HypoVereinsbank Member of UniCredit

UniCredit Bank AG 2010 Annual Report

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

Published by:
UniCredit Bank AG
Head Office
D-80311 Munich
www.hvb.de
Registrar of companies: Munich HRB 421 48
Sorter pages: UniCredit
Creative concept: BBH Partners LLP, London
Cover Illustration: James Taylor, Illustrator c/o Debut Arts, London
Graphic development and composition:
Mercurio – Studi di promozione pubblicitaria, Milan – www.mercurioitaly.it
Typesetting: Layoutsatz 2000 GmbH & Co. KG, Munich
Printed by: druckpruskil.gmbh
Print deadline: 22 March 2011
Publication date: 11 April 2011
Printed in Germany

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Business Situation and Trends

Underlying conditions and general comments on the business situation

The global economy rebounded quickly from the consequences of the financial crisis during 2010. After contracting by 0.6% in 2009, global output expanded by 4.8%. The strong growth benefited from pent-up demand arising from the previous decline in world trade coupled with major economic stimulus packages in some countries. Global trade expanded by a healthy 16% in 2010, with emerging markets, led primarily by China, driving the global economic recovery.

The US economy emerged from recession in 2010 to grow by 2.9%. This has, however, only resulted in a moderate rise in employment in the United States; the unemployment rate remained at 9.4% at the end of 2010. Moreover, the situation in the real estate sector continued to be difficult following the expiry of government stimulus packages, with the number of properties unsold remaining particularly high. US public debt totalled around 93% of GDP on account of the massive expansion in the budget deficit to finance the various stimulus packages. Yields on Treasury bonds remained relatively low, however. The Federal Reserve (Fed) maintained its zero interest rate policy. In order to counter the ongoing weakness on the labour market, the Fed decided to buy additional Treasury bonds with a volume of up to $600 billion by mid-2011. Euro-area GDP grew by around 1.7% in 2010. Major differences in growth were observed between the stronger core countries, like Germany and France, and the crisis-ridden peripheral countries. Whereas German GDP increased by 3.6% in 2010, economic output in countries like Spain, Ireland and Greece shrank. The difficult fiscal situation in the peripheral countries led to an enormous rise in risk premiums on government bonds issued by these countries and made it necessary for the EU and the International Monetary Fund to draw up rescue packages. At the same time, the European Central Bank (ECB) bought government bonds issued by the crisis-ridden countries to help stabilise the markets. The prospect for the euro area's economy have improved again overall, despite the debt crisis.

The massive recovery in exports was the main factor driving the upturn in the German economy. The rapid improvement in capacity utilisation levels spurred company investment and employment plans during the course of the year. The impetus from the inventory cycle that had benefited German industry at the start of the recovery slackened towards the end of 2010. Unemployment quickly declined to below pre-crisis levels, totalling 7.5% at the end of 2010, with employment increasing to the highest figure recorded since German reunification. Rising pay coupled with a vast improvement in consumer sentiment regarding the economic outlook caused private consumption to rise constantly throughout the year under review.

European capital markets proved to be highly volatile across all asset classes during the course of the year. The stock markets recovered in the second half of the year from the losses they suffered in the first six months to close 2010 6% below the year-ago level. This overall picture does, however, hide considerable regional differences, with the DAX 30 – Germany's benchmark index – rising by 1,000 points or around 17%, for instance. In the credit market, a normalised first quarter of 2010 was followed as the year progressed by a period of fast-expanding spreads that persisted into the fourth quarter. For the first time, financial instruments issued by a number of EU countries were also badly affected by this alongside instruments issued by banks and companies. The euro only managed to recover sporadically during the latter part of year from the losses it suffered against the US dollar and pound sterling in the first half of the year, and ended the year down markedly on the Swiss franc and Japanese yen compared with year-end 2009. The yield on 10-year German government bonds briefly fell to an all-time low in the summer, while short-term interest rates have risen again slightly since the end of the first half of the year on account of reduced liquidity in the system. Credit growth was low in both Europe as a whole and Germany on account of weak capital spending.

In what was still a challenging capital market environment at times, HVB generated a good profit before tax of around €1.7 billion in 2010 but could not quite match the excellent figure achieved in the previous year (€2.0 billion). In the process the individual profit components developed in very different ways. While there was a decline of €1.0 billion in net income from the held-for-trading portfolio and of €0.7 billion in net interest income in a situation with low interest levels, this development was almost compensated by lower provisions for losses on loans and receivables (effect on profit €0.7 billion), lower administrative expenses (effect on profit

€0.7 billion) and an improvement of €0.3 billion in net fees and commissions. The cost-income ratio (ratio of operating costs to total operating revenues) rose on account of the decrease in operating revenues by 6.0 percentage points, to 58.6%, but is still at an excellent level, also by national comparison.

HVB continues to have an excellent capital base. The shareholders' equity shown in the balance sheet amounted to €20.6 billion at 31 December 2010, after €21.0 billion at year-end 2009. The core capital ratio (Tier 1 ratio) in accordance with Basel II stood at 17.3% in 2010, after 18.2% at year-end 2009, which is still an excellent level by both national and international standards. The decline in the core capital ratio is mainly due to the increase in risk-weighted assets (including the equivalents for market risk and operational risk) by €7.2 billion, to €110.8 billion, which is particularly attributable to the end of the relief afforded by several securitisation transactions and to the first-time inclusion of UniCredit CAIB AG, Vienna (CAIB), purchased from UniCredit Bank Austria AG, Vienna.

HVB had an adequate liquidity situation and a solid financing structure at all times during the 2010 financial year. The funding risk was still low due to diversified funding with regard to products, markets and investor groups which ensured that we were able to obtain adequate funding for our lending operations at all times. With their excellent credit quality and liquidity, our Pfandbriefs still remain an important funding instrument.

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 – HVB is in an excellent position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers.

Initial application of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG)

HVB applied the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG), which came into force at the end of May 2009 and was the subject of compulsory application as of 1 January 2010, complete with its changes to the accounting, valuation and disclosure rules for the first time in the 2010 financial year. Compliant with the transitional provisions contained in this legislation, HVB has made use of the option of not adjusting the previous year's figures. Where the initial application of BilMoG results in significant changes to the income statement or the balance sheet, this is commented on accordingly. The notes to this Annual Report give a detailed description of the accounting, valuation and disclosure methods including changes to them.

Operating performance

In the year under review, we failed to match the previous year's excellent profit before tax of €1,957 million with a profit before tax of €1,666 million. In the process, lower net income from the held-for-trading portfolio and a decline in net interest income were partly compensated, notably by an improvement in the provisions for losses on loans and receivables and lower general administrative expenses.

Net interest income

Net interest income declined by €672 million, to €4,160 million, compared with last year.

This development is primarily due to the significant year-on-year decline in interest income from trading operations and less income from reclassified holdings. In addition, the decrease in net interest income can be attributed in part to lower interest margins in deposit-taking operations. In contrast, the current income from participating interests increased due to the rise in dividends paid by private equity funds and a non-recurrent dividend paid by UniCredit CAIB Securities UK Ltd., which we took over in the course of bundling the investment banking activities of UniCredit into HVB and which was absorbed by HVB during the year. This dividend payout is offset by an appropriate write-down under other income less other expenses.

Business Situation and Trends (Continued)

Net fees and commissions

Net fees and commissions developed very well in the year under review, increasing by €251 million to €1,346 million. Above all, this is attributable to a substantial rise in commission from lending operations, a reduction of commission expense in connection with HVB's own securitisation transactions and a sharp increase in income for advisory services.

Net income from the held-for-trading portfolio

In the 2010 financial year, net income from the held-for-trading portfolio amounted to €206 million after a much higher net income of €1,209 million was achieved in the previous year due to the strong recovery in the overall market at that time. The previous year's market recovery did not continue to the same extent in the year under review, which is why there was a significant decline particularly in the area of non-core assets. Besides this, the risk discount to be applied to the valuation of the financial instruments of the held-for-trading portfolio (referred to as value-at-risk discount) reduced the result by €41 million in the year under review, whereas the previous year benefited from a reduction of the value-at-risk discount in the amount of €289 million.

General administrative expenses

Compared with 2009, general administrative expenses decreased significantly by €669 million, to €3,172 million. This sharp decline is almost exclusively due to the payroll costs, which were down by €663 million over the previous year. At the same time, the current payroll costs are reduced by around €100 million each year due to the transfer of pension obligations to HVB Trust Pensionsfonds AG. Moreover, the previous year was impacted by non-recurrent effects in connection with the transfer of pension obligations and by provisions for severance pay resulting from restructuring measures. At the same time, contributions to the pension guarantee association decreased in 2010.

Other administrative expenses, including standard depreciation on property, plant and equipment, decreased by €6 million and thus remained at around last year's level owing to our continued strict cost management. In this context, higher charges for administrative services provided for us by subsidiaries and higher expenses for temporary staff were offset by a decline in costs for restructuring measures, lower contributions to the guarantee schemes of German banks and lower expenses for real estate.

The 2010 income statement and important events in the 2010 financial year

	2010	2009	CHANGE	
INCOME STATEMENT	€ millions	€ millions	€ millions	in %
Net interest income	4,160	4,832	(672)	(13.9)
Net fees and commissions	1,346	1,095	251	22.9
Net income from the held-for-trading portfolio	206	1,209	(1,003)	(83.0)
Other operating income less other operating expenses	(297)	164	(461)	
Operating revenues	**5,415**	**7,300**	**(1,885)**	**(25.8)**
General administrative expenses	(3,172)	(3,841)	669	(17.4)
Payroll costs	(1,601)	(2,264)	663	(29.3)
Other administrative expenses[1]	(1,571)	(1,577)	6	(0.4)
Operating result before provisions for losses on loans and receivables	**2,243**	**3,459**	**(1,216)**	**(35.2)**
Provisions for losses on loans and receivables	(405)	(1,058)	653	(61.7)
Operating result	**1,838**	**2,401**	**(563)**	**(23.4)**
Other income less other expenses	(150)	(444)	294	(66.2)
Extraordinary expenses	(22)	—	(22)	
Profit/(loss) before tax	**1,666**	**1,957**	**(291)**	**(14.9)**
Taxes	(396)	(324)	(72)	22.2
Net income/(loss)	**1,270**	**1,633**	**(363)**	**(22.2)**
Withdrawal from reserve for shares in a company				
with a controlling or majority interest	—	3	(3)	(100.0)
Transfer to other retained earnings	—	(3)	3	(100.0)
Profit available for distribution	**1,270**	**1,633**	**(363)**	**(22.2)**

1 including standard depreciation on property, plant and equipment

Other operating income less other operating expenses
A net expense of €297 million accrued for other operating income less other operating expenses in the 2010 financial year (2009: net income of €164 million). This decline is primarily attributable to higher additions to provisions. The largest individual item within this total arose in connection with guarantees provided as part of the financing of an offshore wind farm.

Operating result before provisions for losses on loans and receivables
Due to the declines in net income from the held-for-trading portfolio and in net interest income, the operating revenues decreased sharply by €1,885 million, to €5,415 million, compared with the previous year. This decline was only partially offset by the decrease of €669 million in general administrative expenses so that, at €2,243 million, the operating result before provisions for losses on loans and receivables is €1,216 million lower than in the previous year (2009: €3,459 million).

Provisions for losses on loans and receivables
The cost of provisions for losses on loans and receivables, including net income from securities held for liquidity purposes, amounts to €405 million and is thus €653 million lower than the 2009 figure. At the same time, the charges arising from lending operations fell by €696 million, to €526 million, due to the significantly improved credit environment. The profit generated from securities held for liquidity purposes declined to €121 million (2009: €164 million) in the 2010 financial year. In 2009, this figure mainly included the gains on disposals in connection with the transfer of assets to HVB Trust Pensionsfonds AG.

Other income less other expenses
Besides losses absorbed from subsidiaries totalling €39 million (2009: expense of €223 million), the net expense of €150 million chiefly includes a write-down of €137 million on UniCredit CAIB Securities UK Ltd. relating to a dividend payout (matching income in net interest income). In addition, this item, on balance, includes write-ups of private equity companies (€61 million) and gains on the disposal of our holdings.

Extraordinary expenses
Within the framework of the introduction of the German Accounting Law Modernisation Act (BilMoG) HVB makes use of the option to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The annual allocation amounts to €22 million and is reported under extraordinary expenses.

Profit before tax
At €1,666 million, the profit before tax in 2010 was at a good level but was unable to match the excellent figure for 2009 (€1,957 million), which was marked especially by the strong recovery on capital markets and the related improvement in net income from the held-for-trading portfolio.

Taxes
The expense for taxes on income stands at €393 million (2009: €322 million). Other taxes amount to €3 million.

Net income for the year and appropriation of net income
Net income totalled €1,270 million (2009: €1,633 million), which also represents the profit available for distribution. At the Annual General Meeting of Shareholders, a proposal will be made that a dividend of €1,270 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €1.58. The profit of €1,633 million available for distribution generated in the previous year was paid to UniCredit according to the resolution adopted by the Annual General Meeting of Shareholders on 21 May 2010.

Balance sheet
HVB's total assets amounted to €381.6 billion at 31 December 2010. Compared with the 2009 year-end total, this represents a significant increase of €72.5 billion, or 23.5%, which, apart from the absorption of CAIB, is primarily attributable to the change in accounting, valuation and disclosure methods by the BilMoG which has now entered into effect.

Business Situation and Trends (Continued)

Upon the implementation of the BilMoG, the item "held-for-trading portfolio", which has a volume of €150.9 billion, is introduced on the assets side. For the first time, this item includes the derivative financial instruments of €92.3 billion and is the reason for the sharp increase in total assets on the assets side. This item also contains the held-for-trading portfolios of bonds and other fixed-income securities, equity securities and other variable-yield securities as well as registered bonds and promissory notes (previously disclosed under loans and receivables with customers or banks). There was a decline in bonds and other fixed-income securities (down €41.2 billion) as well as equity securities and other variable-yield securities (down €8.5 billion) particularly as a result of reclassifying the positions held for trading purposes under the new held-for-trading portfolio item. Loans and receivables with banks fell by €5.0 billion and loans and receivables with customers by €10.5 billion on account of fewer mortgage loans and repurchase agreements (repos). In addition, there was a reduction of €12.0 billion in other assets, which is primarily a result of shifting the premiums paid on options pending and offsetting valuation items from assets held for trading purposes to the held-for-trading portfolio.

In line with the assets side, total liabilities increased particularly because the derivative financial instruments (€93.2 billion) are reported under the new held-for-trading portfolio item (€140.1 billion) for the first time. This item also includes €46.9 billion in liabilities which were previously disclosed under other liability items. In contrast, there was a decline of €8.0 billion, to €55.3 billion, in deposits from banks and of €5.9 billion, to €118.7 billion, in deposits from customers as a result of a decrease in repurchase agreements. The sharp decline in debt securities in issue by €33.6 billion, to €26.4 billion, is largely due to lower bonds in issue. In addition, other liabilities fell by €19.7 billion, chiefly as a result of the shift in premiums received for options pending and the liabilities from short positions of securities.

At 31 December 2010, shareholders' equity had decreased by €0.4 billion, to €20.6 billion, compared with the previous year. This decline is essentially due to the dividend payout of the profit available for distribution for the 2009 financial year (€1,633 million), which is largely compensated by the profit available for distribution for the year under review (€1,270 million). The additional paid-in capital remained unchanged while the retained earnings increased slightly on account of the effect caused by the initial application of the BilMoG.

Risk-weighted assets compliant with Basel II totalled €100.2 billion at 31 December 2010 (31 December 2009: €93.9 billion). The risk equivalent amounts to €3.7 billion for the market risk, and €6.9 billion for the operational risk. Total risk-weighted assets thus stood at €110.8 billion at 31 December 2010, after €103.6 billion at year-end 2009.

At 31 December 2010, our core capital for solvency purposes (compliant with the German Banking Act, Kreditwesengesetz – KWG) totalled €19.2 billion according to the approved financial statements. Equity funds, which consist of core capital and supplementary capital for solvency purposes, amount to €22.9 billion. This gives rise to a core capital ratio of 17.3% compliant with Basel II (including market risk and operational risk) and an equity funds ratio of 20.7% compliant with Basel II.

A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 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 amounted to 1.41 at the end of December 2010, after 1.43 at year-end 2009.

Offices
HVB maintained 618 bank offices in Germany and 27 offices abroad at 31 December 2010.

Offices, broken down by region

		ADDITIONS	REDUCTIONS		
	2009	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	2010
Germany					
Baden-Wuerttemberg	25	—	—	—	25
Bavaria	370	1	—	(1)	370
Berlin	9	—	—	—	9
Brandenburg	8	—	—	—	8
Bremen	—	—	—	—	—
Hamburg	24	—	—	—	24
Hesse	11	—	—	—	11
Lower Saxony	25	—	—	—	25
Mecklenburg-Western Pomerania	8	—	—	—	8
North Rhine-Westphalia	17	—	—	—	17
Rhineland-Palatinate	22	—	—	—	22
Saarland	9	—	—	—	9
Saxony	11	—	—	—	11
Saxony-Anhalt	11	—	—	—	11
Schleswig-Holstein	59	—	—	—	59
Thuringia	9	—	—	—	9
Subtotal	**618**	**1**	**—**	**(1)**	**618**
Other regions					
Africa	1	—	—	—	1
Americas	6	—	—	—	6
Asia	11	—	—	—	11
Europe	9	1	(1)	—	9
Subtotal	**27**	**1**	**(1)**	**—**	**27**
Total	**645**	**2**	**(1)**	**(1)**	**645**

Structure and business operations

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

Since the shares held by minority shareholders of HVB were transferred to UniCredit, as resolved at the Annual General Meeting of Shareholders in June 2007 was registered in the Commercial Register maintained by Munich Local Court compliant with Section 327a of the German Stock Corporation Act (Aktiengesetz – AktG) in September 2008, UniCredit has held 100% of the capital stock of HVB. 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.

Business Situation and Trends (Continued)

The capital stock of HVB had been divided into shares of common bearer stock with voting rights and shares of registered preferred stock without voting rights. However, given the change in the shareholder structure, there was no need to maintain this distinction. Consequently, the shares of registered preferred stock without voting rights were converted into shares of common bearer stock with voting rights in line with a resolution adopted at the Extraordinary Shareholders' Meeting held on 22 September 2010 and the Articles of Association amended accordingly. This amendment to the Articles of Association took effect when entered in the Commercial Register on 27 September 2010.

Business segments

HVB consists of the following divisions: Corporate & Investment Banking, Retail, and Private Banking. Also shown is a segment called "Other" that covers Global Business Services and Group Corporate Centre activities.

Organisation of management and control and internal management

The Management Board of HVB is directly responsible for managing the Bank. It develops the strategic orientation of the company and is responsible for its implementation. The Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning and strategic development, the course of business and the state of HVB, including the risk situation as well as compliance issues. Matters reserved for the Management Board and the respective segment responsibilities on the Management Board of HVB are specified in a schedule of responsibilities as well as in the internal regulations, which also specify the requirements for adopting resolutions and the required majorities. The segment responsibilities on the Management Board of HVB match the organisational structure of the Bank, which is divided into customer groups and functions. Apart from the Board spokesman, the Management Board consists of the heads of the divisions: Corporate & Investment Banking, Retail and Private Banking as well as the Chief Financial Officer, the Chief Risk Officer and the Board member responsible for Human Resources Management and Global Banking Services.

Rolf Friedhofen, formerly Chief Financial Officer and member of the Management Board of HVB, left the Bank with effect from 31 May 2010. At the Supervisory Board meeting on 21 May 2010, the Supervisory Board of HVB appointed Peter Hofbauer as the new Chief Financial Officer and member of the Management Board of HVB with effect from 1 November 2010. Until the end of October 2010, the Board Spokesman Dr Theodor Weimer was also provisionally responsible for the CFO unit. Peter Hofbauer has assumed the operative and functional management of the unit in his capacity as holder of a general power of attorney with effect from 1 June 2010.

Up until the end of the Extraordinary Shareholders' Meeting of HVB held on 22 September 2010, the Supervisory Board of the Bank had 20 members; it was subject to the provisions of the German Co-determination Act and consisted of ten shareholder representatives and ten employee representatives in accordance with Sections 95 and 96 AktG and Section 7 (1) No. 3 of the German Co-determination Act (Mitbestimmungsgesetz – MitbestG). Since the cross-border absorption of CAIB by HVB became effective by being entered in the Commercial Register of HVB on 1 July 2010, the provisions of the German Co-determination Act have no longer applied to the composition of the Supervisory Board. The composition of the Bank's Supervisory Board is now based on Section 24 (1) sent. 2 of the German Act on the Co-determination of Employees in Cross Border Mergers (Gesetz über die Mitbestimmung der Arbeitnehmer bei einer grenzüberschreitenden Verschmelzung – MgVG) of 21 December 2006 in conjunction with Section 95 sent. 1 and 3 and Section 96 of the German Stock Corporation Act. Against this backdrop, the Extraordinary Shareholders' Meeting of HVB on 29 July 2010 resolved that the Supervisory Board should consist of 12 members in the future. There will continue to be an equal number of employee and shareholder representatives on the Supervisory Board. New elections for the employee representatives on the Supervisory Board were held in accordance with the MgVG provisions on 24 August 2010. The shareholder representatives were appointed at the Extraordinary Shareholders' Meeting of HVB held on 22 September 2010. At the subsequent constitutive meeting of the Supervisory Board, Sergio Ermotti was re-elected Chairman of the Supervisory Board, Peter König Deputy Chairman and Dr Wolfgang Sprissler further Deputy Chairman.

There were further changes in the composition of the Supervisory Board at the beginning of 2011. Jutta Streit resigned from the Supervisory Board on 15 January 2011. Werner Habich, who had been elected as a deputy member in the place of Jutta Streit compliant with the provisions of the MgVG, replaced her on the Supervisory Board for the remaining term of office. Furthermore, Sergio Ermotti resigned as Chairman of the Supervisory Board and as a member of the Supervisory Board on 1 March 2011. Federico Ghizzoni was elected to take his place on the Supervisory Board for the remaining term of office with effect from 2 March 2011 by an Extraordinary Shareholders' Meeting and was elected Chairman of the Supervisory Board on 4 March 2011.

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB is given in the section entitled "List of Executives and Outside Directorships" in the notes to the annual financial statements.

HVB's objective is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the principle of overall bank management based on the determination of regulatory and economic capital requirements and risk-taking capability. This is explained in the "Overall bank management" section of the Risk Report.

Main products, sales markets, competitive position and facilities

HVB is a universal bank and one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, and international companies. This range extends, for example, from mortgage loans, consumer loans and banking services for private customers, business loans and foreign trade financing for corporate customers through to funds products for all asset classes, advisory and brokerage services, securities transactions, liquidity and financial risk management, advisory services for affluent customers and investment banking products for corporate customers. HVB has a well-developed network of branches in Germany via which it serves its customers. Because of its past, the Bank is particularly strong in Bavaria as well as in Hamburg and the surroundings.

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

In the Corporate & Investment Banking division we serve around 78,000 corporate customers through our national and international distribution network. The structure of the division – based on four independent product units: Financing & Advisory, Global Transaction Banking, Markets and Leasing – ensures top quality advisory services with a creative, solution-based approach and a customer-focused orientation. We see a development away from supplying only products to customers, such as credit, payments, foreign trade or derivative products, towards a strategic and solution-based advisory approach as being a key success factor. In the process, we cover all the banking needs of corporate customers, also issues such as restructuring, growth and internationalisation. 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. Corporate & Investment Banking aims to build stable, strategic business partnerships in the long term and to bolster its position as a core bank for customers in commercial and investment banking. In addition, we have a thorough understanding of our customers' business model and industry. We support our corporate customers in their positioning, growth and internationalisation by acting as an intermediary to the capital market. Therefore, 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.

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

In the Retail division, our customers were divided into three strategic target groups: mass markets, affluents and business customers. These three target groups were served with different service models

Business Situation and Trends (Continued)

that reflected their individual needs. Our main aim in the mass-market target group was 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 the 2010 financial year, we started to implement the UniCredit-wide One4C initiative, which provides for the resegmentation of affluent private customers as well as small and medium-sized companies. By doing so, we aim to achieve 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 and to combine local proximity with international expertise as the main pillars of UniCredit. In the course of this resegmentation, customers with free assets of at least €500,000 were moved in 2010 from the Retail division to the Private Banking division, and customers with assets of less than €500,000 were transferred in the opposite direction. As the next step in the One4C initiative, small and medium-sized corporate customers (revenues up to €50 million) were moved from the Corporate & Investment Banking division to the Retail division (from 2011: Family & SME) at the beginning of 2011. The resegmentation has therefore been completed. A unique service model for retail customers and small and medium-sized corporate customers, which benefits from one of the largest banking networks in Europe, UniCredit, has thus been created within HVB.

HVB is part of an international banking group which offers its financial services on the European market in particular. This will enable us to combine our regional and divisional strength and local competence with the international potential and know-how provided by an international banking group. Our integration into UniCredit 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 other strategic assets resulting from our integration into UniCredit. UniCredit has a well-balanced business model in divisional and regional respects with bases in 22 countries. Apart from the domestic markets of Germany, Austria, Poland and Italy, it is one of the leading banking groups in the countries of central and eastern Europe. Ultimately, it is our customers who benefit from this international diversification.

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

Relations with affiliated companies

We have prepared a separate report on our relations with affiliated companies in the 2010 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act (AktG):

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

Events after 31 December 2010

There were changes in the composition of the Supervisory Board at the beginning of 2011. Jutta Streit resigned from the Supervisory Board on 15 January 2011. Werner Habich, who had been elected as a deputy member in place of Jutta Streit in accordance with the provisions of the MgVG, replaced her on the Supervisory Board for the remaining term of office. Furthermore, Sergio Ermotti resigned as Chairman of the Supervisory Board and as a member of the Supervisory Board on 1 March 2011. Federico Ghizzoni was elected to take his place on the Supervisory Board for the remaining term of office with effect from 2 March 2011 by an Extraordinary Shareholders’ Meeting and was elected Chairman of the Supervisory Board on 4 March 2011.

Outlook

The Management Report and the rest of the Annual Report include statements, expectations and forecasts concerning the future. These statements are based on plans and estimates that are supported by 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 relating to supervisory and 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 2011

For 2011, we anticipate global GDP growth of 4.3% and assume that the strong recovery in the global economy will continue, albeit at a slightly slower pace. The rapid economic expansion and particularly the additional demand from emerging countries will contribute to a persistently high level of commodity prices, which will probably be reflected by higher production costs as well as by rising consumer prices. We believe that there will be a tangible improvement in the economic prospects of the United States due to the extension of tax incentives and as a result of other fiscal stimulus, even though the basic fiscal situation in the United States continues to be unstable. We assume that the United States will record GDP growth of around 3%.

For the euro area, we anticipate further economic growth as a whole despite the debt crisis. The upswing should continue to originate in core countries where the strong global recovery has enhanced industrial capacity utilisation. Companies are increasingly planning to make higher investments, which will further stabilise labour markets and progressively boost domestic economies. We expect euro-area GDP to grow by 1.7% in 2011. Due to the persistent structural weakness of several member states, however, the ECB is still adhering to its zero interest rate policy and full allocation for money market transactions. It is not expected to raise interest rates for the first time until the end of 2011. Provided that the debt crisis does not deteriorate further in the peripheral countries of the euro area, we assume that the euro will continue to appreciate against the US dollar.

We project GDP growth of 2.5% in Germany in the 2011 financial year. A solid expansion can be expected on the back of a strengthening domestic economy coupled with rising exports. Furthermore, unemployment is likely to continue its downward trend, reinforced by demographic developments. The healthy situation on the labour market together with the higher volume of work will tangibly boost real incomes, meaning that private consumption can be expected to increase by 2%, even if the strong economy and high commodity prices will cause inflation to rise tangibly, to around 2.2%, which could have an impact on the purchasing power of consumers.

Sector development in 2011

The banks will continue to face challenges in 2011. In particular, the uncertainty surrounding the yield curve, declining central bank liquidity and possibly also more volatile exchange rates resulting from a potential race to devalue the currencies of major economies are aggravating factors in this context. In addition to this, the reduced credit standing of individual states may have a negative effect. The final effects of additional regulation cannot be clearly foreseen, even if some signs of future developments are already visible: the liquidity requirements are likely to be tightened and the requirements regarding the quality and quantity of equity capital will rise. This will give rise to a battle for capital among those banks that do not yet meet the new requirements regarding the higher capital base. Furthermore, the new liquidity and capital rules coupled with the fundamental challenges outlined above will further depress the profitability of the banking

Business Situation and Trends (Continued)

sector, which will be additionally reduced by the bank levies being charged in some countries as of 2011. Key questions remain regarding how the shape of relations between the financial world and the real economy will evolve and what global restrictions can be expected in the regulatory and political sphere.

General economic outlook and sector development in 2012

We expect the global economy to go on expanding sustainably in 2012, with the emerging markets continuing to lead the way. The recovery in the United States is likely to persist, despite the expiry of fiscal stimulus. Peripheral countries in the euro area should be able to turn the corner in 2012, while we assume that the underlying conditions in the core countries will remain positive, especially with regard to the domestic economy. All in all, we expect the euro area to enjoy similar growth to 2011. German industry will benefit from the sustained recovery in the global economy and especially the gradual strengthening of the investment cycle; taking all factors into account, we expect Germany to go on enjoying a strong economic performance. We envisage the financial industry facing similar challenges in 2012 as in 2011.

Development of HVB

In the assumptions of its planning for the 2011 financial year, HVB presumes that operating revenues will significantly increase in a generally favourable business environment compared with the year under review. At the same time, we are planning an increase in administrative expenses – also as a result of the bank levy – which, however, should be more than compensated by the favourable development in business operations. The main factor driving operating performance should continue to be the volatile net trading income. For provisions for losses on loans and receivables we assume that the level reached in the year under review will not be materially exceeded.

Provided that the underlying economic conditions continue to develop favourably in Germany and worldwide and there is no sharp economic downturn, we expect in our multi-year plan that the positive trend in operations at HVB will continue in 2012. A major factor in this regard will be increasing the operating revenues which will be impacted by the volatility of net trading income. In addition, we anticipate that administrative expenses will remain largely stable on account of our continued consistent cost management.

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

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

- Proactively exploiting opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany.
- Leveraging the advantage 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. In order to offer top quality advisory services based on a creative, solution-based approach, our strategy is to ensure this by means of an integrated value added chain consisting of network and product specialists. Our investment banking operations will also then 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 will enable further growth. More new customers can be won in this business in the new financial year due to our structured, fully comprehensive advisory approach and our superb service quality.
- 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 as well as further improving total revenues by creating and using new products for all customer segments through product factories with tailored solutions.
- Through the completion of our One4C programme at the beginning of 2011, which provides for a resegmentation of our small and medium-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.
- 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 throughout UniCredit. With All4Quality, a project launched throughout UniCredit to further enhance the quality of diverse services, internal customers are to be offered top quality, flexible and innovative services from a single source based on consistent and efficient processes. We attach special importance to meeting the specific requirements of internal customers in addition to providing standardised services. This is also intended to ensure more flexible cost structures, higher cost transparency and an increase in competitiveness for internal customers. Moreover, we benefit as a whole from the organisation of HVB which fits seamlessly into the structure of UniCredit. 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 and the strategic positioning of HVB have a beneficial impact on the recruitment of managers and employees. Supporting female managers at junior level is an explicit part of the strategy.

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

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

Risk Report

HVB as a risk-taking entity

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

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

Management and monitoring of risks in HVB

1 Risk management

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

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

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

2 Risk monitoring

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

Risk analysis

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

Risk control

In addition to the quantification and validation of the risks incurred and the monitoring of allocated limits, the subsequent risk control process involves risk reporting. This in turn provides management with information relevant to decision-making processes.

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

3 Divisions and committees

Risk management

The divisions are responsible for performing risk management functions within the framework of competencies defined by the HVB Management Board. Important bodies operating at the overall bank level are the Risk Committee 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 and on 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 business and 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 and includes senior managers from all divisions as well as the related back-office units, i.e. Market Risk Control, Strategic Risk Management & Control, Senior Risk Management (SRM), CIB and PB Risk Credit, Recovery Management (Restructuring/Workout) and Retail Lending.

To take into account the increasing importance of stress testing, the decision was made in the final quarter of 2010 to set up a Stress Testing Council. This body addresses all issues for the full range of risks, including:
– defining and identifying scenarios
– assessing stress test results
– identifying any necessary risk management measures.

Comprehensive involvement of all HVB risk management functions is ensured through the representation of the Corporate & Investment Banking, Retail and Private Banking divisions, together with representatives of the risk-type-specific risk control units, the CFO, the CEO and the Economics department. In addition, the participation of a representative of UniCredit ensures that interactions with HVB Group are also included as a further stress-test component.

The Asset Liability Committee
The Asset Liability Committee makes decisions at its monthly meetings on the asset/liability management of HVB and sets guidelines for HVB Group. The committee pursues the following key goals:
– establishment of uniform asset/liability management methods for 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. In the year under review, his activities were supported by various units under the Chief Financial Officer.

In 2010, 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.

At the end of 2010, the organisational structure under the Chief Risk Officer was broken down into the following units, which perform tasks for both HVB Group and HVB:

– Strategic Risk Management and Control includes operational and strategically oriented 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 reporting on risk provisions (including analysis, projection and booking). 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 with measuring the issuer and counterparty risk in HVB. Its tasks and competencies include ongoing, independent risk measurement and monitoring, responsibility for risk-measurement methods and their ongoing development as well as reporting to the CRO, the Management Board of HVB and the Audit Committee of the Supervisory Board.

– Regional Industry Risk Management is based on the Bank's proven, industry-structured risk management (Senior Risk Management, SRM). Key responsibilities of the regional industry teams are making lending decisions for exposures from the assigned industry segments and presenting them to both the Credit Committee and industry oriented risk management. These risk management

Risk Report (Continued)

signals are a part of the risk strategy for corporate banking activities. Our SRM unit in the Americas was also part of the Regional Industry Risk Management organisation in 2010.
The Asian Area established its own unit, which reports directly to the CRO of HVB. Other important areas of responsibility include specialised business analyses of corporate customers, staff training in credit-related topics, and industry analysis/ratings. Industry SRM bears the responsibility for the portfolio management and risk strategy of HVB's associated industry portfolios.

– The Corporate Customers and Private Banking Lending unit pools the operational functions of the lending decision and monitoring processes for the risk-relevant 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, including all administrative lending functions. In addition, these units are responsible for the ongoing monitoring of credit exposures. In the case of credit exposures larger than €5 million, they are supported by the Regional Industry Risk Management unit, which is closely involved in the lending decision process for exposures in excess of that amount.

– Unless the approval authority rests with the Retail division, 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 exposures and make lending up to an approval limit of €5 million; if necessary with the involvement of other approval authorities. This includes determining the rating, making the lending decision (including documentation), drawing up contracts, valuing 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, Counterparty Risk (since 1 November 2010), Structured Finance - Special Products, Structured Finance – Acquisition and Leverage 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 also includes such tasks as the ongoing monitoring of individual exposures and portfolios. Credit risk strategies and policies for this part of our lending portfolio are defined in close cooperation with the other areas of the CRO organisation.

– The Restructuring unit is responsible for restructuring activities with the goal of minimising the risk of losses to the Bank and integrating exposures into the divisional credit processes. Depending on the extent to which restructuring is deemed possible and worthwhile, service provided to customers includes support with the continual improvement of their economic and financial situation.

– The Workout unit (Global Banking Services) is responsible for processing all loans for which the measures taken during the restructuring phase were not successful. In doing so, the decisive factor is liquidating collateral under the best-possible terms, asserting our claims in insolvency proceedings and any appropriate legal action against the borrower.

  In addition, Workout also manages all loans subject to legal challenges related to real estate finance, derivatives and the financing of fund shares as well as after-sales management of the true sales portfolios.

As part of the implementation of One4C, the CRO organisation will be adapted to the new structures of the Corporate & Investment Banking, Private Banking and Retail divisions in 2011. For lending business in the Retail division (responsible for individual customers as well as small and mid-sized enterprises with annual revenues of up to €50 million), processing and credit decisions will generally be the responsibility of the CRO organisation in the Retail Lending and NRR & Quality Lending units. Some credit competencies in the standard lending business will be exercised by the Retail division.

Further approval authority up to an approval limit of €5 million will be exercised in the regional credit teams of the back office. For exposures with an approval limit above €5 million, the decision-making authority will remain with the regional industry teams. The existing market team model in the Corporate & Investment Banking division will be extended to cover mid-sized corporate customers (with sales of over €50 million) as well as the Private Banking division. The approval authority for the individual lending business in these areas is the regional industry teams. Approval for standard lending business in the Private Banking division is exercised within its new market teams.

Chief Financial Officer
An area in the Chief Financial Officer organisation that plays a major role in risk monitoring is Asset Liability Management, 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".

The Finance department controls asset liability management by managing short-term and long-term liquidity so as to ensure that the Bank has adequate liquidity at all times, and to optimise the funding costs. Asset Liability Management monitors the general situation on the money and capital markets, and 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 the 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 2010, 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 Bank's 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 control systems, reporting, information systems, and finance and accounting
– compliance with legal and regulatory standards as well as other regulations
– observation of internal operational guidelines, ordinances and regulations
– correctness of operational and business processes
– regulations and measures to protect assets.

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

Risk Report (Continued)

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

Capital-market-oriented companies as defined in Section 264 d of the German Commercial Code (Handelsgesetzbuch – HGB) must describe the main features of the internal control system (ICS) and risk management system (RMS) with respect to the process of preparing the financial statements in accordance with Section 315 (2) No. 5 HGB.

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 principal 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 and consolidated financial statements are prepared in compliance with regulations despite the identified risks.

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

Responsibilities of the Management Board and Supervisory Board

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

The Management Board determines the extent and orientation of the ICS and RMS specifically geared to the Bank under its own responsibility, taking measures for the continuing development of the systems and their adaptation to changing conditions. Value systems such as the Integrity Charter, the Code of Conduct and compliance rules have been applied in all UniCredit countries for many years, and hence also in HVB Group. These value systems comprise the basis for responsible action on the part of employees involved in the financial reporting process as well. 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 preparation of the annual financial statements rests with the CFO organisation. In particular concerning the valuation of financial instruments and receivables, the CFO is supported by the CRO. The COO is responsible for the IT systems required for the financial reporting process.

To support it in the performance of its duties, including those relating to the financial reporting process, the Supervisory Board set up an Audit Committee made up of five members, and since 22 September 2010 of four 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 2010 on the basis of documents and verbal explanations provided by the Management Board. In the process of preparing the annual financial statements, the Supervisory Board is responsible for assessing the annual report. To enable these tasks to be performed, the financial statement documents, including the Management Board's proposal for appropriation of profits together with the auditor's report, are submitted to the Supervisory Board. The Audit Committee examines these documents in great detail during a so-called preliminary audit. The chairman of the Audit Committee reports to the plenary Supervisory Board on the results of the Audit Committee's audit. The independent auditor reports on the findings of the audit, specifically including any significant weaknesses of the ICS and RMS related to the financial reporting process, 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.

Tasks and responsibilities of the independent auditors
The Supervisory Board commissioned the independent auditors KPMG AG Wirtschaftsprüfungsgesellschaft to audit the annual financial statements, including the account records, the Management Report and the risk early warning system. In addition, the auditors audited the report by the Management Board on relations with affiliated companies in accordance with Section 313 of the German Stock Corporation Act (Aktiengesetz – AktG).

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

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

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

– A number of departments within the **Accounting, Tax and Shareholding (CFF)** unit are assigned to deal with financial reporting processes. The Accounting (CFA) and Accounting Markets, Foreign Branches (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 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 submits reports to the banking supervisors. This includes particularly the Common Solvency Ratio Reporting (COREP) report based on the German Solvency Regulation (Solvabilitätsverordnung – SolvV) and the report compliant with the German Liquidity Regulation (Liquiditätsverordnung – LiqV). This department is also responsible for monitoring and documenting large loans and loans to executives. The Accounting Markets, Foreign Branches (CFM) department is responsible for financial reporting on the market and investment banking activities of HVB. Local accounting units of HVB foreign branches also report to the Finance unit. 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. 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 **Credit Treasury and Operations (CFP)** and **Data Governance (CFG)** departments are essentially responsible for providing and developing processes, systems and services for the CFO organisation, in particular the Accounting, Tax and Shareholding department. In addition, these departments support 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, these departments are also responsible for implementing various projects (e.g. BilMoG, corporate governance and data warehouse architecture).

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

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

– Furthermore, the division-related Controlling departments for the Corporate & Investment Banking, Retail and Private Banking divisions are located in the CFO organisation.

Risk Report (Continued)

Process of accounting and 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 mortgage business, are to a large extent automated in a financial database and imported into the SAP Balance Analyzer accounting system.

Data from the foreign branches are posted and formatted at the individual branches and submitted to the accounting system via the central interface and validated centrally.

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. Checking transactions to ensure compliance with market pricing and monitoring counterparty and issuer positions is carried out by the Risk Control department, which reports to the CRO. However, transactions are allocated to the trading book or the banking book 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 are delivered both by the trading departments and external sources, such as Bloomberg, Reuters, MarkIT, etc. In accordance with the separation 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.

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 to the extent that they have veto rights and are authorised to enforce adjustments up to and including the termination of the new product process.

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 result of the economic income statement of Risk Control that serves as the basis for the daily information provided to the Management Board members in a monthly process.

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. Such transfers are undertaken in accordance with defined criteria. 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 regularly 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 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.

Data relevant to the financial statements are 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.

The involvement of external third parties in the technical 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). In addition to this, further external third parties have assisted in the preparation of the annual financial statements by performing selected tasks.

To prepare the annual financial statements, HVB uses the standard "SAP Balance Analyzer (BA)" and "Business Warehouse" software 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 are processed at the individual transaction level from sub-ledgers. A reconciliation between the general ledger and the sub-ledgers is conducted on a regular basis. Checks of balances carried forward are systematically performed during the process of preparing the financial statements.

Within UniCredit, the technical system management for the Accounting department and especially in connection with preparing the financial statements is outsourced to UniCredit Global Information Services S.C.p.A. (UGIS), the subsidiary responsible for IT. Until 1 December 2010 the process was monitored by the central support unit in the CFP department, which reports to the Chief Financial Officer (CFO) and from 1 December 2010 by the CFG department. The technical support processes in the central support unit are regulated in the Operating Guidelines. The back-up and archiving of data from application systems is carried out under the responsibility of UGIS, and is 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 are redundantly mirrored in Munich and Verona.

The required protection against unauthorised access and compliance with the functional separation 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 privilege and maintaining the separation of functions.

Process documentation

As a UniCredit 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 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 in terms of organisational changes or changes in content by the persons responsible for the process. If necessary, the documentation is modified and a new risk assessment is performed.

Risk Report (Continued)

Continuous updates of the ICS and RMS
Roll-out of EuroSIG:
A new IT platform called EuroSIG was introduced at HVB as of 1 August 2010. EuroSIG replaced HVB's previous complex system landscape and is intended to cut costs and boost efficiency in IT in the future. The Management Board decided to roll out the system after carefully weighing up and checking all the risks based on detailed reports by internal and external experts and consultants.

The introduction of a system of this magnitude naturally entails operational risks, many of which also affect the accounting-related ICS and RMS. These operational risks mainly arose from the change in IT systems and processes, particularly in the light of the fact that in many cases final processes had not yet been implemented or IT solutions were not yet able to be finally implemented which meant that workarounds had to be used. Consequently, this change in the Bank's overall process landscape made adjustments and additions to the accounting-related ICS and RMS of the Bank necessary.

As regards the accounting-related ICS and RMS, the operational and system-related gaps existing at the time when EuroSIG went live were gradually remedied or suitable additional measures were taken before the preparation of the annual financial statements to ensure the proper preparation of the annual financial statements. Notwithstanding this, the Bank was able to determine its assets, liabilities, financial position and profit or loss at any time after EuroSIG went live. Only in divisional reporting were there temporary restrictions due to poor data quality.

With the aim of stabilising the ICS and RMS and ensuring that the 2010 annual financial statements could be prepared in due form, the "Ensuring Soundness" project was launched in the fourth quarter of 2010. This project adopted an integral approach, starting with the recording of business data in primary systems, through to forwarding business data to the sub-ledgers, to the general ledger and the risk provisioning systems and downstream reporting systems until the relevant financial statement information was drawn up compliant with HGB and IFRS. Besides additional process documentation and efficiency checks, particularly the workarounds relevant for accounting were completely analysed and incorporated in this context. The proper preparation of the Risk Report was also ensured and the efficiency of the controls outsourced to the service companies UGIS and UCBP working within UniCredit was checked. The processes and checks initiated for the workarounds and in departments at the Bank which were important for preparing the financial statements were analysed. As far as necessary, additional measures were established to ensure proper implementation.

Apart from the changes associated with the roll-out of EuroSIG, we carried out the following further measures to continuously update the ICS and RMS:
To ensure the greatest possible efficiency in the process of preparing the annual financial statements, detailed timetables are drawn up on a regular basis with precise dates for the individual process steps. These timetables serve to ensure the timely completion of financial reporting tasks and to identify the dependencies between the individual process steps and the units involved.

In the course of the ongoing development of the internal control system (ICS) and risk management system (RMS), the Bank plans to introduce additional measures to further strengthen the ICS and RMS besides the projects carried out in 2010. Moreover, with the process documentation which was significantly improved in 2010 serving as a starting point, further relevant processes will be gradually added and assessed, and integrated into routine ICS and RMS operations. There is a special unit within the CFO organisation to support the Management Board in the ongoing development and efficient monitoring of the ICS and RMS.

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 and booking instructions across all departments.

Risk types and risk measurement

1 Relevant risk types

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

Among other things, we ensure that the HVB Group's risk profile is documented in full as part of our annual risk self-assessment.

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 (VaR) approach under which potential future losses are measured on the basis of a defined confidence level.

For risk types quantified using the VaR approach, the internal capital is determined in the risk measurement process. It is equal to the sum of the aggregate economic capital, the cushion and the economic capital of small legal entities. For the calculation, a one-year holding period and a 99.97% confidence level is applied consistently for all risk types.

The aggregate economic capital is determined for all risk types quantified with the VaR approach, taking into account risk-reducing portfolio effects, which encompass both the correlations within the individual risk types between HVB Group's business units and the correlations across the risk types.

The economic capital for small legal entities is calculated for HVB Group entities for which we do not consider it necessary to carry out risk measurement broken down by risk types due to the small amount of risk involved.

The cushion represents an additional component of the internal capital through which possible modelling risks are included in the assessment of economic capital adequacy as well as cyclical fluctuations in the aggregate economic capital. We also use the cushion to show the specific risks of the real estate and investment risks as well as hedge fund positions in the market risk pending finalisation of the advancement in methodology.

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

One of the main tasks of the CRO organisation is to refine HVB's risk management system. This results from our own quality expectations as well as the need for HVB to take account of the latest statutory – and notably supervisory – requirements. Various measures aimed at enhancing the methods, models and processes used to measure, manage and monitor risk have been defined and, in some cases, already implemented as part of a special project that was launched in 2010. The project timetable calls for the gradual implementation of further, more complex measures by the end of 2012. These improvements are required to adequately incorporate the insights gained during the financial crisis into risk management and monitoring and especially to reflect the greater requirements for risk management systems. In particular, this relates to the further development of the credit portfolio model, the further development of limit system consistency, the improvement of quality-based reporting and the consistent monitoring of the implemented risk strategy.

In the first half of 2010, we extended the composition of the internal capital as previously announced in the 2009 Annual Report to include the cushion. With this additional component of internal capital, the assessment of economic capital adequacy reflects possible modelling risks as well as cyclical fluctuations in aggregated economic capital. In the second half of 2010, we also supplemented the cushion to include components of specific risks from real estate and investment

Risk Report (Continued)

risks as well as hedge fund positions in the market risk pending finalisation of the refinement in methodology. In addition, we changed the basis for calculating the economic capital for market risk to the maximum value-at-risk of the last 12 months. For business risk, we based our calculation on the present value and refined the definition of income by excluding the interest income from trade operations because it is already taken into account in the market price risk. The recent past is now taken into greater consideration when determining the economic capital for financial investment risk. These developments resulted in an overall increase in the aggregate economic capital of €1.9 billion, or 34% at 31 December 2009.

As announced in the 2009 Annual Report, we introduced a new internal model for determining market risk in cooperation with UniCredit in the third quarter of 2010. In contrast to the previous model, which is based on a Monte Carlo approach, the new model applies a historical simulation based on the development of the relevant market data over the past 500 trading days. The days are not weighted, so it is assumed that the changes of market data are equally weighted.
At present, the new model is being used for managing internal risk, determining the economic capital and consolidating market risk UniCredit-wide. Until the change in our model is accepted by the German Federal Financial Supervisory Authority (BaFin), our regulatory reporting will be based on the previous methodology.

As of the first quarter of 2011, we will be using new macroeconomic factor model parameters in the internal credit risk calculation that will reflect experience gained in the financial and economic crisis in recent years. As a result of this update, we expect a significant rise in credit value-at-risk. In addition, country risk frameworks have been created with a view to applying limits to euro-area countries where required.

Overall bank management

1 Overall bank management at the Group level

The focus of the value-oriented management of HVB is on the measurement of all business activities in terms of risk/return considerations, with risk/return targets set for all of the Group's business segments. Under this concept, risks are seen as costs that are charged to the business areas 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.

Since 2010, the economic yield expectations have been calculated using the allocated capital principle that UniCredit introduced across its entire organisation. Within the scope of this principle, it is ensured that at least the regulatory capital requirement is met at all times. This means that regulatory (or used core) capital is allocated to the divisions that is 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. At product and customer level, this capital allocation may be performed on the basis of the maximum principle; the capital requirement may be derived from either the regulatory capital or the internal capital based on the credit portfolio model (see chart below). In the future, the internal capital will be used to calculate the allocated capital not only at the micro level but also at the macro level for all divisions and for HVB Group as a whole in accordance with the principle of dual control.

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 (EVA) expresses the capacity as part of value-based management to create value in monetary terms. It is calculated as the difference between the profit after tax and minorities and the return expectations on invested or allocated capital, adjusted for items that make it impossible to assess the value added on the basis of ordinary activities.

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 6.7% 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).

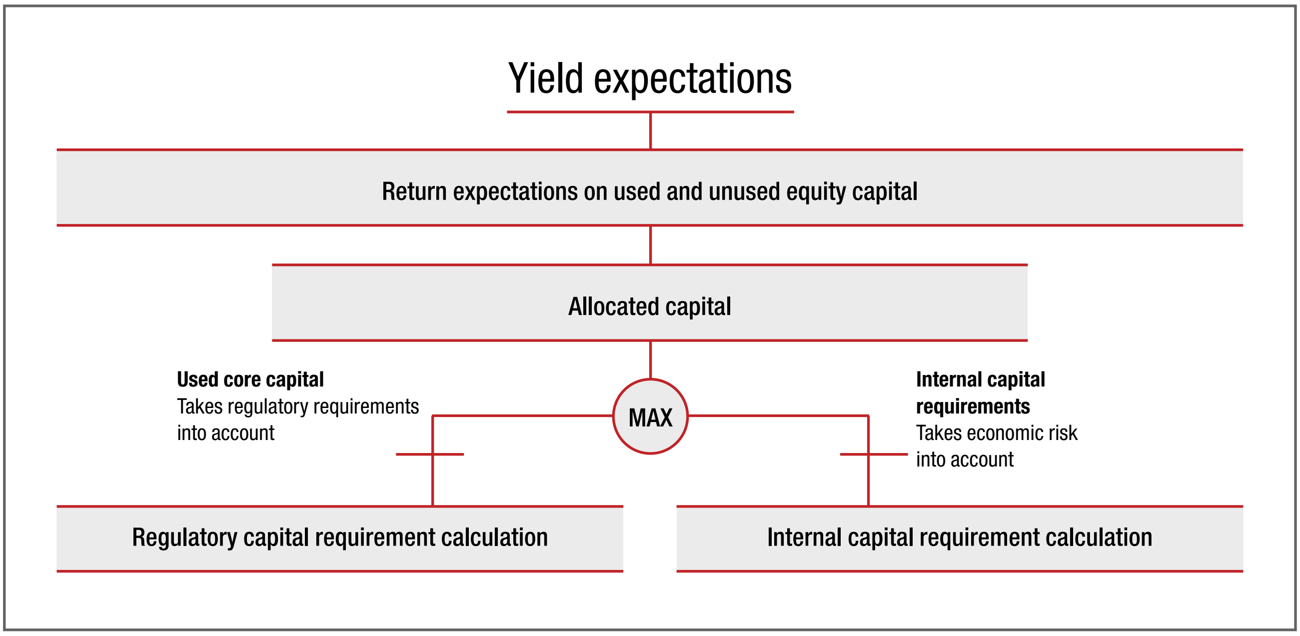
Management of regulatory capital adequacy requirements

To manage our regulatory capital on the basis of regulatory requirements, we apply the following three capital ratios, which are managed using internally defined minimum levels:

– Tier 1 ratio (ratio of core capital to risk-weighted assets arising from credit risk positions and equivalent risk-weighted assets from market and operational risk positions)
– Core Tier 1 ratio (ratio of core capital, excluding hybrid capital instruments, 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).

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 (Kreditwesengesetz – KWG).
– Reports on the actual ratios, forecast ratios for the current year 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.



Risk Report (Continued)

– The Management Board is informed on a monthly basis on the risk-weighted-asset budget utilisation of the divisions. In the event of significant overshoots or shortfalls, counter-measures are submitted to the Management Board for its approval.

3 Economic capital adequacy

The future internal capital requirements of the divisions are determined under the annual planning process in close cooperation between the Strategic Risk Management and Control unit and the individual operating units. After approval by the Management Board of HVB Group, the internal capital figures are anchored in the Bank's relevant control and reporting instruments. 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's risk-taking capacity. In addition, a sustainability analysis is carried out with a corresponding internally defined forecasting horizon as a component of our planning process. A further essential component of our risk strategy is the analysis of our risk-taking capacity.

As well as extending the internal capital to include the cushion, as already mentioned, we changed the basis for calculating the economic capital for market risk to the maximum of the value-at-risk for the last 12 months. For the determination of business risk, a refinement of the definition of income was introduced (excluding the net interest income from trading operations from the calculation) as well as a viewpoint based on present value. The recent past is now given greater emphasis in the calculation of the economic capital for the risks arising from our shareholdings/financial investments. The measures described above result in an increase in economic capital at 31 December 2009 from €5.7 billion to €7.6 billion. In 2010, the internal capital for HVB fell to €8.4 billion at 31 December 2010 (2009: €10.1 billion), taking into account all risk-reducing diversification effects of HVB Group.

The 2010 decline in HVB's internal capital in the area of market risk and risks arising from shareholdings/financial investments is attributable to the ongoing recovery of the financial markets. This trend is also reflected in Corporate & Investment Banking and the Other/consolidation segment.

In a quarterly analysis of our risk-taking capacity, at HVB Group level we measure our internal capital against the capital cushion. 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 2010 was based on the figures and targets of the three-year plan prepared in 2008.

According to our bank-internal definition, the capital cushion is made up of IFRS capital components (taking into account the appropriation of profits), participatory certificates and hybrid capital. Minority interests are included in full and goodwill is deducted. The capital cushion for HVB Group amounted to €22.8 billion at the end of 2010 (2009: €22.7 billion). The slight year-on-year increase results from the reduction of hybrid capital instruments together with the transfer to other reserves on account of the planned appropriation of profit available for distribution. With internal capital of €11.3 billion, the capital cushion of HVB Group divided by the internal capital yields a ratio of approximately 201% (2009: 175%). We see this as a comfortable value because the capital cushion would be sufficient to practically cover the potential economic loss determined by us for a second event – even one in the same order of magnitude. The increase of 26 percentage points in the utilisation ratio for HVB Group as compared with the previous year is largely attributable to the 13% decrease in internal capital. In view of the planned update of the macroeconomic factor model parameters in the internal credit risk calculation, we will continue to closely monitor the development of the internal capital in 2011 and will integrate the assessment of capital adequacy more closely into the operational side of our activities, also with regard to the economic aspects.

Even taking into account the results of cross-risk-type stress results, we had a substantial buffer in the capital cushion at the HVB Group level over the entire financial year. In addition to a stress test for macroeconomic scenarios encompassing all risk types, in 2010 we implemented an analysis based on historical market trends. Both scenarios point to economic capital adequacy. For 2011, in particular as a result of the planned further developments in default risk, we expect to see a significant rise in internal capital.

Internal capital of HVB after portfolio effects (confidence level 99.97%)

	2010		2009[1]	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Market risk	1,597	19.1	2,857	28.2
Default risk	2,994	35.8	2,893	28.5
Business risk	343	4.1	414	4.1
Operational risk	823	9.9	726	7.2
Risks arising from our own real estate portfolio	20	0.2	24	0.2
Risks arising from our shareholdings/financial investments	470	5.6	663	6.5
Economic capital	**6,247**	**74.7**	**7,577**	**74.7**
Cushion[2]	2,118	25.3	2,568	25.3
Internal capital of HVB	**8,365**	**100.0**	**10,145**	**100.0**

1 figures at 31 December 2009 taking into account the refinements in methodology
2 additional components of the internal capital through which possible modelling risks are included in the assessment of economic capital adequacy as well as cyclical fluctuations in the aggregate economic capital

Economic capital of HVB after portfolio effects (confidence level 99.97%)

	2010		2009[1]	
Broken down by division	**€ millions**	**in %**	**€ millions**	**in %**
Corporate & Investment Banking	5,447	87.2	6,493	85.7
Retail	396	6.4	471	6.2
Private Banking	102	1.6	89	1.2
Other/consolidation	302	4.8	524	6.9
Economic capital of HVB	**6,247**	**100.0**	**7,577**	**100.0**

1 figures at 31 December 2009 taking into account the refinements in methodology

4 Risk strategy

For 2010, the Management Board approved a risk strategy for HVB Group based on the business strategy together with all relevant risk types 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 the further development of the risk management instruments.

The strategy includes both qualitative and quantitative elements. The focus is on the risk strategy covering all divisions and risk types as well as on the individual strategies that contain concrete parameters for individual portfolios or risk types. For more information on the risk strategy, please refer to the relevant sections on the individual risk types. Within the framework of the risk strategy in effect as of 2011, this concept is currently being expanded, worked out in detail and supplemented through limits on internal capital.

Risk Report (Continued)

Risk types in detail

1 Default risk

Risk management

Default risk is defined as potential losses arising from a customer default or a 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. Counterparty risk 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. A market risk-oriented exposure, which takes account of the spread volatility and spread sensitivity of positions, is measured for issuer risk as well as a credit risk-oriented exposure based on nominal values, which is calculated using netting effects and loss quotas in addition to nominal values. Alternatively, limits are set taking account of a corresponding classification of the positions. As this methodology is refined, it is envisaged that the market risk-oriented limits will be replaced in 2011 with a calculation of the credit risk-oriented exposure and limits. This will show and limit the potential losses in market value, also for the market risk-driven positions.

Country risk

– Country risk is defined as the risk of 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-interest securities, with the exception of the trading positions included under market risk.

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

With reference to default risk, the HVB units involved in credit business must take organisational steps to segregate business origination functions ("front office") and risk management functions ("back office") at all levels by way of fully independent reporting lines. The back-office functions are pooled under the Chief Risk Officer. In addition, all divisions in centrally positioned senior risk managers (CRO) are involved in the decision-making process for exposures in excess of a certain amount. They take risk responsibility for their assigned portfolios and manage those risks.

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

Country risk 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. Compliant with the risk strategy, the value-at-risk limits were adjusted, taking account of the addition of the CAIB operations and regional indicators. Furthermore, countries were classified into three resilience categories based on their economic backgrounds and appropriate strategies were defined. The introduction of limits for weaker individual euro-area countries will be considered in 2011.

Credit risk strategy

The credit risk strategy implemented in HVB is characterised by both comprehensive management elements and sub-strategies for various portfolios. Limits are set for certain sub-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 the following 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 (advanced IRB approach), as well as for our internal default risk model. For this reason, we place particular emphasis on the ongoing development and fine-tuning of our internal creditworthiness analysis instruments.

HVB has a wide range of rating and scoring processes tailored to the needs of its various customer groups. We validate these systems on a regular basis, applying statistical processes in order to achieve the best-possible selectivity and forecasting accuracy with regard to the default probability of a customer.

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

Ideally, 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. This 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 different characteristics of the customer portfolios considered 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 2010, we focused primarily on the following areas:
– the further development of the rating process for commercial real estate finance and expansion to cover residential property developers
– the development of a rating process for commodity trade finance
– update of the IAA models (internal assessment approach) for asset-backed commercial paper programmes in accordance with rating agency requirements.

Risk Report (Continued)

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 significant economic changes or risk-relevant changes to exposure, an interim update of the rating must be updated promptly during the year and confirmed 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

In new lending, the Bank pursues the strategy of applying all types of loan collateral that would present 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.

For the reduction of credit risk, only such collateral is used as meets the requirements of the Basel II advanced IRB approach. A high priority in the formulation of collateral agreements and operating guidelines is ensuring that the collateral is legally enforceable.

Processes were developed for the valuation of collateral that meet the standards of Basel II, in which the valuation of individual collateral types takes into account empirically determined liquidation proceeds and cost ratios based on a default history as well as the time needed for realisation. In addition, for collateral types lacking an extensive default history (e.g. pledges related to wind power financing transactions, ship financing), special collateral valuation processes were developed based on a Monte Carlo simulation of market values or the expected cash flows from the collateral. In the case of securities, the Bank resorts to its own haircut calculations based on historical information.

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. Since the end of 2010, the Bank has had the approval of the regulatory authorities to utilise pledges as well for the reduction of credit 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. In the course of introducing the EuroSIG systems, the KRIBS collateral system was replaced by the CL&C and COM systems in 2010. At the same time, further improvements were made in the quality of data for collateral valuation through corrections and filtering carried out in the data migration process and the addition of new functionality in CL&C and COM.

In the area of collateral management, the Bank appointed collateral officers in each division, who focus on valuations and data quality in their respective divisions, among other things. In addition, the collateral management activities are complemented by reports on volumes of the individual collateral types and concentrations. The valuation methods and parameters are subject to annual validation

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. Issuer risk is calculated for the banking book, including the reclassified portfolios. The internal default risk model is an internally devised model that fundamentally 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 (probability that a customer will default on the loan during the course of the loan (probability of default; PD), the expected expenses arising from the default (loss given default; LGD) and the expected exposure at default (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 underlying parameters used in the model will be updated in 2011.

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. 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. Macroeconomic scenarios are randomly generated for this purpose. 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 2011, we plan to introduce UniCredit's credit portfolio model, which also takes into account insights we gained from the financial crisis. This new model, to be used across UniCredit, represents an enhancement of our model, and will be used to ensure consistent management and planning across the entire organisation. For example, 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 12 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.

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

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

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

Risk Report (Continued)

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 negative economic trends, we take account of the varying 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 economic environment. Against the backdrop of financial market tensions owing to the high levels of sovereign debt in some European countries, we increasingly focused on insolvency scenarios involving euro countries by identifying risks in the debt crises of some European countries and deriving scenarios from them. Through our newly formed Stress Testing Council, we will integrate the process of scenario identification and assessment more tightly into the Bank's structures, thus elevating the relevance of its decisions.

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 – and that are each 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.

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

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

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, and hence also at HVB level, credit risk concentrations with affiliated counterparties are limited by credit ratings. For this purpose, we use a database encompassing all exposures of a borrower within HVB Group 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 risk management and control of counterparty risk and issuer risk to prevent the unintended and uncontrolled increase of our risk position. These systems are available online at all key HVB facilities engaged in trading activities. The LimeX limit system is used in this context at all locations of

HVB. 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 ensures constant system availability for each trader for the purpose of checking limit utilisation and lets the risk controller perform direct limit monitoring for each counterparty or issuer. To reduce counterparty risk relating to financial institutions, HVB is making greater 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). In this context, the risk in the "trading" controlling area is measured using a market risk-oriented parameter (specific value-at-risk) which represents the potential loss of market value within one day for a trading position assigned to this controlling area.

A different approach is adopted in the "non-trading" and "ACPM" controlling areas. Here, the maximum loss in the event of an issuer's insolvency is determined using the nominal amount of a position and including the recovery rate ("nominal exposure").

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 measures taken in the course of the financial and economic crisis for active risk and line management with corporate customers stabilised the risk situation in 2010, resulting in a decline in the credit and counterparty exposure by €5.5 billion (down 3.0%), to €179.6 billion. As regards industry sectors, the decrease in exposure was found particularly among retail customers (down €3.4 billion) and the public sector (down €2.2 billion). By contrast, an increase in exposures was seen in banking and insurance (up €1.4 billion). There were only minor changes in the other industry sectors.

The issuer exposure of HVB for non-trading and ACPM increased by €5.8 billion year-on-year, to €39.0 billion, in 2010 (2009: €33.2 billion). 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 2010, with the issuer exposure decreasing by €0.7 billion to €16.9 billion in the banking and insurance segment and increasing by €7.6 billion to €20.1 billion in the public sector segment. The share of the remaining industry sectors fell by 4.2 percentage points to 5.1%.

The core portfolio, defined as the overall HVB portfolio, excluding the remaining exposures assigned to the former Real Estate Restructuring segment, decreased by 3.6% in 2010 to €177.5 billion. In the

Risk Report (Continued)

Corporate & Investment Banking division, the exposure remained almost constant at €134.3 billion (down a minor 0.4% or €0.6 billion). In view of the improvement in the economy, the Bank will consistently exploit growth opportunities in 2011 but also continue to carry out measures for portfolio enhancement. Our exposure in the Retail division fell by €2.4 billion (down 6.5%) while the exposure in the Private Banking division increased by €0.1 billion (up 2.2%), partly on account of the change in the allocation of customers based on the One4C project. The decrease in the Other/consolidation segment of €3.7 billion (down 48.7%) is primarily due to the planned disposal of the non-strategic portfolios.

The issuer exposure primarily arises in the Corporate & Investment Banking division.

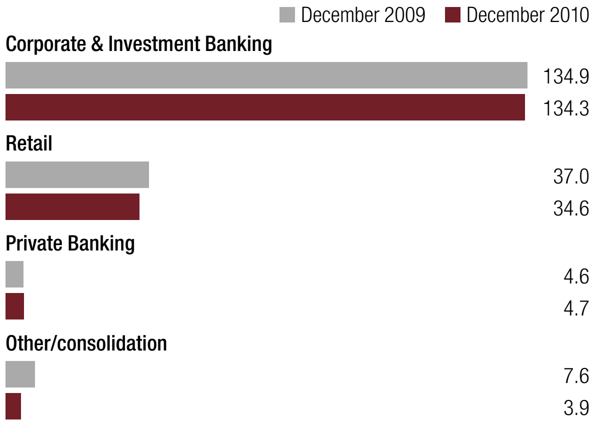
The credit and counterparty risk in rating classes 1–4 rose by €3.8 billion in 2010. The 2009 figures have been adjusted to reflect a change in methodology, which resulted in the customers previously classified as free of default risk being incorporated in the other rating classes. The share of rating classes 1–4 in the entire core portfolio thus rose to 50.3%. Exposures in rating classes 5–8 decreased by €7.2 billion, to €76.1 billion, which was partly due to the better than expected economic recovery but also to the Bank's active risk management. Exposures in rating classes 9–10 were able to be reduced by €1.9 billion to €6.8 billion.

At €33.9 billion or 86.9%, the issuer exposure in 2010 was concentrated on issuers classified in rating classes 1–4. Issuer exposure in rating classes 5–8 from €1.0 billion to €0.9 billion. Issuer risk amounted to €0.4 billion in rating classes 9–10.

Under credit risk and counterparty risk there was a further shift in the risk contributions of the divisions in terms of expected loss and value-at-risk to Corporate & Investment Banking in 2010. The share of risk from Corporate & Investment Banking increased in terms of both expected loss (3.3 percentage points) and value-at-risk (2.6 percentage points). Both expected loss and value-at-risk decreased in the Retail division and in the Other/consolidation segment. In Private Banking, both risk ratios remained stable at 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 2011 particularly in Corporate & Investment Banking. Therefore, the Bank initiated additional measures in the risk strategy to limit any detrimental effects on the credit portfolio through active risk management.

The net releases of provisions for losses on guarantees and indemnities recognised by HVB for 2010 amounted to €526 million. This is described under provisions for losses on loans and receivables in the income statement in the section of the Management Report entitled "Business Situation and Trends".

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



Breakdown of credit exposure and counterparty exposure by industry sector

(€ billions)

Industry sector	2010	2009
Construction	30.9	31.3
Banking and insurance	30.3	28.9
Retail customers	24.2	27.6
Food/consumer goods/services	20.2	19.4
Public sector	12.3	14.5
Transportation	11.2	11.3
Chemicals, health, pharmaceuticals	10.3	11.0
Utilities	8.9	8.5
Mechanical engineering, steel	7.9	8.1
Automotive	6.7	7.3
Mineral oil	4.9	4.1
Electrical, IT, communications	4.3	4.8
Other	4.0	4.5
Media, printing, paper	3.5	3.8
Total	**179.6**	**185.1**

Breakdown of issuer exposure by industry sector

(€ billions)

Industry sector	2010	2009
Public sector	20.1	12.5
Banking and insurance	16.9	17.6
Other	0.5	0.5
Utilities	0.3	0.3
Food/consumer goods/services	0.3	0.5
Construction	0.2	0.3
Electrical, IT, communications	0.2	0.3
Chemicals, health, pharmaceuticals	0.1	0.1
Automotive	0.1	0.7
Mechanical engineering, steel	0.1	0.1
Media, printing, paper	0.1	0.1
Transportation	0.1	0.1
Mineral oil	0.0	0.0
Retail customers	0.0	0.1
HVB Group	**39.0**	**33.2**

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

	2010		2009[1]	
Rating	€ billions	in %	€ billions	in %
Not rated	5.4	3.1	6.7	3. 6
Rating classes 1–4	89.2	50.3	85.4	46.4
Rating classes 5–8	76.1	42.8	83.3	45.3
Rating classes 9–10	6.8	3.8	8.7	4.7
HVB	**177.5**	**100.0**	**184.1**	**100.0**

1 the 2009 figures have been adjusted to reflect the first-time inclusion of the position "Free of default risk" in other rating classes in 2010

Breakdown of issuer exposure by rating class – core portfolio

	2010		2009[1)]	
Rating	€ billions	in %	€ billions	in %
Not rated	3.8	9.8	2.9	8.7
Rating classes 1–4	33.9	86.9	28.9	87.1
Rating classes 5–8	0.9	2.3	1.0	3.0
Rating classes 9–10	0.4	1.0	0.4	1.2
HVB	**39.0**	**100.0**	**33.2**	**100.0**

1 the 2009 figures have been adjusted to reflect the first-time inclusion of the position "Free of default risk" in other rating classes in 2010

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 division	2010	2009	2010	2009
Corporate & Investment Banking	78.0	74.7	91.2	88.6
Retail	15.4	16.1	6.0	7.2
Private Banking	1.2	1.0	0.9	0.8
Other/consolidation	5.4	8.2	1.9	3.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

Risk Report (Continued)

Country risk year-on-year
In the year under review, the exposures of HVB entailing country risk increased by €90 million to €47.5 billion on account of the absorption of CAIB.

Approximately 96% of the total exposure (2009: 96%) relates to countries with rating classes 1–4. Rating classes 5–9 represent only €1.9 billion (2009: €2.0 billion).

The regional focus of the portfolio is western Europe with 51% (2009: 64%), which decreased due to a decline of €4.5 billion in net exposure in the UK in connection with trading activities. Both North America and Central/South America and Asia/Pacific show a significant portfolio build-up of €3.1 billion, €1.0 billion and €0.4 billion in countries in rating class 1. In connection with the absorption of CAIB and the concentration of its business in eastern Europe, Eastern Europe shows an increase of €1.2 billion in net exposure. The exposure shows satisfactory regional diversification.

At 70% of the total (2009: 67%), the portfolio was dominated by trading activities including the issuer business. In the lending segment, 30% (2009: 33%) of the net exposure entailing country risk was disbursed.

Risks in the country risk are limited by a volume limit per country that is broken down into a defined product structure. In this connection, all country limits are generally reviewed at least once a year. 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.

Furthermore, the HVB portfolio is being optimised in line with the defined processes and regulations using specific measures such as limit reductions and/or restrictions on new business in defined products, exposure reductions and diversification to counter the challenges of the financial crisis.

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

	EXPOSURE		VALUE-AT-RISK[2]	
Rating	**2010**	**2009**	**2010**	**2009**
Rating classes 1–4	45,558	45,375	21.6	18.2
Rating classes 5–8	1,947	2,036	25.1	24.2
Rating class 9	1	5	0.1	0.8
Total	**47,506**	**47,416**	**46.8**	**43.2**

1 without euro countries; net of collateral, excluding transactions with loan-loss provisions
2 VaR recalculated (99.97% and one-year holding period) on the basis of HVB's portfolio

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

	LENDING		TRADING		ISSUER RISK		TOTAL	
Region	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Western Europe	6,908	8,502	16,581	20,757	968	869	24,457	30.128
North America	1,106	1,266	5,991	2,794	1,491	1,437	8,588	5.497
Asia/Pacific	2,115	2,190	4,044	3,669	394	339	6,553	6.198
Eastern Europe	3,015	2,691	1,540	898	391	163	4,946	3.752
Central and South America	673	709	1,041	48	756	725	2,470	1.482
Africa	400	273	92	86	0	0	492	359
Total	**14,217**	**15,631**	**29,289**	**28,252**	**4,000**	**3,533**	**47,506**	**47,416**

1 without euro countries; net of collateral, excluding transactions with loan-loss provisions

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

	EXPOSURE		VALUE-AT-RISK[2]	
Country	**2010**	**2009**	**2010**	**2009**
UK	17,630	22,101	1.7	5.9
USA	6,915	4,105	0.0	0.0
Switzerland	4,857	5,223	0.3	0.3
Singapore	2,445	2,653	0.2	0.2
Russian Federation	2,283	2,002	6.1	5.4
Hong Kong	1,343	442	0.6	0.0
Cayman Islands, offshore	1,281	326	3.4	0.5
Turkey	1,158	909	9.3	7.9
Canada	1,044	859	0.0	0.0
Denmark	976	1,384	0.0	0.1
Total	**39,932**	**40,004**	**21.6**	**20.3**

1 without euro countries; net of collateral, excluding transactions with loan-loss provisions
2 VaR recalculated (99.97% and one-year holding period) on the basis of HVB's portfolio

Financial derivatives

Financial derivatives are used primarily to manage market price risks (in particular, risks 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. Besides market risk, they bear counterparty risk or, in the case of credit derivatives, which serve to manage credit risks, also issuer risk.

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

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB at year-end 2010 totalled €93.0 billion (31 December 2009: €84.7 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 as well as the collateral provided by borrowers, risk-weighted assets for HVB amounted to €14.8 billion at 31 December 2010 (31 December 2009: €15.9 billion).

Risk Report (Continued)

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

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2010	2009	2010	2009	2010	2009
Interest rate derivatives	**1,167,491**	**1,158,234**	**896,590**	**3,222,315**	**2,876,999**	**64,809**	**61,019**	**63,496**	**60,013**
OTC products									
Forward rate agreements	210,417	12,334	—	222,751	161,291	132	269	105	123
Interest rate swaps	813,594	888,692	739,097	2,441,383	2,177,428	60,071	56,371	57,700	54,451
Interest rate options									
– purchased	39,100	126,568	71,643	237,311	222,170	4,499	4,345	6	—
– written	38,396	105,287	84,492	228,175	224,203	64	28	5,541	5,429
Other interest rate derivatives	324	186	—	510	425	43	6	144	10
Exchange-traded products									
Interest rate futures	65,660	25,102	1,296	92,058	83,188	—	—	—	—
Interest rate options	—	65	62	127	8,294	—	—	—	—
Foreign exchange derivatives	**407,254**	**165,649**	**69,907**	**642,810**	**466,309**	**14,347**	**9,508**	**14,172**	**9,581**
OTC products									
Foreign exchange forwards	267,808	25,127	332	293,267	232,264	4,562	3,407	4,247	3,278
Cross-currency swaps	56,461	123,855	68,123	248,439	173,147	8,036	5,070	8,135	5,176
Foreign exchange options									
– purchased	40,905	8,585	717	50,207	30,386	1,744	1,030	—	—
– written	42,048	8,082	735	50,865	30,509	5	1	1,790	1,127
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	32	—	—	32	3	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Equity/index derivatives	**59,868**	**78,313**	**5,937**	**144,118**	**186,805**	**9,322**	**9,214**	**11,875**	**11,745**
OTC products									
Equity/index swaps	10,933	8,294	443	19,670	20,053	281	787	288	495
Equity/index options									
– purchased	7,926	16,929	1,126	25,981	32,143	6,934	4,164	1	—
– written	14,858	31,740	3,535	50,133	68,133	37	38	7,788	5,507
Other equity/index derivatives	5	1	—	6	2,378	5	219	1	2
Exchange-traded products									
Equity/index futures	4,265	202	11	4,478	204	—	9	—	5
Equity/index options	21,881	21,147	822	43,850	63,894	2,065	3,997	3,797	5,736
Credit derivatives[1]	**38,468**	**198,707**	**34,386**	**271,561**	**326,438**	**4,103**	**4,318**	**4,515**	**4,684**
Other transactions	**4,803**	**4,851**	**498**	**10,152**	**7,313**	**403**	**786**	**718**	**1,104**
Total	**1,677,884**	**1,605,754**	**1,007,318**	**4,290,956**	**3,863,864**	**92,984**	**84,845**	**94,776**	**87,127**

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 €809,425 million at 31 December 2010 (thereof credit derivatives: €5,985 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2010	2009	2010	2009
Central governments and central banks	1,378	594	710	536
Banks	72,430	67,717	74,996	70,617
Financial institutions	15,486	12,839	17,493	14,358
Other companies and private individuals	3,690	3,695	1,577	1,616
Total	**92,984**	**84,845**	**94,776**	**87,127**

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	2010	2009	2010	2009	2010	2009
Banking book	**275**	**949**	**360**	**1,584**	**732**	**38**	**15**	**55**	**19**
Protection buyer									
Credit default swaps	50	779	185	1,014	189	37	15	18	—
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	18	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	225	170	175	570	525	1	—	37	19
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Trading book	**38,194**	**197,758**	**34,025**	**269,977**	**325,706**	**4,065**	**4,303**	**4,460**	**4,665**
Protection buyer									
Credit default swaps	18,156	95,237	16,401	129,794	154,703	2,852	2,745	1,257	1,499
Total return swaps	—	203	—	203	173	—	12	—	6
Credit-linked notes	—	10	25	35	2,071	24	130	—	21
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	19,964	102,242	17,598	139,804	164,370	1,188	1,404	3,186	3,087
Total return swaps	62	—	—	62	—	—	—	—	—
Credit-linked notes	12	66	1	79	4,389	1	12	17	52
Other	—	—	—	—	—	—	—	—	—
Total	**38,469**	**198,707**	**34,385**	**271,561**	**326,438**	**4,103**	**4,318**	**4,515**	**4,684**

Risk Report (Continued)

Credit derivatives by reference asset (€ millions)

	NOMINAL AMOUNT					
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	OTHER	TOTAL 2010	TOTAL 2009
Public sector bonds	67,979	62	79	—	68,120	40,553
Corporate bonds	199,224	—	35	—	199,259	279,116
Equities	2	—	—	—	2	32
Other assets	3,977	203	—	—	4,180	6,737
Total	**271,182**	**265**	**114**	**—**	**271,561**	**326,438**

Single-name credit derivatives made up 58.1% of the total; multi-name credit derivatives, relating to baskets or indices, accounted for a share of 41.9%.

2 Market risk

Risk management

Market risk is defined as the potential loss arising from an adverse change in value of positions in the trading and banking books. Market risk comprises the following risk categories: interest rate, foreign exchange, equity, credit spread as well as commodity risk and also includes any option risks.

Our market risks are managed mainly in the Corporate & Investment Banking division. In 2010, the focus was on further consolidating risk-bearing transactions and concentrating on customer transactions.

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.

Alongside the management of risks through the value-at-risk approach, the risk positions of several key units are limited by an additional bundle of granular limits relating to sensitivities, stress test results and nominal volumes in a most diverse range of risk classes.

In the interests of allowing Group-wide standardisation and consolidation, and initially for the internal risk management, we introduced a new internal model for determining value-at-risk in the third quarter of 2010. In line with the old model, the new model also applies valuation parameters from the following asset classes: interest, credit spreads, equities, currencies and commodities. In contrast to the old model, which is founded on a Monte Carlo approach, the new model applies a historical simulation. In the process the relevant risk factors are allocated to the appropriate market data series as a first step. Based on the development of the relevant market data over the past 500 trading days the potential change in value of the positions relevant for market risk is calculated. The days are not weighted, so that a uniform weighting of changes in the market data is assumed. The value-at-risk is generally equivalent to the fifth worst of the 500 potential changes in value.

In the fourth quarter the calculation of the risk entailed in positions of the former UBM were converted to a full revaluation. This means that no sensitivity approach in the sense of the usual sensitivity parameters employed, such as delta/gamma/vega, is applied in the valuation of the related positions; instead, the valuation function is fully applied.

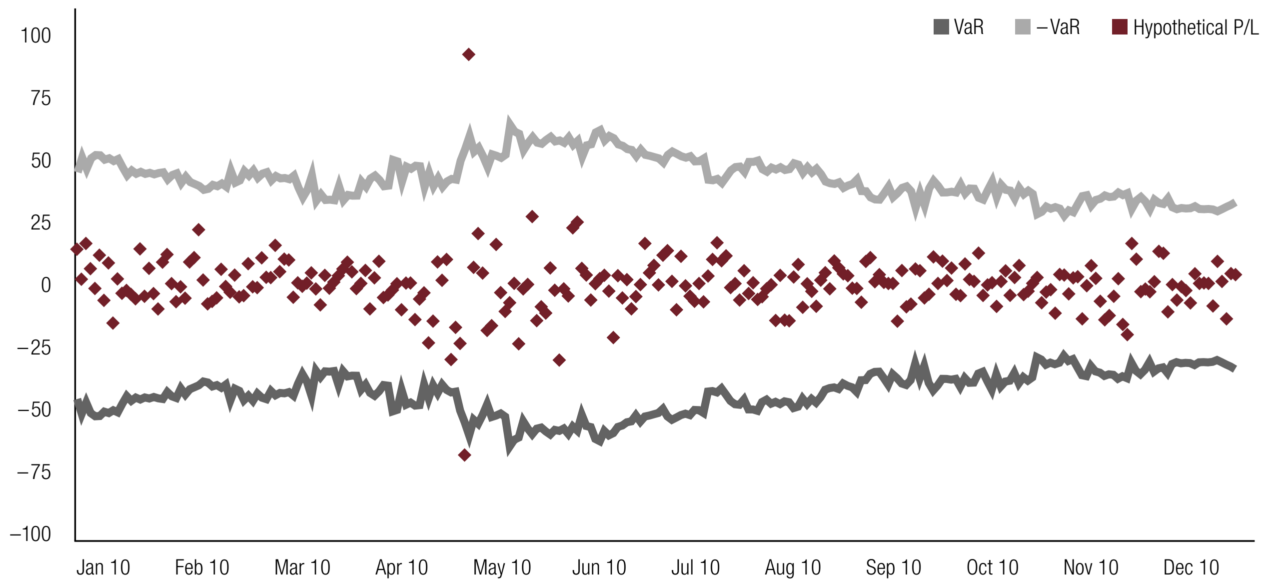
Until the change in our model is accepted by the German Federal Financial Supervisory Authority, HVB's regulatory reporting will be based on the existing methodology. At the end of December the average one-day value-at-risk of the last 60 trading days which serves as a basis for the regulatory report amounted to €24 million. The comparative value according to the new internal model amounts to €31 million.

A priority in 2011 will be the implementation of extensions required under Basel II:
– for securitisations: internal rating-based approach, IRB
– for unsecuritised credit products: incremental risk charge
– for the correlation trading book: comprehensive risk measure
– in addition: stressed value-at-risk

We check the appropriateness of the methods used to measure market risk by means of regular back-testing that compares the value-at-risk calculations with the hypothetical market value changes derived from the positions. In 2010, there were two back-testing exceptions to report based on the previous internal model. On those dates, the hypothetical loss was greater than the forecasted value-at-risk value. When applying the new internal model, there is only one back-testing exception (see chart "Back-testing of new internal model: HVB trading activities in 2010 (€ millions)").

In addition to calculating the value-at-risk, we continually conduct stress tests for HVB 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 a widening of credit spreads. We also analyse macroeconomic stress scenarios based on real market upheavals (historical stress tests) or current threats (hypothetical stress tests). The set of stress scenarios also includes those applied by UniCredit.

Back-testing of new internal model: HVB trading activities in 2010 (€ millions)



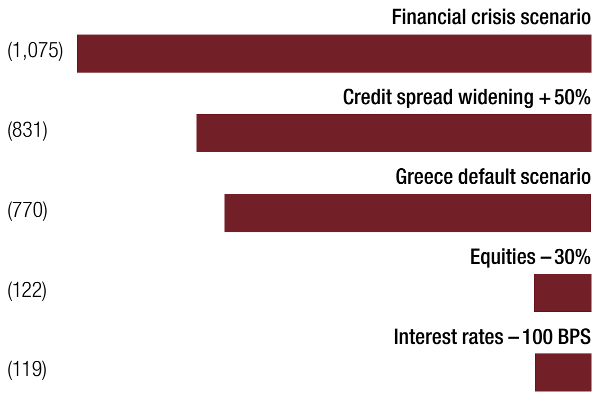
Risk Report (Continued)

One example for a historical scenario used is based on experience gained from the financial crisis. 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.

One hypothetical scenario used is based on the potential market movements in case of a default by Greece ("Greece default").

The most significant stress result from this package of stress test scenarios at 31 December 2010, with a potential loss of €1,075 million (2009: €896 million), results from the "Financial crisis" scenario. This scenario is also used in the cross-risk-type stress tests, where it is analysed for ability to bear risk.

HVB stress testing at 31 December 2010 (€ millions)



Towards the end of 2010, further scenarios were defined that assume much more significant market distortions. These include the scenarios sovereign tensions and widespread contagion. Both of these are based on the assumption of a euro-area country defaulting with the crisis then spreading more widely to further countries in the euro area. At December 2010, the potential loss in these scenarios totalled €2.2 billion (sovereign tensions) and €3.2 billion (widespread contagion), respectively.

For 2011, we are endeavouring to determine the market distortions which are especially critical for our portfolio by conducting an inverse stress test.

Risk monitoring

The market risk positions in the trading and banking books are monitored using a 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.

All market risk transactions worldwide in the trading book and – with the exceptions named – the banking book of HVB are collated in an overall value-at-risk (VaR) overnight and checked against the risk limits. The risk limits are approved annually by the Management Board of HVB and adjusted as required. At the beginning of 2010, the Bank reduced HVB's overall limit for market risk, calculated using the previous internal model, from €75 million to €70 million for the Corporate & Investment Banking division (CIB). Due to the higher VaR limits in the new internal model (historical simulation), HVB's limit for this was raised to €100 million for CIB.

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. In 2010, the reduction was carried out within one day with a few exceptions. If the specified limit was exceeded on the following day, an escalation process was again immediately initiated.

Market Risk Control has direct access to the front-office systems used in trading operations. The supervision of intraday activities is based on the detailed check of the P/L on the previous day. In this connection both the daily revenues and the P/L generated from it from intraday transactions is determined. If a predefined threshold is exceeded, the portfolio concerned is closely monitored.

In addition to the daily reports, the management is informed on a monthly basis about 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 in 2010. The reduction in market risks in the third and fourth quarter resulted essentially from the timeframe used for the historical simulation, because in contrast to the second quarter of 2010, a large number of extreme market movements from the financial market crisis in September and October 2008 had slipped outside the 500-day observation period in the third and fourth quarters of 2010.

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

	AVERAGE 2010[1]	31/12/2010	30/9/2010	30/6/2010	30/6/2010	31/3/2010	31/12/2009
	NEW MODEL	NEW MODEL	NEW MODEL	NEW MODEL	PREVIOUS MODEL	PREVIOUS MODEL	PREVIOUS MODEL
Interest rate positions (incl. credit spread risks)	39	29	36	52	34	19	22
Foreign exchange derivatives	5	4	7	5	4	3	2
Equity/index positions[2]	9	8	7	11	5	2	5
Diversification effect[3]	(10)	(7)	(10)	(13)	(10)	(5)	(8)
Total	**43**	**34**	**40**	**55**	**33**	**19**	**21**

The asset classes are broken down by business unit
1) arithmetic mean of the three quarter-end figures
2) including commodity risk
3) 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 (value-at-risk, 99% confidence level, one-day holding period) (€ millions)

		AVERAGE 2010[1]	31/12/2010	30/9/2010	30/6/2010	31/3/2010	31/12/2009
HVB previous model	Market risk				39	28	34
	Limit				70	70	75
HVB new model	Market risk	69	60	66	82		
	Limit		100	100	100		

1) arithmetic mean of the four quarter-end figures

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

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

	AVERAGE SECOND HALF OF 2010[1]	31/12/2010	30/9/2010
HVB with reclassified portfolios	**125**	**125**	**125**

1) arithmetic mean of the last two quarter-end figures

Risk Report (Continued)

At year-end, the banking book of HVB contained market risks of €78.96 million with a one-day holding period (31 December 2009: €49 million). This includes all the market risks from the banking book. The market risks of the reclassified portfolios, taken in isolation, amounted to €53.66 million (2009: €36 million). The market risks of the remaining banking book positions show a market risk of €40.48 million (2009: €24 million).

In addition to calculating the value-at-risk, the risk profile of the banking books is examined using sensitivity analyses. Here, exchange rates, interest rates and stock prices are varied and the resulting change in the portfolio value is calculated. This shows the extent to which market fluctuations affect the value of the banking book portfolio.

A 10% appreciation of all foreign currencies (FX sensitivity) results in a decrease in the portfolio value by €24.75 million (0.11% of the regulatory capital) in the banking book of HVB Group (31 December 2009: a decrease of €27.58 million with an appreciation of foreign currency positions).

Value change in case of a 10% FX appreciation
at 31 December 2010 (€ million)

HVB BANKING BOOK	
Total	(24,75)
USD	(7,85)
GBP	(18,54)
CHF	3,39
JPY	0,21
CZK	0,01
CAD	(0,04)
HKD	0,04

A 20% decline in all equity and hedge fund prices results in a decrease in the portfolio value by €43.94 million (0.19% of regulatory capital) in the banking book of HVB (31 December 2009: €76.61 million).

Value change in case of a 20% decrease in equity prices
at 31 December 2010 (€ million)

HVB BANKING BOOK	
Total	(43,94)
Equity products	(0,04)
Hedge funds	(43,90)

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)
– with 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 results in a decrease in value of €360.39 million (1.59% of the regulatory capital) in the banking book of HVB (31 December 2009: €423.82 million). If the hedge effect of the equity capital model book is taken into account, this scenario results in a value increase of €124.98 million (31 December 2009: €71.46 million).

Any financial impact resulting from the present value (PV) valuation 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.

Value change in case of an interest shock of +100 BPS at 31 December 2010 (€ millions)

	TOTAL	UP TO 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS
HVB banking book – without hedge effect of equity capital model book	(360.39)	17.07	(369.45)	(8.01)
HVB banking book – with hedge effect	124.98	83.04	43.68	(1.74)

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

In compliance with the Circular issued on 6 November 2007 by the German Federal Financial Supervisory Authority (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 0.71% (2009: 0.66%), or 2.05%, excluding the model book (2009: 2.27%), of its regulatory equity capital at 31 December 2010, HVB is well below the reportable outlier value of 20% stipulated by the banking supervisory authorities. Without the valuation effects of the reclassified portfolios, the rate of equity capital utilisation is 0.43% (2009: 0.54%).

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 €175 million decrease in net interest income within the next 12 months (31 December 2009 minus 100 basis points: €291 million).

For the calculation of economic capital for market risk, we have implemented the requirements defined in the 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.

In 2010, we changed the basis for determining the economic capital for market risk to the maximum value-at-risk over the last 12 months. At €1.6 billion, the economic capital for market risks at HVB Group has decreased by €1.3 billion over the comparable previous year-end figure (€2.9 billion). Based on the new maximum market risk method, the maximum figure has fallen over time. Therefore, this leads to lower market risk economic capital. Here, too, the hedging effect from the equity capital model book is not taken into account. The cushion add-on for improved consideration of hedge fund positions in the Bank's risk-bearing capacity was €0.05 billion at year-end 2010 (2009: €0.06 billion).

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. Reference should essentially be made to the measurement and monitoring instruments listed for market risks. Appropriate stress tests are used for quantification purposes.

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.

In the course of stress tests, the risk from deteriorating market liquidity is analysed. In this regard, analysis is being carried out to determine the amount of losses that would result from the liquidation of trade and banking book positions in a market environment with greatly expanded bid-offer spreads. For December 2010, the tests showed a potential loss of €587 million for HVB.

3 Liquidity risk
Risk management
Despite the strong recovery of the global economy, the financial sector is still feeling the after-effects of the financial and economic crisis of recent years. A certain degree of calm has been restored to the markets, above all through the rescue package passed by the European Union in conjunction with the International Monetary Fund in May 2010. The extent to which the financial markets will continue to feel negative effects from the debt crises in some European states and from the risks of unfavourable developments in interest rates and currency exchange rates remains to be seen.

Risk Report (Continued)

HVB put in a solid performance in this market environment, 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 continue monitoring the possible effects on the funding of HVB that may result from the expiration of the global support measures by central banks and governments.

Liquidity risk is defined in terms of four risk categories.

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

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

Operational liquidity risk as part of short-term liquidity risk
Operational liquidity risk, which is part of the short-term liquidity risk, may arise when a financial institution cannot meet its intraday payment obligations from current incoming and outgoing payment transactions, thus running the risk of becoming technically insolvent. This risk is limited in HVB through continual intraday monitoring and forecasting of the relevant account balances.

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

Again in 2010, 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 adopted by the Management Board of HVB. Depending on the defined risk appetite, the basic points set out in the policy are based on the ability to meet financial obligations at any time. The targets also include the optimisation of the expected cash flows, the limitation of the cumulative liquidity gap, the reduction of liquidity risks by implementing an intraday liquidity buffer and carrying out stress tests on a regular basis. For both 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 including its supplementary appendix and the contingency plan must be updated at least once a year. The liquidity policy is implemented by the operational business units and is coordinated and monitored for the relevant HVB units by the Finance department.

Measurement methods
Short-term liquidity risk
To measure short-term liquidity risk, cash flow profiles are produced on a daily basis. The resulting balances are compared with the available liquidity reserves, which consist primarily of the available highly liquid securities eligible at all times as collateral for central bank borrowings. The model's underlying assumptions are designed to be

as conservative as possible, for instance by applying appropriate haircuts. The cumulative balance of the above-named components is backed with limits for all maturity buckets of up to three months for the relevant units of HVB Group.

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

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 need, which is used to set the funding targets and is presented to the Asset Liability Committee (ALCO), additionally takes 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.

The key assumptions underlying the risk measurement methods are reviewed on a regular basis to assess their appropriateness.

Risk monitoring

The monitoring of our liquidity situation has been entrusted to the Finance department of our CFO organisation. To all intents and purposes, it involves analysing and managing mismatches in the maturities of assets and liabilities, which are limited for defined maturity periods through limits and funding targets. Compliance with the allocated limits is monitored on a daily basis and the long-term funding ratios are monitored monthly.

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

Operational liquidity risk

To monitor operational liquidity risk, HVB Group uses a minimum balance which must be met throughout the day. It is continually monitored and checked against the actual volumes in the relevant accounts.

Funding volumes and products derived from the funding targets are implemented in a cost-effective manner by the units actively operating on the market in consultation with the Finance department.

The local treasury units are responsible for observing developments in their respective local markets. These units submit reports to the Finance department 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 2010 were dominated by high volatility. The situation in the markets calmed down over the second half of 2010. Despite the initial market turmoil, the liquidity situation of HVB remained at an adequate level at all times.

Risk Report (Continued)

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 €25.0 billion in HVB for the next banking day at the end of December 2010 (2009: €38.8 billion). The portfolio of highly liquid securities eligible at short notice as collateral for central bank borrowings and available at short notice to compensate for unexpected outflows of liquidity amounted to €26.8 billion at year-end 2010 (2009: €36.6 billion).

The stress tests we conduct on a regular basis showed that liquidity reserves at the end of 2010 were sufficient to cover liquidity requirements resulting from defined scenarios.

The requirements of the German Liquidity Regulation (LiqV) were met at all times by HVB during the year under review. The funds available to HVB exceeded its payment obligations for the following month by an average of €42.7 billion in 2010 (2009: €41.7 billion) and by €45.5 billion at 31 December 2010.

Funding risk
HVB's funding risk was again quite low in 2010 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 €6.8 billion on the capital market during 2010 (2009: €10.0 billion). With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

4 Operational risk

Risk management

We define operational risk as the risk of losses resulting from inadequate or failed internal processes, human error, technological breakdowns or external events. Under the 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 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 Legal & Compliance unit (LCD) is responsible for managing legal risks as well as compliance risks. LCD offers comprehensive service for all Bank departments for all legal and compliance-related issues. It is also responsible for the introduction of and compliance with all relevant laws and regulations by HVB Group and continually monitors foreseeable legislative developments and their impact on HVB Group. Moreover, LCD monitors compliance by HVB Group companies with the statutory regulations and the recognised principles of case law. For this purpose, LCD plays an advisory role for legal and compliance issues for all departments of HVB and its subsidiaries as well as acting in a monitoring capacity. This involves close cooperation with the management and divisions of HVB and the relevant departments of HVB Group companies, where present.

Measurement methods
To quantify the operational risk of HVB, we apply the UniCredit-wide Advanced Measurement Approach (AMA), which is based on the loss distribution approach. This model uses internal and external loss data to determine the loss distributions. We use scenario analysis to compensate for the shortage of data in some areas involving rare, high losses. A Monte Carlo simulation is used to calculate the value-at-risk figures, taking into account risk-reducing measures, such as insurance. By taking into account factors related to internal control and the business environment, the risk capital is adapted to the current risk profile. The risk capital is increased in the process if there are deteriorating factors and is reduced if there are enhancing factors.

The business activities of the former UniCredit CAIB AG acquired from UniCredit Bank Austria AG were absorbed by HVB on 1 July 2010 and are now being operated in a restructured form as the Vienna branch of HVB. In the course of this integration process, preparations are also under way for a corresponding extension of the AMA accreditation of HVB to this foreign branch in 2011.

The economic capital for operational risks is also calculated using the UniCredit-wide AMA model. Only our own data are used when representing the specific risk profile of HVB Group. UniCredit-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 UniCredit-wide diversification effects are taken into account when calculating the capital at the UniCredit holding company level.

Risk monitoring
The focus in risk monitoring is on the further development of risk surveys and scenario analysis, the ongoing monitoring of relevant risks and 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 the UniCredit holding company regarding the UniCredit-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 uses the Advanced Measurement Approach, which means that it achieves significant capital savings in the double-digit percentage range compared with the Standard Approach.

The economic capital for operational risks of HVB Group amounted to €0.8 billion at the end of 2010 (2009: €0.7 billion).

Risk Report (Continued)

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

IT risks

The calculation and transfer of the flat tax on capital income involves numerous processes and systems, with essential functions (for instance, calculating the flat tax and producing customer tax receipts) outsourced to CACEIS Bank Deutschland. Overall process responsibility rests with HVB, and processes and systems undergo continual development through projects in cooperation with our service provider. The logjam attributable to various IT problems was cleared up over the course of the year under review, and quality was ensured with the support of outside experts. The implementation of the requirements resulting from the flat tax will continue to be monitored closely by a project team of tax experts in 2011.

During preparation of the quarterly financial statements of HVB, run times of the overnight software routines were longer on 1 April 2010 due to a special aspect of the flat tax and the systems and interfaces implemented as a result. The crisis management team effectively handled the effects of this serious malfunction. The follow-up analysis and corrective measures were monitored by risk management to prevent a repetition of this event and also to avoid any threat to the planned transition to the new IT platform.

EuroSIG, the new IT platform of HVB, was rolled out on 1 August 2010. In the first days after going live, the new system's stability, performance and functionality was subject to continuous monitoring, analysis and improvement. In addition, the compatibility of interfaces with other applications at the Bank was set up. Customers experienced only minor, planned restrictions in service areas (ATMs and statement printers) and in online banking during the transition weekend. However, they were informed well ahead of time in line with a comprehensive communication plan. An action plan complete with a release plan was devised for the elimination of the remaining internal restrictions and the replacement of the temporary workarounds. Potential operational risks from the workarounds still in place are being analysed within the framework of ongoing risk management and addressed as required.

Business continuity management

The business continuity management policy was updated at the beginning of the year, above all with the inclusion of the special requirements of the Bank of Italy, particularly with regard to the establishment of contingency workplaces.

The emergency and crisis management function proved effective and appropriate in the following situations:

– The late completion of an overnight batch job resulted in 35 IT applications being unavailable on 1 April 2010 (see IT risks)
– The roll-out of the EuroSIG core banking system was monitored and supported in July/August 2010
– In November 2010, there were temporary interruptions in the e-mail system that was about to be replaced. The problem was addressed with appropriate workarounds

These situations were successfully handled by the HVB crisis team, so that the effects were kept to a minimum and damage was avoided.

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.

In the course of harmonising the corporate structure within UniCredit, some tasks were reallocated within UniCredit. In some cases these moves must be classified as outsourcing, and were accompanied with risk analyses by the Outsourcing Tracking Office within the framework of the defined outsourcing process.

The Outsourcing Tracking Office is the centre of competence for HVB responsible for managing the outsourcing process and enhancing the transparency of existing outsourcing activities. As a part of Global Banking Services, it ensures high quality and comparable risk assessment standards, which involves close cooperation with the operational risk organisation.

In 2010, we continued to develop the methods and processes to monitor our outsourcing activities in accordance with practical requirements. A further priority is still to ensure that service level agreements take into account all aspects of operational risk, and to establish and develop the retained organisations to monitor the outsourced areas.

Other measures

– The Quality Supervisory Committee established in the Retail division ensures compliance with regulations and laws, quality standards pertaining to internal and external requirements and the internal guidelines and policies. In addition, the committee provides support in the identification, reduction and avoidance of errors and operational risks.
– Various countermeasures were implemented to reduce credit card-related risks, including the introduction of "3-D Secure" to improve the security of online credit card transactions and the addition of chips to credit cards.
– In response to the stricter amendments to the German Securities Trading Act, 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. Over the remainder of the year, further activities were undertaken to ensure that the legal requirements for consultation records were met in their entirety.

Outlook

In 2011, in the general ongoing development of our operational risk management, we will also be focusing more closely on the analysis and inclusion of current regulatory requirements at the national and international levels. Greater regulatory requirements and increased reporting obligations will make it necessary to review the staffing levels in the units concerned.

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 2010 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 HVB are based on the allegation that HVB 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 HVB is responsible along with the initiator and other persons. A few first- and second-instance rulings have been issued. In some cases, courts have ruled against HVB 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 (Oberlandesgericht) has started a test case procedure pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz – 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.

Risk Report (Continued)

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 HVB.

From today's perspective, the situation in the legal proceedings and the outcome of the claims of investors is unclear. HVB 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 made a settlement offer to the investors jointly with another German bank involved that 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, HVB does not expect any negative effects.

HVB's claim to repayment remains in effect even if the borrower issued an invalid power of attorney to a third party, and HVB relied on the validity of the power of attorney 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 HVB 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 has advised the customer on the acquisition of the property and received commission from the seller for selling the property. Based on its experience so far, HVB does 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, HVB 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, the 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 has risen to above-average levels of past years. So far customers have filed lawsuits in connection with losses from transactions in securities or derivatives 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 only in exceptional cases.

Three class actions were raised in the Unites States 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, HVB has decided not to set up any provisions in this regard.

At the beginning of January 2011, HVB's Milan branch together with more than ten other banks was sued by the Region of Lazio for alleged damages suffered by the Region of Lazio in connection with several derivative transactions. The total amount claimed from all banks as joint and several debtors amounts to €82.9 million. The legal predecessor of HVB's Milan branch was not a party to derivative transactions with the Region of Lazio. HVB has been sued for an assumed contractual responsibility – without an amount specified in relation to HVB – in connection with advisory activity it allegedly performed in favour of the Region of Lazio in relation to its debt restructuring but not for any relevant transaction involved. HVB together with UniCredit as one of the defendant banks will duly evaluate the case. At this stage, it is not possible to reliably estimate the outcome of the proceedings. Therefore no provisions have been set up in relation to this litigation.

Lawsuit 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.

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. HVB 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 the 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 HVB

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 and conduct of the Extraordinary Shareholders' Meeting of 25 October 2006 and the allegedly inadequate, too low purchase price paid for the units sold.

Risk Report (Continued)

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 the above 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 a general shareholders' meeting of the company for approval to become valid 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, HVB 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 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 on 29 and 30 July 2008, including the suits against the confirmatory resolutions adopted at this meeting. The appeal raised by some shareholders against this ruling was rejected by Munich Higher Regional Court on 22 December 2010. A final decision has not yet been passed.

Special representative

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 HVB's assets as a result of the sale of the Bank Austria shares as well as due to the BCA concluded between HVB and UniCredit S.p.A. and appointed Dr Thomas Heidel, a solicitor, as a special representative. HVB'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 on 26 and 27 June 2007 on the assertion of claims for damages due to damage caused to HVB's assets and on the appointment of the special representative was partly invalid, especially insofar as the special representative is not entitled to assert claims for damages in connection with the conclusion of the BCA (lit. d of item 10 of the agenda of the Annual General Meeting in 2007). The special representative and other former minority shareholders of HVB have filed an appeal against this decision and the denial of leave to appeal with the German Supreme Court, a step also taken by UniCredit, HVB's sole shareholder since 15 September 2008. A final ruling has not yet been passed.

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. The special representative has filed an appeal against this decision and the denial of leave to appeal with the German Supreme Court. A final ruling has not yet been passed.

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 at 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 the stay of said proceedings was ordered until a final decision has been passed with respect to the resolutions of assertion and appointment dated 26/27 June 2007 as well as the resolutions of revocation and dismissal dated 10 November 2008.

Annual financial statements for the 2006 financial year

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 HVB, 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 HVB, making the same arguments as mentioned above, seeking to have HVB'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.

Risk Report (Continued)

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.

The business risk strategy is based on the direction of business over the medium term and is reflected in planning. 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.

In 2010, as a further advancement in the methodology, we refined the definition of income for purposes of determining business risk and stopped including the interest income from trade operations in business risk because it was already included in the market price risk. In addition, we switched to a viewpoint based on present value.

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 determined 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 past years' difficult market environment, the broad diversification of HVB as a universal bank has proved particularly valuable.

Quantification and specification
The value-at-risk, without taking into account the diversification effects between risk types, decreased by €0.1 billion in the year under review to €0.5 billion (2009: €0.6 billion), taking into account the parameter update and the refinement in methodology. The calculated economic capital for business risks of HVB amounted to €0.3 billion at year-end 2010 (2009: €0.4 billion). These figures also reflect the effects of refinements in methodology.

As in past years, we continued to implement projects and measures for process improvements and cost savings. In the year under review, we successfully completed the Delivery-on-Restructuring efficiency programme, which was designed to eliminate 2,500 positions in the period from 2008 to 2010.

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

The real estate portfolio of HVB was transferred to our HVB Gesellschaft für Gebäude mbH & Co KG subsidiary. Moreover, the real estate portfolio of Vereins- und Westbank AG was transferred to HVB when the company was integrated in 2004.

As at 1 April 2010, real estate units and real estate-related services were pooled in our HVB Immobilien AG subsidiary.

The activities of HVB Immobilien AG include the management of both strategic real estate and the non-strategic portfolio (i.e. properties not used by the Bank). It is broken down into the following units:
– Corporate Real Estate Asset Management
– Corporate Facility & Infrastructure Management
– Facility Management International
– Corporate Affairs
– Land Development/Construction Management
– Property Sales Management
– Asset Management (non-strategic)
– Portfolio Management/Sales.

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. For purposes of assessing the risk-bearing capacity, the specific risk will be taken into account in the form of a cushion add-on until the development of the model is complete.

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.

Quantification and specification
As at year-end 2009, the economic capital for real estate risk again amounted to €0.02 billion for HVB at the end of 2010. The cushion add-on employed to take account of the specific risk in the Bank's risk-bearing capacity was €0.06 billion at year-end 2010 (2009: €0.07 billion).

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 are excluded). The Management Board is responsible for managing the overall portfolio. The responsibility at HVB for preparing business strategies, and thus risk strategies, in connection with shareholdings/investments rests with the divisions and competence lines. Subsidiaries and participating interests are to be seen as instruments for achieving divisional strategies.

Measurement methods
Under the value-at-risk approach, the risk inherent in our investments is calculated on the basis of their market values and volatilities, which, in the case of investments in listed companies, are determined using share-price fluctuations. In the case of investments in unlisted companies, we apply the carrying amounts as market value estimates as well as the volatilities of industry specific indices. For purposes of assessing the risk-bearing capacity, the specific risk will be taken into account in the form of a cushion add-on until the development of the model is complete.

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.

Risk Report (Continued)

All investments are either considered strategic and allocated to a division or competence line, or deemed non-strategic and can thus in principle be eliminated through disposals, mergers or liquidation. In 2010, the number of strategic investments remained largely constant. There are no plans for major changes. Additional investments in private equity funds were also made on a highly selective basis with the objective of achieving an appropriate risk/return balance with a broadly diversified portfolio. Investments are focussed on European buyout funds. The reduction of the non-strategic portfolio is progressing as planned.

Quantification and specification

The value-at-risk, disregarding the diversification effects and taking into account the methodological development between risk types, decreased by €0.3 billion, to €0.7 billion. HVB's economic capital for the risks arising from our shareholdings/financial investments was €0.5 billion (2009: €0.7 billion). The cushion add-on to take account of the specific risk for the risk-bearing capacity amounts to €0.3 billion at year-end 2010 (2009: €0.4 billion).

8 Reputational risk

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.

Reputational risk strategy

The objective for the Bank is to know the expectations of the various stakeholder groups and as far as possible to meet these expectations. At the same time, potential reputational risks should be avoided to the greatest possible extent. To simplify this process, UniCredit has devised a general Reputational Risk Governance Guideline. This guideline has been calibrated for HVB and adopted by the Management Board of HVB. At the same time, agreement with the holding company on the guideline is being finalised, after which it will be implemented accordingly at HVB. Until this happens, the general principles regarding reputational risk adopted in July 2009 remain in force.

The management of reputational risk is based on two pillars:
– prevention: prevent the occurrence of reputational risks
– damage limitation: respond as effectively as possible to any damage to reputation.

Reputational risk management

To prevent the occurrence of reputational risks and limit any damage after the risk has occurred, effective reputational risk management must start with the following:
– managing the potential danger
– stakeholder management/dialogue
– period for limiting the damage and restoring the Bank's reputation.

The study and evaluation 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, represented by the Chief Risk Officer and the head of the division concerned. The Reputational Risk Council decides on applications for the assessment of reputational risks as follows:
– No significant reputational risk was identified
  → the transaction is therefore approved.
– A significant but acceptable reputational risk was identified
  → submission to the Group Committee responsible at UniCredit (Group Transactional Credit Committee or Group Market Risk Committee) to obtain a non-binding opinion.
– An unacceptable reputational risk was identified
  → the transaction is therefore rejected.

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 (armaments) and energy 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.

Specification

According to the Minimum Requirements for Risk Management (MaRisk), risks classified as major risks and their effects must be taken into account in the Bank's future value when assessing the Bank's risk-bearing capacity. At present there is no generally accepted measurement method for reputational risk in the finance industry. For methodological considerations, we do not view a quantitative analysis as being suitable for the reputational risk because the reputational risk involves decisions or estimates that cannot be corrected with capital due to their rather unique nature. However, their secondary effects have already been taken into account in other risk types, such as a sharp fall in margins as a result of increasing competition. Hence the reputational risk is primarily classified by qualitative means. To this end the national and international political and economic environment is continually monitored by the Corporate Sustainability unit, which is responsible in this connection, and measures are taken for our strategic positioning.

Since July 2009, incidents involving a potential reputational risk, such as grey-area cases as defined in the sector policies, have been 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 2011 as a basic principle. A separate report on operational risk is submitted to the Management Board of HVB on a semi-annual basis, to take place for the first time as of July 2011.

9 Strategic risk

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

Risk management

Strategic risk results from management being slow to recognise important trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that may prove to be disadvantageous in terms of the Bank's long-term ex-post goals; in addition, some of them may be difficult to reverse.

Notwithstanding the fact that HVB Group is part of UniCredit, 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 at regular intervals with the Supervisory Board and its relevant committees.

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 (CIB), Retail and Private Banking (PB), 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.

The economic picture in 2010 was marked by a substantial upswing, particularly in Germany and France. The euro area as a whole faces the challenge of eliminating structural weaknesses particularly because of the debt crisis in two member states, namely Greece and Ireland. The measures put in place by the ECB with the IMF and the member states to counteract weakness in the euro (particularly the rescue package) impressively demonstrated the strengths of the euro area, however.

Risk Report (Continued)

Economic recovery in the euro area in 2011 should continue with an expected GDP growth of 1.7%. However, the divergence among countries is expected to widen, with Germany and France seen as clear favourites.

Some market participants believe that Portugal will also have to resort to the rescue package in 2011. As a whole, the economic development in 2011 is viewed as positive. However, if we experience renewed turmoil in 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 the whole of UniCredit. This gives rise to a balanced and solid business model built upon several pillars. In particular the resegmentation of customers between the CIB, PB and Retail divisions has led to even tighter customer focus and improved balance across the divisions. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise.

The strategic objective of our CIB 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 discontinuation 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

Consolidation on the German and international banking and financial markets is continuing apace. 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 well-functioning and recognised business model, which proved its worth in the crisis, 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 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 and market players which have different profitability requirements still exist on the retail side of the German market despite some mergers and acquisitions. Consequently, there is intense competition for customers and market share, and HVB Group faces sustained rivalry for trade. To a certain extent, influences on the competition conditions are also apparent owing to government capital contributions or guarantees for selected market participants in some segments.

The already tough competitive conditions are being made tougher by the need to regain lost customer trust. Since the financial crisis, if not earlier, a bank's reputation has become more important than ever before. The focal point of the critical examination of banks is trust, which is a central aspect of the reputational issue. To improve our understanding of our stakeholders and gain insights into their expectations, HVB Group has entered into a direct dialogue with its various stakeholder groups within the framework of a group-wide reputation project initiated by UniCredit. The Reputation Management Project will enable the Bank to form a well-founded picture of its own reputation – also as compared with its competitors – with the objective of developing specific recommendations for action. 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 more stringent regulatory requirements

The macroeconomic developments in the European Union, and especially the discussions surrounding the deleveraging of heavily indebted countries and countries that have already been forced to utilise the EU's bail-out mechanism, form part of the daily economic analysis performed by HVB Group. Ensuing risks, such as possible haircuts on government bonds issued by countries like Greece, Ireland, Portugal and Spain, would not have any significant impact on the assets, liabilities, financial position and profit or loss of HVB Group.

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. For example, the core capital ratio required in the future has been increased under Basel III. Further regulatory ratios are currently under discussion or will be introduced shortly (liquidity coverage ratio, leverage ratio and net stable funding ratio). Besides increasing the cost of capital, 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 introduction of new types of levies and taxes for the future stabilisation of the financial market and bank participation in the costs of the financial crisis

There are many approaches currently being discussed at the international level on how banks might contribute to the costs of future rescue measures or to the costs of the financial crisis. Being mentioned are bank fees to build up a stabilisation and restructuring fund, taxes on financial transactions, taxes on conducting bank business (financial activity) and taxes on the bonuses of bank employees with relatively high incomes. Here, individual countries have already moved forward by proposing actual new laws or have already passed new laws. EU member states can be expected to agree on a course of action based on the broadest possible consensus. In addition to crisis prevention and support in the event of future bank crises, these EU measures are intended to make the financial sector bear some of the cost of the crisis. The measures also have a political purpose. The bank levy that has already been adopted in Germany and Austria will impose an additional burden on HVB Group. The effects of the other tax initiatives remain to be seen. At the G20 level, by contrast, it appears unlikely that agreement will be reached.

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

Income Statement of UniCredit Bank AG

For the year ended 31 December 2010

Expenses (€ millions)

				2010	2009
1	**Interest payable**			4,982	6,403
2	**Fees and commissions payable**			782	919
3	**Net expense from the held-for-trading portfolio**			—	—
4	**General administrative expense**				
	a) payroll costs				
	aa) wages and salaries	1,377			1,544
	ab) social security costs and expenses for				
	pensions and other employee benefits	224			720
			1,601		2,264
	including: for pensions				
	€24 million				(530)
	b) other administrative expenses		1,470		1,472
				3,071	3,736
5	**Amortisation, depreciation and impairment losses**				
	on intangible and tangible assets			102	106
6	**Other operating expenses**			634	203
7	**Write-downs and impairments for receivables and**				
	certain securities as well as additions to provisions				
	for losses on guarantees and indemnities			1,670	2,302
8	**Write-downs and impairments on participating**				
	interests, shares in affiliated companies				
	and investment securities			110	220
9	**Expenses from absorbed losses**			39	223
10	**Extraordinary expenses**			22	—
11	**Taxes on income**			393	322
12	**Other taxes, unless shown under**				
	“Other operating expenses”			3	2
13	**Net income**			1,270	1,633
Total expenses				**13,078**	**16,069**

Income (€ millions)

		2010	2009
1 Interest income from			
a) loans and money market operations	6,534		8,217
b) fixed-income securities and government-inscribed debt	1,549		2,213
		8,083	10,430
2 Current income from			
a) equity securities and other variable-yield securities	507		426
b) participating interests	105		21
c) shares in affiliated companies	388		340
		1,000	787
3 Income earned under profit-pooling and profit-and-loss transfer agreements		59	18
4 Fees and commissions receivable		2,128	2,014
5 Net income from the held-for-trading portfolio		206	1,209
6 Write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities		1,265	1,244
7 Write-ups on participating interests, shares in affiliated companies and investment securities		—	—
8 Other operating income		337	367
9 Net loss		—	—
Total income		**13,078**	**16,069**
1 Net income		1,270	1,633
2 Withdrawal from retained earnings			
a) from legal reserve	—		—
b) from the reserve for shares in a controlling or majority interest-holding company	—		3
c) from other retained earnings	—		—
		—	3
3 Transfer to retained earnings			
a) to legal reserve	—		—
b) from the reserve for shares in a controlling or majority interest-holding company	—		—
c) to other retained earnings	—		3
		—	3
4 Profit available for distribution		1,270	1,633

Balance Sheet of UniCredit Bank AG

at 31 December 2010

Assets

(€ millions)

		31/12/2010	31/12/2009
1 Cash and cash balances			
a) cash on hand	480		495
b) balances with central banks	2,453		5,780
including: with Deutsche Bundesbank			
€1,191 million			(4,707)
		2,933	6,275
2 Treasury bills and other bills eligible			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	—		153
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(152)
b) bills of exchange	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
		—	153
3 Loans and receivables with banks			
a) repayable on demand	17,164		23,845
b) other loans and receivables	41,244		39,607
		58,408	63,452
including: mortgage loans			
€— million			(—)
municipal loans			
€474 million			(752)
against pledged securities			
€104 million			(—)
4 Loans and receivables with customers		108,276	118,781
including: mortgage loans			
€47,903 million			(53,428)
municipal loans			
€13,270 million			(13,673)
against pledged securities			
€140 million			(—)
Amount carried forward:		169,617	188,661

Liabilities

(€ millions)

			31/12/2010	31/12/2009
1 Deposits from banks				
a) repayable on demand		17,541		16,910
b) with agreed maturity dates or periods of notice		37,795		46,379
			55,336	63,289
including: registered mortgage bonds in issue				
€1,380 million				(1,344)
registered public-sector bonds in issue				
€439 million				(450)
bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€1 million				(1)
and registered public-sector bonds				
€— million				(5)
2 Deposits from customers				
a) Savings deposits				
aa) with agreed period of notice of three months	14,523			13,016
ab) with agreed period of notice				
of more than three months	215			72
		14,738		13,088
b) registered mortgage bonds in issue		8,409		9,962
c) registered public-sector bonds in issue		3,876		4,020
d) other debts				
da) repayable on demand	55,268			40,173
db) with agreed maturity dates or periods of notice	36,419			57,321
including: bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€5 million				(40)
and registered public-sector bonds				
€34 million				(34)
		91,687		97,494
			118,710	124,564
Amount carried forward:			174,046	187,853

Assets

(€ millions)

			31/12/2010	31/12/2009
Amount brought forward:			169,617	188,661
5 Bonds and other				
fixed-income securities				
a) money market paper				
aa) issued by public authorities	1,604			3
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€1,601 million				(—)
ab) issued by other borrowers	2,062			6,835
including: those eligible for collateral for				
Deutschen Bundesbank advances				
€352 million				(2,298)
		3,666		6,838
b) bonds and notes				
ba) issued by public authorities	14,586			24,173
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€14,037 million				(23,573)
bb) issued by other borrowers	32,573			47,842
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€22,094 million				(26,995)
		47,159		72,015
c) own bonds		—		13,169
nominal value €— million				(14,907)
			50,825	92,022
6 Equity securities and other variable-yield securities			1,549	10,044
6a Held-for-trading portfolio			150,906	—
7 Participating interests			1,262	1,053
including: in banks				
€100 million				(21)
in financial service institutions				
€— million				(—)
8 Shares in affiliated companies			2,737	2,915
including: in banks				
€1,125 million				(1,123)
in financial service institutions				
€241 million				(240)
Amount carried forward:			376,896	294,695

Liabilities

(€ millions)

			31/12/2010	31/12/2009
Amount brought forward:			174,046	187,853
3 Debt securities in issue				
a) bonds				
aa) mortgage bonds	17,647			19,256
ab) public-sector bonds	1,732			2,691
ac) other bonds	7,068			38,094
		26,447		60,041
b) other debt securities in issue		—		—
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(—)
			26,447	60,041
3a Held-for-trading portfolio			140,061	—
4 Trust liabilities			1,969	232
including: loans taken out on a trust basis				
€200 million				(232)
5 Other liabilities			10,841	30,559
6 Deferred income				
a) from issuing and lending operations		50		62
b) other		475		225
			525	287
6a Deferred tax liabilities			—	—
7 Provisions				
a) provisions for pensions				
and similar commitments		—		590
b) tax provisions		723		663
c) other provisions		2,588		2,195
			3,311	3,448
8 Subordinated liabilities			3,264	5,193
9 Participating certificates outstanding			205	205
including: those due in less than two years				
€205 million				(50)
10 Fund for general banking risks			314	291
Amount carried forward:			360,983	288,109

Balance Sheet of UniCredit Bank AG (Continued)

Assets (€ millions)

		31/12/2010	31/12/2009
Amount brought forward:		376,896	294,695
9 Trust assets		1,969	232
including: loans granted on a trust basis			
€200 million			(232)
10 Intangible assets			189
a) Internally generated intellectual property rights			
and similar rights and assets	—		
b) Purchased franchises, intellectual property rights, and similar			
rights and assets, as well as licences to such rights and assets	117		
c) Goodwill	132		
d) Advance payments	21		
		270	189
11 Property, plant and equipment		269	287
12 Own shares		—	—
nominal value €— million			(—)
13 Other assets		1,516	13,497
14 Prepaid expenses			
a) from issuing and lending operations	74		93
b) other	106		83
		180	176
15 Deferred tax assets		—	—
16 Excess of plan assets over pension liabilities		507	—
Total assets		**381,607**	**309,076**

Liabilities (€ millions)

			31/12/2010	31/12/2009
Amount brought forward:			360,983	288,109
11 Shareholders' equity				
a) subscribed capital		2,407		2,407
divided into:				
802,383,672 shares of common				
bearer stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for shares in a controlling				
or majority interest-holding company	—			—
cc) statutory reserve	—			—
cd) other retained earnings	7,156			7,136
		7,156		7,136
d) profit available for distribution		1,270		1,633
			20,624	20,967
Total liabilities and shareholders' equity			**381,607**	**309,076**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		32,015		32,070
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			32,015	32,070
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		32,724		31,373
			32,724	31,373

Notes

Legal basis

The annual financial statements of UniCredit Bank AG ("HVB") for the 2010 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (Handelsgesetzbuch – HGB), the German Stock Corporation Act (Aktiengesetz – AktG), the German Pfandbrief Act (Pfandbriefgesetz – PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

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

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

Accounting, valuation and disclosure

HVB applied the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG), which came into force at the end of May 2009 and was the subject of compulsory application as of 1 January 2010, complete with its changes to the accounting, valuation and disclosure rules for the first time in the 2010 financial year. Where the accounting, valuation and disclosure rules are modified on account of the BilMoG, the principle of consistency no longer applies (Section 67 (8) 1 Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB). According to the transitional provisions contained in the BilMoG, it is not necessary to adjust the previous year's figures to reflect the new accounting rules (Section 67 (8) 2 EGHGB). HVB has made use of this option.

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

The cash and cash balances (asset item 1) are stated at nominal amounts.

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

Loans and receivables with banks and customers (asset items 3 and 4) are always stated at the nominal amount plus any accrued interest. In accordance with the BilMoG, the promissory notes and registered bonds held for trading purposes previously carried here are now included in a new, separate balance sheet item for held-for-trading portfolios. Differences between acquisition cost and nominal amount (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income and taken to the income statement under net interest income in the correct period over the term of the underlying items. Any necessary write-downs are deducted.

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

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

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

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

The purpose defined at the time of acquisition (Section 247 (1) and (2) HGB) determines the assignment of loans, receivables and securities to the held-for-trading portfolios, the liquidity reserve or investment assets.

As a result of the new, separate disclosure of held-for-trading portfolios in the balance sheet required by the BilMoG, only securities that are investment securities and securities held for liquidity purposes (securities treated neither as held for trading purposes nor as investment securities) are shown under bonds and other fixed-income securities (asset item 5), and equity securities and other variable-yield securities (asset item 6). HVB's total holdings of such securities at the balance sheet date consisted of 48.6% held for trading purposes, 34.8% held for liquidity purposes and 16.6% held as investment securities.

We measure investment securities in accordance with the modified lower of cost or market principle compliant with Section 253 (3) 3 HGB, under which impairments are only to be deducted from the acquisition cost if the loss of value is expected to be permanent. In the case of equity instruments, we recognise an impairment loss if the fair value is significantly lower than the carrying amount or if the fair value has exceeded the carrying amount for a long period of time. In the case of debt instruments, on the other hand, an impairment that is likely to be permanent occurs when the issuer of the securities defaults. In the event of a loss of value that is attributable to market prices, we assume that the impairment is only temporary, as these losses will be balanced out again by the due date at the latest. On the other hand, securities held for liquidity purposes are treated as current assets valued at the lower of cost or market (Section 253 (4) 1 HGB) at their acquisition cost or market, or fair value, whichever is the lower. In the same way as in the held-for-trading portfolio, appropriate write-downs are taken on the market values determined (for more information about these fair value adjustments, please refer to the comments regarding the held-for-trading portfolio). Where the reasons for a write-down to the lower of cost or market no longer apply, the write-down is reversed compliant with Section 253 (5) HGB.

We have set up valuation units documented in advance for certain interest-bearing securities and promissory notes held for liquidity purposes (with a carrying amount of €24,763 million) hedged against interest rate risk by equivalent hedging derivatives (notably interest rate swaps). The hedge of the dynamic portfolio within the framework of the valuation unit is of unlimited duration; the hedging period of the individual hedging derivatives is always related to the residual maturity of the respective hedged items in the portfolio. There is also a valuation unit that serves to hedge interest rate risks in bonds denominated in US dollars (with a carrying amount of €495 million) using interest rate swaps (micro hedge); the securities involved are funded in foreign currency. At the same time, both the interest rate risk and the foreign currency risk inherent in a bond denominated in US dollars is hedged in a further minor valuation unit (with a carrying amount of €367 million) using a cross-currency swap (micro hedge). The requirements of Section 254 HGB for valuation units newly codified by the BilMoG have been met. The effectiveness of the valuation units is demonstrated prospectively using risk management methods relevant for measuring effectiveness (interest rate risk sensitivity analyses based on basis point values). The changes in value arising from the hedged items and hedges are set against each other and offset within the individual valuation units. Under the net hedge presentation method, no net valuation gain is taken to the income statement; provisions for anticipated losses on pending transactions are set up to cover any net loss on the ineffective portion of the changes in value.

The BilMoG requires banks to measure financial instruments held for trading purposes at fair value less a risk discount, and recognise them in the balance sheet compliant with Section 340e (3) HGB. Any ensuing changes in value are recognised in the income statement under net income from the held-for-trading portfolio. In addition, compliant with Section 340e (4) HGB, 10% of the net income from the held-for-trading portfolio has been allocated to the "Fund for general banking risks" in accordance with Section 340g HGB, with a corresponding reduction in the dividend payout and shown in the balance sheet separately. HVB assigns all financial instruments (bonds, equity securities, derivatives, loans and receivables, and liabilities, including delivery obligations arising from short sales of securities) to the held-for-trading portfolio that are acquired and sold with the intention of generating a short-term gain on proprietary trading. No changes have been made compared with last year regarding the criteria for assignment to the trading book (definition of the intention to trade). No financial instruments have been reclassified to or from the held-for-trading portfolio. Compliant with the BilMoG, the assets and liabilities held for trading purposes are shown separately in the balance sheet (asset item 6a and liability item 3a).

We have determined the fair value of the financial instruments held for trading purposes in accordance with the valuation hierarchy specified in Section 255 (4) HGB. The fair value is normally defined as the amount at 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 market price is used for financial instruments for which there is an active market. Where there is no active market that can be used to determine the market price, the fair value is determined with the aid of generally recognised valuation methods (notably discounted cash flow models and option price models).

The fair values of securities and derivatives are calculated on the basis of either external price sources (such as stock exchanges or other price providers like Reuters) or market prices determined using internal valuation models (mark-to-model). For the most part, prices from external sources are used to calculate the fair value of securities. HVB's credit risk is included in the fair value of liabilities held for trading purposes. Derivatives are primarily measured on the basis of valuation models. The parameters for our internal valuation models (such as yield curves, volatilities and spreads) are taken from external sources, and checked for their validity and correctness by the Risk Control unit.

Notes (Continued)

Appropriate adjustments (referred to as fair value adjustments) are made to the fair values calculated in this way in order to take account of further influences on the fair value (such as the liquidity of the financial instrument or model risks when the fair value is calculated using a valuation model). For the first time, counterparty default risk in trading-book derivatives is covered by applying counterparty valuation adjustments (CVAs).

The main conditions that can influence the amount, timing and certainty of future cash flows from derivatives essentially relate to the following features of derivatives:
– Where the cash flows under derivatives are linked to current market prices or rates, the respective market price or market rate at the payment date determines the amount payable (in the case of interest rate swaps, for instance, the payment of the variable interest rate on the payment date depends on the interest rate fixed on this date, such as Euribor).
– Where the derivatives allow for cash settlement at market value on the due date, the amount payable is calculated as the difference between the price set when the derivative was entered into and the current market price (in the case of a foreign exchange forward with cash settlement, for instance, the difference between the agreed forward price and the current price is payable).
– In the case of American options, unlike European options, the option buyer has the right to exercise the option at any time during the term of the option, meaning that the buyer of the option determines the date on which the payments are made.
– Where it is possible to terminate a derivative prior to maturity (as is the case with all exchange-traded derivatives, for instance), the derivative may be terminated at any time by paying the current fair value.
– The counterparty's credit rating and solvency are a further important consideration. If the counterparty becomes insolvent, it can no longer be expected that it will meet its obligations arising from the derivative.

These features may be included in the terms agreed for any type of derivative. Thus it is possible that foreign exchange, interest rate and equity options may be exercised at any time (American option) or only at maturity (European option). It is generally possible to determine the size of the derivative positions entered into from the respective nominal amounts. The Risk Report contains a detailed overview of the Bank's derivative transactions.

In order to obtain the final figures disclosed in the balance sheet for the held-for-trading portfolios, the risk discount required by Section 340e (3) 1 HGB is deducted from the fair values of the financial instruments held for trading purposes determined in this way. Including the risk discount in net trading income reflects the risk of possible price losses up until the earliest possible date of realisation of unrealised valuation gains or losses. In accordance with the relevant regulatory rules, the risk discount is determined on the basis of the internal risk management system using an accounting value-at-risk approach (holding period of ten days; confidence level: 99%; 2-year observation period). We have deducted the risk discount determined for the entire held-for-trading portfolio from the assets held for trading purposes in the balance sheet (asset item 6a) and recognised it in the net income from the held-for-trading portfolio.

HVB employs derivative financial instruments both for trading purposes and to hedge balance sheet items. The vast majority are trading derivatives which, as a result of the BilMoG, are disclosed for the first time at their fair value in the held-for-trading portfolio items on the assets side and liabilities side of the balance sheet and taken to the income statement. The hedging derivatives have positive market values of €92,281 million (within asset item 6a) and negative market values of €93,174 million (within liability item 3a).

Derivatives that are not associated with the held-for-trading portfolio continue to be treated in accordance with the principle of the non-recognition of pending transactions. Only cash flows that have started, such as option premiums and accrued upfront payments on unvalued banking book derivatives, are disclosed under other assets (asset item 13), other liabilities (liability item 5) and deferred income or prepaid expenses (asset item 14 and liability item 6). The valuation of hedging derivatives that form part of valuation units that have been set up is included in the provision for anticipated losses on pending transactions to be recognised in the event of an unrealised net valuation unit loss. The interest derivatives employed for asset/liability management of the general interest rate risk associated with receivables and liabilities in the banking book remain unvalued as part of the aggregate interest position within the framework of the recognised valuation convention in the banking book. Please refer to the Risk Report for a discussion of the management of the overall interest rate position. The few remaining standalone derivatives outside the trading book are valued in accordance with the imparity principle. A provision for anticipated losses on pending transactions is set up for unrealised valuation losses; unrealised valuation gains are not recognised.

Extensive information about our derivative financial instruments, complete with detailed breakdowns by product and risk type, and showing the nominal amounts, market values and the counterparty structure, is included in the Risk Report.

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

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

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

Essentially, goodwill and software are disclosed under intangible assets (asset item 10).

Purchased goodwill is calculated by setting the acquisition cost of a company against the value of the company's individual assets, less the liabilities at the time of acquisition. It is normally amortised over the standard useful life of five years assumed by law. In justified cases, the goodwill may be amortised over a longer period, provided the individual expected useful operating life exceeds five years. An impairment is recognised in the event of a permanent loss of value. Should the reasons for the impairment no longer apply, the lower amount recognised for derivative goodwill is retained.

Purchased intangible assets are capitalised at cost and amortised over their expected useful life of three to five years (software) or a longer contractual useful life of up to ten years (other intangible assets). Impairments are recognised where necessary. HVB has not made use of the capitalisation option newly created by the BilMoG for internally generated intangible assets classified as non-current.

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

Liabilities (liability items 1 to 3, 8 and 9) are stated at the amount repayable plus accrued interest. Differences between the amount repayable and the amount disbursed (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income, and taken to the income statement under net interest income. Liabilities without current interest payments (zero-coupon bonds) are stated at their cash value.

In accordance with the principles of sound commercial judgement, we assess provisions for taxes, uncertain liabilities and anticipated losses on pending transactions (liability item 7) at the amount repayable, taking into account anticipated future price and cost increases. Provisions falling due in more than one year are discounted using the average market rate of the past seven financial years determined and published by the Deutsche Bundesbank as appropriate for the respective maturities.

The changeover to the provisions set out in the BilMoG has led to changes to the valuation of provisions. While the effect from the inclusion of future price and cost increases has increased the provisions to be recognised, the discounting of the anticipated payments has a contrary effect. Compliant with Section 67 (1) 2 EGHGB, it is possible to omit a reversal of provisions based on the new valuation provisions if the amounts are to be added again by 31 December 2024 at the latest. HVB is using this option. As a result, provisions in the amount of €36 million are not reversed which would have otherwise been necessary.

We measure payment obligations arising from pension commitments at the amount payable calculated using the projected unit credit method on the basis of biometric probabilities. Anticipated future salary and pension increases are taken into account when measuring the pension commitment. Insofar as the amount of the pension commitments is determined exclusively by the fair value of securities, we recognise provisions for this at the fair value of these securities where it exceeds a guaranteed minimum amount. HVB has made use of the option to employ the average market rate determined and published by the Deutsche Bundesbank as the discount rate for an assumed residual maturity of 15 years.

The discount rate for November 2010 published by the Deutsche Bundesbank for a residual maturity of 15 years at 5.15% and a pension trend of 1.70% were applied in the actuarial calculation of the amount payable at 31 December 2010. A figure of 2.00% has been included in the calculation for the anticipated wage and salary increases. Life expectancies are based on the standard Heubeck 2005 G tables.

Notes (Continued)

Up until 31 December 2009, provisions for pensions were set aside in the highest amount permitted under the relevant tax legislation, in accordance with actuarial principles, by applying an assumed interest rate of 6.00% on the future pension commitment as provided for in Section 6a EStG, in conjunction with Regulation 6a, German Income Tax Regulations (Einkommensteuer-Richtlinien – EStR).

Whereas the income and expenses arising from the compounding and discounting of provisions for pensions are shown in net interest income, the current service cost accruing during the period and the effects arising from changed assumptions regarding the wage, salary and pension trend and biometric probabilities are disclosed under payroll costs. The sample principles apply for the impact on earnings arising from the change in the group of beneficiaries and the change in provisions for pension in connection with company restructuring activities. Similarly, the impact on earnings of the change in the discount rate arising during the course of the 2010 financial year is allocated to payroll costs.

An allocation totalling €332 million is required as the recognised provision for pensions and similar commitments rises on account of the inclusion of future pay and pension increases and the change in the discount rate caused by the changeover to the BilMoG. HVB makes use of the option compliant with Article 67 (1) 1 EGHGB to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The annual allocation of €22 million is charged to extraordinary income/expenses in the income statement.

Assets serving exclusively to settle pension commitments or similar long-term commitments, and to which all other creditors do not have recourse, are measured at fair value and offset against the underlying commitment. If the offsetting results in an excess of commitments over plan assets, we recognise a provision for pensions and similar commitments (liability item 7) to this amount. If the value of the assets exceeds the commitments, the amount is recognised under excess of plan assets over pension liabilities (liability item 16).

The income of €75 million arising from the change in fair value of the plan assets during the course of the 2010 financial year is shown in net income from investments.

The offsetting regulations specified in the BilMoG cause the asset items to be reduced by €1,146 million [loans and receivables with customers (asset item 4) by €29 million, equity securities and other variable-yield securities (asset item 6) by €1,113 million and participating interests (asset item 7) by €4 million] and liability items by €639 million [provisions for pensions and similar commitments (liability item 7a) by €639 million]. Offsetting has no impact on extraordinary income/expenses.

Compliant with Section 8a of the German Semi-Retirement Act (Altersteilzeitgesetz – AltTZG), employee credits for semi-retirement are secured by pledging securities to the trustee.

Compliant with Section 274 HGB, deferred tax items are determined for temporary differences between the carrying amount of an asset, liability or deferred item shown in the commercial balance sheet and the corresponding amount disclosed for tax reporting purposes as well as for tax loss carryforwards and tax credits. Compliant with Section 274 (1) 2 HGB, the amounts involved have not been recognised on account of an aggregate future reduction in tax. This results mainly from tax valuation provisos regarding general provisions and provisions for loss on guarantees and indemnities as well as tax loss carryforwards.

Foreign currencies

Amounts in foreign currency are translated in accordance with the principles set forth in Section 340h and Section 256a HGB. The BilMoG has modified Section 340h HGB, which is applicable for banks, and for the first time codified Section 256a HGB, which is applicable for all companies. As a result, assets and liabilities denominated in foreign currency and spot transactions outstanding at the balance sheet date are always converted into euros using the mean spot rate on the market applicable at the balance sheet date. On the other hand, investment securities denominated in foreign currency that are not specifically covered in the same currency are carried at their historical cost. Outstanding forward transactions are translated using the forward rate effective at the balance sheet date.

Earnings arising from the translation of items affecting the balance sheet and from the valuation of forward contracts at year-end are included in the income statement, taking into account any special cover in the banking book compliant with Section 340h HGB. Unrealised earnings from outstanding positions in money transfer operations in the banking book are recognised in the period they arise via the FX trading position. This does not give rise to any significant deferments of earnings.

Notes to the Balance Sheet

Breakdown by maturity of selected asset items

(€ millions)

			2010	2009
A 3 b)	Other loans and receivables with banks			
	with residual maturity of	less than 3 months	29,378	28,761
		at least 3 months but less than 1 year	4,847	4,888
		at least 1 year but less than 5 years	3,843	3,030
		5 years or more	3,176	2,928
A 4)	Loans and receivables with customers			
	with residual maturity of	less than 3 months	4,437	9,553
		at least 3 months but less than 1 year	7,232	10,084
		at least 1 year but less than 5 years	34,680	32,614
		5 years or more	49,412	55,239
		No fixed maturity	12,515	11,291
A 5)	Bonds and other fixed-income securities amounts due in the following year		8,557	26,929

Breakdown by maturity of selected liability items

(€ millions)

			2010	2009
L 1 b)	Deposits from banks			
	with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	16,780	27,012
		at least 3 months but less than 1 year	4,991	3,412
		at least 1 year but less than 5 years	5,494	8,215
		5 years or more	10,530	7,740
	Deposits from customers			
L 2 ab)	Savings deposits with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	12	3
		at least 3 months but less than 1 year	24	5
		at least 1 year but less than 5 years	137	24
		5 years or more	42	40
L 2 b)	Registered mortgage bonds in issue,			
L 2 c)	registered public-sector bonds in issue,			
L 2 db)	other debts with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	20,812	37,204
		at least 3 months but less than 1 year	6,374	10,821
		at least 1 year but less than 5 years	9,177	9,940
		5 years or more	12,340	13,338
	Debt securities in issue			
L 3 a)	Bonds amounts due in following year		5,926	23,367
L 3 b)	Other debt securities in issue			
	with residual maturity of	less than 3 months	—	—
		at least 3 months but less than 1 year	—	—
		at least 1 year but less than 5 years	—	—
		5 years or more	—	—

Notes to the Balance Sheet (Continued)

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

(€ millions)

	AFFILIATES 2010	AFFILIATES 2009	PARTICIPATING INTERESTS 2010	PARTICIPATING INTERESTS 2009
Loans and receivables with banks	27,894	21,608	710	395
Loans and receivables with customers	1,849	1,770	2,705	4,708
Bonds and other fixed-income securities	3,591	2,764	9,079	11,846
Deposits from banks	11,156	9,189	446	215
Deposits from customers	2,935	2,398	450	20,031
Debt securities in issue	2,334	1,956	—	—
Subordinated liabilities	1,408	1,599	—	—

Trust business

Trust business assets and liabilities break down as follows:

(€ millions)

	2010	2009
Loans and receivables with banks	—	87
Loans and receivables with customers	201	145
Equity securities and other variable-yield securities	1,768	—
Trust assets	**1,969**	**232**
Deposits from banks	5	5
Deposits from customers	196	227
Debt securities in issue	1,768	—
Trust liabilities	**1,969**	**232**

The significantly higher volume of trustee activities compared with last year can essentially be attributed to a transaction under which we acquired securities on behalf of and for account of a customer.

Foreign-currency assets and liabilities

61.4% of HVB's foreign-currency holdings consist of US dollars, 14.6% of pounds sterling, 7.9% of Japanese yen and 4.6% of Swiss francs. **(€ millions)**

	2010	2009
Cash and cash balances	1,241	942
Treasury bills and other bills eligible for refinancing with central banks	—	1
Loans and receivables with banks	4,904	3,592
Loans and receivables with customers	22,373	21,990
Bonds and other fixed-income securities	3,202	7,913
Equity securities and other variable-yield securities	53	1,961
Held-for-trading portfolio (assets held for trading purposes)	17,848	—
Participating interests	336	287
Shares in affiliated companies	331	328
Trust assets	1,963	226
Intangible assets	1	—
Property, plant and equipment	9	10
Other assets	256	717
Prepaid expenses	13	16
Assets	**52,530**	**37,983**
Deposits from banks	12,408	13,048
Deposits from customers	9,789	8,191
Debt securities in issue	1,538	7,462
Held-for-trading portfolio (liabilities held for trading purposes)	15,347	—
Trust liabilities	1,963	226
Other liabilities	202	2,384
Deferred income	38	35
Provisions	115	114
Subordinated liabilities	724	998
Liabilities	**42,124**	**32,458**

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

Notes to the Balance Sheet (Continued)

Subordinated asset items

The following balance sheet items contain subordinated assets:

(€ millions)

	2010	2009
Loans and receivables with banks	1,396	1,478
Loans and receivables with customers	580	600
Bonds and other fixed-income securities	3,262	3,623
Equity securities and other variable-yield securities	8	5
thereof: own participating certificates in market-smoothing portfolio	—	—
Held-for-trading portfolio	510	—

Marketable debt and equity securities

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

(€ millions)

	TOTAL MARKETABLE SECURITIES 2010	TOTAL MARKETABLE SECURITIES 2009	OF WHICH: LISTED 2010	OF WHICH: LISTED 2009	OF WHICH: UNLISTED 2010	OF WHICH: UNLISTED 2009
Bonds and other fixed-income securities	50,825	92,022	30,985	64,157	19,840	27,864
Equity securities and other						
variable-yield securities	75	6,700	15	6,509	60	191
Held-for-trading portfolio	48,524	—	32,785	—	15,739	—
Participating interests	104	102	104	102	—	—
Shares in affiliated companies	265	264	265	264	—	—

Non-current securities contain financial instruments carried at an amount higher than their fair value. The carrying amount of these securities is €16,908 million and the fair value €16,228 million (fair value of marketable securities €16,228 million, of which €16,222 million relates to bonds and other fixed-income securities and €6 million to equity securities and other variable-yield securities). Given the development of interest and rating risks, we do not believe that these securities have suffered a permanent loss of value.

Held-for-trading portfolio

The following table shows the breakdown of assets held for trading purposes (asset item 6a) by financial instrument totalling €150,906 million: (€ millions)

	2010
Derivative financial instruments (positive market values)	92,281
Loans and receivables	9,126
Bonds and other fixed-income securities	41,043
Equity securities and other variable-yield securities	8,563
Other assets	—
Less risk discount (for entire portfolio of assets held for trading purposes)	(107)

The following table shows the breakdown of liabilities held for trading purposes (liability item 3a) by financial instrument totalling €140,061 million:

(€ millions)

	2010
Derivative financial instruments (negative market values)	93,174
Liabilities (including delivery obligations arising from short sales of securities)	46,887

Investment funds

The following table contains information regarding shares in investment funds for which the Bank's holding exceeds 10% of the total number of shares.

(€ millions)

	INFORMATION ON SHARES IN INVESTMENT FUNDS COMPLIANT WITH SECTION 286 (26) HGB		
FUND TYPE	CARRYING AMOUNT 31/12/2010	MARKET PRICE 31/12/2010	DIVIDEND PAYMENTS, 2010
Equity funds	98	98	—
Money market funds and near-money market funds	33	33	—
Mixed funds	119	120	—
Index funds	173	173	4
Bond funds	141	141	1
Total investment funds	**564**	**565**	**5**

Under Section 246 (2) HGB, assets to which all other creditors do not have access and which serve exclusively to settle liabilities arising from pension commitments or similar long-term commitments must be offset against these liabilities. Where these assets represent shares in investment funds, they are not shown in this table.

The shares listed in this table are held in either the Bank's held-for-trading portfolio or its liquidity reserve. Where necessary, the holdings are always written down to the lower fair value.

In the case of the information regarding the dividend payments, it should be noted that the positions included in the table frequently represent investment funds that reinvest dividends in themselves. Consequently, the dividend payments shown in the table serve only as a limited indicator for the performance of the investment funds.

There are no indications of a restriction on daily return for most of the shares listed here.

Notes to the Balance Sheet (Continued)

Analysis of non-current assets

(€ millions)

	ACQUISITION/ PRODUCTION COST 1	ADDITIONS DURING FINANCIAL YEAR 2	DISPOSALS DURING FINANCIAL YEAR 3	RECLASSIFICATIONS DURING FINANCIAL YEAR[2] 4
Intangible assets	720	168	14	2
thereof: Goodwill	—	141	—	—
Software	692	27	14	2
Other intangible assets	28	—	—	—
Property, plant and equipment	597	5	21	4
thereof: Land and buildings used by HVB in				
its operations	292	—	—	—
Furniture and office equipment	305	5	21	4
Other non-current assets	21	—	—	—
	ACQUISITION COST			**CHANGES +/–[1]**
Participating interests	1,053			209
Shares in affiliated companies	2,915			(178)
Investment securities	21,647			(4,739)

1 use has been made of the possibility of combining amounts allowed by Section 34 (3) RechKredV
2 the “Reclassifications during financial year” column shows the changes in value as a result of currency translation, among other things

Intangible assets

The disclosed goodwill of €132 million results from the absorption of UniCredit CAIB Securities UK Ltd., London, by HVB in the 2010 financial year. This amount is amortised over a useful life of 7.5 years calculated individually for the company.

The leading market position of the acquired company in the markets where it is active is reflected in the goodwill. We assume that the acquired market position will exist for more than five years (ceiling on the normal useful life of goodwill assumed in the law).

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

Non-scheduled amortisation is taken on unused software developments.

Other assets

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

(€ millions)

	2010	2009
Claims to tax reimbursements	422	409
Claims to dividends	298	352
Variation margin DTB	166	408
Collection paper, such as cheques, matured debentures, interest and dividend coupons	151	143
Proportion of income from commission / interest not yet received	50	33
Proportion of interest from portfolio fees	43	42
Trade debtors	39	40
Fixed assets (works of art)	21	21
Capital investments with life insurers	18	198
KG shares intended for re-sale	6	6
Premiums paid on options pending	2	7,625
Purchase price receivables	2	2
Offsetting valuation item from held-for-trading portfolios	—	3,725
Equalisation item for revaluation of tied currency positions	—	74

(€ millions)

WRITE-UPS DURING FINANCIAL YEAR 5	DEPRECIATION/ AMORTISATION ACCUMULATED 6	SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 7	NON-SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 8	NET BOOK VALUE 31/12/2010 9	NET BOOK VALUE 31/12/2009 10
—	606	75	—	270	189
—	9	9	—	132	—
—	579	51	—	128	165
—	18	15	—	10	24
—	316	6	—	269	287
—	93	9	—	199	207
—	223	(3)	—	70	80
—	—	—	—	21	21
				NET BOOK VALUE 31/12/2010	**NET BOOK VALUE 31/12/2009**
				1,262	1,053
				2,737	2,915
				16,908	21,647

The changes brought about by the BilMoG mean that derivatives in the held-for-trading portfolio are disclosed at their fair value in the new balance sheet item for the held-for-trading portfolio on both the assets and liabilities side of the balance sheet. Consequently, the offsetting valuation item from assets held for trading purposes is no longer carried in other assets. There is a corresponding reduction in the amount disclosed for premiums paid for options that are not allocated to the trading book.

Prepaid expenses

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

(€ millions)

	2010	2009
Discounts on funds borrowed	74	93
Premiums on amounts receivable	—	—

Excess of plan assets over pension liabilities

An amount payable of €639 million arising from liabilities due to pension and similar commitments was set against offsetting plan assets with a fair value of €1,146 million. Under the initial application provisions of the BilMoG, use was made of the option to spread the amount allocable to pension provisions equally over a period of 15 years. One-fifteenth of the transitional amount was allocated to the provision for pensions in the 2010 financial year. The omitted transitional allocation in the year under review totalled €310 million. The excess of assets over commitments, taking into account the omitted transitional allocation, is disclosed in the balance sheet as the excess of plan assets over pension liabilities (€507 million). The acquisition cost of the offsetting plan assets totalled €1,070 million. The assets involved are essentially fund shares, investments, and cash and cash equivalents.

(€ millions)

	2010
Amount payable for offset pension and similar commitments	639
Fair value of the offsetting plan assets	1,146
Omitted transitional allocation	310
Excess of plan assets over the commitments, including the shortfall	507
Acquisition cost of the offsetting plan assets	1,070

Notes to the Balance Sheet (Continued)

Assets assigned or pledged as security for own liabilities

Assets totalling €54,436 million were assigned or pledged as security for the following liabilities:

(€ millions)

	2010	2009
Deposits from banks	30,745	39,019
Deposits from customers	23,691	18,729
Provisions for pensions and similar commitments	—	590

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

As a seller under repurchase agreements, HVB entered into sales and repurchase transactions for securities with a book value of €47,785 million. These securities continue to be shown under HVB's assets, and the consideration received in return is stated under liabilities. They comprise mainly open-market transactions with the Deutsche Bundesbank and international money market transactions.

At the same time, further assets totalling €17,492 million were pledged as security for securities lending transactions and exchange-traded derivatives.

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

Other liabilities

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

(€ millions)

	2010	2009
Amounts owed to SPV	8,554	9,947
Obligations arising from debts assumed	1,353	1,341
Other amounts owed to employees	121	127
Taxes payable	120	131
Variation margin DTB	102	188
Banking book valuation reserves	52	55
Liabilities from allowances paid to and losses absorbed from subsidiaries	39	223
Offsetting item for swap transactions	17	—
Amounts yet to be distributed from outplacements, etc.	7	17
Accrued interest on participating certificates outstanding	7	5
Premiums received on options pending	2	9,630
Liabilities from short securities positions	—	8,476

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. The underlying receivables are still recognised by HVB. All tranches are retained by the Bank, meaning that there is no corresponding reduction in risk-weighted assets.

The changes brought about by the BilMoG mean that derivatives in the held-for-trading portfolio are disclosed at their fair value in the new balance sheet item for the held-for-trading portfolio on both the asset and liability side of the balance sheet. There is a corresponding reduction in the amount disclosed for premiums paid for options that are not allocated to the trading book. Compliant with the BilMoG, the liabilities arising from short securities positions are similarly disclosed as liabilities held for trading purposes, as they were entered into with a view to achieving a trading profit.

Deferred income

Discounts on amounts receivable shown at nominal value totalled €28 million.

Provisions

HVB offers its employees various types of company pension plans. To fund the company pension plans, HVB has covered its pension commitments largely with plan assets managed as external trustee assets with limited access. These plan assets are set against the liabilities arising from pension commitments or similar long-term commitments. If the plan assets of the pension funds, pension guarantee associations or retirement benefit corporations in question do not cover the amount of the equivalent pension commitments payable, HVB recognises a provision for pension funds and similar obligations in the amount of the shortfall. If the fair value of the plan assets exceeds the commitments, the difference is recognised as the excess of plan assets over pension liabilities. The associated income and expenses to be offset are recognised in net interest income.

Other provisions include the following items: (€ millions)

	2010	2009
Provisions for losses on guarantees and indemnities	341	304
Anticipated losses on pending transactions	529	532
Provisions for uncertain liabilities	1,658	1,243
of which:		
Bonuses on savings plans	19	19
Anniversary bonus payments	48	72
Payments for early retirement, semi-retirement, etc.	6	18
Payments to employees	344	334
Restructuring provisions	60	116
Total other provisions	**2,588**	**2,195**

Subordinated liabilities

This item includes accrued interest of €60 million. HVB incurred interest expenses of €236 million in 2010.

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

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

Notes to the Balance Sheet (Continued)

Participating certificates outstanding

The following table shows the breakdown of participating certificates outstanding:

ISSUER	WKN	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT € MILLIONS	INTEREST RATE	MATURITY
1 UniCredit Bank AG	HV0CLA	2004	Bearer participating certificates	10	6.78	31/12/2010
2 UniCredit Bank AG	HV0CLL	2004	Bearer participating certificates	10	7.08	31/12/2010
3 UniCredit Bank AG	HV0CLP	2004	Bearer participating certificates	10	7.20	31/12/2010
4 UniCredit Bank AG	HV0CLQ	2004	Bearer participating certificates	10	7.20	31/12/2010
5 UniCredit Bank AG	HV0CLM	2004	Bearer participating certificates	5	7.08	31/12/2010
6 UniCredit Bank AG	HV0CLN	2004	Bearer participating certificates	5	7.08	31/12/2010
7 UniCredit Bank AG	788119	2001	Bearer participating certificates	100	6.30	2011
8 UniCredit Bank AG	HV0CLB	2004	Bearer participating certificates	10	6.90	2011
9 UniCredit Bank AG	HV0CLC	2004	Bearer participating certificates	8	6.90	2011
10 UniCredit Bank AG	HV0CLD	2004	Bearer participating certificates	6	6.90	2011
11 UniCredit Bank AG	HV0CLF	2004	Bearer participating certificates	5	6.90	2011
12 UniCredit Bank AG	HV0CLG	2004	Bearer participating certificates	5	6.90	2011
13 UniCredit Bank AG	HV0CLH	2004	Bearer participating certificates	5	6.93	2011
14 UniCredit Bank AG	HV0CLJ	2004	Bearer participating certificates	5	6.93	2011
15 UniCredit Bank AG	HV0CLK	2004	Bearer participating certificates	5	6.98	2011
16 UniCredit Bank AG	HV0CLR	2004	Bearer participating certificates	5	6.93	2011
17 UniCredit Bank AG	HV0CLE	2004	Bearer participating certificates	1	6.90	2011

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

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

The interest payments for the 2010 financial year were made in full.

Fund for general banking risks

As required by Section 340e (4) 1 HGB, we transferred 10% of the net income from the held-for-trading portfolio of €23 million to a separate position in the fund for general banking risks compliant with Section 340g HGB.

Shareholders' Equity

Analysis of shareholders' equity shown in the balance sheet

(€ millions)

Subscribed capital		
Balance at 1 January 2010	2,407	
Balance at 31 December 2010		2,407
Additional paid-in capital		
Balance at 1 January 2010	9,791	
Balance at 31 December 2010		9,791
Retained earnings		
Legal reserve		
Balance at 1 January 2010	—	
Balance at 31 December 2010		—
Reserve for shares in a controlling or majority interest-holding company		
Balance at 1 January 2010	—	
Withdrawal from the reserve for shares in a controlling or		
majority interest-holding company	—	
Balance at 31 December 2010		—
Other retained earnings		
Balance at 1 January 2010	7,136	
Effect of the initial application of the BilMoG not affecting reported net income	20	
Transfer from the reserve for shares in a controlling or		
majority interest-holding company	—	
Balance at 31 December 2010		7,156
Profit available for distribution		
Balance at 1 January 2010	1,633	
Dividend payout of HVB for 2009	(1,633)	
Net profit 2010	1,270	
Balance at 31 December 2010		1,270
Shareholders' equity at 31 December 2010		20,624

Shareholders' Equity (Continued)

Holdings of UniCredit Bank AG stock in excess of 5%

(in %)

	2010	2009
UniCredit S.p.A.	100.0	100.0

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

Development of subscribed capital

The capital stock of UniCredit Bank AG had been divided into shares of common bearer stock with voting rights and shares of registered preferred stock without voting rights. However, given the change in the shareholder structure, there was no need to maintain this distinction. Consequently, the shares of registered preferred stock without voting rights were converted into shares of common bearer stock with voting rights and the Articles of Association amended accordingly in line with a resolution adopted at the Extraordinary Shareholders' Meeting held on 22 September 2010. This amendment to the Articles of Association was entered in the Commercial Register on 27 September 2010, at which date it took effect.

Other retained earnings

The initial application of the new provisions set forth in the BilMoG at 1 January 2010 entailed recognising the following reclassification items totalling €20 million in retained earnings in accordance with the transitional provisions set forth in the EGHGB: provisions for service anniversary awards, early retirement, partial retirement and pension leave.

Amounts not available for distribution

The measurement at fair value of offsetting plan assets in connection with pension commitments and semi-retirement agreements gives rise to an amount of €75 million.

Holdings pursuant to Section 285 No. 11 and 11a HGB

The complete list of shareholdings as a constituent part of the notes to the financial statements is given in the section entitled "List of holdings" in this Annual Report.

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

Breakdown of income by region

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

(€ millions)

	2010	2009
Germany	9,037	11,616
Rest of Europe	2,394	2,671
Americas	270	323
Asia	113	215

Net interest income

(€ millions)

	2010	2009
Interest income from		
lending and money market transactions	6,534	8,217
fixed-income securities	1,549	2,213
Current income from equity securities and other variable-yield securities,		
participating interests and shares in affiliated companies	1,000	787
Income from profit-pooling and profit-and-loss-transfer agreements	59	18
Interest expenses	4,982	6,403
Net interest income	**4,160**	**4,832**

The interest portion of the change in provisions for pensions and similar commitments is reported under net interest income and relates to the expenses and income from the compounding and discounting of commitments. However, we disclose any effects on net income from the change in discount rate as payroll costs.

(€ millions)

	2010
Expense component of the change in provisions for pensions and similar commitments	48
Income from plan assets used to offset pension and similar commitments	1
Expenses from plan assets used to offset pension and similar commitments	—
Net interest income from pension commitments	**(47)**

The interest expense arising from the compounding of provisions is included in net interest income. As a result of exercising the option not to release provisions when switching to the BilMoG, the need to compound no longer applies for the main non-current provisions. Consequently, the compounding expense recorded in 2010 is negligible.

Notes to the Income Statement (Continued)

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

Net income from the held-for-trading portfolio
The net income from the held-for-trading portfolio (net trading income) of €206 million includes the offset income and expenses arising from transactions involving financial instruments held for trading purposes, complete with the full net income from FX operations. HVB recorded net income of €17 million from FX trading in 2010. The total already includes as an expense the risk discount to be applied to the held-for-trading portfolios measured at fair value. The allocation required by Section 340e (4) HGB of 10% of the net income from the held-for-trading portfolio to the fund for general banking risks compliant with Section 340g HGB has been recognised as an expense of €23 million in net trading income. In line with our internal management model, we show the current interest income/expenses and dividend income (interest income/expense from trading operations) associated with the held-for-trading portfolio in net interest income rather than in net trading income.

Breakdown of other operating income and expenses
This item primarily includes income from the reversal of provisions other than provisions for lending and securities operations (€123 million) and payroll costs and cost of materials passed on (€80 million).

Other operating expenses include the following:
– compensation and ex gratia payments (€34 million)
– additions to provisions other than provisions for lending and securities operations (€555 million).

Extraordinary income/expenses
The initial application of the new provisions set forth in the BilMoG at 1 January 2010 resulted in expenses of €22 million arising from the revaluation of provisions for pensions to be disclosed under extraordinary income/expenses.

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

Net profit
HVB generated a net profit of €1,270 million in 2010. We will propose to the Annual General Meeting of Shareholders that a dividend of €1,270 million be paid to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €1.58 per share.

Other Information

Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €32,015 million: (€ millions)

	2010	2009
Loan guarantees	11,889	11,918
Guarantees and indemnities	18,406	18,893
Documentary credits	1,720	1,259

Irrevocable lending commitments totalling €32,724 million break down as follows: (€ millions)

	2010	2009
Book credits	30,791	29,882
Mortgage and municipal loans	1,163	951
Guarantees	759	510
Bills of exchange	11	30

Utilisation by the Bank on account of the contingent liabilities and other commitments that it has entered into is possible as part of its banking activities. Thus, every loan is fundamentally granted by utilising a previously made lending commitment that is shown under other commitments. Although utilisation by the Bank under contingent liabilities is not very probable in the case of guarantees it has issued, the possibility cannot be excluded. Utilisation is also the general case with regard to the documentary credits also shown here, as these are employed in the handling of foreign trade payments.

The key factor in this regard is that utilisation by the Bank under its contingent liabilities and other commitments does not generally lead to a loss. Instead, it results in the loan granted being recognised as is the case when a lending commitment is utilised. Provisions for anticipated losses on pending transactions that are required due to commitments to make payouts to defaulting borrowers are set up and deducted from the disclosed contingent liabilities and other commitments.

Other financial commitments arising from real estate and IT operations total €306 million (2009: €317 million). A large part of the total relates to contracts with subsidiaries (€209 million). The contracts run for standard market periods, and no charges have been put off to future years.

At the balance sheet date, HVB had pledged securities worth €3,052 million as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main.

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

Commitments for uncalled payments on shares not fully paid up amounted to €489 million at year-end 2010, and similar obligations for shares in cooperatives totalled €1 million. Under Section 22 (3) and Section 24 of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG), HVB was also liable for defaults on such calls in respect of one company for an aggregate of €1 million.

Under Section 26 GmbHG, we were liable for calls for additional capital of €5 million with regard to CMP Fonds I GmbH and of €57 million with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, at year-end 2010. 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, Berlin.

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

Other Information (Continued)

Off-balance-sheet transactions

Special purpose entities

HVB maintains business relations with a number of special purpose entities that pursue varying business models and hold various different types of assets. HVB's business relations with the special purpose entities are recognised in the financial statements either on or off the balance sheet.

The Bank uses special purpose entities to securitise both the Bank's own receivables and customer receivables. The latter involve commercial paper conduits for which the Bank provides guarantees and liquidity facilities.

In the case of the Bank's own receivables, the special purpose entities serve among other things to procure liquidity and reduce risk. These do not, however, result in the securitised receivables being taken off the books as they do not involve either synthetic securitisations aimed at reducing risk nor securitisation transactions with all risks retained to create ABS paper eligible as collateral with central banks. The securitisation of customer receivables is generally accompanied by an improvement in the customer's liquidity situation and a broadening of the funding base, whereby the Bank generates income from the structuring service and the facilities provided. HVB may face economic disadvantages, in particular, should the facilities provided be drawn down.

In addition, there are special purpose entities for which HVB acts solely as an investor, for instance to purchase securities or grant loans. The ensuing risks may lead to write-downs being recognised on the positions involved.

Depending on the structure, the situation may exist where the majority of the risks and rewards of a given special purpose entity are attributable to HVB. In these cases, the special purpose entity is attributable to HVB for accounting purposes, which entails full consolidation of the special purpose entity in the consolidated financial statements of HVB. The following table shows the financial instruments held by fully consolidated special purpose entities of HVB at 31 December 2010:

(€ millions)

		31/12/2010				
CARRYING AMOUNTS		EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Residential mortgage loans / residential mortgage-backed securities (RMBS)		1,499	1	222	—	1,722
Commercial mortgage loans / commercial mortgage-backed securities (CMBS)		887	105	—	—	992
Collateralised debt obligations (CDO)		—	3	—	—	3
Collateralised loan obligations (CLO) / collateralised bond obligations (CBO)		—	95	—	—	95
Consumer loans		599	—	—	—	599
Credit cards		—	—	—	—	—
Leases		540	13	—	—	553
Other (including hedge fund investments)		687	753	26	260	1,726
Total	**31/12/2010**	**4,212**	**970**	**248**	**260**	**5,690**
	31/12/2009	**4,502**	**1,022**	**—**	**422**	**5,946**

In addition, the Bank is financing a fully consolidated special purpose entity that is constructing an offshore wind farm, which it will also operate in the future. In this context, the Bank has committed itself to financing the wind farm through to completion.

Revocable credit commitments
HVB has granted its customers credit and liquidity facilities that are callable at any time and are not shown either on or off the balance sheet. The advantage for HVB from this customary, standardised product lies in the possibility of generating additional interest and commission income. This is set against the risk of a deterioration in the financial situation of those customers to whom these credit commitments were made.

Outsourcing of activities
Like other affiliated companies, HVB has outsourced IT activities to UniCredit Global Information Services S.C.p.A., a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services.

HVB has outsourced the handling of securities transactions in Germany to an external service provider. The purpose of this for HVB is to permanently reduce its operating costs.

HVB has transferred new business involving consumer loans, Sofortkredit instant-approval loans and credit cards to UniCredit Family Financing S.p.A., a company affiliated with the Bank that was absorbed by UniCredit S.p.A. during 2010. This company is more specialised in these fields, from which HVB also benefits accordingly. Thus, the transactions brokered by HVB in this regard are no longer recognised on or off the balance sheet. In return, HVB receives the respective agency fees.

Finally, HVB has transferred certain back office activities to UniCredit Business Partner S.C.p.A., a company affiliated with the Bank that provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. The advantage for HVB lies in the generation of synergies.

Compliance with the provisions set forth in Section 25a of the German Banking Act (Kreditwesengesetz – KWG) with regard to the specific organisational obligations of institutions is ensured for the outsourced activities listed.

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

(€ millions)

	2010[1]	2009[2]
Fees for		
Auditing of the financial statements	4	6
Other auditing services	3	4
Tax consulting services	—	—
Other services	4	5

1 excluding value-added tax
2 including value-added tax

Other Information (Continued)

Statement of responsibility

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

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
DAB Bank AG, Munich[1]
2. Banks in other regions
HVB Singapore Limited, Singapore
UniCredit Luxembourg S.A., Luxembourg
3. Financial companies
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.

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

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

Key capital ratios

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

The modified available capital, consisting of core capital (Tier I) and supplementary capital (Tier II), totalled €22,936 million at year-end. There was no Tier III capital. We have not allocated any unrealised reserves to supplementary capital compliant with Section 10 (2b) 1 No. 6 and 7 KWG.

The liable funds totalling €22,776 million calculated in accordance with Section 10 (2) KWG are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits.

Derivative financial instruments

The following table provides detailed information on the nominal amounts and fair values of the overall derivative transactions and credit derivative transactions of HVB.

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2010	2009	2010	2009	2010	2009
Interest rate derivatives	**1,167,491**	**1,158,234**	**896,590**	**3,222,315**	**2,876,999**	**64,809**	**61,019**	**63,496**	**60,013**
OTC products									
Forward rate agreements	210,417	12,334	—	222,751	161,291	132	269	105	123
Interest rate swaps	813,594	888,692	739,097	2,441,383	2,177,428	60,071	56,371	57,700	54,451
Interest rate options									
– purchased	39,100	126,568	71,643	237,311	222,170	4,499	4,345	6	—
– written	38,396	105,287	84,492	228,175	224,203	64	28	5,541	5,429
Other interest rate derivatives	324	186	—	510	425	43	6	144	10
Exchange-traded products									
Interest rate futures	65,660	25,102	1,296	92,058	83,188	—	—	—	—
Interest rate options	—	65	62	127	8,294	—	—	—	—
Foreign exchange derivatives	**407,254**	**165,649**	**69,907**	**642,810**	**466,309**	**14,347**	**9,508**	**14,172**	**9,581**
OTC products									
Foreign exchange forwards	267,808	25,127	332	293,267	232,264	4,562	3,407	4,247	3,278
Cross-currency swaps	56,461	123,855	68,123	248,439	173,147	8,036	5,070	8,135	5,176
Foreign exchange options									
– purchased	40,905	8,585	717	50,207	30,386	1,744	1,030	—	—
– written	42,048	8,082	735	50,865	30,509	5	1	1,790	1,127
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	32	—	—	32	3	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Equity/index derivatives	**59,868**	**78,313**	**5,937**	**144,118**	**186,805**	**9,322**	**9,214**	**11,875**	**11,745**
OTC products									
Equity/index swaps	10,933	8,294	443	19,670	20,053	281	787	288	495
Equity/index options									
– purchased	7,926	16,929	1,126	25,981	32,143	6,934	4,164	1	—
– written	14,858	31,740	3,535	50,133	68,133	37	38	7,788	5,507
Other equity/index derivatives	5	1	—	6	2,378	5	219	1	2
Exchange-traded products									
Equity/index futures	4,265	202	11	4,478	204	—	9	—	5
Equity/index options	21,881	21,147	822	43,850	63,894	2,065	3,997	3,797	5,736
Credit derivatives	**38,468**	**198,707**	**34,386**	**271,561**	**326,438**	**4,103**	**4,318**	**4,515**	**4,684**
Other transactions	**4,803**	**4,851**	**498**	**10,152**	**7,313**	**403**	**786**	**718**	**1,104**
Total	**1,677,884**	**1,605,754**	**1,007,318**	**4,290,956**	**3,863,864**	**92,984**	**84,845**	**94,776**	**87,127**

Most of the derivatives are held for trading purposes. The proportion of derivatives concluded for hedging purposes is insignificant.

The banking book contains derivatives with positive market values of €0.7 billion and negative market values of €1.6 billion.

Other Information (Continued)

Employees

The average number of staff employed was as follows:

	2010	2009
Staff (excluding trainees)	16,314	17,396
of whom: full-time	12,558	13,500
part-time	3,756	3,896
Trainees	993	1,046

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

	WOMEN (EXCLUDING TRAINEES)	MEN (EXCLUDING TRAINEES)	2010 TOTAL	2009 TOTAL
Staff's length of service				
25 years or more	19.0	16.5	17.7	17.2
15 to 25 years	25.2	36.5	31.3	31.7
10 to 15 years	13.8	14.7	14.3	13.7
5 to 10 years	21.1	21.7	21.4	23.1
less than 5 years	20.9	10.6	15.3	14.3

Emoluments

(€ millions)

	2010	2009
Members of the Management Board	6	6
Members of the Supervisory Board	3	1
Former members of the Management Board and their surviving dependants	2	10

At 31 December 2010, there were pension provisions in the amount of €33 million (2009: €23 million) payable to former members of the Management Board and their surviving dependants as calculated in accordance with actuarial principles using the projected unit credit method, taking into account anticipated future rises in salaries and pensions. Pension commitments for former executives of HVB were transferred to HVB Trust Pensionsfonds AG when it was set up.

Loans to executive board members

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

	2010	2009
Members of the Management Board	2	1
Members of the Supervisory Board	4	5

Executive boards

Supervisory Board

Chairman

Sergio Ermotti
until 1 March 2011

Federico Ghizzoni
since 2 March 2011
Chairman since 4 March 2011

Deputy Chairman

Peter König

Dr Wolfgang Sprissler

Members

Gerhard Bayreuther
until 22 September 2010

Aldo Bulgarelli

Beate Dura-Kempf

Paolo Fiorentino
until 22 September 2010

Giulio Gambino
until 22 September 2010

Klaus Grünewald

Karl Guha
until 22 September 2010

Werner Habich
since 16 January 2011

Beate Mensch
until 22 September 2010

Dr Lothar Meyer

Marina Natale

Roberto Nicastro
until 22 September 2010

Klaus-Peter Prinz
since 22 September 2010

Panagiotis Sfeliniotis
until 22 September 2010

Professor Hans-Werner Sinn
until 22 September 2010

Jutta Streit
until 15 January 2011

Michael Voss
until 22 September 2010

Jens-Uwe Wächter

Dr Susanne Weiss

Management Board

Peter Buschbeck — **Family & SME division[1]**

Lutz Diederichs — **Corporate & Investment Banking division**

Rolf Friedhofen
until 31 May 2010 — **Chief Financial Officer (CFO)**

Peter Hofbauer
since 1 November 2010

Heinz Laber — **Human Resources Management, Global Banking Services**

Andrea Umberto Varese — **Chief Risk Officer (CRO)**

Dr Theodor Weimer — **Board Spokesman**
Chief Financial Officer (CFO)[2]

Andreas Wölfer — **Private Banking division[3]**

1 formerly Retail division;
the division was renamed Family & SME on 1 January 2011 after resegmentation
2 from 1 June 2010 until 31 October 2010, provisionally
3 formerly Wealth Management division; renamed Private Banking division on 1 April 2010

List of Executives and Outside Directorships[1]

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Sergio Ermotti Former Deputy CEO of UniCredit S.p.A. and Head of Corporate and Investment Banking & Private Banking Strategic Business Area, former member of the Executive Management Committee of UniCredit S.p.A., Collina d'Oro, Chairman until 1 March 2011		UniCredit Bank Austria AG, Vienna[2] London Stock Exchange Group Plc, London Bank Pekao, Poland[2] Darwin Airline SA (Chairman), Lugano Enterra SA, Lugano Hotel Residence Principe Leopoldo SA (Chairman), Lugano Leopoldo Hotels & Restaurants SA, Lugano Tessal SA, Lugano Fidinam Group Holding SA, Lugano Kurhaus Cademario SA, Cademario Immo Heudorf, Silvaplana
Federico Ghizzoni Chief Executive Officer of UniCredit S.p.A., Milan since 2 March 2011 Chairman since 4 March 2011		
Peter König Employee, UniCredit Bank AG, Haar-Salmdorf Deputy Chairman	BVV Pensionsfonds des Bankgewerbes AG	BVV Versicherungsverein des Bankgewerbes a.G. Pensionskasse BVV Versorgungskasse des Bankgewerbes e.V.
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman	HFI Hansische Vermögensverwaltungs Aktiengesellschaft, Hamburg (Deputy Chairman)	UniCredit Bank Austria AG, Vienna Dr. Robert Pfleger Chemische Fabrik GmbH, Bamberg Bankhaus Wölbern & Co. (AG & Co. KG), Hamburg (Chairman)
Gerhard Bayreuther Employee, UniCredit Bank AG, Neubeuern until 22 September 2010		Pensionskasse der HypoVereinsbank (Deputy Chairman) BayBG Bayerische Beteiligungsgesellschaft mbH (Deputy Chairman)
Aldo Bulgarelli Attorney and partner in law office NCTM, Verona		ARAG ASSICURAZIONI S.p.A., Verona (President of the Collegio Sindacale) Amman Italy S.p.A. (President of the Collegio Sindacale)
Beate Dura-Kempf Employee, UniCredit Bank AG, Litzendorf		
Paolo Fiorentino Deputy General Manager of UniCredit S.p.A., COO, Head of Global Banking Services Strategic Business Area, member of the Executive Management Committee of UniCredit S.p.A., Milan until 22 September 2010		UniCredit Bank Austria AG, Vienna[2] (Chairman) UniCredit Credit Management Bank, Verona[2]
Giulio Gambino Employee, UniCredit Bank AG, Unterschleissheim until 22 September 2010		
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia IT AG, Karlsruhe	
Karl Guha Chief Risk Officer, member of the Executive Management Committee of UniCredit S.p.A., Milan until 22 September 2010		

1 as of 31 December 2010
2 Group directorship

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Werner Habich Employee, UniCredit Bank AG, Mindelheim since 16 January 2011		
Beate Mensch Trade union secretary in the North Rhine-Westphalian division of ver.di-Vereinte Dienstleistungsgewerkschaft, unit 10, Cologne until 22 September 2010	DHL Freight GmbH, Bonn	
Dr Lothar Meyer Former Chairman of the Management Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach	ERGO Versicherungsgruppe AG, Düsseldorf Jenoptik AG, Jena	
Marina Natale Chief Financial Officer of UniCredit S.p.A., member of the Executive Management Committee of UniCredit S.p.A., Uboldo		
Roberto Nicastro General Manager of UniCredit S.p.A., Head of F&SME, PB & CEE Strategic Business Area, member of the Executive Management Committee of UniCredit S.p.A., Milan until 22 September 2010		Zao UniCredit Bank[2] ABI – Italian Banking Association[2] UniCredit Bank Austria AG, Vienna[2] EFMA SARL (European Financial Management & Marketing Association), Paris (Chairman) Bank Pekao, Poland[2] Banco di Sicilia[2], until 31 October 2010
Klaus-Peter Prinz Employee, UniCredit Luxembourg S. A., Trier since 22 September 2010		
Panagiotis Sfeliniotis Employee, UniCredit Direct Services GmbH, Munich until 22 September 2010	UniCredit Direct Services GmbH, Munich	
Professor Hans-Werner Sinn President of the ifo Institute for Economic Research, Gauting until 22 September 2010	Thüga AG, Munich	
Jutta Streit Employee, UniCredit Bank AG, Augsburg until 15 January 2011		
Michael Voss Employee, UniCredit Bank AG, Gröbenzell until 22 September 2010		
Jens-Uwe Wächter Employee, UniCredit Bank AG, Himmelpforten		
Dr Susanne Weiss Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich	Giesecke & Devrient GmbH, Munich ROFA AG (Chairman), Kolbermoor Strenesse AG, Nördlingen Wacker Chemie AG, Munich	

1 as of 31 December 2010
2 Group directorship

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

Management Board

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Peter Buschbeck	Bankhaus Neelmeyer AG, Bremen (Chairman)[2] DAB Bank AG, Munich[2], since 20 May 2010 PlanetHome AG, Unterföhring near Munich (Deputy Chairman)[2] UniCredit Direct Services GmbH, Munich (Chairman)[2]	Wealth Management Capital Holding GmbH, Munich[2]
Lutz Diederichs	Deutsche Schiffsbank AG, Bremen/Hamburg Köhler & Krenzer Fashion AG, Ehrenberg	UniCredit Leasing S.p.A, Bologna (Italy)
Rolf Friedhofen until 31 May 2010	HVB Immobilien AG, Munich (Deputy Chairman)[2], until 31 May 2010 HVB Trust Pensionsfonds AG, Munich[2], until 31 May 2010	Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2], until 31 May 2010
Peter Hofbauer since 1 November 2010	HVB Immobilien AG, Munich (Deputy Chairman)[2], since 1 June 2010 HVB Trust Pensionsfonds AG, Munich (Deputy Chairman), since 7 June 2010	Bank für Tirol und Vorarlberg AG, Innsbruck CA-Immo International AG, Vienna, until 16 November 2010 Public Joint Stock Company "UKRSOTSBANK", Kiev (Ukraine) Wealth Management Capital Holding GmbH, Munich, since 15 June 2010 (Deputy Chairman since 28 June 2010)[2] Wietersdorfer Industrie-Beteiligungs-GmbH, Klagenfurt Wietersdorfer Rohrbeteiligungs GmbH, Klagenfurt
Heinz Laber	Internationales Immobilien-Institut GmbH, Munich[2] HVB Immobilien AG, Munich (Chairman)[2] HVB Trust Pensionsfonds AG, Munich[2] (Chairman)	BVV Versicherungsverein des Bankgewerbes a. G., Berlin (Chairman) HVB Secur GmbH, Munich (Deputy Chairman)[2], since 1 January 2011 UniCredit Business Partner Società Consortile per Azioni, Cologno Monzese (Italy) UniCredit Global Information Services Società Consortile per Azioni, Milan (Italy)
Andrea Umberto Varese	HVB Immobilien AG, Munich[2]	Wealth Management Capital Holding GmbH, Munich[2] UniCredit Credit Management Bank S.p.A., Verona, since 1 August 2010
Dr Theodor Weimer Spokesman	Bayerische Börse AG, Munich, since 1 July 2010 DAB Bank AG, Munich (Chairman)[2] ERGO Versicherungsgruppe AG, Düsseldorf, since 12 May 2010	UniCredit Luxembourg S.A., Luxembourg (Deputy Chairman)[2] UniCredit CAIB AG, Vienna (Chairman), until 1 July 2010
Andreas Wölfer		Schoellerbank AG, Vienna (Chairman) UniCredit Luxembourg S.A., Luxembourg (Chairman)[2] UniCredit Private Banking S.p.A., Turin (Italy), until 1 November 2010 Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2]

1 as of 31 December 2010
2 Group directorship

List of employees and outside directorships

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Carsten Dieck	UniCredit Leasing GmbH, Hamburg[2]
Matthias Glückert	Oechsler AG, Ansbach
Klaus Greger	Bankhaus Neelmeyer AG, Bremen (Deputy Chairman)[2] MHM Holding GmbH, Kirchheim-Heimstetten UniCredit Leasing GmbH, Hamburg (Chairman)[2]
Gertraud Helena Grupp-Bolzen	ComputerLinks AG, Munich (Deputy Chairman)
Jens Hagen	UniCredit Leasing GmbH, Hamburg[2]
Dr Martin Hebertinger	UniCredit Direct Services GmbH, Munich[2] UniCredit Leasing GmbH, Hamburg[2]
Klaus Holzmann	Yorma's AG, Deggendorf (Deputy Chairman)
Sven Loeckel	ConCardis GmbH, Frankfurt am Main
Martin Marsmann	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main (Deputy Chairman)
Jörg Pietzner	Bankhaus Neelmeyer AG, Bremen[2]
Dr Guido Schacht	AVAG Holding AG, Augsburg
Joachim Scheuenpflug	Bankhaus Neelmeyer AG, Bremen[2] PlanetHome AG, Unterföhring near Munich[2]
Stefan Sonnenberg	Bankhaus Neelmeyer AG, Bremen[2]
Gabriela Vetter	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main
Heike Wagner	WABCO GmbH, Hanover WABCO Holding GmbH, Hanover

1 as of 31 December 2010
2 Group directorship

List of Holdings

Compliant with Section 313 (2) HGB for the consolidated financial statements and Section 285 No. 11 and 11a HGB for the annual financial statements of UniCredit Bank AG

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
1 Subsidiaries of HVB Group						
1.1 Consolidated subsidiaries						
1.1.1 Banks						
1.1.1.1 Domestic banks and financial institutions						
Bankhaus Neelmeyer AG	Bremen	100.0		EUR	40,400	[1.1]
DAB Bank AG	Munich	77.5		EUR	147,227	15,682
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	27,013	[2]
1.1.1.2 Foreign banks and financial institutions						
direktanlage.at AG	Salzburg	100.0	100.0	EUR	25,547	6,112
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,291,206	236,106
1.1.2 Other consolidated subsidiaries						
AB Immobilienverwaltungs-GmbH	Munich	100.0	100.0	EUR	40	0
Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG[3]	Munich	100.0	100.0	EUR	31	1,468
Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG[3]	Munich	100.0	100.0	EUR	32	1,790
Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG[3]	Munich	100.0	100.0	EUR	30	195
Active Asset Management GmbH	Grünwald	100.0	100.0	EUR	192	23
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	18,972	1,331
Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	793	[2]
ARRONDA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(47,402)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(40,187)	975
A&T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG[3]	Munich	66.7	66.7	EUR	(37,265)	950
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	5,666	855
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	81	2
Bank Austria ImmobilienService GmbH	Vienna	100.0	100.0	EUR	71	(380)
B.I. International Limited	George Town	100.0	100.0	EUR	(750)	(107)
BIL Leasing-Fonds GmbH & Co VELUM KG (share of voting rights 66.7% total, of which 33.3% held indirectly)	Munich	100.0	0.0	EUR	0	0
BIL Leasing-Fonds Verwaltungs-GmbH	Munich	100.0	100.0	EUR	33	(1)
BIL V & V Vermietungs GmbH	Munich	100.0	100.0	EUR	1	(1)
Blue Capital Equity GmbH	Hamburg	100.0	100.0	EUR	(2,309)	3,360
Blue Capital Equity Management GmbH	Hamburg	100.0	100.0	EUR	3,704	1,424
Blue Capital Europa Immobilien GmbH & Co. Achte Objekte Großbritannien KG	Hamburg	100.0	100.0	EUR	3,874	(960)
Blue Capital Fonds GmbH	Hamburg	100.0	100.0	EUR	649	137
Blue Capital USA Immobilien Verwaltungs GmbH	Hamburg	100.0	100.0	EUR	220	170
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	[2]
Cameron Granville Asset Management (SPV-AMC), Inc.	Global City, Taguig	100.0	100.0	PHP	(808,055)	(149,169)
Cameron Granville 2 Asset Management Inc.	Global City, Taguig	100.0	100.0	PHP	(637,417)	(451,376)
Cameron Granville 3 Asset Management Inc.	Global City, Taguig	100.0	100.0	PHP	(747,133)	(191,246)
Central European Confectionery Holdings B.V.	Amsterdam	100.0		USD	(13,280)	(8,026)
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG[3]	Munich	100.0	100.0	EUR	(23,855)	975
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG[3]	Munich	100.0	100.0	EUR	(54,452)	975
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG[3]	Munich	100.0	100.0	EUR	(60,468)	975
Enderlein & Co. GmbH	Bielefeld	100.0	100.0	EUR	114	[2]
Food & more GmbH	Munich	100.0		EUR	100	[1.2]

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	20	2
Golf- und Country Club Seddiner See Immobilien GmbH	Berlin	94.0	94.0	EUR	(15,507)	975
Grand Central Re Limited	Hamilton	92.5		USD	46,628	4,216
Grundstücksaktiengesellschaft am Potsdamer Platz						
(Haus Vaterland)	Munich	98.2	98.2	EUR	4,495	2
Grundstücksgesellschaft Simon						
beschränkt haftende Kommanditgesellschaft[3]	Munich	100.0	100.0	EUR	52	1,324
H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH	Munich	100.0	90.0	EUR	5,101	2
H.F.S. Immobilienfonds GmbH	Ebersberg	100.0	100.0	EUR	7	2
HVB Alternative Advisors LLC	Wilmington	100.0		USD	12,869	8,147
HVB Asia Limited	Singapore	100.0		EUR	11,699	6,538
HVB Asset Leasing Limited	London	100.0	100.0	USD	0	11,159
HVB Asset Management Holding GmbH	Munich	100.0	100.0	EUR	25	2
HVB Capital Asia Limited	Hong Kong	100.0		JPY	8,812,654	13,630
HVB Capital LLC	Wilmington	100.0		USD	1,128	87
HVB Capital LLC II	Wilmington	100.0		GBP	2	0
HVB Capital LLC III	Wilmington	100.0		USD	1,107	90
HVB Capital LLC VI	Wilmington	100.0		JPY	261	7
HVB Capital LLC VIII	Wilmington	100.0		EUR	0	0
HVB Capital Partners AG	Munich	100.0		EUR	12,671	1,3
HVB Export Leasing GmbH	Munich	100.0		EUR	40	(1)
HVB Finance London Limited	London	100.0		EUR	567	216
HVB Funding Trust II	Wilmington	100.0		GBP	2	0
HVB Funding Trust VIII	Wilmington	100.0		EUR	0	0
HVB Gesellschaft für Gebäude Beteiligungs GmbH	Munich	100.0		EUR	41	2
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	14,897
HVB Global Assets Company (GP), LLC	City of Dover	100.0		USD	139	3
HVB Global Assets Company, L.P.[5]	City of Dover	5.0		USD	1,027,931	4,611
HVB Hong Kong Limited	Hong Kong	100.0		USD	3,923	53
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	1,4
HVB International Asset Leasing GmbH	Munich	100.0		EUR	760	(18)
HVB Investments (UK) Limited	George Town	100.0		GBP	200,510	758
HVB London Investments (AVON) Limited	London	100.0		GBP	2,536	1
HVB London Investments (CAM) Limited	London	100.0		GBP	120	0
HVB Principal Equity GmbH	Munich	100.0		EUR	34	1,5
HVB Projekt GmbH[3]	Munich	100.0	94.0	EUR	72,151	2
HVB Realty Capital Inc.	New York	100.0	100.0	USD	0	0
HVB Secur GmbH	Munich	100.0		EUR	97	(3)
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	2
HVB Verwa 1 GmbH	Munich	100.0		EUR	41	0
HVB Verwa 4 GmbH	Munich	100.0		EUR	132	1,6
HVB Verwa 4.4 GmbH	Munich	100.0	100.0	EUR	25	2
HVBFF International Greece GmbH[4]	Munich	100.0	100.0	EUR	(477)	631
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	12	0
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	28	12
HVBFF Produktionshalle GmbH in liquidation	Munich	100.0	100.0	EUR	22	(1)
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	1,481
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	48	(23)
Hypo-Bank Verwaltungszentrum GmbH & Co. KG						
Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	(1,625)
HypoVereinsFinance N.V.	Amsterdam	100.0		EUR	2,141	747
Internationales Immobilien-Institut GmbH	Munich	94.0		EUR	8,609	2,438
Interra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	51	2
Kinabalu Financial Products LLP	London	100.0		GBP	859	262

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Kinabalu Financial Solutions Limited	London	100.0		GBP	3,614	2,430
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	2
Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	26	2
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung	Hamburg	100.0		EUR	16,692	318
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	6,072	2,318
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	19	(1)
NF Objekt FFM GmbH[3]	Munich	100.0	100.0	EUR	125	2
NF Objekt München GmbH[3]	Munich	100.0	100.0	EUR	75	2
NF Objekte Berlin GmbH[3]	Munich	100.0	100.0	EUR	15,725	2
NXP Co-Investment Partners VIII, L.P.	London	85.0	85.0	EUR	11,831	10,211
Orestos Immobilien-Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	56,674	2
Othmarschen Park Hamburg GmbH & Co. Centerpark KG[3]	Munich	100.0	100.0	EUR	(18,942)	0
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG[3]	Munich	100.0	100.0	EUR	(44,083)	975
PlanetHome AG	Unterföhring	100.0		EUR	29,406	3,043
PlanetHome GmbH	Mannheim	100.0	100.0	EUR	1,480	920
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co.						
Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	8,338
"Portia" Grundstücksverwaltungs-Gesellschaft						
mit beschränkter Haftung	Munich	100.0	100.0	EUR	30	4
RHOTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	2
Roncasa Immobilien-Verwaltungs GmbH	Munich	90.0	90.0	EUR	(41,945)	400
Salvatorplatz-Grundstücksgesellschaft mbH	Munich	100.0	100.0	EUR	711	2
Salvatorplatz-Grundstücksgesellschaft mbH & Co.						
OHG Saarland[3]	Munich	100.0	100.0	EUR	1,534	163
Salvatorplatz-Grundstücksgesellschaft mbH & Co.						
OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	2,934
Sirius Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(143,835)	2
SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG[3]	Munich	94.9	94.9	EUR	0	0
Solos Immobilien- und Projektentwicklungs GmbH & Co.						
Sirius Beteiligungs KG[3]	Munich	100.0	100.0	EUR	(37,624)	74
SRQ FinanzPartner AG	Berlin	82.2	82.2	EUR	892	(33)
Status Vermögensverwaltung GmbH	Schwerin	100.0		EUR	1,647	131
Structured Invest Société Anonyme	Luxembourg-Kirchberg	100.0		EUR	6,426	1,437
Structured Lease GmbH	Hamburg	100.0	100.0	EUR	750	2
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(6,970)	19
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,415)	28
TERRENO Grundstücksverwaltung GmbH & Co.						
Entwicklungs- und Finanzierungsvermittlungs-KG[3]	Munich	75.0	75,0	EUR	(268,579)	975
Terronda Development B.V.	Amsterdam	100.0	100.0	EUR	(370)	(14)
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	11,260	3,744
TRICASA Grundbesitz Gesellschaft mbH & Co.						
1. Vermietungs KG[3]	Munich	100.0	100.0	EUR	3,454	1,055
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	940	930
Trinitrade Vermögensverwaltungs-Gesellschaft						
mit beschränkter Haftung	Munich	100.0		EUR	1,318	1
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,147	1,7
UniCredit CAIB Securities UK Ltd.	London	100.0		GBP	448	111,999
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	24,616	(3,566)
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	(177)	(1,048)
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	860	1,8
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	971	(1,129)
UniCredit Leasing GmbH	Hamburg	100.0		EUR	162,026	1,9
UniCredit London Investments Limited	London	100.0		GBP	0	0
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	38,421	68
US Property Investments Inc.	Dallas	100.0		USD	669	52

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
Verba Verwaltungsgesellschaft mbH	Munich	100.0		EUR	767	2
Verwaltungsgesellschaft Katharinenhof mbH[3]	Hamburg	100.0		EUR	708	[1.10]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,475	[1.11]
WealthCap Initiatoren GmbH	Hamburg	100.0	100.0	EUR	3,277	1,743
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	[2]
WealthCap PEIA Komplementär GmbH	Munich	100.0	100.0	EUR	24	(17)
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	270	(776)
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	[2]
WealthCap Stiftungstreuhand GmbH	Hamburg	100.0	100.0	EUR	30	6
1.2 Non-consolidated subsidiaries of HVB Group[6]						
1.2.1 Banks and financial institutions						
HVB Singapore Limited	Singapore	100.0	100.0	EUR	6,733	(68)
1.2.2 Other non-consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
AGRUND Grundstücks-GmbH	Munich	90.0	90.0			
Alexandersson Real Estate I B.V.	Apeldoorn	100.0	100.0			
Allcasa Immobilien-Verwaltungs GmbH	Munich	100.0	100.0			
ALLTERRA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(6,200)	1
"Alte Schmelze" Projektentwicklungsgesellschaft mbH	Munich	100.0	100.0			
Altea Verwaltungsgesellschaft mbH & Co. Objekt I KG	Munich	100.0	100.0			
AMMS Ersatz-Komplementär GmbH	Ebersberg	100.0	100.0			
AMMS Komplementär GmbH	Ebersberg	98.8	98.8	EUR	262	255
Antus Immobilien- und Projektentwicklungs GmbH	Munich	90.0	90.0	EUR	(16,872)	0
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.8			
Apir Verwaltungsgesellschaft mbH & Co. Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(19,269)	968
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
Argentum Media GmbH & Co. KG	Hamburg	100.0				
Asset Management Bremen GmbH	Bremen	100.0	100.0	EUR	83	[2]
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	66.7	66.7			
Bavaria Servicos de Representacao Comercial Ltda.	Sao Paulo	100.0				
Bayerische Wohnungsgesellschaft für Handel und Industrie, Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	294	[2]
BD Industrie-Beteiligungsgesellschaft mbH	Munich	100.0				
BFL Beteiligungsgesellschaft für Flugzeug-Leasing mbH	Munich	100.0				
BIL Aircraftleasing GmbH	Grünwald	100.0	100.0			
BIL Immobilien Fonds GmbH	Munich	100.0	100.0			
BIL Immobilien Fonds GmbH & Co Objekt Perlach KG	Munich	100.0	100.0	EUR	2,953	(133)
Blue Capital Dritte Europa Immobilien Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0			
Blue Capital Equity Sekundär GmbH	Hamburg	100.0	100.0			
Blue Capital Erste Kanada Immobilien Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0			
Blue Capital Europa Erste Immobilien – Objekte Niederlande – Verwaltungs GmbH	Hamburg	100.0	100.0			
Blue Capital Europa Immobilien Verwaltungs GmbH	Hamburg	100.0	100.0			
Blue Capital Immobilien und Verwaltung Sekundär GmbH	Hamburg	100.0	100.0			
Blue Capital Metro Amerika Inc.	Atlanta	100.0	100.0			
Blue Capital Real Estate GmbH	Munich	100.0	100.0	EUR	403	(362)
Blue Capital Zweite Europa Immobilien Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0			
Blue Capital Zweite USA Immobilien Verwaltungs GmbH	Hamburg	100.0	100.0			
Bonum Anlage-und Beteiligungsgesellschaft mbH	Bremen	100.0	100.0	EUR	60	[2]

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
BV Grundstücksentwicklungs-GmbH & Co. Schloßberg-Projektentwicklungs-KG	Munich	100.0	100.0			
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG	Munich	100.0		EUR	511	460
CL Dritte Car Leasing GmbH & Co. KG	Hamburg	100.0	100.0			
CL Dritte Car Leasing Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0			
CUMTERRA Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.8	EUR	26	[2]
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.8	EUR	26	[2]
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5			
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5			
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(1,488)	(98)
Euro-Bond Blue Capital Management GmbH	Bad Soden	100.0	100.0			
Euro-Bond Blue Capital Verwaltungs GmbH	Bad Soden	100.0	100.0			
Ferra Immobilien- und Projektentwicklungs GmbH & Co. Projekt Großenhainer Straße KG	Munich	100.0	100.0	EUR	(13,133)	1,000
FGB Grund und Boden GmbH & Co. KG	Munich	94.0	94.0	EUR	(4,002)	1
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Berlin	100.0	100.0	EUR	26	[2]
GE Immobilienverwaltungs-GmbH & Co. Grundstücks-KG	Munich	100.0	100.0	EUR	256	(314)
Großkugel Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(3,354)	[2]
H & B Immobilien GmbH & Co. Objekte KG	Munich	100.0	100.0	EUR	5	(1,581)
HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung	Munich	100.0	100.0	EUR	276	(723)
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung	Munich	100.0	100.0			
Hekla Immobilien- und Projektentwicklungs GmbH & Co. Vermietungs KG	Munich	100.0	100.0	EUR	(6,308)	(3)
H.F.S. Immobilienfonds Deutschland 19 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 1 Beteiligungs GmbH	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 2 Beteiligungs GmbH	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Beteiligungs B.V.	The Hague	100.0	100.0			
H.F.S. Immobilienfonds GmbH & Co. Europa 4 KG	Munich	100.0	100.0			
H.F.S. Istanbul 1 Gayrimenkul Yönetimi Limited Sirketi	Istanbul	100.0	100.0			
H.F.S. Istanbul 2 Gayrimenkul Yönetimi Limited Sirketi	Istanbul	100.0	100.0			
H.F.S. Leasingfonds GmbH	Ebersberg	100.0	100.0			
H.F.S. Schiffs-Leasingfonds GmbH	Munich	100.0	100.0			
H.F.S. Value Management GmbH	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 3 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 4 GmbH & Co. KG	Munich	100.0	100.0			
Hofgarten Real Estate B.V. (share of voting rights: 50.5%)	Amsterdam	47.2	47.2	EUR	(49,103)	(34)
Hotel Seddiner See GmbH	Berlin	94.0	94.0			
HVB Beteiligungsgesellschaft mbH	Munich	100.0		EUR	376	(564)
HVB Expertise GmbH	Munich	100.0		EUR	1,066	192
HVB Life Science GmbH	Munich	100.0				
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0				
HVB London Trading Ltd.	London	100.0				
HVB Mortgage Capital Corp.	Wilmington	100.0	100.0			
HVB Profil Gesellschaft für Personalmanagement mbH	Munich	100.0		EUR	28	[1.12]
HVB Projekt Emilienhof GmbH & Co. KG	Munich	100.0	100.0			
HVB Services South Africa (Proprietary) Limited	Johannesburg	100.0				
HVB Verwa 3 GmbH	Munich	100.0		EUR	767	[1.13]
HVB Verwa 4.1 GmbH	Munich	100.0	100.0	EUR	25	[2]
HVB Verwa 4.6 GmbH	Munich	100.0	100.0	EUR	25	[2]
HVB Verwa 7 GmbH	Munich	100.0		EUR	22	[1.14]
HVB Verwa 8 GmbH	Munich	100.0		EUR	25	[1.15]
HVBFF Baumanagement GmbH	Munich	100.0	100.0	EUR	50	[2]

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
HVBFF Kapitalvermittlungs GmbH	Munich	100.0	100.0	EUR	19	2
HVBFF Leasing & Investition GmbH & Co Erste KG	Munich	100.0	100.0			
HVBFF Leasing Objekt GmbH	Munich	100.0	100.0			
HVBFF Leasing-Fonds Verwaltungs GmbH	Munich	100.0	100.0			
HVBFF Objekt Leipzig GmbH	Leipzig	70.0	70.0			
HVZ GmbH & Co. Objekt Unterföhring KG	Munich	100.0	100.0			
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH	Munich	100.0	100.0	EUR	128	2
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co.						
Immobilien-Vermietungs KG	Munich	80.0	80.0	EUR	(1,800)	1,000
Keller Crossing L.P.	Wilmington	100.0	100.0	USD	(278)	(154)
KHR Projektentwicklungsgesellschaft mbH & Co.						
Objekt Bornitzstraße I KG	Munich	100.0	100.0	EUR	(5,342)	971
KHR Projektentwicklungsgesellschaft mbH & Co.						
Objekt Bornitzstraße II KG	Munich	100.0	100.0	EUR	(3,285)	974
KHR Projektentwicklungsgesellschaft mbH & Co.						
Objekt Bornitzstraße III KG	Munich	100.0	100.0	EUR	(3,478)	(1)
KHR Projektentwicklungsgesellschaft mbH & Co.						
Objekt Bornitzstraße KG	Munich	100.0	100.0	EUR	(19,799)	985
Laimberg 81. V V AG	Munich	100.0				
Landos Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
Life Britannia GP Limited	Edgware	100.0	100.0			
Life Britannia Management GmbH	Grünwald	100.0	100.0	EUR	45	188
Life Science I Beteiligungs GmbH	Munich	100.0	100.0	EUR	(1,613)	85
Life Verwaltungs Erste GmbH	Munich	100.0	100.0			
Life Verwaltungs Zweite GmbH	Grünwald	100.0	100.0			
Marienplatz Großgarage GmbH	Munich	66.7	66.7	EUR	749	405
MILLETERRA Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	25	2
Motion Picture Production GmbH	Grünwald	51.2	51.2			
Mutnegra Beteiligungs- und Verwaltungs-GmbH	Hamburg	100.0				
Olos Immobilien- und Projektentwicklungs GmbH & Co.						
Grundstücksentwicklungs KG	Munich	100.0	100.0			
Olos Immobilien- und Projektentwicklungs GmbH & Co.						
Vermietungs KG	Munich	100.0	100.0			
Omnia Grundstücks-GmbH	Munich	100.0	100.0	EUR	26	2
Omnia Grundstücks-GmbH & Co. Betriebs KG	Munich	100.0	94.0			
Omnia Grundstücks-GmbH & Co.						
Objekt Eggenfeldener Straße KG	Munich	100.0	94.0			
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG	Munich	100.0	94.0	EUR	26	(159)
Omnia Grundstücks-GmbH & Co. Objekt Ostragehege KG	Munich	100.0	94.0			
Othmarschen Park Hamburg Wohn- und Gewerbepark GmbH	Munich	100.0	100.0			
Pegasus Project Stadthaus Halle GmbH	Munich	100.0	93.8	EUR	26	2
Perterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	2
Projekt-GbR Kronstadter Straße München	Munich	75.0	75.0	EUR	0	975
Prunus Immobilien- und Vermietungs GmbH	Munich	100.0	100.0	EUR	(3,410)	950
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	2
Randus Beteiligungs GmbH	Munich	100.0	100.0	EUR	26	2
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR		
Rotus Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	2
Rotus Immobilien-Verwaltungs GmbH & Co.						
Objekt Eggenfeldener Straße KG in liquidation	Munich	97.0	97.0			
Saphira Immobilien- und Projektentwicklungs GmbH & Co.						
Frankfurt City West Office Center und Wohnbau KG	Munich	100.0	100.0			
Schloßberg-Projektentwicklungs-GmbH & Co 683 KG	Munich	100.0	100.0			
Schönefeld Wohn- und Gewerbebau GmbH & Co. Dorfanger KG	Munich	100.0	100.0			
Selfoss Beteiligungsgesellschaft mbH	Grünwald	100.0	100.0			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Simon Verwaltungs-Aktiengesellschaft in liquidation	Munich	100.0		EUR	3,131	0
Spree Galerie Hotelbetriebsgesellschaft mbH	Munich	100.0	100.0	EUR	249	2
STARS Geschäftsführungs- und Verwaltungs-GmbH	Munich	100.0				
STARS GmbH & Co. KGaA	Munich	100.0				
TERRA MAGNA Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	25	2
TERRENO Grundstücksverwaltung GmbH	Munich	75.0	75.0			
TERRENO Grundstücksverwaltung GmbH & Co.						
Objektgesellschaft Grillparzerstraße KG	Munich	75.0		EUR	(8,652)	914
The St. Margarets Limited Partnership	George Town	99.0	99.0	USD	60,790	2,617
Tishman Speyer Berlin Friedrichstraße KG in liquidation (share of						
voting rights: 93.4% total, of which 6.9% held indirectly)	Berlin	94.4	5.8	EUR	(265)	517
Transterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.8	EUR	26	2
UniCredit Advisory Limited						
(liquidated on 25 February 2011)	Hong Kong	100.0				
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(19,080)	897
Vereinsbank Leasing International Verwaltungsgesellschaft mbH						
in liquidation	Hamburg	100.0	100.0			
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
Vintners London Investments (Nile) Limited	George Town	100.0	100.0			
VuWB Investments Inc.	Atlanta	100.0	100.0	USD	1,172	753
WCREM Canadian Investments Inc.	Toronto	100.0	100.0	CAD	264	225
WCREM Canadian Management Inc.	Toronto	100.0	100.0			
WealthCap Aircraft 25 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Geothermie 1 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 33 GmbH & Co. KG						
(share of voting rights: 75%)	Munich	50.0	50.0			
WealthCap Immobilienfonds Europa 11 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds USA 14 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap LebensWert 3 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap PEIA Sekundär GmbH	Munich	100.0	100.0			
WealthCap Photovoltaik 2 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Photovoltaik 3 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Private Equity GmbH	Hamburg	100.0	100.0			
WealthCap Private Equity Sekundär GmbH	Hamburg	100.0	100.0			
WealthCap Private Equity 13 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Private Equity 14 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Private Equity 15 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Real Estate Komplementär GmbH	Munich	100.0	100.0			
WealthCap Real Estate Sekundär GmbH	Munich	100.0	100.0			
WealthCap SachWerte Portfolio 1 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap US Life Dritte Management GmbH	Munich	100.0	100.0			
Wealth Capital Investments, Inc.	Wilmington	100.0	100.0	USD	3,238	92
Wealth Capital Management, Inc.	Wilmington	100.0	100.0	USD	585	(56)
2 Joint ventures[6]						
Minor joint ventures						
Other companies						
Global Life Science Limited Partnership	St. Peter Port	23.8		EUR	7	(176)
Heizkraftwerk Cottbus Verwaltungs GmbH	Munich	33.3		EUR	344	613
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.3		EUR	107	741
N665UA Offshore GP, LLC	Wilmington	33.3	33.3			
N665UA Offshore OP, L.P. (share of voting rights: 0%)	Wilmington	33.2	33.2	USD	(2,901)	1,143
Wertweiser GmbH	Munich	50.0	50.0	EUR	949	310

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
3 Associated companies						
3.1 Associated companies valued at equity						
Other companies						
UniCredit Global Information Services Società						
Consortile per Azioni	Milan	24.7		EUR	378,608	23,317
3.2 Minor associated companies[6]						
Other companies						
Adler Funding LLC	Dover	32.8				
BIL Leasing GmbH & Co Hotel Ulm KG	Munich	29.0	29.0	EUR	(2,205)	468
CMP Fonds I GmbH (share of voting rights: 25%)	Berlin	32.7		EUR	19,616	(847)
DFA Deggendorfer Freihafen Ansiedlungs-GmbH	Deggendorf	50.0	50.0			
DFA Deggendorfer Freihafen Ansiedlungs-GmbH & Co.						
Grundstücks-KG	Deggendorf	50.0	50.0			
MOC Verwaltungs GmbH	Munich	23.0	23.0			
MOC Verwaltungs GmbH & Co. Immobilien KG[7]	Munich	23.0	23.0	EUR	206	162
SK BV Grundstücksentwicklung GmbH & Co. KG	Cologne	25.0	25.0	EUR	(850)	99
SK BV Grundstücksentwicklung Verwaltung GmbH	Cologne	50.0	50.0			
4 Holdings in excess of 20%						
without significant influence[6]						
Other companies						
AS Alta Property & Construction	Riga	20.0		LVL	(11,262)	(24,952)
BayBG Bayerische Beteiligungsgesellschaft mbH	Munich	22.5		EUR	152,229	5,222
Bayerischer BankenFonds GbR	Munich	25.6				
BC European Capital VII-12 L.P. (share of voting rights: 0%)	St. Peter Port	34.1		EUR	84,826	39,229
B.I.I. Creditanstalt International Ltd. (share of voting rights: 0%)	George Town	40.2				
BioM Venture Capital GmbH & Co. Fonds KG						
(share of voting rights: 20.4%)	Planegg/Martinsried	23.5		EUR	2,177	(8)
BWF Beteiligungsgesellschaft Wirtschaftsförderung mbH	Hamburg	50.0				
Comtrade Group B.V.	Amsterdam	21.1	21.1	EUR	21,532	(2,965)
Deutsche Structured Finance & Leasing GmbH & Co.						
Mira KG (share of voting rights: 39.8% total,						
of which 4% held indirectly)	Frankfurt am Main	39.9	4.0	EUR	(2,295)	694
Doughty Hanson & Co. Technology Limited Partnership						
Number 3 (share of voting rights: 0%)	London	22.3		USD	35,714	0
Engelbert Rütten Verwaltungsgesellschaft						
Kommanditgesellschaft	Düsseldorf	30.2				
EQT III ISS Co-Investment L.P. (share of voting rights: 0%)	St. Peter Port	35.6	35.6	EUR	31,984	5,745
Felicitas GmbH in liquidation	Munich	20.8		EUR	1,741	229
Fondo Nord Ovest (share of voting rights: 0%)	Turin	26.7		EUR	15,580	(1,814)
GermanIncubator Erste Beteiligungs GmbH						
(share of voting rights: 9.9%)	Munich	39.6		EUR	2,091	(274)
HVB Trust Pensionsfonds AG (share of voting rights: 0%)[8]	Munich	100.0	100.0	EUR	3,500	0
InfrAm One Corporation	City of Lewes	37.5	37.5	USD	2,595	(2,114)
IPE Euro Wagon L.P. (share of voting rights: 0%)	St. Helier	37.9	379	EUR	23,449	7,835
Köhler & Krenzer Fashion AG	Ehrenberg	<50.0		EUR	38,959	1,067
Lauro Ventidue S.p.A.	Milan	24.2	24.2	USD	164,875	(56)
LNC Investments Holdings Inc. (share of voting rights: 40%)	Global City, Taguig	98.5	98.5	PHP	769	616
LNC (SPV-AMC) Corp.	Global City, Taguig	40.0	40.0	PHP	495,691	129,208
LNC3 Asset Management Inc.	Global City, Taguig	40.0	40.0	PHP	(666,503)	257,669
Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S.	Istanbul	20.0	20.0	TRY	96,332	24,625
Motion Picture Markets Holding GmbH in liquidation	Grünwald	33.3	33.3			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Mozfund (Proprietary) Limited (share of voting rights: 12.5%)	Sandton	40.0				
Mühoga Münchner Hochgaragen Gesellschaft						
mit beschränkter Haftung	Munich	25.0	25.0	EUR	3,692	2,839
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S.						
(share of voting rights: 0%)	Luxembourg	38.3	38.3			
Rolo Impresa Fondo Comune di Investimento Mobiliare Chiuso						
(share of voting rights: 0%)	Milan	73.1		EUR	52,939	(3,329)
Sentient Global Resources Fund I, L.P.						
(share of voting rights: 0%)	George Town	24.4		USD	167,819	62,396
Sticky Pitch Corporation (share of voting rights: 4.9%)	Wilmington	20.0	20.0			
TP Co-Investment Partners L.P. (share of voting rights: 0%)	Wilmington	100.0	100.0	USD	11,568	1,066
US Retail Income Fund VII L.P. (share of voting rights: 0.5%)	Wilmington	26.3	26.3	USD	15,955	659
WCG-NSL Holding LLC (share of voting rights: 0%)	Wilmington	22.1	22.1			

NAME	REGISTERED OFFICE	SHARE OF CAPITAL in %	SUBSCRIBED CAPITAL € MILLIONS
5 Other selected holdings below 20%			
5.1 Banks and financial institutions			
AKA Ausfuhrkredit-Gesellschaft mbH	Frankfurt am Main	15.4	20.5
BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH	Berlin	4.3	3.2
BGG Bayerische Garantiegesellschaft mit beschränkter Haftung für mittelständische Beteiligungen	Munich	10.5	0.4
Bürgschaftsbank Brandenburg GmbH	Potsdam	7.8	7.4
Bürgschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	9.1	8.1
Bürgschaftsbank Sachsen GmbH	Dresden	4.7	13.1
Bürgschaftsbank Sachsen-Anhalt GmbH	Magdeburg	8.9	8.4
Bürgschaftsbank Schleswig-Holstein GmbH	Kiel	6.0	3.6
Bürgschaftsbank Thüringen GmbH	Erfurt	8.7	12.9
Bürgschaftsgemeinschaft Hamburg GmbH	Hamburg	10.5	10.9
Deutsche Schiffsbank AG	Bremen/Hamburg	7.9	147.0
Liquiditäts-Konsortialbank GmbH	Frankfurt am Main	5.7	200.0
Saarländische Investitionskreditbank AG	Saarbrücken	3.3	5.2
5.2 Other companies			
BioM Aktiengesellschaft Munich Bio Tech Development	Planegg	8.5	2.9
Börse Düsseldorf AG	Düsseldorf	3.0	5.0
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	13.6	4.1
GEMMA Verwaltungsgesellschaft mbH & Co. Vermietungs KG (held indirectly)[7]	Pullach	6.1	69.2
H.F.S. Leasingfonds Deutschland 1 GmbH & Co. KG (Immobilienleasing) (held indirectly)[7]	Munich	<0.1	61.2
H.F.S. Leasingfonds Deutschland 7 GmbH & Co. KG (held indirectly)[7]	Munich	<0.1	56.6
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	Stuttgart	5.0	3.6
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH	Mainz	8.7	2.9
Mittelständische Beteiligungsgesellschaft Berlin-Brandenburg mbH	Potsdam	11.6	5.7
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern GmbH	Schwerin	15.4	5.1
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mbH	Hanover	8.2	0.9
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	11.8	10.4
Mittelständische Beteiligungsgesellschaft Sachsen-Anhalt mit beschränkter Haftung	Magdeburg	12.7	6.5
Mittelständische Beteiligungsgesellschaft Thüringen mbH	Erfurt	13.4	9.9
Saarländische Kapitalbeteiligungsgesellschaft mbH	Saarbrücken	8.7	0.8
Wüstenrot & Württembergische AG	Stuttgart	7.5	481.1

NAME		REGISTERED OFFICE	SHARE OF CAPITAL in %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
6	**Fully consolidated special purpose entities pursuant to IAS 27/SIC 12 without shareholding**				
Altus Alpha Plc		Dublin	0.0	EUR	40
Arabella Finance Ltd.		Dublin	0.0	EUR	<1
Bandon Leasing Ltd.		Dublin	0.0	USD	<1
Bavaria Universal Funding Corporation		Delaware	0.0	USD	10
Black Forest Funding LLC		Delaware	0.0	USD	10
Cosima Purchase No. 13 Ltd.		St. Helier	0.0	EUR	<1
Cosima Purchase No. 14 Ltd.		Dublin	0.0	EUR	<1
Cosima Purchase No. 15 Ltd.		Dublin	0.0	EUR	<1
Cosima Purchase No. 6 S.A. – Compartment 3		Luxembourg	0.0	EUR	0
Elektra Purchase No. 1 Ltd.		St. Helier	0.0	EUR	<1
Elektra Purchase No. 17 S.A. – Compartment 2		Luxembourg	0.0	EUR	0
Elektra Purchase No. 18 Ltd.		Dublin	0.0	EUR	<1
Elektra Purchase No. 23 Ltd.		Dublin	0.0	EUR	<1
Elektra Purchase No. 26 Ltd.		Dublin	0.0	EUR	<1
European-Office-Fonds		Munich	0.0	EUR	0
GELDILUX-TS-2007 S.A.		Luxembourg	0.0	EUR	31
GELDILUX-TS-2008 S.A.		Luxembourg	0.0	EUR	31
GELDILUX-TS-2010 S.A.		Luxembourg	0.0	EUR	31
Grand Central Funding Corporation		New York	0.0	USD	1
HVB Funding Trust		Wilmington	0.0	USD	0
HVB Funding Trust III		Wilmington	0.0	USD	0
Merrill Lynch Series PT-3364		New York	0.0	USD	0
Merrill Lynch Series PT-3951		St. Antonio	0.0	USD	0
Merrill Lynch Series PT-3989		Boston	0.0	USD	0
Merrill Lynch Series PT-4140		Boston	0.0	USD	0
Merrill Lynch Series PT-4155		Sacramento	0.0	USD	0
Merrill Lynch Series PT-4163		Clearwater	0.0	USD	0
Morgan Stanley Series 2006-1654		Dallas	0.0	USD	0
Morgan Stanley Series 2006-1678		Chicago	0.0	USD	0
Morgan Stanley Series 2008-2933		New York	0.0	USD	0
Morgan Stanley Series 2008-2934		Washington	0.0	USD	0
Morgan Stanley Series 2008-2935		Chicago	0.0	USD	0
Ocean Breeze Energy GmbH & Co. KG		Munich	0.0	EUR	27
Ocean Breeze Finance S.A. – Compartment 1		Luxembourg	0.0	EUR	0
Redstone Mortgages Ltd.		London	0.0	GBP	100
Rosenkavalier 2008 GmbH		Frankfurt am Main	0.0	EUR	25
Salome Funding Plc		Dublin	0.0	EUR	38
Sofimmocentrale S.A.[9]		Brussels	100.0	EUR	44,514
The Trans Value Trust Company Ltd.		Tokyo	0.0	JPY	0

List of Holdings (Continued)

Exchanges rates for 1 euro at 31 December 2010
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

Canada	1 euro =	1.3322	CAD
China	1 euro =	8.822	CNY
Japan	1 euro =	108.65	JPY
Latvia	1 euro =	0.7094	LVL
Philippines	1 euro =	58.3	PHP
Turkey	1 euro =	2.0694	TRY
UK	1 euro =	0.86075	GBP
USA	1 euro =	1.3362	USD

Notes and comments

Percentages marked < or > are rounded up or down to one decimal place, e. g. < 100.0% = 99.99% or > 0.0% = 0.01%.

1 UniCredit Bank AG has concluded profit-and-loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Bankhaus Neelmeyer AG, Bremen	351
1.2	Food & more GmbH, Munich	(198)
1.3	HVB Capital Partners AG, Munich	22,239
1.4	HVB Immobilien AG, Munich	(38,023)
1.5	HVB Principal Equity GmbH, Munich	68
1.6	HVB Verwa 4 GmbH, Munich	2,024
1.7	UniCredit Beteiligungs GmbH, Munich	(38)
1.8	UniCredit Direct Services GmbH, Munich	461
1.9	UniCredit Leasing GmbH, Hamburg	19,100
1.10	Verwaltungsgesellschaft Katharinenhof mbH, Hamburg	293
1.11	Wealth Management Capital Holding GmbH, Munich	14,194
1.12	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	784
1.13	HVB Verwa 3 GmbH, Munich	(2)
1.14	HVB Verwa 7 GmbH, Munich	(3)
1.15	HVB Verwa 8 GmbH, Munich	(3)

2 Profit and loss transfer to shareholders and partners.

3 Compliant with Sections 264b and 264 (3) HGB, the company is exempt from the obligation to publish annual financial statements in accordance with the provisions applicable to corporations.

4 Figures of the 2009 annual accounts are indicated for this consolidated company.

5 Subsidiary since UniCredit Bank AG exercises a controlling influence through company management.

6 Where equity capital and net profit are not stated, the information is omitted due to minor importance compliant with Section 286 (3) 1 No. 1 HGB. This information is omitted for companies compliant with Section 285 No. 11a HGB, for the same reason.

7 Compliant with SIC 12, the company is fully consolidated by HVB Group.

8 The company is held by a trustee for UniCredit Bank AG.

9 Share of capital held by European-Office-Fonds, another special purpose entity consolidated pursuant to SIC 12.

Mortgage Banking

Coverage

(€ millions)

	2010	2009
A. Mortgage bonds		
Standard coverage		
1. Loans and receivables with banks		
Mortgage loans	—	—
2. Loans and receivables with customers		
Mortgage loans	29,306	32,055
Other eligible cover[1]		
1. Other lending to banks	—	—
2. Bonds and other fixed-income securities	2,743	2,313
3. Equalisation claims on government authorities	—	—
Subtotal	**32,049**	**34,368**
Total mortgage bonds requiring cover	26,833	29,874
Excess coverage	**5,216**	**4,494**
B. Public-sector bonds		
Standard coverage		
1. Loans and receivables with banks	679	906
Mortgage loans	—	—
Municipal loans	679	906
2. Loans and receivables with customers	8,024	8,184
including:		
Mortgage loans	45	282
Municipal loans	7,979	7,902
3. Bonds and other fixed-income securities	657	672
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**9,360**	**9,762**
Total public-sector bonds requiring cover	5,948	7,056
Excess coverage	**3,412**	**2,706**

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

Mortgage bonds outstanding and covering assets used

(€ millions)

	NOMINAL 2010	NOMINAL 2009	PRESENT VALUE 2010	PRESENT VALUE 2009	RISK PRESENT VALUE 2010	RISK PRESENT VALUE 2009
1. Mortgage bonds						
Covering assets[1]	32,049	34,368	34,219	36,737	35,307	38,063
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	26,833	29,874	28,750	32,045	29,929	33,512
Excess coverage	**5,216**	**4,494**	**5,469**	**4,692**	**5,378**	**4,551**
2. Public-sector bonds						
Covering assets[2]	9,360	9,762	9,977	10,395	9,583	10,019
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	5,948	7,056	6,487	7,602	6,154	7,245
Excess coverage	**3,412**	**2,706**	**3,490**	**2,793**	**3,429**	**2,774**

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

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

(€ millions)

	COVERING ASSETS 2010	COVERING ASSETS 2009	MORTGAGE BONDS 2010	MORTGAGE BONDS 2009
1. Mortgage bonds[1]				
less than 1 year	11,605	11,226	4,948	4,300
at least 1 year but less than 5 years	13,391	14,821	14,180	15,748
thereof: at least 1 year but less than 2 years[3]	3,882	4,643	5,675	4,943
at least 2 years but less than 3 years[3]	3,598	4,271	2,986	5,564
at least 3 years but less than 4 years[3]	2,816	3,113	2,608	2,846
at least 4 years but less than 5 years[3]	3,095	2,794	2,911	2,395
at least 5 years but less than 10 years	6,147	7,335	5,120	7,184
10 years or more	906	986	2,585	2,642
	32,049	**34,368**	**26,833**	**29,874**
2. Public-sector bonds[2]				
less than 1 year	3,594	3,745	659	1,670
at least 1 year but less than 5 years	2,777	3,329	2,317	2,036
thereof: at least 1 year but less than 2 years[3]	794	1,250	695	654
at least 2 years but less than 3 years[3]	672	740	455	414
at least 3 years but less than 4 years[3]	769	620	608	375
at least 4 years but less than 5 years[3]	542	719	559	593
at least 5 years but less than 10 years	2,158	1,982	1,649	2,012
10 years or more	831	706	1,323	1,338
	9,360	**9,762**	**5,948**	**7,056**

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act; broken down by fixed-rate period or residual term for mortgage bonds
2 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act; broken down by fixed-rate period or residual term for mortgage bonds
3 breakdown as per amended German Pfandbrief Act 2009

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

(€ millions)

	2010	2009
Mortgage covering assets		
up to and including €300,000	16,531	18,724
over €300,000 up to and including €5,000,000	8,312	8,966
more than €5,000,000	4,463	4,366
	29,306	**32,056**

Mortgage Banking (Continued)

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

(€ millions)

	MORTGAGE COVERING ASSETS			
	RESIDENTIAL PROPERTY		COMMERCIAL PROPERTY	
	2010	2009	2010	2009
1. Germany				
Apartments	6,111	7,010	—	—
Single-family houses	7,085	7,956	—	—
Multi-family houses	7,115	7,560	—	—
Office buildings	—	—	3,589	3,756
Commercial buildings	—	—	2,871	3,012
Industrial buildings	—	—	606	609
Other commercially used buildings	—	—	726	745
Buildings under construction	679	791	440	522
Building sites	26	30	47	53
	21,016	**23,347**	**8,279**	**8,697**
2. France/Monaco				
Single-family houses	2	2	—	—
Multi-family houses	—	—	—	—
	2	**2**	**—**	**—**
3. Italy/San Marino				
Single-family houses	1	1	—	—
	1	**1**	**—**	**—**
4. Luxembourg				
Office buildings	—	—	—	3
	—	**—**	**—**	**3**
5. Austria				
Office buildings	—	—	—	5
	—	**—**	**—**	**5**
6. Spain				
Single-family houses	—	1	—	—
	—	**1**	**—**	**—**
	21,019	**23,351**	**8,279**	**8,705**

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

(€ millions)

	COVERING ASSETS	
	2010	2009
1. Germany		
Central government	7	10
Regional authorities	2,953	3,053
Public-sector authorities	4,436	4,429
Other	1,610	1,884
	9,006	**9,376**
2. Greece		
Central government	113	136
Other	—	—
	113	**136**
3. Austria		
Central government	200	200
	200	**200**
4. Spain		
Public-sector authorities	41	50
	41	**50**
	9,360	**9,762**

Mortgage Banking (Continued)

Payments in arrears

Payments in arrears on mortgages and public-sector loans and receivables due between 1 October 2009 and 30 September 2010 break down as follows:

(€ millions)

	COVERING ASSETS	
	2010	2009
1. Payments in arrears on mortgages		
Germany	4	7
	4	**7**
2. Payments in arrears on public-sector loans and receivables		
Germany		
Regional authorities[1]	—	—
Other[1]	—	1
	—	**1**

1 officially guaranteed loans and receivables

Foreclosures and sequestrations

		OF WHICH:	
		COMMERCIAL PROPERTY 2010	RESIDENTIAL PROPERTY 2010
1. Foreclosures and sequestrations			
	NUMBER OF PROCEEDINGS		
a) Pending at 31 December 2010			
Foreclosure proceedings	526	156	370
Sequestration proceedings	24	10	14
Foreclosure and sequestration proceedings	401	108	293
(comparative figures from 2009	618	28	590)
b) Foreclosures finalised in 2010	**61**	**28**	**33**
(comparative figures from 2009	123	6	117)
2. Properties auctioned or repossessed			
The Pfandbrief bank did not have to repossess any properties during the year			
under review to prevent losses on mortgage loans.			

Interest in arrears

Interest in arrears on mortgage-covering assets due between 1 October 2009 and 30 September 2010 break down as follows:

(€ millions)

	2010	2009
Commercial property	—	1
Residential property	—	2

The present annual financial statements were prepared on 11 March 2011.

UniCredit Bank AG
The Management Board

Buschbeck Diederichs Hofbauer Laber

Varese Dr Weimer Wölfer

Declaration by the Management Board

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

Munich, 11 March 2011

UniCredit Bank AG
The Management Board

Buschbeck Diederichs Hofbauer Laber

Varese Dr Weimer Wölfer

Auditor’s Report

We have issued the following unqualified auditor’s report:

“Auditor’s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of UniCredit Bank AG, Munich, for the business year from 1 January to 31 December 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 14 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski
Wirtschaftsprüfer

Pfeiffer
Wirtschaftsprüfer

Financial Calendar

Important Dates 2011

Publication of the 2010 annual results	23 March 2011
Interim Report at 31 March 2011	12 May 2011
Half-yearly Financial Report at 30 June 2011	4 August 2011
Interim Report at 30 September 2011	10 November 2011

Contacts
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