IAS 39.46 (c).

The available-for-sale financial assets contain a total of €671 million in impaired assets for which impairments of €419 million (2008: €232 million) were taken to the income statement during the year under review. None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets include €257 million (2008: €259 million) in subordinated assets.

47 Shares in associated companies accounted for using the equity method and joint ventures accounted for using the equity method

(€ millions)

	2009	2008
Associated companies accounted for using the equity method	88	32
of which: goodwill	—	—
Joint ventures accounted for using the equity method	—	—
Total	**88**	**32**

Change in portfolio of shares in associated companies

(€ millions)

2008	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**34**
Additions	**2**
Purchases	—
Write-ups	—
Changes from currency translation	2
Other additions[1]	—
Disposals	**(4)**
Sales	—
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[1]	(4)
Carrying amounts at 31 December	**32**
2009	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**32**
Additions	**88**
Purchases	—
Write-ups	—
Changes from currency translation	—
Other additions[1]	88
Disposals	**(32)**
Sales	(25)
Impairments	(6)
Changes from currency translation	(1)
Non-current assets or disposal groups held for sale	—
Other disposals[1]	—
Carrying amounts at 31 December	**88**

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

Notes to the Consolidated Balance Sheet (Continued)

48 Held-to-maturity investments

(€ millions)

	2009	2008
Fixed-income securities	2,664	6,008
Other held-to-maturity investments	11	12
Impaired assets	4	—
Total	**2,679**	**6,020**

Held-to-maturity investments include a total of €4 million in impaired assets, for which impairments of €6 million were taken to the income statement during the year under review.

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

The held-to-maturity investments include €11 million (2008: €12 million) in subordinated assets.

The disposals carried out in the year under review were immaterial as a proportion of the item as a whole, meaning that HVB Group essentially complied with the tainting rules defined in IAS 39 AG22.

Development of held-to-maturity investments

(€ millions)

	2009	2008
Balance at 1 January	**6,020**	**3,058**
Additions		
Purchases	18	3,116
Write-ups	—	—
Other additions	—	45
Disposals		
Sales	(95)	—
Redemptions at maturity	(3,200)	(175)
Write-downs	(6)	(17)
Other disposals	(58)	(7)
Balance at 31 December	**2,679**	**6,020**

Held-to-maturity investments of related entities

(€ millions)

	2009	2008
Non-consolidated subsidiaries	2,104	2,127
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**2,104**	**2,127**

49 Loans and receivables with banks

(€ millions)

	2009	2008
Loans to banks		
Current accounts and demand deposits	14,887	15,467
Repos[1]	10,265	6,331
Reclassified securities	8,349	4,258
Other loans to banks	9,753	15,397
Total[2]	**43,254**	**41,453**

1 repurchase agreements
2 we have changed the disclosure of deposits with central banks within the balance sheet compliant with IAS 1.68(i) in conjunction with IAS 8.41 (see comments in Note 2, "Consistency")

The loans and receivables with banks included €862 million (2008: €845 million) in subordinated assets at 31 December 2009.

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

(€ millions)

	2009	2008[2]
Properly serviced loans and receivables		
Carrying amount before allowances	42,884	41,444
Portfolio allowances[1]	19	11
Carrying amount	**42,865**	**41,433**
Properly serviced loans and receivables past due		
Carrying amount before allowances	—	—
Portfolio allowances[1]	—	—
Carrying amount	**—**	**—**
Loans and receivables with allowances		
Carrying amount before allowances	566	269
Specific allowances	177	249
Carrying amount	**389**	**20**

1 including provisions for country risks
2 2008 figures adjusted due to change in balance sheet disclosure of deposits with central banks (see comments in Note 2, "Consistency")

The non-performing loans and receivables are the loans and receivables in rating classes 8–, 9 and 10. These include receivables totalling €1 million that meet the criteria for an allowance, but for which no specific allowances have been created on account of fully realisable collateral.

(€ millions)

	2009	2008[1]
Loans and receivables broken down by rating class		
Free of counterparty risk	1,347	483
Not rated	4,375	7,640
Rating class 1 – 4	35,790	31,218
Rating class 5 – 8	1,362	2,084
Rating class 9 – 10	380	28
Collateral broken down by rating class		
Free of counterparty risk	107	25
Not rated	—	2
Rating class 1 – 4	10,976	8,320
Rating class 5 – 8	1,036	1,025
Rating class 9 – 10	251	—

1 2008 figures adjusted due to change in balance sheet disclosure of deposits with central banks (see comments in Note 2, "Consistency")

Loans and receivables with related entities

(€ millions)

	2009	2008
Non-consolidated subsidiaries	4,568	10,130
Joint ventures	—	—
Associated companies	—	—
Other participating interests	50	75
Total	**4,618**	**10,205**

Notes to the Consolidated Balance Sheet (Continued)

50 Loans and receivables with customers

(€ millions)

	2009	2008
Current accounts	6,349	7,082
Repos[1]	971	8,643
Mortgage loans	56,012	62,723
Finance leases	2,357	1,842
Reclassified securities	8,009	9,358
Non-performing loans and receivables	5,029	3,844
Other loans and receivables	67,192	82,026
Total	**145,919**	**175,518**

1 repurchase agreements

The loans and receivables with customers include €2,054 million (2008: €1,055 million) in subordinated assets.

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

(€ millions)

	2009	2008
Properly serviced loans and receivables		
Carrying amount before allowances	138,629	167,771
Portfolio allowances[1]	550	512
Carrying amount	**138,079**	**167,259**
Properly serviced loans and receivables past due		
Carrying amount before allowances	2,823	4,428
Portfolio allowances[1]	12	13
Carrying amount	**2,811**	**4,415**
Non-performing loans and receivables		
Carrying amount before allowances	9,493	7,900
Specific allowances	4,464	4,056
Carrying amount	**5,029**	**3,844**

1 including provisions for country risks

The non-performing loans and receivables are the loans and receivables in rating classes 8–, 9 and 10. These include receivables totalling €312 million that meet the criteria for an allowance, but for which no specific allowances have been created. Some of these are non-performing loans and receivables for which no specific allowances have been set up on account of fully realisable collateral while others are loans and receivables that are no longer assigned to rating classes 8, 9 and 10 due to improved credit ratings, but which have been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2009	2008
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1 – 30 days	2,426	3,942
31 – 60 days	300	363
61 – 90 days	85	110

(€ millions)

	2009	2008
Value of collateral broken down by period past due		
1 – 30 days	871	1,067
31 – 60 days	50	68
61 – 90 days	11	27

(€ millions)

	2009	2008
Loans and receivables broken down by rating class		
Free of counterparty risk	7,318	4,976
Not rated	9,874	4,051
Rating class 1 – 4	60,339	79,790
Rating class 5 – 8	64,262	83,214
Rating class 9 – 10	4,126	3,487
Collateral broken down by rating class		
Free of counterparty risk	96	123
Not rated	3,010	3,639
Rating class 1 – 4	21,086	26,235
Rating class 5 – 8	32,250	31,409
Rating class 9 – 10	2,147	2,378

Loans and receivables with related entities

(€ millions)

	2009	2008
Non-consolidated subsidiaries	336	645
Joint ventures	—	3
Associated companies	69	206
Other participating interests	860	4,716
Total	**1,265**	**5,570**

Amounts receivable from lease operations (finance lease)

(€ millions)

	2009	2008
Gross investment value (by remaining maturity)		
up to 12 months	1,138	811
from 1 year to 5 years	1,418	1,140
more than 5 years	161	121
Total gross investment	**2,717**	**2,072**
of which:		
unguaranteed residual values	—	—
Unrealised finance income (by remaining maturity)		
up to 12 months	(125)	(94)
from 1 year to 5 years	(149)	(127)
more than 5 years	(15)	(9)
Total unrealised finance income	**(289)**	**(230)**
Net investment (by remaining maturity)		
up to 12 months	1,013	717
from 1 year to 5 years	1,269	1,013
more than 5 years	146	112
Total net investment	**2,428**	**1,842**

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

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

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

Notes to the Consolidated Balance Sheet (Continued)

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

Analysis of loans and receivables

(€ millions)

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2008	**4,573**	**520**	**5,093**
Changes affecting income			
Gross additions[1]	1,585	51	1,636
Releases	(868)	(29)	(897)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(1,054)	—	(1,054)
Effects of currency translation and other changes not affecting income	69	(6)	63
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2008	**4,305**	**536**	**4,841**

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2009	**4,305**	**536**	**4,841**
Changes affecting income			
Gross additions[1]	2,303	63	2,366
Releases	(768)	(15)	(783)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	(9)	(2)	(11)
Use of existing loan-loss allowances	(1,285)	—	(1,285)
Effects of currency translation and other changes not affecting income	95	(1)	94
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2009	**4,641**	**581**	**5,222**

1 the additions include the gains on the disposal of impaired loans and receivables

Breakdown of allowances for receivables (€ millions)

	LOANS AND RECEIVABLES WITH BANKS 2009	LOANS AND RECEIVABLES WITH BANKS 2008	LOANS AND RECEIVABLES WITH CUSTOMERS 2009	LOANS AND RECEIVABLES WITH CUSTOMERS 2008
Properly serviced receivables				
Carrying amount before allowances	42,884	41,444	141,452	172,199
Portfolio allowance	19	11	562	525
Carrying amount	**42,865**	**41,433**	**140,890**	**171,674**
Loans and receivables with allowances				
Carrying amount before allowances	566	269	9,493	7,900
Specific allowances	177	249	4,464	4,056
Carrying amount	**389**	**20**	**5,029**	**3,844**

52 Hedging derivatives

(€ millions)

	2009	2008
Micro fair value hedge	278	212
Fair value hedge portfolio	3,300	2,081
Cash flow hedge	—	361
Total	**3,578**	**2,654**

53 Property, plant and equipment

(€ millions)

	2009	2008
Land and buildings	1,078	1,061
Plant and office equipment	278	324
Other property	1,225	492
Total[1]	**2,581**	**1,877**

1 including leased assets of €65 million (2008: €1 million)

Other property contains solely assets under construction by our subsidiary Ocean Breeze Energy GmbH & Co KG, Munich.

Notes to the Consolidated Balance Sheet (Continued)

Development of property, plant and equipment (€ millions)

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT[1]	OTHER PROPERTY	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2008	**2,225**	**1,318**	**3,543**	**—**	**3,543**
Write-downs and write-ups from previous years	(1,119)	(1,087)	(2,206)	—	(2,206)
Carrying amounts at 1 January 2008	**1,106**	**231**	**1,337**	**—**	**1,337**
Additions					
Acquisition/production costs	3	118	121	—	121
Write-ups	3	—	3	—	3
Changes from currency translation	—	—	—	—	—
Other additions[2]	5	94	99	492	591
Disposals					
Sales	(1)	(13)	(14)	—	(14)
Amortisation and write-downs	(48)	(80)	(128)	—	(128)
Impairments	(3)	—	(3)	—	(3)
Changes from currency translation	—	—	—	—	—
Non-current assets					
or disposal groups held for sale	—	—	—	—	—
Other disposals[2]	(4)	(26)	(30)	—	(30)
Carrying amounts at 31 December 2008	**1,061**	**324**	**1,385**	**492**	**1,877**
Write-downs and write-ups					
from previous year plus year under review	1,060	846	1,906	—	1,906
Acquisition costs at 31 December 2008	**2,121**	**1,170**	**3,291**	**492**	**3,783**

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT[1]	OTHER PROPERTY	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2009	**2,121**	**1,170**	**3,291**	**492**	**3,783**
Write-downs and write-ups from previous years	(1,060)	(846)	(1,906)	—	(1,906)
Carrying amounts at 1 January 2009	**1,061**	**324**	**1,385**	**492**	**1,877**
Additions					
Acquisition/production costs	7	65	72	733	805
Write-ups	1	—	1	—	1
Changes from currency translation	—	—	—	—	—
Other additions[2]	60	59	119	—	119
Disposals					
Sales	(2)	(102)	(104)	—	(104)
Amortisation and write-downs	(49)	(65)	(114)	—	(114)
Impairments	—	—	—	—	—
Changes from currency translation	—	—	—	—	—
Non-current assets					
or disposal groups held for sale	—	—	—	—	—
Other disposals[2]	—	(3)	(3)	—	(3)
Carrying amounts at 31 December 2009	**1,078**	**278**	**1,356**	**1,225**	**2,581**
Write-downs and write-ups					
from previous year plus year under review	1,220	644	1,864	—	1,864
Acquisition costs at 31 December 2009	**2,298**	**922**	**3,220**	**1,225**	**4,445**

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

54 Investment property

The fair value of investment property, which is measured at amortised cost, totalled €2,034 million (2008: €500 million). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods.

Investment properties (€ millions)

	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at 1 January 2008	**849**	**1,459**
Write-downs and write-ups from previous years	(418)	—
Carrying amounts at 1 January 2008	**431**	**1,459**
Additions		
Purchases	2	—
Write-ups	2	—
Changes from currency translation	—	—
Other additions[1]	4	—
Disposals		
Sales	(10)	(42)
Amortisation and write-downs	(6)	—
Impairments	(2)	—
Changes from currency translation	—	(12)
Non-current assets or disposal groups held for sale	(2)	—
Net gains/losses on the adjustment of fair values	—	(98)
Other disposals[1]	(3)	—
Carrying amounts at 31 December 2008	**416**	**1,307**
Write-downs and write-ups from previous year plus year under review	424	—
Acquisition costs at 31 December 2008	**840**	**1,307**
	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at 1 January 2009	**840**	**1,307**
Write-downs and write-ups from previous years	(424)	—
Carrying amounts at 1 January 2009	**416**	**1,307**
Additions		
Purchases	3	—
Write-ups	5	—
Changes from currency translation	—	2
Other additions[1]	1,511	—
Disposals		
Sales	(1)	(193)
Amortisation and write-downs	(14)	—
Impairments	(5)	—
Changes from currency translation	—	—
Non-current assets or disposal groups held for sale	(4)	—
Net gains/losses on the adjustment of fair values	—	(50)
Other disposals[1]	(4)	(1,066)
Carrying amounts at 31 December 2009	**1,907**	**—**
Write-downs and write-ups from previous year plus year under review	363	—
Acquisition costs at 31 December 2009	**2,270**	**—**

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

Notes to the Consolidated Balance Sheet (Continued)

55 Intangible assets

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

(€ millions)

	2009	2008
Goodwill	**424**	**424**
Other intangible assets		
Internally generated intangible assets	129	212
Other intangible assets	103	159
Total	**656**	**795**

Development of intangible assets

(€ millions)

	GOODWILL FROM SUBSIDIARIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2008	**1,088**	**592**	**692**
Write-downs and write-ups from previous years	(667)	(412)	(523)
Carrying amounts at 1 January 2008	**421**	**180**	**169**
Additions			
Purchases/internally generated	—	101	46
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	3	1	22
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(57)	(65)
Impairments	—	—	(5)
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	(13)	(8)
Carrying amounts at 31 December 2008	**424**	**212**	**159**
Write-downs and write-ups from previous year plus year under review	667	254	333
Acquisition costs at 31 December 2008	**1,091**	**466**	**492**

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

Development of intangible assets

(€ millions)

	GOODWILL FROM SUBSIDIARIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2009	**1,091**	**466**	**492**
Write-downs and write-ups from previous years	(667)	(254)	(333)
Carrying amounts at 1 January 2009	**424**	**212**	**159**
Additions			
Purchases/internally generated	2	64	39
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	6	4
Disposals			
Sales	—	(102)	(29)
Amortisation and write-downs	—	(47)	(62)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	(2)	(4)	(8)
Carrying amounts at 31 December 2009	**424**	**129**	**103**
Write-downs and write-ups from previous year plus year under review	660	287	327
Acquisition costs at 31 December 2009	**1,084**	**416**	**430**

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

56 Income tax assets

(€ millions)

	2009	2008
Current tax assets	360	421
Deferred tax assets	2,252	2,371
Total	**2,612**	**2,792**

57 Non-current assets or disposal groups held for sale

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

(€ millions)

ASSETS	31/12/2009	31/12/2008
Shares in associated companies accounted for using the equity method		
and joint ventures accounted for using the equity method	—	2
Investment properties	4	2
Total	**4**	**4**

Notes to the Consolidated Balance Sheet (Continued)

58 Other assets
Other assets include prepaid expenses of €78 million (2008: €119 million).

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

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

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

The Provide-A 2003 transaction expired during 2009 with an aggregate lending volume of €0.7 billion.

As a result of a downgraded rating of a guarantor and the related termination of supervisory recognition as a guarantor, the Building Comfort 2007 transaction became ineffective in February 2009, meaning that the reduction in risk-weighted assets was reversed.

At 31 December 2009, the total volume of lending in HVB Group's full set of securitisation programmes totalled €43.7 billion, serving to deduct a gross amount of €21.5 billion from risk-weighted assets compliant with Basel II or a net amount of €12.2 billion taking account of the retained tranches. In this context, a risk weighting of 1.250% is assumed for the items deductible from capital.

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

The Geldilux transactions, the true sale transaction Rosenkavalier 2008 was carried out with a view to using the securities generated as collateral for repurchase agreements with the ECB. HVB Group continues to recognise the underlying receivables and the special purpose entity set up for this purpose is fully consolidated. The volume of lending involved totalled €9.9 billion at 31 December 2009. The Bank has retained all the tranches, meaning that there is no reduction in risk-weighted assets.

HVB Group continued its securitisation activities in 2009 with one new transaction (Geldilux-TS-2009). This true sale transaction was carried out with a view to using the securities generated as collateral for repurchase agreements with the ECB. The underlying receivables with a carrying amount of €1.0 billion continued to be recognised in full in the consolidated balance sheet of HVB Group. The Geldilux-TS-2009 transaction carried out in April 2009 for liquidity purposes was reversed again in November 2009.

ISSUER	TRANSACTION NAME	LEGAL TRANSACTION MATURITY TRANSACTION CALL DATE	TYPE OF ASSET SECURITISED	VOLUME OF LENDING BASEL II € millions	REDUCTION IN RISK-WEIGHTED ASSETS COMPLIANT WITH BASEL II[1] € millions
UniCredit Bank AG	PROVIDE-A 2004-1	27/11/2045 27/2/2010	Private mortgage loans	1,382	145
Total for 2003-2004				**1,382**	**145**
UniCredit Bank AG	PROVIDE-A 2005-1	25/8/2048 25/2/2011	Private mortgage loans	2,605	302
UniCredit Luxembourg S.A.	Geldilux-TS-2005	10/12/2012 Series 3: 10/7/2010	Euroloans	2,000	1,840
Total for 2005				**4,605**	**2,142**
UniCredit Bank AG	PROVIDE-A 2006-1	25/8/2048 1/5/2012	Private mortgage loans	1,718	262
UniCredit Bank AG	Promise-XXS 2006-1	12/5/2024 12/8/2012	Corporate loans	2,079	1,112
Total for 2006				**3,797**	**1,374**
UniCredit Luxembourg S. A.	GELDILUX-TS-2007	8/9/2014 8/4/2012	Euroloans	2,100	1,900
UniCredit Bank AG/ UniCredit Luxembourg S. A.	EuroConnect Issuer LC 2007-1	15/3/2028 15/9/2013	Corporate loans	958	0
UniCredit Bank AG	EuroConnect Issuer SME 2007-1	15/11/2030 15/2/2015	Corporate loans	1,815	958
UniCredit Bank AG	Building Comfort 2007	25/1/2051 25/7/2013	Private mortgage loans	3,168	0
Total for 2007				**8,041**	**2,858**
UniCredit Luxembourg S. A.	GELDILUX-TS-2008	10/1/2014 10/8/2011	Euroloans	1,491	1,295
UniCredit Bank AG	Building Comfort 2008	25/9/2050 25/9/2013	Private mortgage loans	2,522	335
UniCredit Bank AG	EuroConnect Issuer SME 2008-1	17/4/2033 17/4/2014	Corporate loans	1,466	704
UniCredit Bank AG	SFA-1-2008	30/12/2021 30/9/2013	Corporate loans	7,896	4,442
UniCredit Bank AG	SFA-3-2008	30/3/2028 30/12/2013	Corporate loans/ mortgage loans	9,145	6,208
UniCredit Bank AG	SFA-2-2008	30/3/2028 30/12/2013	Corporate loans	3,348	2,043
Total for 2008				**25,868**	**15,027**
Total				**43,693**	**21,546**

1 does not include any retained risks

The values shown are carrying amounts relating to the reporting date 31 December 2009.

Notes to the Consolidated Balance Sheet (Continued)

60 Deposits from banks

(€ millions)

	2009	2008
Deposits from central banks	**8,385**	**29,549**
Deposits from banks	**42,319**	**54,318**
Current accounts and demand deposits	13,553	12,001
Reverse repos[1]	5,574	12,378
Other liabilities	23,192	29,939
Total	**50,704**	**83,867**

1 repurchase agreements

Amounts owed to related entities

(€ millions)

	2009	2008
Non-consolidated subsidiaries	4,325	6,342
Joint ventures	—	—
Associated companies	—	151
Other participating interests	12	95
Total	**4,337**	**6,588**

61 Deposits from customers

(€ millions)

	2009	2008
Current accounts and demand deposits	41,281	36,237
Savings deposits	13,183	13,648
Reverse repos[1]	1,834	12,245
Other liabilities	40,192	52,832
Total	**96,490**	**114,962**

1 repurchase agreements

Liabilities to related entities and persons

(€ millions)

	2009	2008
Non-consolidated subsidiaries	320	330
Joint ventures	1	1
Associated companies	27	68
Other participating interests	628	10,377
Total	**976**	**10,776**

62 Debt securities in issue

(€ millions)

	2009	2008
Bonds	59,265	61,570
Other securities	2,021	2,069
Total	**61,286**	**63,639**

Debt securities in issue, payable to related entities

(€ millions)

	2009	2008
Non-consolidated subsidiaries	1,545	1,470
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	52
Total	**1,545**	**1,522**

63 Financial liabilities held for trading

(€ millions)

	2009	2008
Negative fair values arising from derivative financial instruments	84,394	119,011
Other financial liabilities held for trading	36,812	44,933
Total	**121,206**	**163,944**

The negative fair values arising from derivative financial instruments are carried as financial liabilities held-for-trading purposes. Also included under other financial liabilities held-for-trading purposes are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

The cumulative valuation effects of the held for trading financial liabilities in the portfolio at 31 December 2009, resulting among other things from the own credit spread, total €100 million. Valuation expenses of €39 million arising from own credit spread changes accrued for these holdings in the year under review.

64 Hedging derivatives

(€ millions)

	2009	2008
Micro fair value hedge	98	—
Fair value hedge portfolio	1,271	439
Cash flow hedge	—	178
Total	**1,369**	**617**

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

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €1,200 million. This is offset on the assets side by an economic equivalent amount of approximately the same size disclosed under hedging derivatives. The hedge adjustments are recognised as gross amounts for one subsidiary for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €53 million.

66 Income tax liabilities

(€ millions)

	2009	2008
Current tax liabilities	674	544
Deferred tax liabilities	1,175	1,394
Total	**1,849**	**1,938**

67 Liabilities of disposal groups held for sale

The amount of €4 million disclosed as the liabilities of disposal groups held for sale in 2008 related to the "Other liabilities" item in the balance sheet.

68 Other liabilities

This item essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc. In 2008, other liabilities also included the interests held by outside shareholders in the capital of certain investment funds consolidated by us.

69 Provisions

(€ millions)

	2009	2008
Provisions for pensions and similar commitments	50	104
Allowances for losses on guarantees and commitments	237	223
Restructuring provisions	121	92
Other provisions	1,091	1,072
Total	**1,499**	**1,491**

Notes to the Consolidated Balance Sheet (Continued)

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

The direct commitments are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. The funded pension obligations are offset against the fair value of a plan's assets. The pension provision recognised in the previous year reflects the balance of the present value of the pension obligations and the fair value of the plan assets.

In addition, Group companies make contributions for commitments made by independent pension organisations. The pension obligations funded through retirement benefit corporations with matching cover are recognised as defined contribution plans. The cost of defined contribution plans and for the pension guarantee association totalled €61 million (2008: €40 million).

The financial commitments financed by the Pensionskasse der HypoVereinsbank VvaG pension fund are included in the disclosures regarding pension commitments. The standard HVB Group valuation parameters are used when calculating these commitments. Since the fair value of the plan assets of this plan exceeds the present value of the pension commitments, this inclusion does not lead to a defined benefit liability being recognised in the balance sheet. Since any surpluses are attributable to the members of the pension fund and not HVB, it similarly not possible to capitalise the excess of the plan assets over the present value of the pension commitments for this plan due to the reduction on account of the asset ceiling defined in IAS 19.58B. There were no other instances in which the asset ceiling defined in IAS 19.58B was applied during the year under review.

For the purpose of calculating the internal pension entitlements, the valuation parameters of HVB Group were modified as follows: (in %)

	31/12/2009/ 1/1/2010	31/12/2008/ 1/1/2009
Interest rate	5.25	5.75
Expected return on plan assets[1]	5.25	5.25
Rate of increase in pension commitments	1.90	1.90
Rate of increase in future compensation and vested rights	2.50	2.75
Rate of increase over career	0–1.5	0–1.5

1 the target and expected return on the plan assets is derived using the discount rate

Funding status (€ millions)

	2009
Funded pension commitments:	
Present value of funded pension commitments	2,861
Fair value of plan assets	(3,066)
Reduction due to asset ceiling compliant with IAS 19.58B	69
Capitalised excess cover of plan assets	139
Recognised pension provisions	**3**
Unfunded pension commitments:	
Present value of unfunded pension commitments	47
Total recognised pension provisions	**50**

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

The following table shows the breakdown of pension expense: (€ millions)

	2009
Present value of the pension claims vested in the year under review	(20)
Interest expense	(124)
Expected income from plan assets	119
Losses from changes to plans	—
Total	**(25)**

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

The following table shows an analysis of funded pension commitments for 2009: (€ millions)

Balance at 1 January 2009	**2,751**
Present value of the pension claims vested in the year under review	29
Interest expense	153
Contributions from plan participants	3
Actuarial gains (losses)	161
Payments affecting liquidity	(125)
Changes in consolidated group	(98)
Changes arising from foreign currency translation	3
Other changes	(16)
Balance at 31 December 2009	**2,861**

The following table shows an analysis of the present value of unfunded pension commitments for 2009: (€ millions)

Balance at 1 January 2009	**85**
Present value of the pension claims vested in the year under review	1
Interest expense	3
Contributions from plan participants	—
Actuarial gains (losses)	1
Payments affecting liquidity	(4)
Changes in consolidated group	(33)
Changes arising from foreign currency translation	—
Other changes	(6)
Balance at 31 December 2009	**47**

HVB reorganised its company pension plans (direct commitments) in 2009, setting up HVB Trust Pensionsfonds AG (pension fund) in the process. Both the pension commitments to pensioners and the assets required to cover these commitments were transferred to the pension fund. The pensioners' pension claims are not affected by the restructuring, and HVB continues to guarantee the pension. Although the pensioners' claims are first of all against the pension fund, however, there is also a legal claim against the Bank, to the extent that the pension fund is unable to meet the claims in full. All in all, the pensioners' rights are strengthened, as they have a direct claim against the pension fund in addition to a right of recourse against the Bank.

Notes to the Consolidated Balance Sheet (Continued)

The pension fund is a legally independent institution regulated by the German Federal Financial Supervisory Authority (BaFin).

It serves as an instrument for financing the company pension scheme by which the employer provides benefits for its employees under the company pension scheme. What is more, the pensions are secured by HVB Trust Pensionsfonds AG.

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

The following table shows the plan assets available to the trustees to finance the pension obligations: (€ millions)

	2009
Equities	5
Fixed-income securities	89
Property	84
Other assets	89
Investment funds	2,799
Plan assets	**3,066**

The following table shows the development of the plan assets in the year under review: (€ millions)

Balance at 1 January 2009	**3,010**
Expected income from plan assets	153
Actuarial gains (losses)	5
Allocations to plan assets (HVB Group)	105
Employee contributions	—
Disbursements to beneficiaries	(125)
Additional allocations in the form of benefits not taken	—
Changes in exchange rates	4
Changes in consolidated group	(86)
Balance at 31 December 2009	**3,066**

With regard to the plan assets, the item actuarial gains (losses) shows the difference between the expected income from plan assets and the income from plan assets actually realised. The balance of expected income and actuarial gains from plan assets gives the actual income from plan assets of €158 million.

The following tables provides an overview of the long-term development of the covered pension obligations and plan assets: (€ millions)

	2009	2008	2007	2006	2005
Funded pension obligations	2,861	2,751	2,305	2,399	2,362
Plan assets	3,066	3,010	2,322	2,343	2,255
Difference between expected					
income and actual income from plan assets	5	(104)	(58)	—	64

The cumulative actuarial gains recognised in shareholders' equity compliant with IAS 19.93A total €324 million (2008: €203 million) before deferred taxes or minority interests. Compliant with IAS 19.93C, the total also includes adjustments caused by changes in the limit defined in IAS 19.58B.

When the present value of the pension obligation was calculated, the differences between the expected and actual development in the composition of the eligible employees (experience adjustment) totalled minus €55 million in the year under review (2008: minus €18 million, 2007: minus €27 million, 2006: plus €5 million).

Allowances for losses on guarantees and commitments, restructuring provisions and other provisions (€ millions)

	ALLOWANCES FOR LOSSES ON GUARANTEES AND COMMITMENTS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
Balance at 1 January 2009	**223**	**92**	**1,072**
Changes in consolidated group	—	(7)	(103)
Changes arising from foreign currency translation	(2)	—	—
Transfers to provisions	113	165	199
Reversals	(18)	(11)	(43)
Reclassifications	—	(84)	69
Amounts used	(79)	(34)	(103)
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2009	**237**	**121**	**1,091**

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

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

The provisions for the Retention Awards Programme are also carried under other provisions. In addition to the bonus for the current financial year, selected employees in investment banking receive a retention award which is disbursed later (after two years), provided that these employees are still working for HVB Group at that time. The award granted to the eligible employees attracts interest of 4.2% over the waiting period.

No further provisions were set aside for the Retention Awards Programme in 2009. The Retention Awards Programme from 2006 was disbursed in 2009. The Retention Awards Programme from 2007 will be disbursed in 2010.

70 Shareholders' equity
Analysis of the subscribed capital, authorised capital increase and conditional capital of UniCredit Bank AG.

Breakdown of subscribed capital
At 31 December 2009, the subscribed capital of HVB totalled €2,407 million (2008: €2,407 million) and consisted of the following:

	2009	2008
Shares of common bearer stock (no par shares)	787,830,072	787,830,072
Shares of registered preferred stock (no par shares)	14,553,600	14,553,600

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

Notes to the Consolidated Balance Sheet (Continued)

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

Authorised capital increase

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT 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 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.

Change in valuation of financial instruments

The reserves arising from changes in the valuation of financial instruments recognised in equity totalled €5 million (2008: €23 million) at 31 December 2009. Within this total, the €134 million decline in the hedge reserve to €195 million was largely offset by the positive development of the AfS reserve. The AfS reserve recorded an increase of €116 million to minus €190 million in a far friendlier market environment. This can be attributed primarily to positive fair value fluctuations notably in fixed-income securities classified as available for sale (AfS). In 2009 there was a minor, market-related increase in the value of ABS holdings in the available-for-sale portfolio, for which there were no impairment criteria as defined in IAS 39.59 and hence no impairment losses needed to be recognised.

71 Subordinated capital

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

	2009	2008
Subordinated liabilities	4,232	7,206
Participating certificates outstanding	205	205
Hybrid capital instruments	1,671	1,804
Total	**6,108**	**9,215**

Pursuant to Section 10 (4, 5 and 5a) of the German Banking Act (KWG) and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities, participating certificates outstanding and hybrid capital instruments) was carried as core capital and supplementary capital in 2009.

The following table shows the breakdown of subordinated capital by balance sheet item: (€ millions)

	2009	2008
Deposits from banks	307	389
Deposits from customers	902	907
Debt securities in issue	4,899	7,919
Total	**6,108**	**9,215**

We have incurred interest expenses of €372 million in connection with this subordinated capital. Subordinated capital includes proportionate interest of €125 million.

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

There were subordinated liabilities of €1,062 million payable to related entities in 2009.

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

ISSUER	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT € MILLIONS	INTEREST RATE IN %	MATURITY
UniCredit Bank AG (formerly Bayerische Hypo- und Vereinsbank AG)	2001	Bearer participating certificates	100	6.30	2011

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

In each case, the participating certificates grant holders an entitlement to an annual interest payment with priority over the entitlement of shareholders to dividend payments; the interest payments arising from the participating certificates are reduced if such payments would result in a net loss for the year.

In the event of the interest payment being reduced, the shortfall is to be paid in the subsequent financial years, provided this does not result in a net loss for the year; a claim to such 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.

Hybrid capital instruments
At 31 December 2009, HVB Group had hybrid core capital of €1,186 million (eligible amount compliant with the German Banking Act, KWG) to bolster its capital base.

The eligible hybrid core capital fell by €563 million compared with the previous-year total, mainly due to the omission of a €500 million hybrid bond, which falls due for repayment in less than two years. In addition, partial buy-backs of the remaining hybrid issues were carried out, which were approved by the German Federal Financial Supervisory Authority (BaFin) on account of HVB Group's strong core capital base.

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

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

In contrast to traditional components of core capital such as shares, the claim to a share of profit takes the form of a fixed interest payment in the case of hybrid capital. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long term.

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

Notes to the Cash Flow Statement

72 Notes to the items in the cash flow statement

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

The cash and cash equivalents shown correspond to the item "Cash and cash balances" in the balance sheet, comprising both cash on hand and cash balances at central banks repayable on demand.

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

Shares in three fully consolidated companies were sold in 2009. Proceeds of €192 million were generated from the sale of shareholdings, including €86 million in the form of an investment accounted for using the equity method and €106 million in cash.

(€ millions)

	SOLD
Assets	
Cash and cash balances	—
Financial assets held for trading	—
Financial assets at fair value through profit or loss	—
Available-for-sale financial assets	143
Shares in associated companies accounted for using the equity method	
and joint ventures accounted for using the equity method	—
Held-to-maturity investments	—
Loans and receivables with banks	1,135
Loans and receivables with customers	925
Hedging derivatives	—
Property, plant and equipment	83
Investment properties	
Intangible assets	128
of which: goodwill	—
Tax assets	9
Non-current assets or disposal groups held for sale	—
Other assets	57
Liabilities	
Deposits from banks	102
Deposits from customers	1,883
Debt securities in issue	—
Financial liabilities held for trading	—
Hedging derivatives	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—
Tax liabilities	11
Liabilities of disposal groups held for sale	—
Other liabilities	159
Provisions	129

Other Information

73 Application of reclassification rules defined in IAS 39.50 et seq.

Mostly in the first quarter of the financial year 2009, we reclassified further assets held for trading, for which there was no active market at the time of reclassification, prospectively as loans and receivables compliant with IAS 39.50 et seq. These had a carrying amount or market value of €9.3 billion (nominal value: €9.4 billion) at the time of reclassification. For the most part, this relates to Pfandbriefs, government bonds and bank bonds. The intention to trade no longer exists for the reclassified assets, since the markets in these financial instruments had become illiquid as a result of the extraordinary circumstances created by the financial crisis through to the time of reclassification. Given the high quality of the assets concerned, HVB intends to retain the assets for a longer period. HVB has not reclassified any assets from the available-for-sale portfolio.

The following table shows the development of the reclassified holdings: (€ billions)

RECLASSIFIED ASSET-BACKED SECURITIES AND OTHER DEBT SECURITIES	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1]	FAIR VALUE OF ALL RECLASSIFIED ASSETS	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS
Reclassified in 2008			
Balance at 31/12/2008	13.7	11.8	14.6
Balance at 31/12/2009	9.0	8.0	9.7
Reclassified in 2009			
Balance at 31/12/2009	7.3	7.4	7.4
Balance of reclassified assets at 31/12/2009	**16.3**	**15.4**	**17.1**

1 before accrued interest

The fair value of the financial instruments reclassified as loans and receivables with banks and customers amounts to a total of €15.4 billion at 31 December 2009. If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (including realised disposals) would have given rise to a net gain of €1,159 million in net trading income in the 2009 financial year. €163 million of this total relates to the holdings largely reclassified in March 2009. In 2008 as a whole, a net loss of €1.8 billion would have accrued in net trading income from the holdings reclassified in 2008. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification.

We have taken loan-loss provisions of €80 million on the reclassified assets in 2009 (2008: €63 million). Specific allowances account for €60 million of this total and portfolio allowances account for €20 million. The fair value at the date when the reclassification takes effect represents the new acquisition costs, some of which are considerably less than the nominal value. Accordingly, this difference (discount) is to be amortised over the remaining term of the reclassified financial assets. This gives rise to an effect of €208 million (2008: €127 million) in 2009, which is recognised in net interest income.

A gain of €83 million on reclassified securities that had matured, been partially paid off and sold was recognised in the income statement in 2009.

74 Notes to selected structured products

Additional information regarding selected structured products is given below in order to provide greater transparency. Assets of fully consolidated commercial paper conduits and other fully consolidated special purpose vehicles are shown alongside tranches retained by HVB Group and holdings of asset-backed securities (ABS) transactions issued by third parties, broken down by various criteria.

ABS portfolio

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

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:
– Residential mortgage-backed securities (RMBS) relating to mortgage loans in the private sector (residential mortgage loans)
– Commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans)
– Collateralised loan obligations (CLO) relating to commercial bank loans
– Collateralised bond obligations (CBO) relating to securities portfolios

Besides this, consumer loans, credit card receivables and lease receivables are also securitised.

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by rating class (HVB Group without fully consolidated commercial paper conduits or other fully consolidated special purpose vehicles; these are shown separately) (€ millions)

CARRYING AMOUNTS		31/12/2009 SENIOR	31/12/2009 MEZZANINE	31/12/2009 JUNIOR	31/12/2009 TOTAL	31/12/2008 TOTAL
Positions retained from own securitisations		**81**	**136**	**21**	**238**	**447**
Positions in third-party ABS transactions		**3,949**	**1,422**	**33**	**5,404**	**7,131**
Residential mortgage-backed securities (RMBS)		1,777	528	4	2,309	2,928
thereof:						
US subprime		—	—	—	—	—
US alt A		21	18	4	43	43
Commercial mortgage-backed securities (CMBS)		804	338	—	1,142	1,283
Collateralised debt obligations (CDO)		87	139	—	226	618
thereof:						
US subprime		1	6	—	7	9
US Alt A		—	4	—	4	5
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)		660	238	6	904	1,023
Consumer loans		316	75	—	391	465
Credit cards		86	9	—	95	119
Leases		133	71	—	204	298
Others		86	24	23	133	397
Total	**31/12/2009**	**4,030**	**1,558**	**54**	**5,642**	
	31/12/2008	**5,601**	**1,886**	**91**	**7,578**	
Unfunded collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2009**	**4**	**306**	**83**	**393**	
	31/12/2008	**44**	**348**	**192**	**584**	

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

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

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by region (HVB Group without fully consolidated commercial paper conduits or other fully consolidated special purpose vehicles are shown separately) (€ millions)

CARRYING AMOUNTS		31/12/2009 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**238**	**—**	**—**	**—**	**238**
Positions in third-party ABS transactions		**4,458**	**510**	**200**	**236**	**5,404**
Residential mortgage-backed securities (RMBS)		2,045	44	33	187	2,309
thereof:						
US subprime		—	—	—	—	—
US alt A		—	43	—	—	43
Commercial mortgage-backed securities (CMBS)		944	90	94	14	1,142
Collateralised debt obligations (CDO)		32	143	51	—	226
thereof:						
US subprime		—	7	—	—	7
US Alt A		—	4	—	—	4
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)		785	98	1	20	904
Consumer loans		299	86	2	4	391
Credit cards		76	—	19	—	95
Leases		167	26	—	11	204
Others		110	23	—	—	133
Total	**31/12/2009**	**4,696**	**510**	**200**	**236**	**5,642**
	31/12/2008	**6,155**	**585**	**407**	**431**	**7,578**
Unfunded collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2009**	**28**	**365**	**—**	**—**	**393**
	31/12/2008	**36**	**548**	**—**	**—**	**584**

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

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by remaining maturity (HVB Group without fully consolidated commercial paper conduits or other fully consolidated special purpose vehicles are shown separately) (€ millions)

CARRYING AMOUNTS		31/12/2009 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**36**	**159**	**43**	**238**
Positions in third-party ABS transactions		**337**	**3,642**	**1,425**	**5,404**
Residential mortgage-backed securities (RMBS)		42	1,348	919	2,309
thereof:					
US subprime		—	—	—	—
US alt A		—	21	22	43
Commercial mortgage-backed securities (CMBS)		62	939	141	1,142
Collateralised debt obligations (CDO)		2	131	93	226
thereof:					
US subprime		—	—	7	7
US Alt A		—	—	4	4
Collateralised loan obligations (CLO)/					
Collateralised bond obligations (CBO)		15	708	181	904
Consumer loans		70	232	89	391
Credit cards		86	9	—	95
Leases		46	156	2	204
Others		14	119	—	133
Total	**31/12/2009**	**373**	**3,801**	**1,468**	**5,642**
	31/12/2008	**399**	**5,336**	**1,843**	**7,578**
Unfunded collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2009**	**—**	**163**	**230**	**393**
	31/12/2008	**13**	**296**	**275**	**584**

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

Positions retained from own securitisation transactions and in third-party ABS transactions broken down by class as per IAS 39 (HVB Group without fully consolidated commercial paper conduits or other fully consolidated special purpose vehicles are shown separately) (€ millions)

CARRYING AMOUNTS		31/12/2009 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**23**	**—**	**—**	**—**	**215**	**238**
Positions in third-party ABS transactions		**324**	**97**	**4,712**	**56**	**215**	**5,404**
Residential mortgage-backed securities (RMBS)		47	40	2,190	—	32	2,309
thereof:							
US subprime		—	—	—	—	—	—
US alt A		—	1	42	—	—	43
Commercial mortgage-backed securities (CMBS)		37	4	1,039	—	62	1,142
Collateralised debt obligations (CDO)		1	4	137	34	50	226
thereof:							
US subprime		—	—	7	—	—	7
US Alt A		—	—	4	—	—	4
Collateralised loan obligations (CLO)/							
Collateralised bond obligations (CBO)		235	33	572	18	46	904
Consumer loans		1	—	390	—	—	391
Credit cards		—	—	86	—	9	95
Leases		3	4	178	3	16	204
Others		—	12	120	1	—	133
Total	**31/12/2009**	**347**	**97**	**4,712**	**56**	**430**	**5,642**
	31/12/2008	**633**	**177**	**5,874**	**67**	**827**	**7,578**
Unfunded collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2009**	**393**	**—**	**—**	**—**	**—**	**393**
	31/12/2008	**584**	**—**	**—**	**—**	**—**	**584**

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

Other Information (Continued)

Fully consolidated commercial paper conduits and other consolidated special purpose vehicles
Alongside the directly held portfolios of own and external ABS transactions, further structured products are held through commercial paper conduits that are managed by HVB (SPVs that issue short-term commercial paper to refinance their assets) and other fully consolidated special purpose vehicles. Essentially, these involve credit receivables of third parties that are securitised by HVB using the services of the commercial paper conduits. Positions in ABS transactions issued by third parties and in hedge funds are also shown. An amount of €259 million out of the total €2,033 million disclosed under "Other" relates to investments under which HVB passes on all the risks and rewards to customers.

Positions held by fully consolidated commercial paper conduits and other consolidated special purpose vehicles, broken down by product category and rating class (€ millions)

		31/12/2009				31/12/2008
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Residential mortgage loans/						
Residential mortgage-backed securities (RMBS)		196	1,324	189[1]	1,709	1,465
Commercial mortgage loans/						
Commercial mortgage-backed securities (CMBS)		689	29	—	718	976
Collateralised debt obligations (CDO)		4	—	—	4	5
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)		—	86	—	86	154
Consumer loans		402	501	—	903	1,127
Credit cards		—	—	—	—	—
Leases		493	—	—	493	628
Other (including hedge fund investments)		553	837	643[2]	2,033	1,458
Total	**31/12/2009**	**2,337**	**2,777**	**832**	**5,946**	
	31/12/2008	**1,758**	**4,055**	**—**	**5,813**	

1 these assets are impaired
2 the volume shown here relates to investment and hedge funds with no rating and are hence disclosed under Junior

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

Positions held by fully consolidated commercial paper conduits and other consolidated special purpose vehicles, broken down by product category and region (€ millions)

		31/12/2009				
CARRYING AMOUNTS		EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Residential mortgage loans/						
Residential mortgage-backed securities (RMBS)		1,513	2	—	194	1,709
Commercial mortgage loans/						
Commercial mortgage-backed securities (CMBS)		609	109	—	—	718
Collateralised debt obligations (CDO)		—	4	—	—	4
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)		—	86	—	—	86
Consumer loans		903	—	—	—	903
Credit cards		—	—	—	—	—
Leases		493	—	—	—	493
Other (including hedge fund investments)		984	821	—	228	2,033
Total	**31/12/2009**	**4,502**	**1,022**	**—**	**422**	**5,946**
	31/12/2008	**4,517**	**1,044**	**—**	**252**	**5,813**

Positions held by fully consolidated commercial paper conduits and other consolidated special purpose vehicles, broken down by product category and remaining maturity

(€ millions)

CARRYING AMOUNTS		31/12/2009 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Residential mortgage loans/					
Residential mortgage-backed securities (RMBS)		384	—	1,325	1,709
Commercial mortgage loans/					
Commercial mortgage-backed securities (CMBS)		—	4	714	718
Collateralised debt obligations (CDO)		—	—	4	4
Collateralised loan obligations (CLO)/					
Collateralised bond obligations (CBO)		—	—	86	86
Consumer loans		903	—	—	903
Credit cards		—	—	—	—
Leases		493	—	—	493
Other (including hedge fund investments)		1,381	112	540	2,033
Total	**31/12/2009**	**3,161**	**116**	**2,669**	**5,946**
	31/12/2008	**2,813**	**453**	**2,547**	**5,813**

Positions held by fully consolidated commercial paper conduits and other consolidated special purpose vehicles, broken down by product category and class as per IAS 39

(€ millions)

CARRYING AMOUNTS		31/12/2009 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Residential mortgage loans/							
Residential mortgage-backed securities (RMBS)		—	—	1,707	2	—	**1,709**
Commercial mortgage loans/							
Commercial mortgage-backed securities (CMBS)		—	81	608	—	29	**718**
Collateralised debt obligations (CDO)		—	—	—	4	—	**4**
Collateralised loan obligations (CLO)/							
Collateralised bond obligations (CBO)		—	—	—	55	31	**86**
Consumer loans		—	—	903	—	—	**903**
Credit cards		—	—	—	—	—	**—**
Leases		—	—	493	—	—	**493**
Other (including hedge fund investments)		643	297	760	82	251	**2,033**
Total	**31/12/2009**	**643**	**378**	**4,471**	**143**	**311**	**5,946**
	31/12/2008	**—**	**184**	**5,200**	**169**	**260**	**5,813**

75 Fair value hierarchy

We show financial instruments measured at fair value and recognised at fair value in the balance sheet separately in a fair value hierarchy in the following table. This fair value hierarchy is divided into the following levels:

Level 1 contains financial instruments measured using prices of identical assets or liabilities listed on an active market. These prices are incorporated unchanged. We have assigned mostly listed equity instruments and bonds to this category.

Assets and liabilities whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) input data are shown in Level 2. No price can be observed on an active market for the assets and liabilities concerned themselves. As a result of this, we notably show the fair values of interest rate and credit derivatives in this level together with the fair values of ABS bonds, provided a liquid market exists for the asset class in question.

Financial assets and liabilities of €384 million have been transferred between Level 1 and Level 2. Almost all of this total relates to fixed-income securities for which the fair value is calculated using valuation models based on valuation parameters that can be observed on an active market as the fair value can no longer be observed on an active market. At the same time, financial assets or liabilities of €3,136 million migrated between Level 2 and Level 1. For the most part, this involves fixed-income securities for which a fair value can now be observed on an active market. The other securities concerned are equities.

Other Information (Continued)

Level 3 relates to assets or liabilities for which the fair value cannot be calculated exclusively on the basis of observable market data (non-observable input data). Thus, the respective fair values also incorporate valuation parameters based on model assumptions. This includes derivatives and structured products that contain at least one “exotic” component, such as foreign currency or interest rate derivatives on illiquid currencies, derivatives without standard market terms, structured products with an illiquid underlying as reference and ABS bonds of an asset class for which no liquid market exists.

If the value of a financial instrument is based on non-observable input parameters, the value of these parameters may be selected from a range of possible appropriate alternatives at the balance sheet date. Appropriate values are selected for these non-observable parameters when the annual financial statements are prepared, reflecting the predominant market conditions and the valuation control approach of the Group.

Changes to the appropriate alternative parameter values on the fair value (after adjustments) is shown in the sensitivity analysis presented below. The positive change in fair values at 31 December 2009 resulting from the use of possible appropriate alternatives would be €227.9 million, and the negative change would be €77.3 million.

The following non-observable parameters were varied (stress test) for the sensitivity analysis for equity products included in Level 3: spot prices for hedge funds, implicit volatility, dividends, implicit correlations and the assumptions regarding the interpolation between individual parameters observable on the market, such as volatilities.

The following parameters were varied for interest rate products in Level 3 as part of the sensitivity analysis: interest rate correlations and the parameter that governs how quickly a fluctuating interest rate reverts to the long-term mean (mean reversion).

More conservative and more aggressive values for correlations between the fair value of the credit derivative (CDS) and the respective underlying and implicit correlations were applied for credit derivatives than was the case as part of the fair value calculation. Furthermore, rating-dependent shifts to the mid-market CDS levels were assumed for illiquid CDSs.

(€ millions)

	31/12/2009		
	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3)
Financial assets recognised in the			
balance sheet at fair value			
Financial assets held for trading	35,017	95,643	2,729
thereof: derivatives	4,198	75,211	1,672
Financial assets at fair value through profit or loss	7,790	5,568	400
Available-for-sale financial assets	1,611	915	1,915
Hedging derivatives	194	3,383	1
Financial liabilities recognised in the			
balance sheet at fair value			
Financial liabilities held for trading	14,419	103,579	3,208
thereof: derivatives	6,158	75,732	2,504
Hedging derivatives	50	1,319	—

Transfers were made from Level 2 to Level 3 in the year under review as follows: €415 million for financial assets held for trading; €114 million for financial assets at fair value through profit or loss; €113 million for available-for-sale financial assets; and €311 million for financial liabilities held for trading. These transfers were made because certain input parameters for the valuation model applied were no longer observable on the market. There were no significant transfers from Level 1 to Level 3.

Transfers were made from Level 3 to Level 2 in the year under review as follows: €904 million for financial assets held for trading; and €1,344 million for financial liabilities held for trading. These transfers were made because parameters that could not previously be observed on the market for the valuation model applied could be observed again on the market. There were no significant transfers from Level 3 to Level 1.

In the year under review, HVB Group did not issue any securities to be recognised at fair value that are included in Level 3.

76 Fair values of financial instruments compliant with IFRS 7

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

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

(€ billions)

	2009		2008	
ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash balances	6.4	6.4	5.6	5.6
Financial assets held for trading	133.4	133.4	199.0	199.0
Financial assets at fair value through profit or loss	13.8	13.8	13.3	13.3
Available-for-sale financial assets				
thereof measured				
at cost	1.4	1.4	1.7	1.7
at fair value	3.0	3.0	4.2	4.2
Shares in associated companies accounted for using the equity method				
and joint ventures accounted for using the equity method	0.1	0.1	—	—
Held-to-maturity investments	2.7	2.7	6.0	5.9
Loans and receivables with banks	43.3	43.3	41.5	41.3
Loans and receivables with customers	145.9	148.0	175.5	177.9
Hedging derivatives	3.6	3.6	2.7	2.7
Hedge adjustment amount of hedged items in fair value hedge portfolio	0.1	0.1	—	—
Total	**353.7**	**355.8**	**449.5**	**451.6**

	2009		2008	
LIABILITIES	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Deposits from banks	50.7	50.7	83.9	84.1
Deposits from customers	96.5	97.1	115.0	115.5
Debt securities in issue	61.3	62.8	63.6	64.0
Financial liabilities held for trading	121.2	121.2	163.9	163.9
Hedging derivatives	1.4	1.4	0.6	0.6
Hedge adjustment amount of hedged items in fair value hedge portfolio	1.2	1.2	0.6	0.6
Other liabilities[1]	—	—	0.4	0.4
Total	**332.3**	**334.4**	**428.0**	**429.1**

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

(€ billions)

	2009		2008	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Irrevocable credit commitments	**56.8**	**56.8**	**73.1**	**73.1**

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate.

For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates taking into account the respective spreads. The spread used here for receivables is determined on the basis of Basel II-compliant expected loss values and the cost of capital. Where loans and receivables with banks and customers contain reclassified securities, these are stated at the fair value shown in Note 73.

Other Information (Continued)

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

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

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

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

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

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

The difference in HVB Group between the fair values and carrying amounts totals €2.1 billion for assets and €2.1 billion for liabilities.

77 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39(c). These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the earliest possible maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €37.3 billion. This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as it is not likely that all open credit commitments and financial guarantees will be utilised on the next day. The same holds true for the presentation of the fair values of trading derivatives.

Breakdown of financial assets by maturity bucket (€ millions)

	2009						
CARRYING AMOUNTS	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	18,859	1,894	1,735	4,729	10,625	7,459	9,091
Derivatives on financial assets held for trading	81,081	—	—	—	—	—	—
Financial assets at fair value							
through profit or loss	—	186	258	712	7,407	5,550	—
Available-for-sale financial assets	1	71	27	190	1,201	2,325	1,927
Held-to-maturity investments	—	5	—	29	2,545	59	4
Loans and receivables with banks	36,529	18,014	1,976	4,786	6,426	3,205	1,234
Loans and receivables with customers	13,547	14,490	12,319	19,114	58,821	43,724	5,126
Hedging derivatives	—	64	414	819	1,698	369	—

Breakdown of non-derivative and derivative financial liabilities by maturity bucket (€ millions)

	2009						
CARRYING AMOUNTS	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	27,710	14,045	4,022	6,315	9,339	5,175	81
Deposits from customers	54,933	12,848	7,226	10,649	8,020	5,225	855
Debt securities in issue	48	4,812	6,393	10,620	28,705	20,260	41
Financial liabilities held for trading	15,868	59	712	1,649	10,008	1,584	5,171
Derivatives on financial assets held for trading	84,394	—	—	—	—	—	—
Hedging derivatives	—	25	179	222	636	201	—
Credit commitments and financial guarantees	56,796	—	—	—	—	—	—

Other Information (Continued)

78 Key capital ratios (based on German Commercial Code)

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

The eligible equity which is used to calculate the capital ratio in accordance with the German Solvency Regulation consists of the core capital, the supplementary capital and Tier 3 capital. The Tier 3 capital comprises current subordinated liabilities which we only use to back market risk positions. HVB Group mostly uses internal models to measure market risk positions.

The following tables show equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2009:

Equity funds[1] (€ millions)

	2009	2008
Tier 1		
Shares of common stock	2,363	2,363
Additional paid-in capital, retained earnings, minority interest, own shares	16,813	17,224
Hybrid capital instruments (silent partnership certificates and trust preferred securities)		
without prorated interest	1,186	1,749
Other	314	214
50% deductible Items	(229)	(339)
Total core capital for solvency purposes	**20,447**	**21,211**
Tier 2		
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	45	46
Cumulative shares of preferred stock	44	44
Participating certificates outstanding	155	175
Subordinated liabilities	3,542	4,515
Value adjustment excess for IRBA positions	386	676
Other	17	19
50% deductible Items	(228)	(339)
Total supplementary capital for solvency purposes	**3,961**	**5,136**
Total equity capital	**24,408**	**26,347**
Tier 3 capital	—	—
Total equity funds	**24,408**	**26,347**

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

Pursuant to Sections 10 and 10a of the German Banking Act, the equity funds of HVB Group amounted to €24,408 million at 31 December 2009. Supplementary capital includes no unrealised reserves pursuant to Section 10 (2b) 1 No. 6 and 7 of the German Banking Act.

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

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

	CORE CAPITAL	SUPPLEMENTARY CAPITAL	TIER 3 CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	23,638	—	—	23,638
Reconciliation to the equity funds compliant with the German Banking Act				
AfS reserve	190	—	—	190
Hedge reserves	(195)	—	—	(195)
Cumulative shares of preferred stock	(44)	44	—	—
Deduction of intangible assets	(656)	—	—	(656)
Ineligible profit components under banking supervisory regulations	(1,840)	—	—	(1,840)
Consolidated profit for 2009	(1,633)	—	—	(1,633)
Hybrid capital recognised under banking supervisory regulations	1,186	—	—	1,186
Eligible portion of certificates outstanding	—	155	—	155
Eligible portion of subordinated liabilities	—	3,542	—	3,542
Reclassifications to Tier 3 capital due to banking supervisory regulations	—	—	—	—
Eligible Tier 3 capital unused	—	—	—	—
Unrealised reserves in land and buildings and in securities	—	—	—	—
Value adjustment excess for IRBA positions	—	386	—	386
Deductible items due to non-consolidated investments	(46)	(45)	—	(91)
Deductible items compliant with Sect.10 (6a), German Banking Act	(183)	(182)	—	(365)
Other effects				
(e. g. differences in group of consolidated companies and principles of consolidation)	30	61	—	91
Equity funds compliant with German Banking Act	**20,447**	**3,961**	**—**	**24,408**

(€ billions)

	2009 BASEL II	2008 BASEL II
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	70.8	83.3
off-balance sheet counterparty risk positions	17.2	22.5
other counterparty risk positions[1]	0.6	1.5
derivative counterparty risk positions	14.3	18.7
Total credit risk-weighted assets	**102.9**	**126.0**
Risk-weighted asset equivalent for market risk positions	**3.9**	**12.2**
Risk-weighted asset equivalent for operational risk	**8.3**	**10.0**
Total risk-weighted assets	**115.1**	**148.2**

1 primarily including repos and securities lending transactions

At 31 December 2009, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows: (in %)

	2009 BASEL II	2008 BASEL II
Core capital ratio I (core capital/risk-weighted assets)	19.9	16.8
Core capital ratio II (core capital/[risk-weighted assets + 12.5 x market risk positions + 12.5 x operational risk])	17.8	14.3
Equity funds ratio		
(Equity funds/[risk-weighted assets + 12.5 x market risk positions + 12.5 x operational risk])	21.2	17.8

Other Information (Continued)

79 Contingent liabilities and other commitments

(€ millions)

	2009	2008
Contingent liabilities[1]	**19,544**	**24,428**
Guarantees and indemnities	19,544	24,428
Other commitments	**56,787**	**67,068**
Irrevocable credit commitments	37,252	48,645
Other commitments	19,535	18,423
Total	**76,331**	**91,496**

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

Neither contingent liabilities nor irrevocable lending commitments contain any significant items. The gross volume of contingent liabilities for which provisions have been created in the above totals €662 million (2008: €584 million). The provisions of €237 million (2008: €223 million) set up for these liabilities have been deducted from the contingent liabilities recognised and are carried under provisions in the balance sheet (see Note 69, "Provisions").

The vast majority of the other commitments of €19,535 million in the year under review relate to delivery obligations arising from securities lending transactions. Commitments arising from rental, leasing and maintenance agreements, and from rental of office space and use of technical equipment are also included. The contracts run for standard market periods and no charges have been put off to future years.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by our H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement.

Commitments for uncalled payments on shares not fully paid up amounted to €639 million at year-end 2009 (2008: €703 million), and similar obligations for shares in cooperatives totalled €1 million (2008: €1 million). Under Section 22 (3) and Section 24 of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, GmbHG), we were also liable for defaults on such calls in respect of one company for an aggregate of €1 million (2008: €1 million).

Under Section 26 of the German Private Limited Companies Act, we were liable for calls for additional capital of €5 million (2008: €7 million) with regard to CMP Fonds I GmbH and of €58 million (2008: €58 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, we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

At the balance sheet date, we had unlimited personal liability arising from shares in 24 partnerships.

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

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

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

Contingent liabilities payable to related entities

(€ millions)

	2009	2008
Non-consolidated subsidiaries	3,817	3,062
Joint ventures	—	—
Associated companies	—	1
Other participating interests	78	51
Total	**3,895**	**3,114**

80 Statement of responsibility

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

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
DAB Bank AG, Munich[1]
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 in administration, 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.

81 Trust business

Trust assets

(€ millions)

	2009	2008
Loans and receivables with banks	87	110
Loans and receivables with customers	440	431
Equity securities and other variable-yield securities	239	200
Bonds	—	—
Participating interests	—	—
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	1,492	1,587
Remaining trust receivables	—	—
Total	**2,258**	**2,328**

Trust liabilities

(€ millions)

	2009	2008
Deposits from banks	199	207
Deposits from customers	2,059	2,121
Debt securities in issue	—	—
Other liabilities	—	—
Total	**2,258**	**2,328**

Other Information (Continued)

82 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €51.4 billion. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

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

(€ millions)

	2009	2008
Deposits from banks	51,493	49,411
Deposits from customers	8,716	25,176
Debt securities in issue	—	—
Financial liabilities held for trading	14,008	19,596
Contingent liabilities	—	—
Total	**74,217**	**94,183**

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

(€ millions)

	2009	2008
Financial assets held for trading	66,036	67,527
Financial assets at fair value through profit or loss	164	16,189
Available-for-sale financial assets	27	1,046
Held-to-maturity investments	—	—
Deposits from banks	338	312
Deposits from customers	7,652	9,109
Property, plant and equipment	—	—
Total	**74,217**	**94,183**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition details will be added to the extent to which the security provided may be pledged or sold on by the borrower.

(€ millions)

	2009	2008
Aggregate carrying amount of assets pledged as security	74,217	94,183
of which:		
pledged/sold on	15,825	48,282

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

As part of repurchase agreements and securities lending transactions, HVB Group has received security that it may sell on or pledge on at any time without the security provider having to be in arrears. The fair value of this security is €23.6 billion.

HVB Group has actually sold or pledged on €13.4 billion of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

84 Information on relationships with related parties

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

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

Emoluments paid to members of the Supervisory Board and Management Board (€ millions)

	FIXED COMPENSATION		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVES[1]		TOTAL	
	2009	2008	2009	2008	2009	2008	2009	2008
Management Board of UniCredit Bank AG	3	3	2[2]	4[7]	1[3]	1	6[4]	8
Supervisory Board of UniCredit Bank AG								
for Supervisory Board activities	1	0.8	—[6]	0.4[5]	—	—	1[6]	1.2
Former members of the Management Board								
of UniCredit Bank AG and their surviving dependants							10	10
Transitional allowances for former members								
of the Management Board							4	8

1 cash value of the share-based compensation
2 the profit-related components for 2009 are generally deferred over two years, with disbursement in subsequent years dependent on defined company targets being met. Moreover, income of €3.4 million from the reversal of the provision of the 2008 financial year is not included
3 prorated disclosure of the long-term incentive plans for 2005 to 2008. A long-term incentive cash plan has been set up for 2009, with disbursement dependent on targets being met in 2013
4 the accrued taxes and lawyer fees of €2.6 million relating to various pending legal disputes have been advanced to executives as part of the insurance benefits arising from a corporate Directors and Officers insurance policy
5 relating to 2007 financial year, disbursed in 2008
6 added to this is a profit-related component of €1.7 million for the 2009 financial year, provided the Annual General Meeting of Shareholders adopts a resolution regarding the profit available for distribution as proposed
7 this is a reserve that was not fully utilised

Up until 30 July 2009, the total remuneration paid to the individual members of the Management Board was set by the Remuneration & Nomination Committee of the Supervisory Board; from this date onwards, the full Supervisory Board has been responsible for setting the total remuneration paid to the individual members of the Management Board. Direct compensation has three components and comprises fixed and variable elements: fixed compensation, variable compensation as an incentive with a profit-related component (short-term incentive) and a long-term incentive.

Besides direct remuneration, Management Board members have received pension commitments. Seven members of the Management Board (one of whom left the Bank during the year) took part in the funded deferred compensation scheme in 2009, which is also available to the Bank's employees. The Bank has provided 20% of the fixed salary and the short-term incentive disbursed as contributions; this is subject to a cap of €200,000 per financial year for five members of the Management Board and €120,000 per financial year for one member of the Management Board, and a total of €120,000 per annum for one member of the Management Board. It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

Details of share-based compensation (number)

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	
Options	
Stock options 2008	1,454,150
Stock options 2009	—[1]
Performance shares	
Performance shares 2008	355,158
Performance shares 2009	—[1]

1 long-term incentive: no long-term incentive plan based on options and performance shares was set up for the 2009 financial year; a cash-based plan was set up instead

Other Information (Continued)

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

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

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

A sum of €616,298 was transferred to provisions for pensions in the 2009 financial year to cover the commitments made to the members of the Management Board; this relates to the deferred compensation invested in a fund.

Upon the formation of HVB Trust Pensionsfonds AG, pension commitments to a majority of the former executives of UniCredit Bank AG were transferred from UniCredit Bank AG to HVB Trust Pensionsfonds AG. The assets required to cover the pension commitments were transferred at the same time. The Bank has continued to set up provisions for the commitments transferred to the pension fund in the consolidated financial statements prepared in accordance with IFRS. The provision for pensions payable to retired members of the Management Board calculated in accordance with IFRS totals €121 million.

Provisions are no longer shown in the commercial balance sheet in the annual financial statements of UniCredit Bank AG prepared in accordance with the German Commercial Code for the group of people affected by the transfer. Compliant with Section 285 of the German Commercial Code, the provisions for pensions payable to former members of the Management Board and their surviving dependants at HVB declined to €23 million (2008: €94 million) accordingly at 31 December 2009.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2009: (in €)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION[10]	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo, Chairman[1]	4,931.51		15,070.68	20,002.19	(13,671.50[9])
Sergio Ermotti, Chairman[2]	47,534.24		145,264.66	192,798.90	(131,778.06[9])
Peter König, Deputy Chairman	37,500.00	27,500.00	114,600.00	179,600.00	
Dr Lothar Meyer, Deputy Chairman[3]	26,232.88	55,000.00	80,167.67	161,400.55	
Dr Wolfgang Sprissler, Deputy Chairman[4]	33,801.37		103,296.99	137,098.36	
Gerhard Bayreuther	25,000.00	27,500.00	76,400.00	128,900.00	
Aldo Bulgarelli	25,000.00	27,500.00	76,400.00	128,900.00	(88,103.15[9])
Beate Dura-Kempf	25,000.00		76,400.00	101,400.00	
Paolo Fiorentino	25,000.00		76,400.00	101,400.00	(69,306.90[9])
Dario Frigerio[5]	2,465.75		7,535.34	10,001.09	(6,835.74[9])
Giulio Gambino	25,000.00		76,400.00	101,400.00	
Klaus Grünewald	25,000.00		76,400.00	101,400.00	
Karl Guha[6]	22,534.25		68,864.66	91,398.91	(62,471.14[9])
Ranieri de Marchis[7]	13,972.60	15,369.86	42,700.27	72,042.73	(49,241.21[9])
Beate Mensch	25,000.00		76,400.00	101,400.00	
Marina Natale[8]	11,027.40	11,828.77	33,699.73	56,555.90	(38,655.95[9])
Roberto Nicastro	25,000.00		76,400.00	101,400.00	(69,306.90[9])
Vittorio Ogliengo[5]	2,465.75		7,535.34	10,001.09	(6,835.74[9])
Panagiotis Sfeliniotis	25,000.00		76,400.00	101,400.00	
Professor Hans-Werner Sinn	25,000.00		76,400.00	101,400.00	
Jutta Streit	25,000.00		76,400.00	101,400.00	
Michael Voss	25,000.00		76,400.00	101,400.00	
Jens-Uwe Wächter	25,000.00		76,400.00	101,400.00	
Dr Susanne Weiss[6]	22,534.25		68,864.66	91,398.91	
Total	**550,000.00**	**164,698.63**	**1,680,800.00**	**2,395,498.63**	**(2,147,204.11[9])**

1 member and chairman until 5 February 2009
2 chairman since 5 February 2009
3 deputy chairman until 5 February 2009
4 member and deputy chairman since 5 February 2009
5 member until 5 February 2009
6 member since 5 February 2009
7 member until 23 July 2009
8 member since 24 July 2009
9 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
10 subject to a resolution adopted by the Annual General Meeting of Shareholders regarding the appropriation of the profit available for distribution

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Bank's Articles of Association. The currently applicable arrangements under these articles are based on a resolution adopted by the Annual General Meeting of Shareholders on 23 May 2006 modified by a resolution adopted by the Annual General Meeting of Shareholders on 30 September 2009. The compensation is divided into a fixed and a variable, dividend-dependent component. Under the terms of the arrangements, the members of the Supervisory Board receive fixed compensation of €25,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the Supervisory Board is entitled to a fixed annual compensation of €165,000 (previously €120,000) payable upon conclusion of the financial year, which is used to compensate committee members on the basis of a corresponding Supervisory Board resolution. According to this resolution, the members of the Audit Committee receive annual compensation of €27,500 each for the 2009 financial year. The chairman of the committee receives twice this amount. The members of the Remuneration & Nomination Committee and the members of the statutory Negotiating Committee, which only meets if required, receive no separate compensation for committee work. Furthermore, every member of the Supervisory Board and every member of the Audit Committee receives an allowance of €250 for attending a meeting of the Supervisory Board or the Audit Committee. In addition, the members of the Supervisory Board are reimbursed their expenses and the value-added tax payable on their Supervisory Board functions. Where they sit on the Management Committee of UniCredit S.p.A., the members of the Supervisory Board surrender to UniCredit S.p.A. the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty. Members of the Supervisory Board who belong to the Supervisory Board for only a part of the financial year receive pro rata compensation. The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2009, expense allowances totalling €45,001.45 were paid to members of the Supervisory Board. No remuneration was paid in the 2009 financial year for services provided personally.

Other Information (Continued)

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

(€ millions)

	2009	2008
Management Board of UniCredit Bank AG	1	3
Supervisory Board of UniCredit Bank AG	5	1
Executives at Bereichsvorstand level	2	1

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

85 Fees paid to the independent auditors

The following table shows the breakdown of fees of €16 million recorded as expense in the year under review, as paid to the independent auditors KPMG AG, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

(€ millions)

	2009
Fee for auditing of the financial statements	7
Other auditing and appraisal services	4
Tax advisory services	—
Other services	5

86 Employees

Average number of people employed by us

	2009	2008
Employees (excluding trainees)	19,788	23,525
Full-time	15,496	18,556
Part-time	4,292	4,969
Trainees	1,096	1,122

87 Offices

Offices, broken down by region

		ADDITIONS	REDUCTIONS		CHANGE IN CONSOLIDATED GROUP	
	1/1/2009	NEW OPENINGS	CLOSURES	CONSOLIDATIONS		31/12/2009
Germany						
Baden-Wuerttemberg	34	—	1	—	—	33
Bavaria	463	—	3	—	(2)	458
Berlin	15	—	—	—	—	15
Brandenburg	9	—	1	—	—	8
Bremen	8	—	1	—	—	7
Hamburg	42	1	2	3	2	40
Hesse	20	1	3	1	—	17
Lower Saxony	30	2	1	—	—	31
Mecklenburg-Western Pomerania	9	—	—	—	—	9
North Rhine-Westphalia	27	—	1	—	—	26
Rhineland-Palatinate	25	1	—	—	—	26
Saarland	10	—	—	—	—	10
Saxony	14	1	—	—	—	15
Saxony-Anhalt	12	—	1	—	—	11
Schleswig-Holstein	67	1	3	—	—	65
Thuringia	9	1	—	—	—	10
Subtotal	**794**	**8**	**17**	**4**	**—**	**781**
Other regions						
Austria	7	—	—	—	—	7
Other western Europe	20	1	1	—	9	29
Central and eastern Europe	2	—	2	—	—	—
Africa	1	—	—	—	—	1
Americas	15	—	—	—	3	18
Asia	13	1	1	—	3	16
Subtotal	**58**	**2**	**4**	**—**	**15**	**71**
Total	**852**	**10**	**21**	**4**	**15**	**852**

Other Information (Continued)

88 Members of the 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

1 since 5 February 2009
2 until 5 February 2009

89 Members of the Management Board

Peter Buschbeck
Retail division
since 1 August 2009

Willibald Cernko
Retail division[1]
until 30 September 2009

Lutz Diederichs
Corporates & Commercial Real Estate Financing division,
Markets & Investment Banking division[2],
now Corporate & Investment Banking division, as a result of the integration of the two above-mentioned divisions

Rolf Friedhofen
Chief Financial Officer (CFO)

Henning Giesecke
Chief Risk Officer (CRO)
until 31 July 2009

Heinz Laber
Human Resources Management,
Global Banking Services

Andrea Umberto Varese
Chief Risk Officer (CRO)
since 1 August 2009

Dr Theodor Weimer
Board spokesman
Markets & Investment Banking division[3]

Andreas Wölfer
Wealth Management division

1 until 31 July 2009
2 since 1 April 2009
3 until 31 March 2009

Munich, 9 March 2010

UniCredit Bank AG
The Management Board


Buschbeck


Diederichs


Friedhofen


Laber


Varese


Dr Weimer


Wölfer

Statement by the Management Board

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

Munich, 9 March 2010

UniCredit Bank AG
The Management Board

Buschbeck Diederichs Friedhofen

Laber Varese Dr Weimer Wölfer

Auditor’s Report

We have audited the consolidated financial statements prepared by the UniCredit Bank AG (until 14 December 2009 Bayerische Hypo- und Vereinsbank AG), Munich comprising the balance sheet, the consolidated income statement, statement of other comprehensive income, statement of changes in shareholders’ equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch “German Commercial Code”] (and supplementary provisions of the shareholder agreement/articles of incorporation) are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, 10 March 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski	Pfeiffer
Wirtschaftsprüfer	Wirtschaftsprüfer

Martin Darbo,
Adolf Darbo Aktiengesellschaft
Corporate Banking Client – Austria

«As a family business, we don’t think in terms of quarters or years. We think in terms of generations. When making forward-looking decisions, you need a partner who prepares and offers long-term solutions in a reasonably short time. This is why we work with Bank Austria – UniCredit Group.»

It’s easy with UniCredit.

Corporate Governance

Supervisory Board, Trustees, Management Board

Supervisory Board

Alessandro Profumo
Chief Executive Officer of UniCredit S.p.A., Milan
Chairman
until 5 February 2009

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[1]

Peter König
Employee, UniCredit Bank AG, Haar-Salmdorf,
Deputy Chairman

Dr Lothar Meyer
Former Chairman of the Management Board of ERGO Versicherungsgruppe AG,
Bergisch Gladbach,
Deputy Chairman[2]

Dr Wolfgang Sprissler
Former Board Spokesman of UniCredit Bank AG, Sauerlach
Deputy Chairman
since 5 February 2009

Gerhard Bayreuther
Employee, UniCredit Bank AG, Neubeuern

Aldo Bulgarelli
Attorney and partner in law office NCTM, Verona

Beate Dura-Kempf
Employee, UniCredit Bank AG, Litzendorf

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

Dario Frigerio
Head of Asset Management Division[3],
member of the Management Committee of UniCredit S.p.A.[3], Milan
until 5 February 2009

Giulio Gambino
Employee, UniCredit Bank AG, Unterschleißheim

Klaus Grünewald
FB1 unit manager
in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell

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

Beate Mensch
Trade union secretary in the North Rhine-Westphalian division of
ver.di-Vereinte Dienstleistungsgewerkschaft, unit 10, Cologne

Marina Natale
Chief Financial Officer, member of the Management Committee of UniCredit S.p.A.,
Uboldo
since 24 July 2009

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

Vittorio Ogliengo
Head of Financing & Advisory,
member of the Management Committee of UniCredit S.p.A., Parma
until 5 February 2009

Panagiotis Sfeliniotis
Employee, UniCredit Direct Services GmbH, Munich

Professor Hans-Werner Sinn
President of the Ifo Institute for Economic Research, Gauting

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

1 since 5 February 2009
2 until 5 February 2009
3 until 31 January 2010

Supervisory Board Committees[1]

Remuneration & Nomination Committee
Alessandro Profumo, until 5 February 2009
Sergio Ermotti, since 5 February 2009
Peter König
Dr Lothar Meyer, until 5 February 2009
Dr Wolfgang Sprissler, since 5 Februay 2009

Audit Committee
Dr Lothar Meyer, Chairman
Gerhard Bayreuther
Aldo Bulgarelli
Peter König
Ranieri de Marchis, until 23 July 2009
Marina Natale, since 28 July 2009

Negotiating Committee
Alessandro Profumo, until 5 February 2009
Sergio Ermotti, since 5 February 2009
Peter König
Dr Lothar Meyer
Michael Voss

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Dieter Knauer
Managing director of Immobilien Freistaat Bayern, Munich

Deputies

Ulrich Exler
President of the Bavarian State Tax Office a.D., Munich
until 30 September 2009

Dr Ulrich Klein
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Munich

Bernd Schreiber
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Markt Schwaben
since 1 October 2009

Management Board

Peter Buschbeck
Born 1961
Retail division, since 1 August 2009

Willibald Cernko
Born 1956
Retail division[2], until 30 September 2009

Lutz Diederichs
Born 1962
Corporates & Commercial Real Estate Financing division,
Markets & Investment Banking division[3], now Corporate & Investment Banking division,
as a result of the integration of the two above-mentioned divisions

Rolf Friedhofen
Born 1958
Chief Financial Officer (CFO)

Henning Giesecke
Born 1960
Chief Risk Officer
until 31 July 2009

Heinz Laber
Born 1953
Human Resources Management,
Global Banking Services

Andrea Umberto Varese
Born 1964
Chief Risk Officer (CRO)
since 1 August 2009

Dr Theodor Weimer
Born 1959
Board spokesman,
Markets & Investment Banking division[4]

Andreas Wölfer
Born 1961
Wealth Management division

1 see also Report of the Supervisory Board
2 since 31 July 2009
3 since 1 April 2009
4 until 31 March 2009.

Women's Advisory Board

Patrons:
Dr Theodor Weimer, spokesman of the Bank's Management Board
Dr Susanne Weiss, attorney and member of the Bank's Supervisory Board

In December 2009, HVB became the first bank in Germany to form its own Women's Advisory Board. Besides dealing with feedback and comments and regularly discussing economic and social issues relating to women, the Advisory Board looks at ways of improving the position of women in the financial sector, among other things. The Women's Advisory Board also helps the Bank to make better provision for the specific needs of female customers and employees. The Advisory Board is specifically empowered by the Management Board of HVB to make recommendations and launch its own initiatives. The members – 30 or so female entrepreneurs and managers – meet for plenary sessions at least twice a year and also collaborate in workgroups when drawing up the initiatives. For current information about the HVB Women's Advisory Board, visit www.hvb-frauenbeirat.de.

Dr Dadja Altenburg-Kohl
Managing director of Kohlpharma GmbH, Merzig

Dr Christine Bortenlänger
Member of the Management Board of Bayerische Börse AG, Munich

Evi Brandl
Managing director of Vinzenz Murr GmbH, Munich

Stephanie Czerny
Managing director of DLD Media GmbH, Munich

Angelika Diekmann
Manager, publisher of Verlagsgruppe Passau GmbH, Passau

Britta Döttger
Head of Group Treasury of SGL Carbon SE, Wiesbaden

Nina Hugendubel
Managing director of H. Hugendubel GmbH & Co. KG, Munich

Andrea Karg
Designer, managing director of ALLUDE GmbH, Munich

Sabine Kauper
Chief Financial Officer of Phoenix Solar AG, Sulzemoos

Ines Kolmsee
Chief Executive Officer of SKW Stahl-Metallurgie Holding AG, Unterneukirchen

Dr Marita Kraemer
Member of the Management Board of Zurich Group Germany, Frankfurt am Main

Anja Krusel
Commercial director of Philips Deutschland GmbH, Hamburg

Andrea Kustermann
CFO/Finance Management & Controlling of the Obermaier Group, Munich

Dr Christine Ffr. von Münchhausen
Attorney/mediator,
consulting, training, coaching & mediation, Pullach

Andrea Neuroth
Head of Finance of KION Group GmbH, Wiesbaden

Kristina Gräfin Pilati
Attorney and notary, Pilati + Partner Rechtsanwälte, Frankfurt am Main

Professor Susanne Porsche
Managing Director of Summerset GmbH, Munich

Monika Rödl-Kastl
Managing partner of Rödl & Partner GbR, Nuremberg

Sabine Schaedle
Vice president of BMW Bank GmbH, Munich

Annette Schnell
Owner of Dr. Schnell Chemie GmbH, Munich

Alexandra Schöneck
Head of Group Treasury of Wacker Neuson SE, Munich

Alexandra Schörghuber
Chairwoman of the Foundation Board of Schörghuber Stiftung & Co. Holding KG, Munich

Maria-Theresia von Seidlein
Managing director of VS Management GmbH, Munich

Gabriele Strehle
Head designer of Strenesse AG, Nördlingen

Claudia Strittmatter
Senior Manager Corporate Finance of Wacker Chemie AG, Munich

Ildikó M. Várady
Head of Finance of Krauss-Maffei Wegmann GmbH & Co. KG, Munich

Gabriele Zedlmayer
Vice President Global Social Innovation & Global Citizenship of
Hewlett Packard International, Zurich

Report of the Supervisory Board

As in previous years, the Supervisory Board again paid close attention to the work of the Management Board in 2009. The Supervisory Board advised the Management Board on the running of the Company in line with the rights and obligations imposed on it by the law, the Company's Articles of Association and its internal regulations, and monitored its management of the Company. The Supervisory Board was consulted on all major decisions.

The Management Board kept the Supervisory Board informed regularly, promptly and comprehensively about the performance and economic situation of the Bank, and about the internal control system and the risk management system. This happened primarily during the meetings of the Supervisory Board, but also in writing at other times. Furthermore, the Chairman of the Supervisory Board was in constant, close contact with the Board Spokesman and was kept continually informed about the current business situation, major transactions and decisions taken by the Management Board.

Focus of discussion during the plenary sessions of the Supervisory Board

The Supervisory Board met at five plenary sessions last year (three in the first half and two in the second half of 2009), one of which was an extraordinary meeting. Furthermore, 37 of its resolutions were adopted by written circular, 27 of which concerning approval for lending transactions with companies in compliance with Section 136 of the Italian Banking Act (Testo Unico Bancario, TUB). This banking supervisory regulation which, in essence, is similar to Section 15 ("Loans to executives and Board members") of the German Banking Act (Kreditwesengesetz, KWG) primarily aims at preventing abuse of special privileges granted to corporate officers.

In 2009, the work of the Supervisory Board focused to a large extent on the consequences of the global financial crisis. On the one hand, the Supervisory Board focused on the strategic orientation and the performance of the Bank in this difficult environment. On the other hand, the Supervisory Board dealt in great depth with various new legal regulations that came into force in response to the financial crisis. This relates primarily to the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG), the new Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement, MaRisk) of the Federal Financial Supervisory Authority (BaFin), the changes in the German Corporate Governance Code and the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, BilMoG). The provisions of the latter relating to corporate governance are of great significance for the work of the Supervisory Board, not least with regard to the financial crisis.

At its first meeting in 2009 (5 February 2009), the Supervisory Board solicited initial key figures for the crisis-affected year of 2008, showing the expected results of the Bank and individual divisions based on extrapolations. The 2008 annual financial statements, which showed a significant reduction in total revenues coupled with an increase in risk provisioning, were discussed in detail at the meeting devoted to the annual financial statements (12 March 2009).

Furthermore, the Supervisory Board was informed of the annual budget for 2009 and the effects of the financial crisis on other business policies (focus on core markets, adjustment of risk controlling, closure of risk-bearing units) at the meeting in February. The performance and business strategy of individual divisions were then also the topic of extensive discussions at other meetings of the Supervisory Board in March (meeting dealing with the annual financial statements), July (presentation of the Half-yearly Financial Report) and November (Interim Report at 30 September). On the basis of suitable documents, in particular the half-yearly financial report and the interim reports, the Management Board provided information on the current business development of the Company and individual divisions. In particular, the net write-downs of loans and provisions for guarantees and commitments, which had significantly increased compared with the previous year as a result of the difficult lending environment in the 2009 financial year, and the liquidity situation were also the subject of discussions.

Other issues that the Supervisory Board considered in depth and on a regular basis in 2009 were the various lawsuits of former shareholders challenging the resolutions of the Extraordinary Shareholders' Meeting in 2006 and the Annual General Meeting in 2006 as well as the lawsuits of the special representative
- against the resolution of the Extraordinary Shareholders' Meeting of 10 November 2008 (the dismissal of the special representative) and
- for the re-transfer of Bank Austria or, alternatively, damages,

and the lawsuits for damages brought by hedge funds.

At two meetings, the Supervisory Board was informed in great detail about the current status of the various lawsuits based on documents. Furthermore, the Management Board also notified the Supervisory Board of new developments outside the meetings by means of written reports.

In particular, the Management Board notified the Supervisory Board in a letter dated 27 August 2009 that Munich Regional Court I had sustained the lawsuit brought by the special representative against the resolution of the Extraordinary Shareholders' Meeting on 10 November 2008 for his dismissal. UniCredit Bank AG (HVB) appealed against this decision with the consent of the Supervisory Board.

Report of the Supervisory Board (Continued)

Given the highly diverse lawsuits and the complexity of proceedings, the Supervisory Board had already set up an ad-hoc working committee at the beginning of 2008 tasked with advising on questions arising in this context – also with the support of a legal advisor – as well as with preparing plenary meetings. This committee convened once in the 2009 financial year. In its resolution of 1 December 2008, the Supervisory Board had instructed the legal advisor to check the extent to which the accusations made by various hedge funds and the special representative could envisage actions to be taken by the Supervisory Board related to HVB's Management Board activity on the topic. The deals to be monitored concern the sale of Bank Austria and other eastern European operations to UniCredit S.p.A. and the transfer of the investment banking business of UniCredit S.p.A. to HVB. Moreover, the Supervisory Board had instructed the legal advisor to provide legal support for a decision on how to proceed after the dismissal of the special representative as regards his pending lawsuit for the re-transfer of Bank Austria or – alternatively – damages.

After the legal advisor had presented the structure of his expert opinion on the issue about the extent to which the Bank might have claims for damages against the Management Board due to the sale of Bank Austria to UniCredit S.p.A. and the acquisition of the investment banking operations of UniCredit S.p.A. at the meeting of the ad-hoc working committee on 9 March 2009, the Supervisory Board then considered this topic in great depth at its meeting on 30 July 2009. To avoid any conflicts of interest, the deliberations were held without the Management Board attending and without one member of the Supervisory Board who is a defendant in the lawsuit conducted by hedge funds. At this meeting, the Supervisory Board again solicited information from the legal advisor about the status of the various lawsuits and the current status of the expert opinion. The legal advisor explained to the Supervisory Board that the present level of knowledge did not give the Supervisory Board reason to take any kind of actions related to the Management Board activity.

Another topic which the Supervisory Board repeatedly considered during 2009 was the EuroSIG project that will roll out a uniform IT platform for UniCredit Group, from which HVB would also benefit. At its meetings on 30 July and 4 November 2009, the Supervisory Board was informed about the current status of this important project for HVB and others. The launch, which had been planned for the start of 2010, was postponed to ensure that the project would run smoothly.

The Chief Risk Officer (CRO) submitted an extensive risk report to the Supervisory Board at the Supervisory Board meeting on 12 March 2009. Based on the report and the documents presented, the Supervisory Board gained an overview of the development of credit risk, market risk, operational risk and risk provisioning. In addition, the CRO explained the risk strategy, and specifically the credit risk strategy, for 2009 that was designed to further reduce risk exposure based on the experience gained from the financial crisis.

In addition, the Supervisory Board considered the consolidation of the two divisions Corporates & Commercial Real Estate Financing and Markets & Investment Banking, a restructuring of the iii fund which the Supervisory Board approved at its meeting on 30 July 2009, and changes in the portfolio of shareholdings, including the sale of the non-strategic holding in ERGO and the majority shareholding in Vereinsbank Victoria Bauspar AG and the acquisition of NewSmith Financial Products LLP and NewSmith Financial Solution Ltd. To avoid a potential conflict of interest, one member of the Supervisory Board did not take part in the discussion of, and decision-making on, the sale of the shareholding in ERGO Versicherungsgruppe AG at the Supervisory Board meeting on 4 November 2009. The cooperation agreement with ERGO is not affected by this transaction. This is merely a precautionary measure, as he was of the opinion that there was no conflict of interest from a legal perspective in his case. Finally, the plenary Supervisory Board terminated the contracts of members of the Management Board by mutual consent and appointed new members to the Management Board, as proposed by the Remuneration & Nomination Committee. Moreover, the Supervisory Board requested progress reports on the implementation of audit findings by external auditors.

There was no reason to inspect additional books and written documents of the Company as defined by Section 111 of the German Stock Corporation Act (Aktiengesetz, AktG).

Corporate governance

The Supervisory Board again addressed corporate governance topics in depth in 2009.

The Management Board and Supervisory Board already decided in the previous year that, even after the delisting of HVB following the execution of the squeeze-out on 15 September 2008, the Bank will voluntarily comply with the German Corporate Governance Code to the extent that the provisions can be applied to an unlisted company.

At the Supervisory Board meeting on 30 July 2009, the Management Board used written documents to explain the corporate governance reforms to the Supervisory Board following the promulgation of the German Accounting Law Modernisation Act on 29 May 2009 and gave a detailed description of the implementation solution planned for the topics internal control system and the risk management system. The Audit Committee of the Supervisory Board then considered this law in depth, which has led to a further increase in the requirements to be met by the Supervisory Board and more closely specifies its scope of tasks.

Based on written documents of the Management Board and details given verbally at the Supervisory Board meeting of 4 November 2009, the Supervisory Board was also notified of the Act on the Appropriateness of Management Board Remuneration, which came into force on 5 August 2009. One of the provisions of this legislation is that a decision on Management Board remuneration can now only be taken by the plenary session of the Supervisory Board and can no longer be delegated to a committee. Moreover, the Supervisory Board's responsibility for the features of Management Board remuneration is defined. These two laws have also resulted in the Corporate Governance Code being modified accordingly. These amendments were also notified to the Supervisory Board in writing. After extensive deliberation at the Supervisory Board meeting on 4 November 2009, the Supervisory Board concurred with the recommendation of the Corporate Governance Code that a deductible be stipulated for members of the Supervisory Board if D&O insurance is taken out. The German Accounting Law Modernisation Act, the German Act on the Appropriateness of Management Board Remuneration and the amendments to the Corporate Governance Code also made it necessary to amend the Supervisory Board's internal regulations, which the Supervisory Board discussed and resolved at its meeting on 30 July 2009.

In addition to the Supervisory Board's internal regulations, the Bank's Articles of Association were also revised and adjusted to reflect the delisting of HVB on 15 September 2008, since when UniCredit S.p.A. has been the sole shareholder. The agenda for the Annual General Meeting of Shareholders on 19 May 2009, at which a resolution to amend the Articles of Association was adopted, was approved by the Supervisory Board by written circular. The same applies to the agenda of the Extraordinary Shareholders' Meeting of 30 September 2009, at which one of the resolutions adopted was to change the name of the Company to UniCredit Bank AG. This amendment came into effect upon entry in the Commercial Register on 15 December 2009.

At its plenary session on 4 November 2009, the Supervisory Board – without the Management Board members concerned – considered the structure of Management Board remuneration and the overall remuneration of each member of the Management Board in accordance with the new statutory provision on responsibility under the Act on the Appropriateness of Management Board Remuneration. A resolution on these matters was adopted after extensive discussion at the meeting. In the run-up to the meeting, members of the Supervisory Board were able to solicit explanations on the documents submitted in this connection – including two legal opinions from the law firm engaged to advise the Supervisory Board on the remuneration packages and on the admissibility of the executive incentive programme – during preliminary discussions. Furthermore, the Supervisory Board received an overview of the new legislation from the legal advisor. At the Supervisory Board meeting itself, an external study, which is taken as a basis for the customary practice adopted in the remuneration packages, was explained to the Supervisory Board. Based on the explanations given and documents presented, the Supervisory Board was able to satisfy itself that remuneration packages are reasonable and customary and that there are no objections to the structure of the proposed rules on remuneration. At this meeting, the Supervisory Board also decided to stipulate the amount of deductible in the D&O insurance in line with the statutory minimum requirements. Further details on the compensation of Management Board members are provided in the Compensation Report.

At its meeting on 4 November 2009, the Supervisory Board examined the efficiency of its work based on the German Corporate Governance Code and finally adopted a statement of compliance in accordance with Section 161 of the German Stock Corporation Act in December 2009 by written circular, whereby four of the Code's recommendations were not followed in 2009. Further details on this issue are contained in the joint Corporate Governance Report of the Management Board and the Supervisory Board (see the section entitled "Corporate Governance and Compensation Report" in this Annual Report).

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. Two members of the Supervisory Board attended fewer than half of the meetings held in 2009 due to prior commitments that could not be postponed during their term of office on the board.

Report of the Supervisory Board (Continued)

Main focus of committee work
The Supervisory Board has set up three standing committees that support the work of the Supervisory Board. A description is given of tasks performed by committees in the Corporate Governance report; their composition is shown in the chapter "Supervisory Board" of this Annual Report.

Remuneration & Nomination Committee
The Remuneration & Nomination Committee met four times last year. Three resolutions were adopted by written circular. In particular, it discussed executive appointments. A topic of discussion was also remuneration levels for the Management Board, in which connection details of the remuneration and targets were discussed for 2009 and the adoption of the respective resolutions was prepared for the plenary session of the Supervisory Board. Furthermore, the Remuneration & Nomination Committee considered the compensation policy of UniCredit Group which aims at a standardised, long-term compensation system, and the new executive incentive system. Moreover, the Remuneration & Nomination Committee granted its approval to the Management Board members who wished to accept seats on supervisory boards of other companies.

Audit Committee
The Audit Committee had five meetings last year. Dr Lothar Meyer, former Chairman of the Management Board of ERGO Versicherungsgruppe AG, chairs this committee. In particular, the Audit Committee examined the preliminary audit of the annual financial statements and consolidated financial statements, the report on relationships with related parties and discussed the Half-yearly Financial Report and the interim reports at 31 March and 30 September 2009. The auditor was present when the Half-yearly Financial Report was discussed – as he was when the annual financial statements were considered – and gave a report on the results of the audit review of the data which were forwarded to UniCredit S.p.A. for the purpose of preparing the consolidated financial statements.

Against the backdrop of the international financial crisis, the committee considered its effects on HVB Group in great depth. At four meetings, the committee requested the Chief Risk Officer (CRO) to submit an extensive portfolio report and had the development of the credit risk, market risk and operational risk explained on the basis of the documents. The committee also solicited information on the various types of special purpose vehicles (SPV) and the current status of treatment of these companies. In 2009, the committee focused on the liquidity and funding situation, requesting reports on the latest status in this connection, and on the project to implement audit findings.

The risk strategy for 2009 and regular MaRisk reports were submitted to the committee in compliance with the MaRisk regulations. The committee also had detailed reports submitted by the CRO on the new Minimum Requirements for the Risk Management of Credit Institutions and on the status of implementation within HVB at its meeting in December.

Further topics of intensive deliberation were the German Accounting Law Modernisation Act and the implementation of the corporate governance part of this legislation at HVB. At its meeting on 29 July 2009, the committee was first informed of the approach planned to monitor the efficiency of the internal control system, the risk management system and the internal auditing system as well as projects launched for this purpose. Furthermore, it considered the required adjustment to the Supervisory Board's internal regulations and the sample calendar of meetings, which now includes one additional committee meeting in December each year on account of the wider scope of the Audit Committee's responsibilities. At the meeting of the Audit Committee on 3 December 2009, the committee then requested reports from the Chief Financial Officer (CFO) on the internal control system and from the CRO on the risk management system, and deliberated at length on how the efficiency of these systems can be monitored by the Audit Committee. The gradual increase in banking processes that are to be reviewed within the framework of the internal control system within the next two years, the set-up of a regular operating unit to monitor the processes and the planned implementation of a risk cockpit to control the risk management system were discussed and ongoing progress reports agreed.

To prepare for the election of the independent auditors for the 2009 financial year by the Annual General Meeting, the committee assessed the independence of the proposed auditors. For this purpose, it received a detailed statement from the auditors on facts which might limit their independence. Following this, the Audit Committee reached the conclusion that the facts presented were not detrimental to the auditors' independence. The committee had the auditor explain the plan, the main points of the audit and the fee proposal, and gave the audit assignment, setting the fee. Furthermore, the committee gave its consent in individual cases to the appointment of the auditor for audit-related tasks.

Another topic of discussion in the Audit Committee was the audit planning for 2009 of the Internal Audit department and its reports on the results of the audit for the first three quarters of 2009. Furthermore, the auditor's report on the annual audit of the securities account business was discussed in detail, the outcome of which was that the securities account business is conducted in due form and the rules of conduct and reporting duties are normally complied with in accordance with the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). On the issue of compliance, the committee solicited a report on the new compliance structure and had the compliance report for the first half of 2009 and a report on compliance with regulations on securities compliance presented. In addition, the committee considered a report on compliance with data protection regulations and a report on the organisation and tasks of the unit responsible for anti-money laundering and financial sanction rules. Moreover, the committee requested information on the current status of the EuroSIG project at almost every meeting.

Negotiating Committee

Once more the Negotiating Committee required by law did not have to convene in the past year.

The Chairmen of the Board Committees reported to the Supervisory Board meetings on the topics discussed at the committee meetings, and on the results of these discussions and any votes held.

Audit and approval of the 2009 financial statements

The annual financial statements and management report of UniCredit Bank AG (formerly Bayerische Hypo- und Vereinsbank Aktiengesellschaft), as well as the consolidated financial statements and management's discussion and analysis for the 2009 financial year prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, were audited by KPMG. The independent auditor issued an unqualified opinion in both cases.

The Chairman of the Audit Committee attended the final discussion of the Management Board with the independent auditor.

The financial statements listed above were forwarded to the Supervisory Board, together with the Management Board's proposal for the appropriation of profits and the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The auditor reported on the findings of the audit, in particular on the internal control system and the risk management system compliant with Section 171 (1) of the German Stock Corporation Act relating to the accounting process and provided detailed answers to the questions of the members of the Supervisory Board at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the auditor also stated that there were no circumstances that might be understood to impair his independence and reported on the work he performs in addition to the audit of the financial statements. In addition, the Management Board explained the financial statements in detail at the meeting of the Audit Committee and the Supervisory Board. The Chairman of the Audit Committee reported to the full Supervisory Board on the findings of the review by the committee. The Supervisory Board concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. It determined that, on the basis of its own examination of the financial statements, the consolidated financial statements, the Management Report and Management's Discussion and Analysis as well as the proposal for the appropriation of profits, no objections were to be raised. At its meeting on 11 March 2010, the Supervisory Board therefore approved the annual financial statements prepared by the Management Board. At the same meeting, the Supervisory Board also approved the consolidated financial statements prepared by the Management Board as well as the Management Board's proposal for the appropriation of profits.

UniCredit S.p.A. has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relationships of HVB with related companies for the 2009 financial year in accordance with Section 312 of the German Stock Corporation Act. The report contains the following concluding statement by the Management Board:

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

Report of the Supervisory Board (Continued)

KPMG audited this report and issued the following opinion:
"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relationships with related parties and the related audit report by KPMG were also forwarded to the Supervisory Board. In the course of the preliminary audit, the Audit Committee and then the Supervisory Board considered these documents in depth at the meeting devoted to the annual financial statements. The Supervisory Board checked the information for plausibility and consistency, and carefully examined individual legal transactions between HVB and UniCredit S.p.A. and its affiliated companies together with other cost-generating measures initiated by UniCredit S.p.A. KPMG took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. The Chairman of the Audit Committee also reported to the full Supervisory Board on the findings of the review by the committee. The Supervisory Board concurred with the results of the audit by KPMG after intensive deliberations. Based on the final outcome of its own examination of the report on relationships of HVB with related parties in the 2009 financial year prepared by the Management Board compliant with Section 312 of the German Stock Corporation Act, which did not identify any deficiencies, no objections are to be made about the final declaration of the Management Board in this report.

Personnel

With effect from 1 January 2009, Dr Theodor Weimer was appointed to the Management Board and – as the successor of Dr Wolfgang Sprissler, who retired on 31 December 2008 – as Board Spokesman. Furthermore, Dr Weimer is a member of the Management Committee of UniCredit S.p.A. as Country Chairman for Germany.

Moreover, Willibald Cernko (Retail), Andreas Wölfer (Wealth Management) and Lutz Diederichs (CIB) were appointed to the Management Board with effect from 1 January 2009. As Head of Private Banking, Mr Wölfer is also a member of the Management Committee of UniCredit S.p.A.. Mr Diederichs is responsible for the Corporate & Investment Banking division on the Management Board, which was set up in 2009 by consolidating the two divisions Corporates & Commercial Real Estate Financing and Markets & Investment Banking. As Head of CIB Network Germany, Mr Diederichs is likewise a member of the Management Committee of UniCredit S.p.A.

On 31 July 2009, Henning Giesecke (Chief Risk Officer) resigned from the Management Board by mutual consent. Andrea Umberto Varese was appointed to succeed him as Chief Risk Officer on the Management Board with effect from 1 August 2009. Moreover, Peter Buschbeck was put in charge of the Retail division on the Management Board with effect from 1 August 2009 as Mr Cernko's successor. As Head of Retail Germany & Austria, Mr Buschbeck also has a seat on the Management Committee of UniCredit S.p.A. Mr Cernko resigned from the Management Board on 30 September 2009 in order to exercise the function of Chairman of the Management Board of UniCredit Bank Austria AG within UniCredit Group.

The Supervisory Board thanks the members who have left the Management Board of the Bank for their dedication and achievements on this board.

At the beginning of 2009, there was another change in the composition of the Supervisory Board. With effect from the end of the Extraordinary Shareholders' Meeting on 5 February 2009, the previous Chairman of the Supervisory Board, Alessandro Profumo, resigned from the Supervisory Board together with Dario Frigerio and Vittorio Ogliengo. Dr Susanne Weiss, Karl Guha and Dr Wolfgang Sprissler were elected to the Supervisory Board in their place with effect from the end of this meeting for the remaining terms of offices of the former members. At the following Supervisory Board meeting, Sergio Ermotti was elected Chairman of the Supervisory Board and Dr Sprissler as an additional Deputy Chairman. Dr Meyer had resigned from office as an additional Deputy Chairman of the Supervisory Board before this, but had retained his other functions on the Supervisory Board, notably the chairmanship of the Audit Committee.

On 23 July 2009, Ranieri de Marchis resigned from the Supervisory Board – and thus from the Audit Committee of the Supervisory Board. Marina Natale was appointed his successor for the remaining term of office with effect from 24 July 2009 by an Extraordinary Shareholders' Meeting of the Bank and elected to the Audit Committee by the members of the Supervisory Board on 28 July 2009.

The Supervisory Board would like to thank all the resigned members for their committed and valuable work on this board. As already expressed at this point last year, this thanks goes especially to the previous Chairman of the Supervisory Board, Alessandro Profumo, who, as Chairman of the Supervisory Board, made a significant contribution to the Bank's successful integration into UniCredit Group after December 2005.

Dr Norbert Juchem passed away on 15 January 2009. After being appointed to the Management Board of Bayerische Vereinsbank in 1991, he then served on the Management Board of the merged HypoVereinsbank until 2002. Dr Eberhard Martini passed away on 29 January 2009. He had been a member of the Management Board of Bayerische Hypotheken- und Wechsel-Bank from 1983 to 1998, serving as its spokesman after 1988. Following this, he served as a member of the Supervisory Board of HypoVereinsbank until the end of 1999. Dr Klaus Götte passed away on 7 May 2009. From 1977, he had been a member of the Supervisory Board of Bayerische Hypotheken- und Wechsel-Bank, serving as its Chairman from 1980 until its merger with Bayerische Vereinsbank in 1998. Following this, Dr Götte was the Chairman of the Supervisory Board of the merged bank until 1999. Dr German Schweiger passed away on 21 July 2009. After serving on the Management Board of Bayerische Vereinsbank from 1956 to 1971, he remained closely related to the Bank as a member of the Advisory Board until 1983. With tireless commitment, great skill, a sense of responsibility and sound judgement, the deceased gentlemen made an exemplary contribution to the Bank's development. This applies particularly to Dr Martini who, as Board Spokesman, made a significant contribution to the Bank's development and was one of the people who paved the way for the merger between Bayerische Hypotheken- und Wechsel-Bank and Bayerische Vereinsbank, and to Dr Götte, for whom the integrative role that he played during the merger of the two banks was of great importance. We will continue to hold the memory of the deceased gentlemen in the highest esteem.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work in the past year. They have all contributed to the Company being able to perform well in a difficult economic environment in the 2009 financial year.

Munich, 11 March 2010
The Supervisory Board

Sergio Ermotti
Chairman

Corporate Governance and Compensation Report

Corporate governance: guiding principle

Good corporate governance entails the responsible management of enterprises. It is of vital importance for achieving corporate objectives and a sustained increase in company value, thus helping to strengthen the confidence of stakeholders in the company.

Legal basis

As it is headquartered in Germany, UniCredit Bank AG (formerly Bayerische Hypo- und Vereinsbank Aktiengesellschaft – the "Bank") operates within the legal framework provided by the German Stock Corporation Act (Aktiengesetz, AktG), the German Co-determination Act (Mitbestimmungsgesetz, MitbestG), banking supervisory and capital market law, and the German Corporate Governance Code. Since its delisting following registration of the squeeze-out resolution on 15 September 2008, the Bank has complied with the German Corporate Governance Code on a voluntary basis to the extent that its provisions are applicable to a non-listed company with a single shareholder. In 2009, the Bank complied with the recommendations given by the German Corporate Governance Code as amended on 6 June 2008 and 18 June 2009 with four deviations. The deviations are described in detail in line with the "comply or explain" principle in the statement on compliance with the German Corporate Governance Code issued by the Management Board and the Supervisory Board on 18 December 2009. The full text of the statement, complete with comments on the deviations, is reproduced below under the heading "Statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act". This statement of compliance has also been made permanently available on the Bank's website.

UniCredit Bank AG follows the series of suggestions provided in the Corporate Governance Code with two exceptions:

- On co-determined supervisory boards, the shareholder representatives and employee representatives are each required to prepare Supervisory Board meetings separately, if appropriate in conjunction with members of the Management Board. In 2009, both the shareholder representatives and the employee representatives held preparatory meetings on an ad hoc basis rather than regularly.

- The remuneration paid to members of the Supervisory Board does not include any components linked to the Bank's long-term success. A large majority of our Supervisory Board members are required to surrender the Supervisory Board compensation, which means that no individual Supervisory Board member would profit from an appropriate regulation.

The German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) contains additional statutory regulations aimed at promoting transparency and preventing misuse of insider information. In particular, these statutes contain regulations covering a ban on insider trading, ad-hoc publication and announcement of investments in listed companies when the stake reaches, exceeds or falls below certain thresholds. In addition, the directives issued to combat money laundering and the associated guidelines and data protection regulations must be observed. There are separate units in the Bank responsible for ensuring compliance with, and implementation of, these regulations.

Articles of Association, internal regulations, guidelines, compliance guidelines, Integrity Charter

Apart from defining legal principles regulating the management and monitoring of joint stock companies, other rules governing these matters at the Bank are the Articles of Association adopted at the General Meeting of Shareholders and the respective internal regulations adopted by the Management Board and the Supervisory Board. In particular, the Supervisory Board's by-laws contain statements on transactions requiring approval and details on disclosure and reporting obligations. The Bank has introduced Compliance Guidelines and employee guidelines for dealings in securities and real estate. Compliance with these regulations is monitored by the Bank's compliance officer and his/her staff. Furthermore, the Integrity Charter is a common set of values connecting all companies of UniCredit Group which is supported by the introduction of an ombudsman system. It contains guidelines on the conduct of Management Board members and employees at the workplace and lays down standards of behaviour for all employees in companies throughout UniCredit Group. In addition to this, a Code of Conduct is in force for the Bank. This code summarises existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all Bank employees.

Effective corporate supervision

Supervisory Board, committees

The Bank's Supervisory Board has 20 members. In compliance with the German Co-determination Act, it includes equal numbers of representatives of the shareholders and employees. When new members of the Supervisory Board are appointed, compliant with Section 36 (3) of the German Banking Act (Kreditwesengesetz, KWG) care is taken to ensure that they are fit and proper persons, have the required knowledge and skills and do not serve on governing bodies or perform advisory functions for key competitors. The members of the Supervisory Board are obliged to act in the interests of the Bank. Under the Supervisory Board's by-laws, any conflicts of interest must be disclosed to the Supervisory Board. To avoid any conflicts of interest, two members of the Supervisory Board were not involved in the discussion and voting on specific issues during 2009. Further details in this connection are provided by the Report of the Supervisory Board in this Annual Report. A summary of the mandates held by members of the Supervisory Board on other statutory supervisory boards or comparable supervisory bodies is published in the notes to the annual financial statements of UniCredit Bank AG. Due to the international composition of the Supervisory Board, sworn interpreters are present at Supervisory Board meetings to simultaneously translate the contributions made by each Supervisory Board member to ensure that they are understood.

Under the German Stock Corporation Act, the tasks of management and supervision must be kept strictly separated. The task of the Supervisory Board is to monitor and advise the Management Board as it conducts business. Key tasks of the Supervisory Board include the appointment and dismissal of members of the Management Board and, starting 30 July, 2009, also setting the total remuneration of the individual members of the Management Board. In addition, certain types of transactions require the Supervisory Board's approval, either by law or because the Supervisory Board has made them subject to this restriction. This applies primarily to capital market measures and – in accordance with the internal regulations of the Bank's Supervisory Board – to investments and disposals exceeding a certain amount. To support its work, the Bank's Supervisory Board set up three standing committees in 2009. The composition and tasks of the committees are as follows:

Remuneration & Nomination Committee

– The Remuneration & Nomination Committee, comprised of the chairman of the Supervisory Board and the two deputy chairmen, is primarily concerned with succession planning for the Management Board and preparing the resolutions of the Supervisory Board regarding the structure of Management Board remuneration and the process for setting the total remuneration of the individual members of the Management Board.

Audit Committee

– The Audit Committee, which generally conducts five meetings each year, has five members. The chairman of the Audit Committee has particular knowledge and experience of the application of accounting principles and internal control procedures. He has the right to request information directly from the head of the Internal Audit department.

The Audit Committee is responsible in particular for preparing the Supervisory Board's decision on the approval of the annual financial statements and consolidated financial statements, conducting a preliminary audit on the report on relationships with related parties and for elucidating the half-yearly report and interim reports.

The Audit Committee makes a recommendation to the Supervisory Board regarding the Supervisory Board's proposal for the election of the independent auditor by the Annual General Meeting of Shareholders. Its tasks in this regard include checking the necessary independence of the auditor and specifying the type and scope of the non-auditing services provided by the auditor. The Audit Committee is also responsible for commissioning the auditor for the annual financial statements and the consolidated financial statements on the basis of the resolution adopted by the Annual General Meeting of Shareholders, including the specification of the main areas subject to special scrutiny and the fee.

Further key tasks of the Audit Committee include monitoring the effectiveness of the internal control system (ICS) and the risk management system (RMS). In this context, the RMS is geared to identifying not only risks endangering the Bank's continued existence at an early stage but also all significant risks, including ways of managing and mitigating them. The risk situation and the early identification of risk are of fundamental importance for the Bank's continuing existence. The Minimum Requirements for Risk Management (MaRisk) by financial institutions laid down by the German Financial Supervisory Authority require risk reports to be presented to the Management Board and the Supervisory Board each quarter. Key information from the risk point of view is forwarded to the Audit Committee immediately. Moreover, management must review the risk strategy at least once a year and discuss it with the Supervisory Board. This ensures that the Supervisory Board is provided with detailed reports on a regular basis, particularly on the risk strategy, credit risks, market risks and operational risks as well as liquidity and reputational risks.

The main activities of the Audit Committee also include monitoring the effectiveness of the internal audit system (IAS). This involves the committee assessing whether the resources, the audit plan and the audit findings are appropriate. The Audit Committee is informed on a regular basis about any serious shortcomings identified by the Internal Audit department, significant shortcomings that have not yet been remedied and the measures that have been initiated to achieve this. Management informs the committee immediately about any particularly serious shortcomings.

Negotiating Committee

– The Negotiating Committee, which has two shareholder representatives and two employee representatives, is responsible for submitting proposals to the Supervisory Board pertaining to the appointment or dismissal of members of the Management Board when a vote by the Supervisory Board does not yield the required two-thirds majority. The Negotiating Committee required by law did not have to convene in the past year.

Corporate Governance and Compensation Report (Continued)

The chairmen of the committees report in detail on the committees' activities at plenary meetings of the Supervisory Board.

Management Board

The Management Board is directly responsible for managing the Bank and works with the other bodies of the Bank and the employee representatives in the interests of the Bank in an atmosphere of trust. It develops the strategic orientation of the Bank, coordinates this with the Supervisory Board and is responsible for putting it into practice. The matters reserved for the Management Board and the respective segment responsibilities on the Bank's Management Board 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 UniCredit Bank AG match the organisational structure of the Bank, which is divided into customer groups (business divisions) and functions. Since 1 January 2009, the Bank's Management Board has consisted of seven members. These are the Board spokesman, who was also responsible for the Markets & Investment Banking division (MIB) until 31 March 2009, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Head of Human Resources Management (HRM), who is also responsible for the Global Banking Services segment (GBS) and acts as Director of Labour Relations, and the heads of the remaining operating divisions: Retail, Wealth Management and Corporate & Investment Banking (CIB). (The division CIB emerged when the two divisions Corporates & Commercial Real Estate Financing and Markets & Investment Banking were merged). The Board Spokesman, Dr Weimer, is a member of the Management Committee of UniCredit S.p.A. and simultaneously Country Chairman Germany for the UniCredit Group. In addition, the member of the Management Board responsible for the Wealth Management division (Mr Wölfer), the member of the Management Board responsible for the Retail division (Mr Buschbeck) and the member of the Management Board responsible for the Corporate & Investment Banking division (Mr Diederichs) are simultaneously members of the Management Committee of UniCredit S.p.A. in their functions as Head of Private Banking, Head of Retail Germany and Austria and Head of CIB Network Germany, respectively.

The Bank's Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning, including budget deviations, strategic development, the course of business, the state of the Bank, including the risk situation, and compliance issues. The reports are generally submitted in text form; documents relevant for decision-making are made available to the Supervisory Board as soon as possible before the meeting.

Remuneration Committee

The Management Board has set up a remuneration committee in accordance with the new MaRisk regulations and BaFin Circular 22/2009 dated 21 December 2009. The committee is tasked with tracking the structuring and further development of the Bank's remuneration systems. Particular attention is to be paid to the structuring and functioning of the variable compensation paid to executives and staff who originate large risk positions. Alongside people from the HR department, the committee also comprises representatives of the business-initiating and business-monitoring units, notably including Risk Management. The committee reports at least once a year to the Management Report and to the Supervisory Board regarding current developments in the Bank's remuneration systems. The chairman of the Supervisory Board has been granted a right to request information directly from the Remuneration Committee.

Shareholders, General Meeting of Shareholders

Since the squeeze-out was filed in the Commercial Register on 15 September 2008, the rights in the General Meeting of Shareholders have been exercised by the sole shareholder, UniCredit S.p.A.

Risk management

The Bank conducts extensive risk monitoring and risk management, encompassing its subsidiaries. This notably covers strategies, the ability to bear risk, and risk management and control processes, taking into account the major risks. The monitoring and coordination of the main risk-policy activities are combined under the area of responsibility of the Chief Risk Officer, who reports to the Audit Committee of the Supervisory Board on a regular basis. Please refer to the Risk Report for further details.

Communication, transparency

The Bank greatly values regular and prompt communication with its customers, its shareholder, its employees and the general public. Press releases and reports provide information on the state of the Bank. Information that could have a substantial impact on share and market prices as defined in Section 12 of the German Securities Trading Act is published in ad-hoc communications and also made available on the Bank's website. In addition, the spokesman of the Management Board and the CFO of the Bank report in the context of reporting communications on issues important to the Bank and current business results in communications on results and at press telephone conferences held regularly, the dates of which are published in a financial calendar.

2009 statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act

The Management Board and Supervisory Board issued the following statement of compliance on 18 December 2009, which has also been made permanently available on the website of UniCredit Bank AG:

"Since the delisting that took place at the close of 15 September 2008, UniCredit Bank AG has continued to subscribe to the provisions of the German Corporate Governance Code on a voluntary basis, to the extent that the provisions can be extended to apply to a company without a public listing. The Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette have been complied with, apart from the recommendations listed below, explaining why the latter were not applied. No reference is made to the recommendations of the Code which, in terms of their purpose, apply only to listed companies and companies with multiple shareholders. The basis in this context for the period from 23 December 2008 (date of the most recent statement on compliance) until 4 August 2009 is the German Corporate Governance Code in the version of 6 June 2008. As far as the Corporate Governance practice of the Company since 5 August 2009 is concerned, the statement does refer to the recommendations of the German Corporate Governance Code in the version of 18 June 2009.

– Clause 3.8 (3) of the Corporate Governance Code in the version of 6 June 2008 in force until 4 August 2009 stipulates that an appropriate deductible must be agreed if the Company takes out D&O insurance for the Management Board and Supervisory Board.

  The current insurance policy does not provide for a deductible since the Management Board and the Supervisory Board are of the opinion that responsible action is an obvious duty for all Board members and therefore no deductible is required in this regard. According to the new statutory provision in Section 93 (2) Sentence 3 of the German Stock Corporation Act (AktG), the future insurance policy for the members of the Management Board who will receive a new service agreement once the new statutory regulation enters into force, provides for a deductible. In accordance with the recommendation in Clause 3.8 (5) of the Code in the version of 18 June 2009, a deductible is also agreed for the members of the Supervisory Board.

– According to Clause 4.2.2 of the Code in the version of 6 June 2008 in force until 4 August 2009, in response to a proposal from the committee that deals with Management Board agreements, the plenary Supervisory Board is to adopt a resolution on the remuneration system for the Management Board, including the essential contractual elements, and to review all these items on a regular basis.

  According to the rules of procedure for the Supervisory Board of the Company in force until 29 July 2009, the resolution concerning the structure of the remuneration and remuneration of the individual members of the Management Board and the resolution on the service and retirement pay agreements with the members of the Management Board have been delegated to the Remuneration & Nomination Committee in order to do justice to the complex subject matter with special expertise and particular confidentiality. In accordance with the new rules of procedure in the version of 30 July 2009, the plenary Supervisory Board is now responsible for fixing the total remuneration of the individual Management Board members and for the resolution on the remuneration system for the Management Board in accordance with the new statutory provisions of Section 87 (1), AktG. The Remuneration & Nomination Committee has been tasked now with preparing the resolutions in this regard.

– In accordance with Clause 4.2.3 sentence 11 of the Code in the version of 18 June 2009, in concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his contract without serious cause, including fringe benefits, do not exceed the value of two years' compensation (severance pay cap) and compensate no more than the remaining term of contract.

  Some of the service agreements with Management Board members – depending on their length of service – do not fully comply with this recommendation. All new service agreements with Management Board members however do not provide for severance payments.

– According to Clause 5.3.3 of the Code, the Supervisory Board is to establish a nomination committee which shall consist exclusively of shareholder representatives and is to propose names of suitable candidates to the Supervisory Board for the latter's election nominations.

  In view of the structure of the Company with one large-scale shareholder and the current composition of the Supervisory Board, the Supervisory Board considers that it may dispense with the formation of a nomination committee.

Corporate Governance and Compensation Report (Continued)

In addition, the Management Board and Supervisory Board of UniCredit Bank AG declare that the recommendations of the 'Government Commission Corporate Governance Code' in the version of 18 June 2009, except for the departure from Clause 5.3.3 and Clause 4.2.3 sentence 11 of the Code referred to above and with the exception of such recommendations of the Code which, in terms of their purpose, apply only to listed companies and companies with multiple shareholders, will continue to be complied with in future."

Compensation Report

In compliance with the German Corporate Governance Code, the basic principles underlying the system of compensation for the Management Board of UniCredit Bank AG ("HVB" or the "Bank") are explained below. In addition, the amount of compensation paid to members of the Supervisory Board is described in detail and shown individually, broken down into remuneration components.

1. Structure of compensation paid to members of the Management Board for 2009

It is the task of the plenary sessions of the Supervisory Board to discuss, regularly review and decide on a proposal put forward by the Remuneration & Nomination Committee of the Supervisory Board regarding the structure of the compensation paid to members of the Management Board. Furthermore, since 30 July 2009 the plenary sessions of the Supervisory Board have determined the total compensation of each member of the Management Board, also upon proposal by the Remuneration & Nomination Committee. Up until 30 July 2009, the Remuneration & Nomination Committee was responsible for determining the total compensation.

The direct compensation of the Management Board members of the Bank has three components and comprises fixed and variable elements: fixed compensation, variable compensation as a bonus featuring profit-related components (short-term incentive) and a long-term incentive.

The variable components are especially important as these are linked to success in meeting the agreed targets and can considerably exceed the fixed salary. Competitive profit-related compensation and postponing payment to the medium-term future while retaining the link to target achievement in subsequent years is intended to ensure that the management is bound to the Bank and to support the sustainable success of the Bank.

To evaluate whether the compensation paid to Management Board members is commensurate with market conditions, an external specialist performed a market survey which specifically covered the compensation paid to management board members in similar companies. The compensation paid to members of the Bank's Management Board was stipulated by the plenary session of the Supervisory Board taking account of this survey.

1.1 Fixed salary

The fixed salary is equivalent to the level paid in similar financial institutions. It is disbursed in 12 monthly amounts.

1.2 Short-term incentive

A new incentive scheme was introduced in 2009. This reflects the changed economic conditions and reinforces the importance of sustainable corporate success. The short-term incentive is linked directly to the sustainable profitability of the Group together with a corresponding increase in the capital base. The size of the incentive also depends on the achievement of specific targets agreed individually with Management Board members.

Disbursement of part of the incentive is deferred over a period of three years, with up to two thirds dependent on the achievement of the sustainable earnings ratios in the following years.

Each year, the plenary session of the Supervisory Board reviews the conditions for the sustainable corporate earnings and sets new target ratios for profitability and sustainability. 100% of the incentive budget is released if the set ratios are met in full or exceeded, 75% of the incentive budget is released if the set profitability ratio is missed by no more than 10%; and 50% of the incentive budget is released if the profitability ratio is missed by more than 10% and the planned capital target is not met. Senior Executive Vice Presidents (SEVPs – currently two people) have no entitlement to the payment of a short-term incentive if the adjusted return on equity is less than the defined risk-adjusted rate of return and Executive Vice Presidents (EVPs – currently five people) have no entitlement if the consolidated profit of UniCredit Group after taxes is zero or less. There is similarly no entitlement to the disbursement of a short-term incentive whatsoever if any compliance or values rules have been violated.

The targets agreed individually with the respective Management Board members are recorded in matrices. They encompass operational targets with a weighting of 30% or 50% and sustainability targets with a weighting of 70% or 50%.

Where an incentive budget is made available, this is used as the basis for calculating the incentive amount using the level of target achievement indicated by the matrix. The resulting incentive amount is disbursed in accordance with the following rules:
– Amount up to €100,000: disbursed in a single lump sum
– Amount of between €100,000 and €300,000: €100,000 disbursed in the first year, 50% remaining amount disbursed in each of the second and third year, provided the sustainable corporate earnings ratio has been achieved for the year in question (including the tiered conditions as mentioned above).
– Amount in excess of €300,000; one third of the total amount disbursed in each of the first, second and third year, provided the sustainable corporate earnings ratio has been achieved for the second and third year (including the tiered conditions as mentioned above).
– Where the recipients of the incentive are Senior Executive Vice Presidents (SEVPs) (currently two people), one third of every amount to be disbursed is paid out.

The old system remains in place for one member of the Management Board, under which the size of the incentive depends on certain targets agreed with the Management Board member in question being met. The targets are shown in a scorecard and include team targets, core targets and two competency targets. Target achievement is evaluated in the form of points achieved.

The weighted total amount of points gained from each target results in the target achievement. An incentive is paid if a specified minimum number of points is achieved. The target value has been defined as reference value alongside the maximum incentive since 2007. This maximum incentive can be claimed whenever a total number of 120 points is achieved in the scorecard. This means that the incentive has a maximum upper limit. If targets are met 100%, the target value is paid.

1.3 Long-term incentive
Each Management Board member takes part in the Long-term Incentive Cash Plan of UniCredit Group. Unlike in previous years, this plan consists of a cash payment rather than stock options and performance shares. The cash will be disbursed in 2013 taking into account 50% of each of
– the relative return on equity of UniCredit S.p.A. (return on equity ranking relative to a defined group of European competitors) and
– the profit after tax of UniCredit Group according to the consolidated financial statements for UniCredit Group and cost of capital at UniCredit Group level and, in the case of Management Board members responsible for a division, at UniCredit division level

during 2010, 2011 and 2012.

1.4 Additional comments
Six members of the Management Board, one of whom left the Management Board during 2009, had a corporate employment contract with UniCredit S.p.A. in 2009 as well as an employment contract with UniCredit Bank AG. Compensation is paid from this corporate employment contract to the same extent as the proportion of their duties performed within UniCredit Group. To the extent that these members of the Management Board worked for the Bank, the plenary session of UniCredit Bank AG's Supervisory Board decided upon the terms of employment, including targets and remuneration, and the cost of remuneration was offset between UniCredit Bank AG and UniCredit S.p.A.

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

1.5 Compensation paid to members of the Management Board for the financial year 2009
The compensation paid to members of the Management Board for the 2009 financial year totalled €6.0 million (2008: €8.1 million).

The Annual General Meeting of Shareholders of 23 May 2006 invoked what is referred to as the opt-out clause of the Act on Disclosure of Management Board Remuneration and resolved that the remuneration received by Management Board members will not be disclosed on an individualised basis in the company's annual and consolidated financial statements for the financial years 2006 until 2010, at the latest until 22 March 2011. Subsequent to the registration of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to members of the Management Board is not shown on an individualised basis.

Corporate Governance and Compensation Report (Continued)

(€ millions)

	Fixed compensation		Profit-related components		Long-term incentives[1]		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Management Board of UniCredit Bank AG	3	3	2[2]	4[7]	1[3]	1	6[4]	8
Supervisory Board of UniCredit Bank AG for								
Supervisory Board activities	1	0.8	0[6]	0.4[5]	0	0	1[6]	1.2
Former members of the Management Board of								
UniCredit Bank AG and their surviving dependants							10	10
Transitional allowances for former								
members of the Management Board							4	8

1 cash value of the share-based compensation
2 the profit-related components for 2009 are generally deferred over two years, with disbursement in subsequent years dependent on defined company targets being met. Moreover, income of €3.4 million from the reversal of the provision of the 2008 financial year is not included.
3 prorated disclosure of the long-term incentive plans for 2005 to 2008. A long-term incentive cash plan has been set up for 2009, with disbursement dependent on targets being met in 2013
4 the accrued taxes and lawyer fees of €2.6 million relating to various pending legal disputes have been advanced to executives as part of the insurance benefits arising from a corporate Directors and Officers insurance policy
5 relating to 2007 financial year, disbursed in 2008
6 added to this is a profit-related component of €1.7 million for the 2009 financial year, provided the Annual General Meeting of Shareholders adopts a resolution regarding the profit available for distribution as proposed
7 this refers to a reserve that that was not disbursed in the full amount

Details of share-based compensation

Members of the Management Board of UniCredit Bank AG	Number
Options	
Stock options 2008	1,454,150
Stock options 2009	—[1]
Performance shares	
Performance shares 2008	355,158
Performance shares 2009	—[1]

1 long-term incentive: no long-term incentive plan based on options and performance shares was set up for the 2009 financial year; a cash-based plan was set up instead

The fair value on the date of granting is recorded by the Bank as an expense on the basis of the expected number of options exercised/performance shares granted over the period or vesting period of the respective programme.

1.6 Pension commitments

Besides direct remuneration, Management Board members have received pension commitments. Seven members of the Management Board (one of whom left the Bank during the year) took part in the fund-linked deferred compensation scheme in 2009, which is also available to the Bank's employees. The Bank has provided 20% of the fixed salary and the short-term incentive disbursed as contributions; this is subject to a cap of €200,000 per financial year for five members of the Management Board and a cap of €120,000 per financial year for one member of the Management Board, and a total of €120,000 per annum for one member of the Management Board. It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

The Bank credits the deferred compensation amounts to the Management Board member's capital account and invests them in a fund, currently the Pioneer Total Return Fund. The Bank guarantees an annual return of 2.75%. A higher yield is initially used for allocation to a fluctuation reserve amounting to 10% of the separate funds for FDC. Any surplus return is credited to the Management Board member in due proportion. The fluctuation reserve is used to offset any actuarial losses.

When the beneficiary becomes entitled to receive benefits, the capital credit balance is converted into a pension for life. In the process, the actuarial calculations applicable at the time, in particular life expectancy, are taken as a basis. An annual adjustment of 1% is granted for the pension; this fulfils the Bank's obligation to adjust pension commitments. Alternatively, the capital can be disbursed if the eligible Management Board member has applied for this two years before the insured event occurs.

A sum of €616,298 was transferred to provisions for pensions in the 2009 financial year to cover the commitments made to the members of the Management Board; this relates to the deferred compensation invested in a fund.

One member of the Management Board receives allocations to a Group pension fund of UniCredit Group.

Contributions were made to a pension fund for a further member of the Management Board.

Upon the formation of HVB Trust Pensionsfonds AG, pension commitments to a large part of former executives of UniCredit Bank AG were transferred from UniCredit Bank AG to HVB Trust Pensionsfonds AG. The assets required to cover the pension commitments were transferred at the same time. The Bank has continued to set up provisions for the commitments transferred to the pension fund in the consolidated financial statements prepared in accordance with IFRS. The provision for pensions payable to retired members of the Management Board calculated in accordance with IFRS totals €121 million.

Provisions are no longer shown in the commercial balance sheet in the annual financial statements of UniCredit Bank AG prepared in accordance with the German Commercial Code for the group of people affected by the transfer. Compliant with Section 285 of the German Commercial Code, the provisions for pensions payable to former members of the Management Board and their surviving dependants at HVB declined to €23 million (2008: €94 million) accordingly at 31 December 2009.

The compensation paid to former members of the Management Board and their surviving dependants amounted to €9.8 million in 2009.

1.7 Fringe benefits

Other fringe benefits are of no material significance. The members of the Management Board can also use their company car for private purposes, among other things. The Bank paid the premiums for an accident insurance policy valid 24-hours a day and a sum insured of €511,000 in the event of death and €1,024,000 in the event of complete disability. Furthermore, members of the Management Board receive the same preferential terms for bank services as the Bank's employees.

1.8 Commitments to pay a transitional allowance

If a contract is not extended for reasons for which the member of the Management Board is not responsible, a transitional allowance of at least one year's salary (fixed salary and incentive), but a maximum of three years' salary depending on the length of service, is usually paid; the maximum amount of three years' salary is paid after 20 years of services. The transitional allowance is limited to the annual salaries (fixed salary and bonus) still outstanding until the minimum retirement age in each case.

This relates to the contracts of two Management Board members. Irrespective of the expiry of the employment contract at the end of the initially agreed term, the new contracts of the members of the Management Board do not contain any severance agreements in the event of the premature termination of Management Board activities without good cause. Neither do the contracts contain any commitments to make payments in respect of early termination of Management Board activities as a result of a change of control (change of control clause).

2. Compensation paid to members of the Supervisory Board

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Bank's Articles of Association. The currently applicable arrangements under these articles are based on a resolution adopted by the Annual General Meeting of Shareholders on 23 May 2006 modified by a resolution adopted by the General Meeting of Shareholders on 30 September 2009. The compensation is divided into a fixed and a variable, dividend-dependent component.

Corporate Governance and Compensation Report (Continued)

Under the terms of the arrangements, the members of the Supervisory Board receive fixed compensation of €25,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the Supervisory Board is entitled to a fixed annual compensation of €165,000 (previously €120,000) payable upon conclusion of the financial year, which is used to compensate committee members on the basis of a corresponding Supervisory Board resolution. According to this resolution, the members of the Audit Committee receive annual compensation of €27,500 each for the 2009 financial year. The chairman of the committee receives twice this amount. The members of the Remuneration & Nomination Committee and the members of the statutory Negotiating Committee, which only meets if required, received no separate compensation for committee work. Furthermore, every member of the Supervisory Board and every member of the Audit Committee receives meeting compensation of €250 for attending a meeting of the Supervisory Board or the Audit Committee.

In addition, the members of the Supervisory Board are reimbursed their expenses and the value-added tax payable on their Supervisory Board functions. Where they sit on the Management Committee of UniCredit S.p.A., the members of the Supervisory Board transfer to UniCredit S.p.A. the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty.

Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the financial year received pro rata compensation.

The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2009, expense allowances totalling €45,001.45 were paid to members of the Supervisory Board. No remuneration was paid in the 2009 financial year for services provided personally.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2009: (€)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION[10]	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo, Chairman[1]	4,931.51		15,070.68	20,002.19	(13,671.50[9])
Sergio Ermotti, Chairman[2]	47,534.24		145,264.66	192,798.90	(131,778.06[9])
Peter König, Deputy Chairman	37,500.—	27,500.—	114,600.—	179,600.—	
Dr Lothar Meyer, Deputy Chairman[3]	26,232.88	55,000.—	80,167.67	161,400.55	
Dr Wolfgang Sprissler, Deputy Chairman[4]	33,801.37		103,296.99	137,098.36	
Gerhard Bayreuther	25,000.—	27,500.—	76,400.—	128,900.—	
Aldo Bulgarelli	25,000.—	27,500.—	76,400.—	128,900.—	(88,103.15[9])
Beate Dura-Kempf	25,000.—		76,400.—	101,400.—	
Paolo Fiorentino	25,000.—		76,400.—	101,400.—	(69,306.90[9])
Dario Frigerio[5]	2,465.75		7,535.34	10,001.09	(6,835.74[9])
Giulio Gambino	25,000.—		76,400.—	101,400.—	
Klaus Grünewald	25,000.—		76,400.—	101,400.—	
Karl Guha[6]	22,534.25		68,864.66	91,398.91	(62,471.14[9])
Ranieri de Marchis[7]	13,972.60	15,369,86	42,700.27	72,042.73	(49,241.21[9])
Beate Mensch	25,000.—		76,400.—	101,400.—	
Marina Natale[8]	11,027.40	11,828,77	33,699.73	56,555.90	(38,655.95[9])
Roberto Nicastro	25,000.—		76,400.—	101,400.—	(69,306.90[9])
Vittorio Ogliengo[5]	2,465.75		7,535.34	10,001.09	(6,835.74[9])
Panagiotis Sfeliniotis	25,000.—		76,400.—	101,400.—	
Professor Hans-Werner Sinn	25,000.—		76,400.—	101,400.—	
Jutta Streit	25,000.—		76,400.—	101,400.—	
Michael Voss	25,000.—		76,400.—	101,400.—	
Jens-Uwe Wächter	25,000.—		76,400.—	101,400.—	
Dr Susanne Weiss[6]	22,534.25		68,864.66	91,398.91	
Total	**550,000,—**	**164,698.63**	**1,680,800.—**	**2,395,498.63**	**(2,147,204.11[9])**

1 member and chairman until 5 February 2009
2 chairman since 5 February 2009
3 deputy chairman until 5 February 2009
4 member and deputy chairman since 5 February 2009
5 member until 5 February 2009
6 member since 5 February 2009
7 member until 23 July 2009
8 member since 24 July 2009
9 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
10 subject to a resolution adopted by the Annual General Meeting of Shareholders regarding the appropriation of profit available for distribution

Munich, 11 March 2010

The Management Board The Supervisory Board

Jerzy Owsiak,
The Great Orchestra of Christmas
Charity Foundation
Corporate Banking Client – Poland

«When the climax of the Great Orchestra of Christmas Charity gets under way, some 120,000 volunteers take to the streets of cities, towns and villages. Their donation boxes fill up in an absolutely magical way. Everybody knows we raise money to buy life-saving medical equipment. Sometimes people wonder if their spare change can really help.
But of course that is exactly how millions of Poles join to make this happen. But before we can put that spare change to use, it all has to be counted and deposited to our accounts. Sorting, counting, balancing and managing our accounts – by doing these things, Bank Pekao SA helps us immensely and makes our job that much easier.»

It's easy with UniCredit.

Additional Information

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
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Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Net interest income	1,232	1,151	1,024	1,121
Net fees and commissions	295	305	301	286
Net trading income	(261)	682	597	56
Net other expenses/income	40	51	32	18
TOTAL REVENUES	**1,306**	**2,189**	**1,954**	**1,481**
Operating costs	(854)	(872)	(867)	(869)
OPERATING PROFIT	**452**	**1,317**	**1,087**	**612**
Provisions for risks and charges	(19)	(45)	(39)	(48)
Write-down on goodwill	—	—	—	—
Restructuring costs	(49)	(218)	(1)	98
Net write-downs of loans and provisions				
for guarantees and commitments	(283)	(686)	(519)	(113)
Net income from investments	(7)	(90)	(180)	(3)
PROFIT BEFORE TAX	**94**	**278**	**348**	**546**
Income tax for the period	(31)	(160)	(133)	(58)
CONSOLIDATED PROFIT	**63**	**118**	**215**	**488**
attributable to shareholder of UniCredit Bank AG	62	83	189	485
attributable to minorities	1	35	26	3
Earnings per share (€)[1]	**0.12**	**0.31**	**0.24**	**0.51**

1 Q1 2009 adjusted for restructuring costs; unadjusted earnings per share €0.08
Q2 2009 adjusted for restructuring costs; unadjusted earnings per share €0.10
Q3 2009 adjusted for restructuring costs; unadjusted earnings per share €0.24
Q4 2009 adjusted for restructuring costs; unadjusted earnings per share €0.60

Summary of Annual Financial Data

HVB Group

(€ millions)

OPERATING PERFORMANCE[1]	2009	2008	2007	2006	2005
Net interest	4,476	4,059	3,753	3,148	3,166
Dividends and other income from equity investments	52	200	376	251	259
Net interest income	**4,528**	**4,259**	**4,129**	**3,399**	**3,425**
Net fees and commissions	1,187	1,453	1,721	1,753	1,723
Net trading income	1,074	(1,882)	473	730	376
Net other expenses/income	141	147	169	32	(311)
Net non-interest income	**2,402**	**(282)**	**2,363**	**2,515**	**1,788**
TOTAL REVENUES	**6,930**	**3,977**	**6,492**	**5,914**	**5,213**
Payroll costs	(1,822)	(1,961)	(2,067)	(2,216)	(2,212)
Other administrative expenses	(1,418)	(1,281)	(1,250)	(1,166)	(1,260)
Amortisation, depreciation and impairment					
losses on intangible and tangible assets	(222)	(253)	(259)	(313)	(413)
Operating costs	**(3,462)**	**(3,495)**	**(3,576)**	**(3,695)**	**(3,885)**
OPERATING PROFIT	**3,468**	**482**	**2,916**	**2,219**	**1,328**
Provisions for risks and charges	(151)	(6)	(161)	(164)	(87)
Write-down on goodwill	—	—	—	—	—
Restructuring costs	(170)	(26)	13	(60)	(438)
Net write-downs of loans and provisions for guarantees and commitments	(1,601)	(760)	(536)	(933)	(979)
Net income from investments	(280)	(285)	730	709	69
Other non-operating expenses	—	—	—	(153)	—
PROFIT/(LOSS) BEFORE TAX	**1,266**	**(595)**	**2,962**	**1,618**	**(107)**
Income tax for the period	(382)	(54)	(794)	125	(14)
CONSOLIDATED PROFIT/(LOSS) OF HVB GROUP	**884**	**(649)**	**2,168**	**1,743**	**(121)**
attributable to minorities	65	22	118	103	6
attributable to shareholders of UniCredit Bank AG	819	(671)	2,050	1,640	(127)
Cost-income ratio in % (based on total revenues)	50.0	87.9	55.1	62.5	74.5
Earnings per share (€) (adjusted)[2]	1.18	(0.80)	2.03	1.50	0.39
Earnings per share (€)	1.02	(0.84)	2.60	2.18	(0.17)
CONSOLIDATED PROFIT/(LOSS) OF HVB GROUP,					
attributable to shareholders of UniCredit Bank AG	**819**	**(671)**	**2,050**	**1,640**	**(127)**
Consolidated profit of discontinued operations	—	—	3,698	3,457	1,158
Minorities in consolidated profit of discontinued operations	—	—	—	(677)	(389)
CONSOLIDATED PROFIT/(LOSS) OF HVB GROUP,					
including discontinued operations, attributable to					
shareholders of UniCredit Bank AG	**819**	**(671)**	**5,748**	**4,420**	**642**

1 the previous year figures have been adjusted for the change in disclosure of valuation and realisation results from private equity funds and direct and co-investments
2 2009 and 2008 adjusted for restructuring costs
2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and non-recurring tax charges arising from German tax reforms
2006 adjusted for the gain on disposal of Activest companies and Munich Re, valuation expenses for the announced disposal of a portfolio of non-strategic real estate, restructuring costs, changes in the method of calculating write-downs of loans and provisions for guarantees and commitments, and other non-operating expenses
2005 adjusted for restructuring costs and further non-recurring charges arising from loan-loss provisions due to additional general provisions for losses on specific loans and advances

HVB Group[1]

	2009	2008	2007	2006	2005
Balance sheet figures (€ billions)					
Total assets	363.4	458.6	422.1	343.6	351.7
Shareholders' equity	23.6	23.0	24.0	21.9	20.5
Key capital ratios	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with German Banking Act, (KWG)**	**Compliant with KWG**	**Compliant with KWG**
Core capital (€ billions)	20.4	21.2	23.6[2]	21.6[3]	21.9[3]
Risk-weighted assets (€ billions) (including					
equivalents for market risk and operational risk)	115.1	148.2	145.5	144.9	159.6
Core capital ratio (%) (calculated based on risk-weighted assets					
including equivalents for market risk and operational risk)	17.8	14.3	16.2[2]	14.9[3]	13.7[3]
Employees	20,459	24,638	24,784	25,738	27,353
Offices	852	852	846	788	

1 without discontinued operations
2 pro forma: based on approved annual financial statements, including the transfer of €3.7 billion to reserves approved by the Annual General Meeting of Shareholders on 30 July 2008
3 pro forma: including the inflow to shareholders' equity from the disposal of discontinued operations

Marco Colacicco,
Private Banking Client – Italy

«I presented my relationship manager at UniCredit Private Banking with a business proposal on December 30th. Frankly, due to the Christmas holiday, I knew it was a long shot to expect a quick response to a request for a large long-term loan on just three weeks' notice. Nonetheless, in the first week of January I turned in all the documentation except for the building report – and after only two weeks, on January 25th, I was told that UniCredit Private Banking had put the requested credit line at our disposal. I was extremely satisfied by this prompt action and have since decided to move significant additional assets to the bank in the form of deposits and funds.»

It's easy with UniCredit.

Annex

UniCredit Group Profile

HIGHLIGHTS

UniCredit Group operates in 22 countries, with over 165,000 employees and approximately 9,800 branches.

UniCredit Group benefits from a strong European identity, extensive international presence and broad customer base.

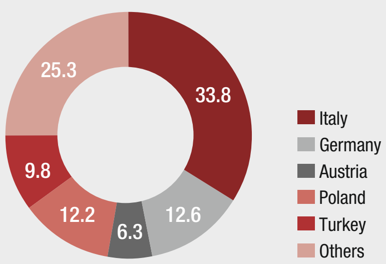
Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.

AUSTRIA
AZERBAIJAN
BOSNIA AND HERZEGOVINA
BULGARIA
CROATIA
CZECH REPUBLIC
ESTONIA
GERMANY
HUNGARY
ITALY
KAZAKHSTAN
KYRGYZSTAN
LATVIA
LITHUANIA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SLOVENIA
TURKEY
UKRAINE

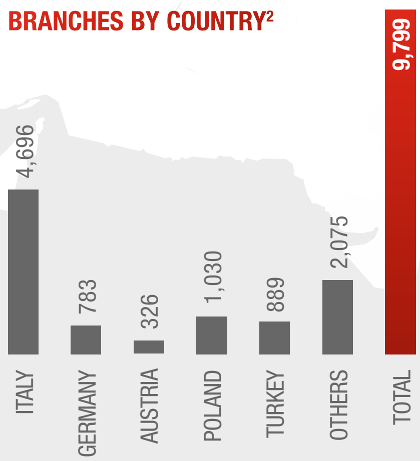
EMPLOYEES[1]	over 165,000
BRANCHES[2]	about 9,800

1. Data as at 31 December 2009. FTE "Full time equivalent" = UniCredit Group worker years, including trainees.
Figures include all employees of subsidiaries consolidated proportionally, such as Koç Financial Service Group employees.
2. These figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services branches.

EMPLOYEES BY COUNTRY[1] (%)



BRANCHES BY COUNTRY[2]



FOCUS

AUSTRIA, GERMANY AND ITALY

UniCredit Group has a strategic position in Austria, Germany and Italy. These three countries account for more than one-third of the GDP of all European Union economies combined and together comprise one of the continent's wealthiest transnational regions.

In each of these countries, GDP per capita is higher than for the European Union as a whole. And Germany is well positioned – in terms of GDP per capita – among the four largest EU economies: France, Germany, the United Kingdom and Italy.

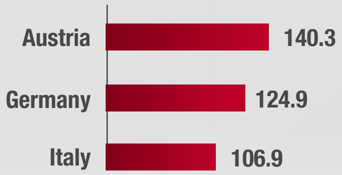
In the wake of the unprecedented slowdown in 2009, we expect the region's economic growth to resume and continue well into the foreseeable future. Specifically, real economic growth is forecast to expand, on average, by roughly 1.6 percent in Austria, 1.6 percent in Germany and 1.2 percent in Italy on average from 2010 to 2014, representing rates in line with, or even well above, those achieved in the previous five-year period.

Exports will increasingly drive future growth. In 2009, exports in goods and services for Austria, Germany and Italy equaled 50.1, 40.8 and 24.0 percent of GDP respectively – among the highest of any EU countries. And these three nations are particularly interconnected with the expanding economies of Central and Eastern Europe (CEE).
More than half of Austrian exports and one-third of German and Italian exports outside of "Old Europe" are directed to the CEE. Furthermore, more than 100,000 Austrian, German and Italian companies are active in the CEE.

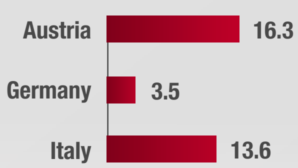
Our presence has grown both organically and through strategic acquisitions in these countries over the years. Ranked among the top banking network in our three core Western European countries, the Group provides access to roughly 330 branches in Austria, 780 branches in Germany and 4,700 branches in Italy.

Across Europe, we are refining our services by positioning our customers at the core of UniCredit Group operations. This includes the use of new client segmentation criteria designed to achieve better customer service wherever we operate. The first three countries to implement these changes will be Austria, Germany and Italy.

GDP PER CAPITA[1]



MARKET SHARE[2] (%)



1. Nominal GDP per capita as at December 31, 2009 (EU27=100)
Estimated of Nominal GDP per capita within the EU27 as at 31 December 2009 (last update 16 March 2010).
2. Market Share in terms of Total Loans as at December 31, 2009.

Source: Eurostat, UniCredit Research.

CENTRAL AND EASTERN EUROPE

UniCredit Group is market leader in Central and Eastern Europe, where it is one of the largest banking players, with a broad network of roughly 4,000 branches.

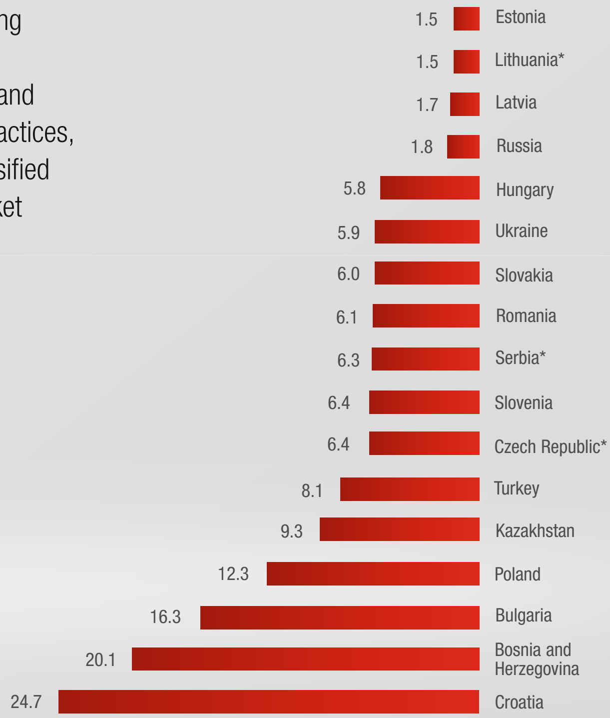
The Group has a long history in this region, which accounts for nearly half of all our employees. It is thus well positioned to benefit from the process of economic convergence that is generating higher living standards and a better business environment in these countries, 10 of which are already EU members and will adopt the euro in the coming years.

The CEE economies – which also include two of the five largest emerging markets in the world, Russia and Turkey, and one of the EU's most stable and promising markets, Poland - currently account for a share of the world economy similar in size to Germany or China. This is particularly impressive considering that their combined economies amounted to roughly half the size of the German economy only a decade ago.

The Group's footprint in this dynamic region is well diversified, with a direct presence in 19 countries. We rank among the top 10 players in 17 countries and among the top five in 10 countries. The CEE now accounts for 13.7 percent of our total loans.

UniCredit Group has a proven track record of successfully integrating local CEE banks. Our market position in the CEE provides the local banks with substantial competitive advantages, including strong brand recognition, access to international markets, the sharing of best practices, and significant economies of scale. Furthermore, the Group's diversified portfolio in this region enables modular growth and increases market penetration for our global product factories.

MARKET SHARE ON CEE[3] (%)



3. Market Share in terms of Total Assets as at December 31, 2009.
* as at September 30, 2009.
Source: UniCredit Research, UniCredit CEE Strategic Analysis

BUSINESS MODEL

A model based upon four pillars:

Customer Centricity

is the focus of our Retail, Corporate & Investment Banking and Private Banking areas, which are charged with delivering specialized customer coverage to maximize long-term value and customer satisfaction.

A Multi-Local Approach

that empowers the Group's local banks to oversee our distribution networks and customer relationships.

Global Product Lines

are the value-added centers for all regions that leverage the Group's significant in-house expertise, such as Asset Management.

Global Service Lines

that supply our network coverage functions and product factories with specialized services, including Banking Back Office, ICT, Credit Collection, Procurement Services, Real Estate and Shared Service Centers.

DIVISIONAL MODEL

Strategic Business Areas
that fully leverage the Group's expertise.

CEE Divisionalization Program
that aims to achieve a "unified vision" of overall CEE business.

Business Lines
that focus on generating distinct products and services for our diversified client base.

Competence Lines
that monitor, guide and support – for their area of competence – Groupwide business activities and related risks.

OUR IDENTITY

Today's UniCredit Group is a young, multinational enterprise – the product of a number of mergers and acquisitions. Yet we benefit from the collective expertise of the banks that now comprise our Group, some of which have a long and distinguished heritage.

We have a presence in 22 countries and operate across a range of strategic business lines and customer segments. Notwithstanding this diversity, which transcends borders, cultures and markets, we aim to be one Group with no internal boundaries.

Given our size and scope, and the current era of global financial uncertainty, the core identity of our Group plays a more vital role than ever in creating sustainable value for our shareholders, serving our customers, engaging our employees, and supporting the different communities in which we live and work.

We therefore decided that it would be timely to rethink who we are and what we stand for, to redefine our mission as a Group and better express the underlying foundation of our identity.

Our Mission Statement is a public commitment – one that sets forth our goals and speaks to how we intend to grow and maintain customer loyalty while creating sustainable value for our shareholders. It is designed to guide and inspire, contributing to our corporate culture and to the shared purpose of all our colleagues.

The statement begins with "the people of UniCredit Group", because they are the heart and soul of our company, and the ones who will carry out our commitments.

Having a sense of purpose shapes one's values, and values shape behavior.

Thus, our Mission Statement was developed to be consistent with the corporate values we set forth in our Integrity Charter: *Trust, Transparency, Respect, Reciprocity, Fairness and Freedom to act.*

These values were adopted to direct and guide each of us in the course of business, providing a framework for our conduct and supporting us to meet the challenges that arise in our daily professional lives.

The Mission Statement reinforces these values and underscores our ultimate goal of sustainability.

The promises we make and our ability to deliver on them influence how our customers and stakeholders perceive us and how they assess the depth of our integrity. And we understand that integrity is saying what you do and doing what you say.

We intend to build on our diversity and to take full advantage of what can be accomplished when all the individual components of our Group act together, with a common purpose.

Because we believe the whole can be greater than the sum of its parts.

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

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