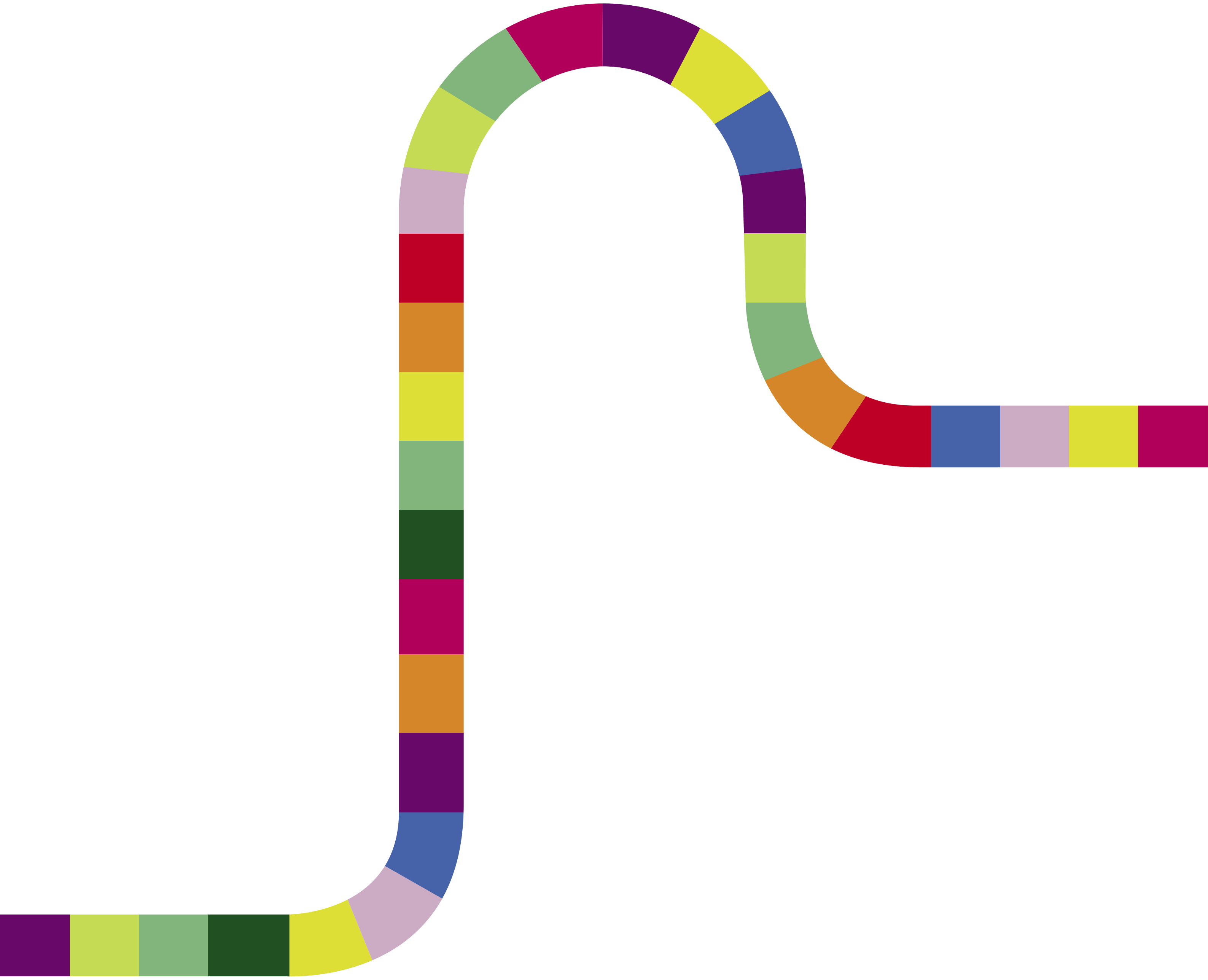
HypoVereinsbank Member of UniCredit

For whatever life brings

2010 Annual Report



HypoVereinsbank Member of UniCredit

Everyone knows that life can be surprising. Many of these surprises are good things. Some are not so good. That is why people need their bank to be a reliable partner, helping them to deal with *whatever life brings*.

Because this year's report is inspired by real life, its graphics portray some of life's more pleasant aspects, as well as a few of its less enjoyable features. Thus, the images present a range of contrasts, and our cover offers up a kaleidoscope of moments drawn from daily life.

That is simply how life works. From the exciting to the ordinary, from the expected to the unanticipated, life is always changing and makes demands on all of us.

And UniCredit is here to lend a hand.

Our job is about more than offering products and managing transactions. It is about understanding the needs of our customers as individuals, families and enterprises. Our goal is to deliver solutions for the everyday issues that people face. This means providing them with concrete answers – day by day, customer by customer, need by need.

2010 Annual Report

UniCredit Bank AG Profile

- UniCredit Bank AG (HVB) is one of the **leading financial institutions** in Germany. Our core competencies cover retail banking, corporate banking for small, medium-sized and large, internationally active corporate customers, private banking and international capital markets.
- **Customer** satisfaction is the focal point of all our activities. We are committed to providing our customers with excellent, innovative and fast solutions across all business segments.
- HVB belongs to UniCredit, a pan-European banking group that holds a leading position in the wealthiest regions and fastest-growing markets in Europe, notably also in central and eastern Europe. HVB is the corporate **centre of competence for all UniCredit capital market operations.**
- Germany plays an important role in the corporate group. We are committed to our regional origins. At the same time, as a fully integrated member of UniCredit and a leading European bank, we want to develop a strong **cultural identity**. In this context, the company name was changed from Bayerische Hypo- und Vereinsbank Aktiengesellschaft to UniCredit Bank AG in 2009 to reflect the UniCredit identity and branding. We are also committed to our **corporate citizenship**, promoting the common good in the countries where we operate.
- We offer our people excellent opportunities to further their careers throughout Europe, thereby strengthening an entrepreneurial spirit. At the same time, we ensure strict compliance with the group-wide **Integrity Charter**, which encompasses the basic values our staff is expected to observe. We integrate our staff through Integrity Charter workshops and regular staff surveys. We also have a coherent corporate mission statement. Among other things, this **Mission Statement** includes the self-imposed obligation to create customer benefits and generate lasting value.

Financial Highlights

Key performance indicators

	2010	2009
Operating profit	€3,125m	€3,468m
Cost-income ratio (based on total revenues)	52.3%	50.0%
Profit before tax	€1,882m	€1,266m
Consolidated profit	€1,728m	€884m
Return on equity before tax[1]	8.5%	5.5%
Return on equity after tax[1]	8.0%	3.7%
Earnings per share	€2.12	€1.02

Balance sheet figures

	31/12/2010	31/12/2009
Total assets	€371.9bn	€363.4bn
Shareholders' equity	€23.7bn	€23.6bn
Leverage ratio[2]	15.7	15.4

Key capital ratios compliant with Basel II

	31/12/2010	31/12/2009
Core capital (Tier 1 capital)	€20.6bn	€20.4bn
Core capital without hybrid capital (core Tier 1 capital)	€19.8bn	€19.3bn
Risk-weighted assets (including equivalents for market risk and operational risk)	€124.5bn	€115.1bn
Core capital ratio (Tier 1 ratio)[3]	16.6%	17.8%
Core capital ratio without hybrid capital (core Tier 1 ratio)[3]	15.9%	16.7%

	31/12/2010	31/12/2009
Employees (in FTEs)	19,146	18,874
Branch offices	927	852

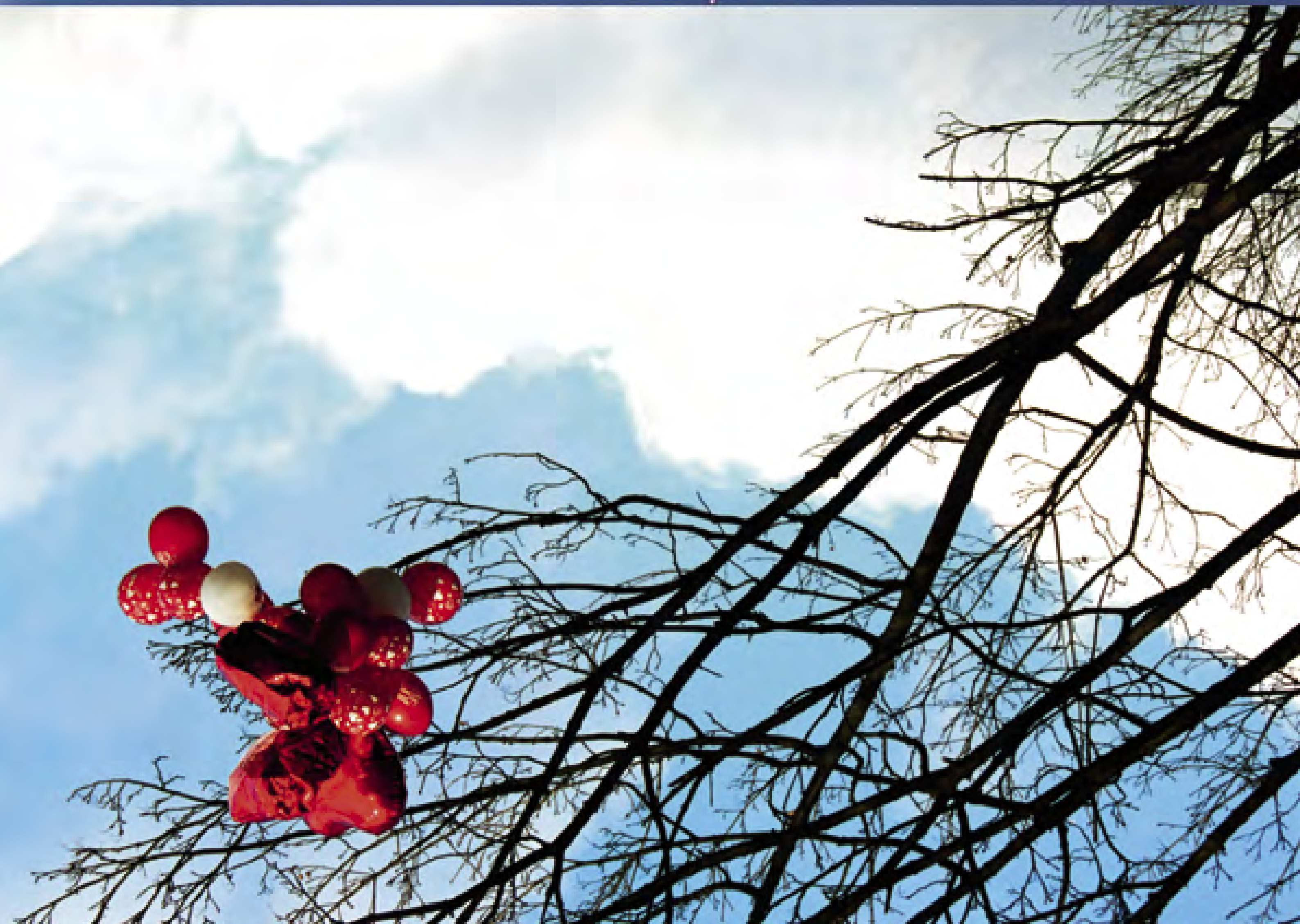
1 return on equity calculated on the basis of average shareholders' equity according to IFRS
2 ratio of total assets to shareholders' equity compliant with IFRS
3 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Moody's	A1	P-1	stable	C–	22/11/2010	Aaa	Aa1	13/6/2008/ 17/6/2008
S & P	A	A-1	stable	—	12/1/2010	AAA	—	9/3/2010
Fitch Ratings	A +	F1+	stable	C	13/12/2010	AAA	AAA*	17/6/2008

* on rating watch negative (10 August 2010)

For whatever life brings



Contents

For whatever life brings

Strategy and Results

Letter from the Supervisory Board Chairman

"In a generally favourable domestic environment, HVB performed very well throughout 2010."

Ladies and Gentlemen,

In 2010, the global economy recovered swiftly from the financial crisis. The economic climate has improved in all major regions. In Europe, and more specifically in the eurozone, however, the gap between core and peripheral regions has widened in the context of structural deficiencies and public debt in countries like Ireland and Greece. On the other hand, Germany, the home market of UniCredit Bank AG (HVB), progressed particularly well in the reporting year, in terms of both exports and gross capital formation.

The worldwide financial sector is facing both public scrutiny and regulatory pressures. Despite slight modifications to Basel III, the legal and regulatory framework for banks is certainly being tightened.

Parallel to other major European banks, UniCredit successfully completed the stress test coordinated by the Committee of European Banking Supervisors (CEBS), thus confirming the high quality of its regulatory capital. Within UniCredit, HVB's core capital ratio has remained consistently high over recent years.

The UniCredit Board approved a new governance structure in October 2010. The Country Chairman Germany now reports directly to the CEO of UniCredit; this streamlined decision-making process strengthens the regional focus of the group. A further milestone in the reporting year was the introduction of a remuneration committee in Germany. Remuneration policies are firmly aligned to long-term corporate goals. The committee presented its first yearly report to the HVB Supervisory Board in November 2010.

In a generally favourable domestic environment, HVB performed very well throughout 2010. Profit before tax increased considerably, while loan-loss provisions decreased significantly. All divisions contributed to the good results, in particular the Corporate & Investment Banking division. In terms of profitability and financial stability, HVB has a leading position in the German banking market, specially in the corporate sector. Its diversified business model and the dual focus on cost-efficiency and rigorous risk management have contributed to this position.

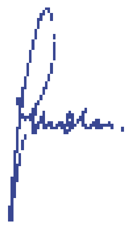
To improve operational efficiency, HVB introduced the EuroSIG core banking software in August 2010 after extensive tests. The Supervisory Board has closely monitored the various phases in the implementation of EuroSIG while taking into account the specifications of the German Federal Financial Supervisory Authority (BaFin).

HVB is a vital part of UniCredit, one of Europe's leading banking groups. It benefits from the exchange of expertise and the integration of IT and back office functions in group factories such as UniCredit Business Partner and UniCredit Global Information Services. UniCredit plays an important role in some of Europe's wealthiest regions and the growing markets of central and eastern Europe.

I would like to close this letter by expressing full confidence in HVB's Management Board and in its employees, and by thanking them for excellent work under conditions that remain challenging. Germany is one of UniCredit's core markets and we are firmly committed to a strong presence in Europe's leading economy. The consolidation of our investment banking activities in HVB is a further sign of our basic commitment.

2011 will probably be a strong year for the German economy and to a certain extent for the eurozone, despite structural deficiencies and excessive debt in some countries. However, I am very confident that HVB will continue to prosper and will further enhance its operational efficiency.

Sincerely



Federico Ghizzoni

Letter from the Management Board Spokesman

"How do we explain the sustained success of HVB? As far as I'm concerned, we have our diversified business model with a strong, integrated corporate and investment bank geared fully to customer needs and also a dual focus on strict risk management and cost-efficiency."

Dear Customers, Investors and Partners,
Ladies and Gentlemen,

At the end of my letter in last year's Annual Report, I stated that HVB was especially well positioned for the time following the crisis and for the new emergent realities. We have been able to live up to that promise, as 2010 proved to be an extremely good year for UniCredit Bank AG (HVB).

Admittedly, we have been helped by the global economy bouncing back so strongly from the after-effects of the financial crisis. Whereas the robust growth has been driven primarily by the emerging markets, in Europe we are faced with a more nuanced picture. Major differences in growth and stability can be observed between the countries at the core and on the periphery of Europe. This equally holds true for the eurozone, where the debt and structural crises in countries like Greece and Ireland are serving to dampen economic growth across the whole of the continent.

There is little doubt that HVB's domestic market represents a major source of optimism in Europe. Germany has benefited from the upturn more than just about any other country. All the leading indicators – from exports and industrial capacity utilisation levels to employment rates and private consumption – are looking up. Even the brakes put on the real economy by crisis points in the eurozone have to date had little effect on German companies. Exports to Greece and Ireland, for instance, represent well under than one per cent of the total in each case.

The current strength of the German economy had a thoroughly positive impact across the banking sector, with the much lower default rate being just one area to benefit. The situation on the financial markets has eased overall; the DAX stock market index made tangible gains as the year wore on, while the EURO STOXX index has not yet made good all the losses it sustained during the financial crisis. The structural problems faced by the domestic German market remain in place, however. The already anything but level playing field between private banks, savings banks and cooperative banks is further skewed by state support for banks.

Ladies and gentlemen, the underlying conditions for our industry have not become any easier of late. The approval of Basel III – the set of rules defining the capital and liquidity requirements for banks – will cause the regulatory restrictions to rise further. On the one hand, I welcome a more stringent set of rules in response to the financial crisis from which we recently emerged. This will certainly help to improve the tarnished reputation of the banking industry and reduce the risks in the banking sector.

On the other hand, the earnings potential of many financial institutions will be further crimped by these very regulations. This will hold especially true for the already relatively unprofitable banking system in Germany. Furthermore, competition will be distorted if, as can readily be imagined, not all countries implement Basel III simultaneously and in full.

Fortunately, at HVB we have one of the best capital bases in the industry, with an outstanding "hard" core capital (core Tier I) ratio of 15.9%. Our leverage ratio, which is the ratio of total assets to shareholders' equity shown in the balance sheet, totalled 15.7 at the end of 2010. This is a good figure, providing a solid foundation for a growth-oriented lending policy.

I would like to turn now to the annual results for 2010. As I mentioned earlier, we generated a very good level of profit both before and after tax. Pre-tax profit totalled €1,882 million (2009: €1,266 million), and we even managed to double our consolidated profit year-on-year (€1,728 million compared with €884 million). A large part of this can be attributed to loan-loss provisions which, at €632 million, were down more than half on the year-ago figure of €1,601 million. Thanks to continued strict cost management, we kept our operating costs down to €3,433 million compared with €3,462 million in 2009 (please refer to the Financial Review in Management's Discussion and Analysis for further information about the annual results).

Allow me at this point to highlight the results of our three divisions:
– Our Corporate & Investment Banking division (CIB), which was formed in 2009 when the former Corporates & Commercial Real Estate Financing and Markets & Investment Banking divisions were merged, again made a major contribution to our commercial success. Its pre-tax profit amounted to €1,500 million compared with €931 million in 2009. The business potential of this division was increased when we acquired CAIB from UniCredit Bank Austria AG in 2010.
– The Retail division generated total revenues of €1,351 million (2009: €1,425 million) and, also on the back of much lower loan-loss provisions, a pre-tax profit of €33 million (2009: loss of €71 million). Activities involving retail customers remain a low-margin business in Germany due to the competitive situation and distortions in the German banking market.
– Our Private Banking division again recorded a solid pre-tax profit of €123 million in 2010 (2009: €125 million).

In line with other UniCredit companies, we have adjusted our customer segments in order for us to focus more effectively on the needs of various customer groups. The One for Clients project calls for business customers with annual revenues of up to €50 million to come under the newly created Family & SME division (F&SME) from the start of 2011. Private customers with assets of less than €500,000 will similarly be served by F&SME.

Letter from the Management Board Spokesman (Continued)

How do we explain the sustained success of HVB? As far as I'm concerned, we have our diversified business model with a strong, integrated corporate and investment bank geared fully to customer needs and also a dual focus on strict risk management and cost efficiency. To cite just one key performance indicator, we have an excellent cost-income ratio of 52.3%.

The roll-out of EuroSIG in 2010 represented a major tour de force. This standard software platform at UniCredit harmonises the IT systems used in the corporate group and increases flexibility in process handling. Following extensive tests and trials – up to 2,000 employees were involved in the project at times – EuroSIG was installed in August 2010. Nevertheless, it hardly needs saying that introducing new core banking software also entails follow-up work in individual processes and workflows (see also the chapter of this report entitled Global Banking Services).

None of this would be possible if we did not have a workforce that is as efficient as it is loyal. Our staff deserve especial thanks for their tireless efforts – not only in challenging projects like EuroSIG, although this does represent a good example.

We take the health and well-being of our people very seriously. We like to think of ourselves as a Working Family at HVB. Our new Healthy Company project implements the Working Family concept by promoting the health of our workforce and fostering the work-life balance (to find out more, refer to the chapter of this report entitled Human Resources).

But at least as important are the ethos and motivation of our workforce. "We UniCredit people are committed to generating value for our customers." This is the first declaration in the Mission Statement that covers all employees equally throughout the corporate group. One issue I personally consider very important for us at HVB, as well the whole of UniCredit, is to promote sustainable values rather than seeking to maximise short-term gain.

We always put customer satisfaction first. The theme of this Annual Report is "For whatever life brings". This claim expresses our desire to support our customers with useful products in all situations and stages of life. Understanding the personal life situation represents a key factor in the advice we provide for our private customers.

To this I would like to add that our entrepreneurial responsibility extends not only to our customers but also to our other stakeholders. We employ surveys and studies to constantly assess our reputation with various stakeholder groups – notably with our customers and employees in the communities in which we live. This puts us in a position to meet our social responsibility wherever and whenever appropriate (see also the chapter of this report entitled Corporate Sustainability).

And finally, how do I think the banking industry will develop moving forward? To start with, the German economy has enjoyed a markedly positive beginning to 2011. Key indicators of factors like economic growth, the development of exports, capital spending and the employment rate suggest that the excellent performance seen last year will continue, even if at a slightly slower pace. At the same time, the debt crisis is by no means over in certain eurozone countries. Neither is it possible to fully foresee the effects of various additional burdens imposed on the bank industry, such as the new capital requirements under Basel III, the new bank levy and the new bank tax envisaged by the EU Commission.

Ladies and gentlemen, I really am optimistic about the future of HVB. With our very good capital base, our balanced business model geared to long-term success and our operational efficiency, we are well equipped to meet the challenges of the future. We want to grow while maintaining a sense of proportion.

In the introduction to his Hamburger Dramaturgie, the famous German philosopher and dramatist Gotthold Ephraim Lessing writes that both those who promise too much and those who expect too much damage themselves. Please however be assured that we at HVB will again do everything we possibly can in 2011 to meet the expectations of our stakeholders – and hopefully even exceed them. With this thought in mind, I would like to wish our customers, investors and business partners, together with all our institution's well-wishers, a successful year ahead and plenty of the good fortune that even the bravest need.

Best regards

Dr Theodor Weimer

Munich, 22 March 2011

> "I really am optimistic about the future of HVB. With our very good capital base, our balanced business model geared to long-term success and our operational efficiency, we are well equipped to meet the challenges of the future."

Summary of Results

Corporate & Investment Banking division (CIB)
- This division comprises four separate product units – Markets, Financing & Advisory, Global Transaction Banking and Leasing – that act as providers of innovative, specialised products
- 2010: strong rise in profit before tax
- Much lower net write-downs of loans

Retail division (PuG)
- 2010: profit before tax also reinforced by much lower net write-downs of loans
- From 2011: new Family & SME division (F&SME) serves business customers with annual revenues of up to €50 million and retail customers with assets of up to €500,000

Private Banking division (PB)
- Demand-compliant relationship management for wealthy customers complete with personal advice
- 2010: profit before tax in line with 2009 with lower operating costs

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

Divisional highlights[1]

(€ millions)

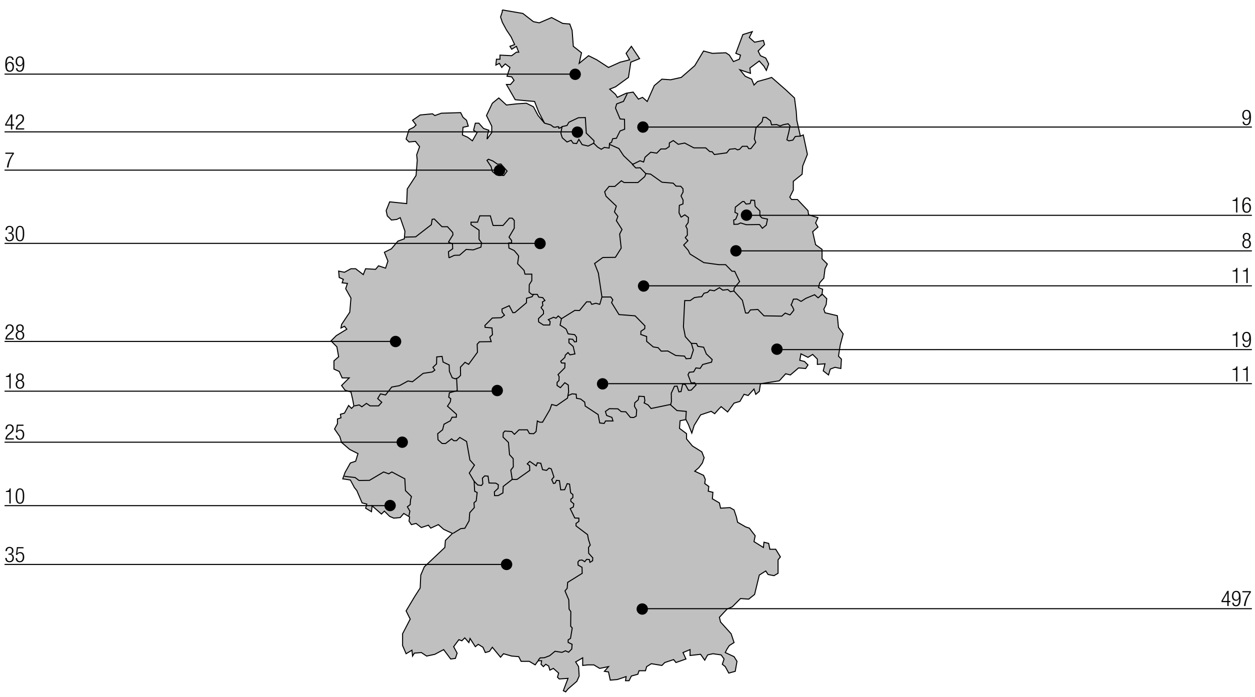
	CORPORATE & INVESTMENT BANKING	RETAIL	PRIVATE BANKING	OTHER/ CONSOLIDATION
TOTAL REVENUES				
2010	4,316	1,351	289	602
2009	4,683	1,425	306	516
Operating costs				
2010	(1,770)	(1,303)	(168)	(192)
2009	(1,716)	(1,363)	(173)	(210)
OPERATING PROFIT				
2010	2,546	48	121	410
2009	2,967	62	133	306
Net write-downs of loans				
and provisions for guarantees				
and commitments				
2010	(556)	(18)	(2)	(56)
2009	(1,536)	(63)	4	(6)
PROFIT/(LOSS) BEFORE TAX				
2010	1,500	33	123	226
2009	931	(71)	125	281

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

Facilities by division and state

STATE	CORPORATE & INVESTMENT BANKING	RETAIL	PRIVATE BANKING
Baden-Wuerttemberg	10	25	5
Bavaria	42	370	20
Berlin	1	9	1
Brandenburg	1	8	—
Hamburg	6	24	2
Hesse	3	11	4
Lower Saxony	5	25	1
Mecklenburg-Western Pomerania	2	8	—
North Rhine-Westphalia	9	14	3
Rhineland-Palatinate	1	22	2
Saarland	1	9	1
Saxony	3	11	3
Saxony-Anhalt	2	11	1
Schleswig-Holstein	8	59	4
Thuringia	2	9	—

UniCredit Bank AG (HVB) facilities in Germany



Global Banking Services

CENTRAL HUBS TAP SYNERGIES AND INCREASE CUSTOMER FOCUS

Global Banking Services (GBS) combines interdisciplinary functions and services that are critical to ensuring business success for UniCredit Bank AG (HVB). The departments subsumed under GBS include Organisation, Real Estate, Security, the HR Service Centre, and Operations for Markets & Treasury Products. It also includes the Service Management department, which oversees relations with the back office and IT functions outsourced to UniCredit. Added to this is the Recovery Management department, which supervises and monetizes non-performing loans.

CENTRAL MANAGEMENT OF GROUP FACTORIES AND EXTERNAL SERVICE PROVIDERS

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

The Service Management & Governance (GSM) unit oversees the internal and external back office and IT service providers in line with cost, quality and risk targets, thus ensuring the Bank's ability to function properly. It also acts as the interface serving to implement the sales units' requirements and, as the centre of competence for outsourcing, monitors compliance with all legal and regulatory requirements.

GSM also carries out an in-house IT operating function as well as regular reporting in the New York and Singapore branches. The centrally defined roles, duties, responsibilities and competencies for this have been harmonized with features specific to the appropriate country.

STRICT COST AND PRODUCTIVITY MANAGEMENT CONTINUE TO REDUCE OPERATING COSTS

Efficiency gains have helped to reduce operating costs over the years. This has included drawing up rules for spending procedures and implementing continuous improvements in individual processes, such as the introduction of a framework for process control and a Process Quality Board. We again succeeded in reducing operating costs in 2010, to €3,433 million after €3,462 million in 2009. This cost performance was achieved despite the initial consolidation of units like CAIB.

Operating costs of HVB Group (€ millions)

EuroSIG – the largest IT project in the European banking sector: facts and figures[1]

- 3 year project period
- Up to 2,000 employees involved at the same time
  - – 1,000 in business and IT respectively
  - – from 16 countries
  - – and 8 national organisations
- 200,000 person-days of real programming time
- 200 million COBOL + 42 million Java lines of code
- 379 systems
- 6,000 interfaces
- 24,000 batch jobs
- 52.2TB of migrated data
- 24-hour migration period
- 16,500 employees trained in computer-based courses
- 43,200 test cases in repeated user tests
- 460 process chains with 4,750 test cases repeated in end-to-end tests

1 all figures rounded

CORE BANKING PLATFORM SUCCESSFULLY INTRODUCED
By far the most important project in 2010 was the roll-out of the EuroSIG core banking platform across the entire corporate group. This global IT platform serves as the cornerstone of a European banking strategy. EuroSIG is also a key factor in leveraging cross-border synergy effects in the field of IT.
The main functions of the core banking platform are:
- tapping international synergies and developing new dimensions for economies of scale,
- improved, demand-oriented support of multinational customers and back up for international product ranges,
- cross-border efficiency and synergies on new products as well as a much broader and internationally focused arrangement of products, terms and conditions, and
- the complete and uniform mapping of new EU regulatory requirements and other legal guidelines.

The highly complex nature of a new core banking platform turned the roll-out into a massive feat for all employees. During the course of EuroSIG implementation, it became apparent that further originally unplanned but absolutely necessary adjustments would need to be made to the applications. These were due in part to new regulatory requirements (such as the Consumer Credit Directive).

EuroSIG migration took place on 1 August 2010. The completion of a major project taking almost three years represents an enormous success not only for HVB but also for UGIS, the service provider responsible for implementation. The success of the project also drew great praise from outside the Bank: EuroSIG won the eLearning Award 2010 in the category Change Management in addition to the European Change Communication Award 2010.

Global Banking Services (Continued)

The intensive and thorough preparation of the changeover weekend contributed significantly to the success of the venture. The aim of the combined operations of several business units was to prevent restrictions to customers as far as possible, to guarantee operational safety and to ensure compliance with all regulatory and legal requirements. Among other measures to this end, 16,500 employees took part in web-based courses and office training sessions to prepare for the new applications. The knowledge gained here was applied in a test phase on the system in "branch tests" conducted throughout the branch network. Furthermore, the correct migration of data, the proper functionality of business processes and the performance required of technical systems were tested over the course of several months in extensive model series and continually optimised.

The changeover to the new core banking system was almost trouble-free. In the first few days after going live, the stability, performance and functionality of the new system were monitored continuously, analysed and enhanced. As far as customers were concerned, there were only minimal, previously advised restrictions in service areas and in online banking during the changeover weekend and thereafter.

The qualified, technical back-up provided by user support to sales and back office employees played an important part at the start of the EuroSIG changeover. User support was strengthened both in terms of quality and quantity; service hours were extended considerably. These measures proved to be effective support in normal business operations. Users were able to profit from a high degree of certainty as a result.

But in spite of EuroSIG's introductory success, 100% functionality could not be immediately guaranteed for all applications and routines due to the complexity and size of the changeover. Temporary measures and interim solutions will be terminated gradually and employees on secondment for the project will return to their original duties.

OUTSOURCING OF SECURITIES HANDLING AND PAYMENT SERVICES

Caceis Bank Germany has been carrying out the back office functions for the HVB securities business since 1 January 2008. These operations are handled on a client-capable IT platform, meaning that HVB will benefit from the decrease in unit costs arising from further clients being handled on this platform. In 2010, the investment banking operations of CAIB in Austria were also integrated into HVB, which resulted in an increase in the volume of securities handled.

All payment services have been handled by the Betriebs-Center für Banken (Postbank) since 2007. The Bank succeeded in maintaining high levels of quality despite extensive system migrations to the new core banking platform, EuroSIG, and enhancements in the SEPA (Single Euro Payments Area) environment. Preparations are currently under way for the roll-out of new, innovative credit card products based on an in-house UniCredit platform for card-based payments. In view of the stricter regulatory requirements, this roll-out represents a major challenge which we will work hard to address.

LOGISTICS SERVICES WITH A NEW OPERATING MODEL

The Logistics Service Management unit is a service provider for post and transport services, address management, forms and print management as well as mobility management for all HVB divisions. The Post Services unit performs most in-house activities, while further services have been outsourced to external partners.

SEAMLESS BANK SECURITY

All security tasks and services – from physical security, IT and cash security through to fraud prevention and crisis management – were grouped together during 2009. The new organisational structure gained shape within Security and Business Continuity Management in 2010. There were no significant attacks on our buildings in Germany during the year under review. However, our security staff have to deal with growing instances of vandalism. The Bank's security staff were also involved with the EuroSIG project and also analysed processes in all divisions. Since the introduction of mobileTANs in mid-2010, there have been no more reports of successful phishing attacks.

Contrary to the trend in Germany, we only registered one attack on one of our cash dispensers (skimming). We see this as the result of our comprehensive security management. In the field of credit card fraud, numerous measures were taken to significantly reduce losses compared with the previous year.

HVB TRANSFERS ALL PROPERTY COMPETENCE TO HVB IMMOBILIEN

With effect from 1 April 2010, we transferred all units dealing with the management and marketing of property to HVB Immobilien AG. The powerful regional presence of the new property centre of competence facilitates portfolio management and sales in particular. The new company manages all property used by the Group as well as the premises it no longer employs. The aim is to create a balanced, cost-efficient property portfolio that strengthens the Bank's competitive position.

CONSOLIDATION OF INNOVATIVE FINANCIAL PRODUCTS AND DERIVATIVES SETTLEMENT

All domestic and foreign HVB settlement units except those outsourced to UCBP are being grouped together under Finance & Treasury Operations (F&T). This unit primarily oversees investment banking products in Germany: FX/MM, derivatives, repo/securities lending and structured loans. The foreign branches also handle traditional, commercial banking products such as securities and documentary business, international payments and trade finance.

The key element in F&T's strategic approach is the consolidation of strategic processes in Munich, London and Singapore into one centralised IT platform. The aim is to guarantee a 24-hour service for all our in-house customers worldwide. The Bank has already succeeded in implementing 70% of the projected improvements. The main focus of the consolidation strategy is, furthermore, to reduce possible risks in accordance with the German Minimum Requirements for Risk Management (MaRisk) and to improve quality by means of the selective concentration of qualified expertise in the most complex derivatives business products.

EXPANSION OF HR SERVICES

The HR Shared Service Centre Germany (HR SSC) extended its current range by taking on further administrative tasks. This means that the Travel Management and Training and Learning Administration units have now been fully integrated into HR SSC. Global IT solutions such as the Employee Interaction Centre (EIC) and the HR WEB Ticket were also implemented. Applying EIC throughout UniCredit is intended among other things to standardise HR processes and services, improve the transparency of services rendered, achieve cost efficiency in communication and documentation and increase service levels for in-house customers. On the basis of these measures and services, which are also provided to other UniCredit companies, HR SSC was able to significantly increase order volumes during the course of the year. This unit represents the benchmark for employee and customer satisfaction in the Group.

OUTLOOK: FURTHER IMPROVEMENT OF CLIENT FOCUS AND SERVICE FEATURES

In 2011, GBS will clearly focus on enhancing the level of service enjoyed by customers. Within the parameters of the All4Quality project, all back office and operational processes will be analysed with regard to quality and customer benefit. Additionally, internal organisation and governance structures will continue to be consolidated and streamlined wherever possible.

Our priorities for 2011 will also include refining our EuroSIG core banking platform with a view to enhancing the quality of the application.

Human Resources

GOOD PERFORMANCE IN A PERSISTENTLY CHALLENGING ENVIRONMENT

The year 2010 was marked by a strong upturn of the German economy and a stable employment situation with a low unemployment level. In the banking sector, however, the recovery in the labour market varied; employment figures did not reach the level before the outbreak of the financial crisis according to the Frax Index of the Handelsblatt.

UniCredit Bank AG (HVB) had already adopted an efficiency-enhancement programme before the financial crisis which related to the period from 2008 to 2010. This programme, which called for the elimination of a total of 2,500 positions at HVB Group, was successfully brought to a close in the year under review.

The number of employees (FTEs) of HVB Group increased slightly to 19,146 due to four newly consolidated subsidiaries at year-end 2010 (2009: 18,874), whereas the FTEs at HVB decreased (15,782 compared with 16,636 in the previous year). We consolidated a large number of services, such as securities handling activities, back-office and IT services, in companies both within and outside UniCredit. These outsourcing measures reduced our own headcount (see also the “Global Banking Services” chapter). The employee turnover rate at HVB (adjusted by special effects caused by spin-offs) amounted to around 9%.

In addition, we leveraged the potential for making working time more flexible:
- At 23%, the proportion of part-time workers at HVB was slightly higher than in the previous year.
- 187 employees took advantage of the partial-retirement scheme in the year under review.

We continued our cost management and efficiency management measures in 2010. The payroll costs for HVB Group were reduced to €1,756 million (2009: €1,822 million).

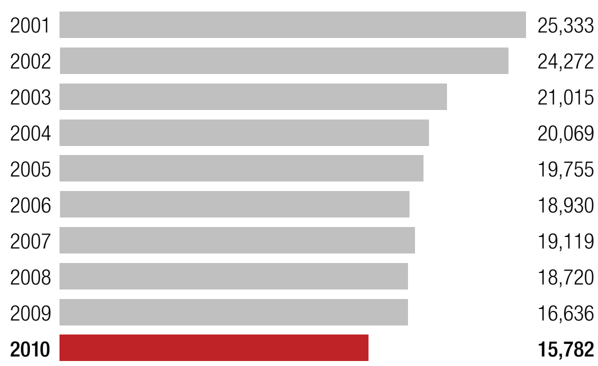
In flexible working time as well as in many other areas, our HR managers enjoyed a responsible relationship with the employee representatives, particularly with the Central Works Council and the Speakers’ Committee for Senior Executives. The number of works council divisions was reduced from 23 to 16 in the works council elections in the spring of 2010. Together with the employee representatives, it was possible to find a positive, constructive solution for many, even controversial, issues. We would like to express our gratitude to all those involved in this regard.

At the end of 2009, we became the first major private bank in Germany to set up a Remuneration Committee. This body has been tasked with reviewing the appropriateness of our remuneration systems and tracking their development. Today, we already gear the salaries particularly of our management staff to sustainable company targets.

At year-end 2010 we also established a new basis for the remuneration of employees covered and those not covered by collective bargaining agreements. The remuneration model provides a special payment as a 13th monthly salary and a basic bonus figure of one monthly salary. In addition, a quarter of one monthly salary is paid into an employer-financed company pension scheme. By doing so, we are also making a contribution to the retirement pension of our employees, a measure which is gaining increasing importance in today’s working world. Furthermore, our employees benefit from the long-term success of UniCredit as part of a Group-wide employee share ownership programme.

Constant reduction of HVB Group payroll costs (€ millions)

HVB workforce[1]



1 calculated as full-time equivalents (FTEs)

THE WAY TO THE WORKING FAMILY

At HVB, the image we have of ourselves is that of a Working Family. By this we mean firstly that the individual divisions and the individual competence lines (staff units) work with each other in a spirit of trust and secondly that there is close human interaction between all those belonging to the HVB family. As a member of UniCredit, one of the leading banks in Europe, HVB puts great faith in cross-division and cross-company networks and multinational organisation teams. The Country Chairman's Leadership Club, for example, which is a two-year programme for the promotion of the executives at our Bank, serves to foster an exchange beyond the boundaries of departments and divisions. With 33 senior management executives, the Club promotes the cross-division exchange of information and networking between the managers at our Bank.

The Working Family concept is also reflected in the Healthy Company project. In view of the strain that everyday working life puts on employees, this project aims to encourage employees to be mindful in the way they treat themselves and their colleagues. The five-year project consists of various components: from a touring exhibition, the issue of burn-out and stress workshops right through to an employee survey on leadership. For its commitment in the field of company health management HVB received the Corporate Health Award 2010.

Our self-image as a Working Family also encompasses promoting a healthy work-life balance. HVB has been certified by the charitable Hertie Foundation under its Work and Family Audit for the fourth time.

Our employees are increasingly making use of the extended period of parental leave and also receive allowances for child care. In the period under review, the share of male employees claiming parental leave rose to 40%. Our Family Service provides assistance for both child care and caring for elderly dependants. Employees also have the opportunity to take a sabbatical – a period of unpaid leave lasting between 12 and 24 months.

The Working Family model is guided by that of the Health Forum, which draws on the support of several institutions within the Bank including the social services, company medical service, the health and safety team and the works council. The Forum is the platform for a number of offerings: information events and seminars on stress management, psychosocial counselling, back pain and preventive medicine. Over the past year, some 3,000 employees made use of the preventive measures offered by the Health Forum.

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

STRENGTHENING EMPLOYEE COMMITMENT

The key priorities of Human Resources Management include the involvement and support of all employees in HVB's success. The annual People Survey, which was carried out in January 2010, also serves this purpose. The results of the survey showed that many employees would like a stronger communication with the top management. By appointing regional mentors – members of the Management Board support individual regions and enter into a personal dialogue with the employees of these regions each quarter – a cross-hierarchical exchange is fostered within our Bank.

Our employees are called upon to meet high ethical standards. The Integrity Charter, which summarises the values of UniCredit to which all employees are bound across the entire corporate group, was drawn up with this in mind. In 2010 the existing Integrity Charter Day was renamed UniCredit Day in order to underscore the cohesion within the corporate group. This day, which is celebrated throughout UniCredit, highlighted cases of employees and teams who have convincingly exemplified our fundamental values through their own lives. These stories were published based on a selection procedure and serve as role models.

Human Resources (Continued)

At HVB, we also aim to promote our employees' commitment to the public good. This is the purpose of our Corporate Volunteering Programme, which helps employees to perform voluntary work and honorary activities by granting them special leave and making parallel donations. A large number of initiatives are about young people and education issues. On UniCredit Day 2010, for instance, the Nuremberg branch, which is expanding its involvement in the field of young people and education, received an award for its Take a Chance secondary school programme. Other initiatives by our employees and for the first time also by our pensioners are dedicated to pupils who support them as mentors.

Our Gift Matching programme – employee donations are topped up by the Bank – is dedicated to supporting the public good. In the year under review, over 1,000 employees donated around €140,000. The UniCredit Foundation increased these donations by 90% to a total of €265,000. Fifty-one projects by various aid organisations were supported. In addition, over 2,000 employees donated about €300,000 to special donation programmes for the disaster victims in Haiti and Pakistan. HVB and the UniCredit Foundation increased these donations to a total of €575,000.

CHALLENGING EDUCATION AND DEVELOPMENT PROSPECTS

The annual performance review is the focal point of our staff development strategy. Employees discuss their personal performance and future prospects with their supervisors, with the outcome forming the basis for any continuing professional development activities to be undertaken.

For many years and regardless of the economic situation, HVB has been investing in the training and development of talented junior staff. In the year under review, apprentices made up more than 6% of the workforce. In addition to professional training and dual studies, we offer university graduates challenging development prospects under our trainee programmes; we roughly matched the proportion of 1% for new graduates in the workforce achieved in 2009.

Our Talent Center is responsible for recruiting, developing and overseeing promising junior staff. HVB has a comprehensive talent management approach aimed at furthering talented specialists and managers in their career. Due to the target university concept, recruiters find suitable candidates. In addition to national internships, the Talent Center has been offering an international internship programme since 2010 with personal mentoring for students in later semesters. The programme provides internships at locations such as Milan, Vienna and Munich; students from 24 countries have already applied for placements. The Talent Center also operates on an international basis within the framework of the trainee programmes offered. Talented junior staff both in Germany and abroad are recruited for UniCredit through the CIB (Corporate & Investment Banking) Graduate Programme.

We promote our employees at different qualification levels and in various age groups with sophisticated continuing education and development programmes. Our JUMP! junior management programme aimed at young professionals offers a wide range of learning opportunities in the form of face-to-face events, networking and mentoring offerings.

Our membership of UniCredit opens up further career development opportunities. The UniQuest programme serves to further the careers of talented junior staff by giving them the chance to prepare for demanding tasks within UniCredit by attending events and also by participating in international projects. The UniFuture leadership development programme is designed for managers who demonstrate the potential to join UniCredit's leadership team. Added to this are processes serving to appraise potential and performance, like the Executive Development Plan and the Talent Management Review.

We promote the mobility of our people both within HVB and throughout the corporate group. Thus, the Young Bankers Go Europe programme gives apprentices the chance to work at other UniCredit companies for a set period of time. This programme was carried out successfully for the fourth time in 2010. Our employees also have access to the Internal Job Market containing local and global positions.

EuroSIG, the new IT platform at UniCredit, was one of the subjects of our training programme in the year under review (see also the chapter "Global Banking Services" in this report). We succeeded in training employees for the challenging conversion to EuroSIG through a well-balanced range of training courses, for which HVB received the eLearning Award in the Change Management category.

STRENGTHENING EQUAL OPPORTUNITIES AND EXPLOITING POTENTIAL

Diversity – which is synonymous with respecting and promoting variety – is one of the fundamental values of UniCredit. Promoting gender diversity is one of the top priorities for both UniCredit and HVB. For HVB, this means an innovative form of talent management. The goal is to awaken the dormant potential of mixed-gender teams in order to spur on business success. To achieve this goal, HVB intends to specifically foster talented females and to have women in 20% of the top 100 and the top 400 management positions by 2012.

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

- At least one woman must always be nominated when management positions are being filled.
- The UniCredit Women's International Network (UWIN) supports the professional development of women in positions of leadership through events and forums for participants to exchange notes. At the annual UWIN event in September 2010, for example, there was a discussion of the pros and cons of a quota system for female managers.
- The new MENtoring Initiative promotes cross-division learning partnerships between male and female managers.
- In the year under review, the Bank intensified its mentoring programmes. Female managers (mentees) were mentored by senior managers and supported by a series of customised seminars.

In 2009 HVB became the first bank in Germany to set up a Women's Advisory Board. This committee comprises 30 top-class female entrepreneurs and managers (see also the list of members in the chapter "Women's Advisory Board" in this Annual Report). The goals of the Women's Advisory Board include promoting female managers; the Advisory Board also serves as a source of ideas for the Management Board of HVB. On the one hand, the members of the Advisory Board act as mentors for our managers in their career. On the other hand, the Advisory Board organised an internal competition of ideas in the year under review in order to mobilise the expertise of employees.

With 13 other companies HVB belongs to the initial signatories of the Münchner Memorandum für Frauen in Führung, the Munich memorandum for women in management.

OUTLOOK: REINFORCING THE CORPORATE CULTURE AND SUPPORTING MOBILITY

In 2011 we intend to further reinforce relationships at HVB as a Working Family within UniCredit. The values defined in the Integrity Charter and UniCredit's Mission Statement form the foundation for our behaviour. In the autumn of 2011, we will carry out our annual People Survey. The results of the survey will again serve to reveal potential for improvement and refine our corporate culture.

Our other priorities include promoting the mobility of our employees not only within HVB but also throughout the corporate group. The Global Job Model aims to harmonise and standardise positions which makes it easier for people to apply for open positions within UniCredit in other countries. The Global Job Model enhances our organisation and makes our HR management more transparent and understandable. After having allocated all management positions to an appropriate global job in 2010, we will also suitably assign all specialist positions in 2011.

Our HR managers will pay greater attention to the increasing relevance of regulatory requirements. These include the German Institutions' Remuneration Regulations (Institutsvergütungsverordnung – InstitutsVergV) and the European Banking Authority Regulation. A new HR committee set up at Management Board level will deal with both the HR Agenda for 2011 and with the adjustment of HR instruments, controlling and other important components of HR management.

Corporate Sustainability

CREATING VALUE WITH CLEAR PRINCIPLES

We are convinced that only companies acting in accordance with the principles of sustainable business operation will be successful in the long run. Even if the financial crisis is now behind us, the demands society is putting on banks have grown tremendously. It is more important than ever for responsible financial institutions to commit themselves to values and to have a clear profile.

Phrases like "corporate sustainability" and "corporate social responsibility" are frequently used as umbrella terms meant to encompass the varied requirements of responsible company management. The relevant legislation currently in force is bolstered by principles we have placed on ourselves. We have issued defined and transparent rules regarding conflicts of interest, prevention of corruption and money laundering, and correct behaviour towards our competitors in our Code of Conduct and Compliance Guidelines. In addition, we employ a set of indicators to measure our ecological-social performance and a range of measures to enhance our outcomes in this regard. For more information about our CSR policies and activities visit www.hvb.de/sustainability.

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

In addition, UniCredit's Mission Statement forms the basis for our identity and expresses the high aspirations we aim to achieve.

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.

REPUTATION MANAGEMENT SHAPES STAKEHOLDER RELATIONSHIPS

HVB focuses on the long-term interests of its stakeholders. These include customers, employees and suppliers as well as local authorities and social groupings. We are convinced that it is in our long-term commercial interest to incorporate their expectations and interests into our core business. In the past, we employed surveys and polls to help us evaluate these expectations and shape our activities accordingly.

We have now systematised this approach as part of a large-scale reputation management project and integrated it into our business model. At the core of this project is a very broad-based survey of our stakeholders: employees, the works council, customers from all divisions, opinion leaders from industry, the media, politics and society as well as environmental and human rights organisations. The purpose of the survey is to gain an overview of both our actual reputation and factors that determine our reputation.

Personal responsibility is a fundamental principle at HVB. Every single employee is required to protect the Bank from reputational risks. Moreover, we have set up a Reputational Risk Council (RRC) to reflect the requirements of our diverse business activities. Employees who are unable to deal with a reputational risk using rules already in place can turn to the RRC, where a committee comprising the senior management of HVB decides on a case-by-case basis after first consulting with the Corporate Sustainability department. In special circumstances, the corporate management of UniCredit may also be consulted.

Examples of this include trade or the handling of documentary transactions involving customers in countries with potential reputational risks, or possibly the transfer of goods and services from specific industrial sectors, such as the armaments and defence industry or the energy industry.

CORPORATE MANAGEMENT: GUIDING RESPONSIBLE BEHAVIOUR

For many years now, HVB's corporate strategy has taken account of the principles of sustainable development and corporate social responsibility. Our innovative system of sustainability management has in the past resulted in HVB being included in leading sustainability indexes, like the Dow Jones Sustainability Index and the FTSE4Good Index. Even if we are no longer a listed company, and hence no longer assessed by all the different rating agencies as an independent unit, our commitment to sustainability is still examined and appraised. In 2009, for instance, we took first place in oekom research's sustainability ranking (a total of 65 banks worldwide were examined).

Our understanding of responsible corporate management is broad-based:

- We take account of the expectations of our stakeholders and include them in the development of our sustainability policies.
- We create new earnings potential among other things by means of sustainable investments, services in the field of carbon emissions trading and finance projects in key sectors, such as renewable energy.
- We minimise credit and liability risks by performing environmental risk audits and applying appropriate standards for project finance.
- Our internal environmental management system helps us to use resources more sparingly and reduce costs. Our system has been externally certified compliant with the international ISO 14.001 standard.

CLIMATE PROTECTION AS AN ETHICAL PRINCIPLE AND LINE OF BUSINESS

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

We have also made a conscious decision to lead by example. UniCredit has set itself the goal of cutting 30% from its carbon footprint by 2020. For its part, HVB has been getting its electricity from renewable sources since January 2010 and uses deactivated carbon emission permits to offset its heating energy. In addition, all business travel by train is similarly offset by a surcharge included in the ticket price. In this way, HVB has cut more than 85% from its carbon footprint caused by its commercial operations. Furthermore, in December 2010, 249 of the Bank's 270 pool vehicles were replaced by climate-friendly models with carbon emission values of less than 100g/km. This represents a savings of around 117 tonnes of carbon each year.

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

ENERGY EFFICIENCY, CREDIT CHECKS AND SUSTAINABLE INVESTMENTS

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

Corporate Sustainability (Continued)

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

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

HVB offers a relatively wide range of sustainable investments, enabling us to meet any investment need or volume. Over many years, we have built up a broad range of products for various customer groups and needs in the field of sustainable investments, including individual or standardised asset-management mandates, investment funds and pension products.

Beacon green investment project

Investors are taking ever more interest in sustainable investments. The Lieberose solar park financed by WealthCap, UniCredit's specialist in closed-ended funds, is typical of this type of investment. With over 700,000 thin-film modules, the solar power plant covering an area the size of 210 football pitches produces enough electricity to supply around 15,000 homes in a year. The successor product is even more ambitious in scope: with Aquila® SolarINVEST III, HVB is again giving its customers the opportunity to invest in two photovoltaic parks with a peak power output of 12MWp each in southern France. Both parks can supply up to 30% of the surrounding areas with electricity. With this new fund, the Bank is underscoring its commitment to renewable and clean energy.

CSR AS A PART OF CORPORATE STRATEGY

HVB took its corporate citizenship a stage further in 2010. All the measures aimed at supporting social projects are derived from corporate strategy and the UniCredit Mission Statement. Although the sales divisions have a major role to play in this, our employees are also involved. We encourage our staff to volunteer as part of our Employee Volunteering Programme by granting special paid leave for voluntary activities and by making donations to the social organisations in which they are active. In 2010, this resulted in a donation of €52,000 and 186 extra days of leave.

When selecting not-for-profit partners, we primarily consider their reputation. The measures we support should have a unique selling point; if possible, they should also create value for our customers. The target groups are young people, the socially disadvantaged and institutions with a multiplier effect. When implementing charitable projects, we cooperate closely with UniCredit's not-for-profit UniCredit Foundation. The foundation is active in the social sector and development aid, notably supporting projects in the fields of microfinance, healthcare, social integration and education.

In this way, two integration projects in Munich for children with migrant backgrounds are being subsidised with a total amount of €590,000 over three years (up to and including 2011). One project to promote the early language development of young children is being run by the city. The other is helping buntkicktgut e.V. to set up a further age group for its street football league. buntkicktgut e.V. runs a street football league in Munich for more than a thousand young people, teaching them how to resolve conflicts amicably, play fair, respect rules, think for themselves and assume responsibility for their own lives.

We also cooperate with the UniCredit Foundation in terms of donations made by our employees. Three matching programmes ran during 2010: HVB employees donated in excess of €150,000 for victims of the earthquake in Haiti and the flooding in Pakistan, and the UniCredit Foundation doubled this amount; the annual Gift Matching Programme was run in autumn 2010, enabling employees to apply for their charitable donations to be matched: 1,134 employees donated a total of €140,000.

SOCIAL RESPONSIBILITY WITH A CLEAR COMMITMENT TO THE REGION

We also have an impact on the communities in which we live through projects and our membership in organisations and initiatives. For instance, we are an active member of the Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. (VfU), the Forum Nachhaltige Geldanlagen and the Finanzforum: Klimawandel. Three beacon projects are cited here as examples of HVB's commitment to CSR:

1. The Nuremberg Model

This model was rolled out in a pilot project in Nuremberg in 2009, when our local branch started collaborating with Lebenshilfe, a city-wide charity. The project consists of a combination of the sale of special design ec cards, donations and employee volunteerism. For each card sold, two euros are donated to Lebenshilfe; in addition, some 120 employees help out at Lebenshilfe on a voluntary basis. The Nuremberg Model has in the meantime been extended to another 40 locations, with more set to follow.

2. buntkicktgut e.V. UniCredit Cup 2010: street football to promote integration

HVB expanded its cooperation with buntkicktgut e.V. In addition to finance from the UniCredit Foundation (see above), HVB organised an international street football tournament in Munich's Olympic Park for around 500 players, including children who had travelled from China. HVB helped by making arrangements, setting up contacts (Bayern Munich, Olympia GmbH) and supplying willing volunteers.

3. Climate protection as a children's adventure: WWF Young Panda Camp in Lenggries

UniCredit has been working closely with the environmental organisation WWF since 2009, focusing primarily on the Bank's climate policy. HVB launched a climate painting competition for children last year, to bring home the importance of climate change. The winners were invited to attend the WWF Young Panda Camp financed by HVB. The prize winners spent a weekend in Lenggries in September 2010, where they had the opportunity to observe nature and wildlife close up.

OUTLOOK: BURNISHING OUR REPUTATION

2011 will be dominated by the continuation of our reputation management project. We have received the results of the broad-based stakeholder surveys conducted in 2010. Building on this, we will draw up action plans for all areas of the Bank and key sustainability indicators. Furthermore, we will run training courses to boost the awareness of our employees for reputational risks. As in 2010, we will run courses in our credit training programme on how to deal with environmental and social risks.

As a major provider of financial services, we take our responsibility for educating consumers seriously and have created an online programme of general financial education intended for a broad audience. At the same time, we will also run an education programme as part of topical workshops locally in our branches.

We are continuing our commitment to the regions in which we live. One facet of this will be to extend the ec card design scheme to further locations. In addition, we aim to set an example by reducing the carbon footprint of our banking operations; this will include opening two energy-efficient branches in "green buildings" at our locations in Lübeck and Munich. We will pay closer attention to issues concerning "green building" and "energy-efficiency / a cut in our carbon footprint", both in the field of finance and in relation to our own real estate.


For whatever life brings

Financial Statements (1)

Management's Discussion and Analysis

Financial Review

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 Group generated a good profit before tax of around €1.9 billion in 2010, which was €616 million higher than the equivalent figure for 2009. The consolidated profit of €1,728 million we generated after tax was almost twice as high as the year-ago total of €884 million. This good performance can be attributed primarily to a reduction of more than half in net write-downs of loans and provisions for guarantees and commitments compared with 2009, to €632 million. In addition, we benefited from a year-on-year decline in restructuring costs (serving to increase earnings by €133 million compared with last year) and lower net losses from investments (serving to increase earnings by €148 million compared with last year). HVB Group achieved a very pleasing 10.5% rise in net fees and commissions to €1,312 million.

Net other expenses/income have also risen year-on-year, by €98 million to €239 million. At €759 million, net trading income delivered a strong contribution to profits, even if the very high year-ago figure of €1,074 million could not be matched. In an environment characterised by low interest rates, net interest income fell by around 6% to €4,248 million year-on-year. As in previous years, the success of our consistent cost management programme has helped us to further reduce our operating costs. The efficiency of our cost management programme has been reflected in a continuous decline in operating costs since 2005. On the back of a year-on-year decline of 0.8% in our operating costs, to €3,433 million, we achieved a cost-income ratio of 52.3% (2009: 50.0%), which is still at an outstanding level by national as well as international standards.

The Corporate & Investment Banking division (CIB) made a major contribution to the pleasing rise in the profit before tax reported by HVB Group. Despite the negative effect of provisions for risks and charges, the division improved its profit before tax by €569 million to €1,500 million, essentially resulting from much lower net write-downs of loans and provisions for guarantees and commitments and reduced charges from both net income from investments and restructuring costs.

The Private Banking and Retail divisions also recorded positive contributions to earnings. The Private Banking division reported profit before tax of €123 million and the Retail division €33 million.

HVB Group continues to have an excellent capital base. The core capital ratio (Tier 1 ratio) in accordance with Basel II was 16.6% at 31 December 2010 after 17.8% at year-end 2009, which is still an excellent level by both national and international standards. With the core capital rising slightly to €20.6 billion, the decline in the core capital ratio results from a €9.4 billion rise in risk-weighted assets (including the equivalents for market risk and operational risk) that is attributable primarily to the cessation of the relief provided by a number of securitisation transactions and the initial inclusion of UniCredit CAIB AG, Vienna (CAIB), which was acquired from UniCredit Bank Austria AG, Vienna. The shareholders' equity shown in the balance sheet totalled €23.7 billion at 31 December 2010. With total assets rising by only 2% year-on-year to €371.9 billion, the leverage ratio (ratio of total assets to shareholders' equity shown in the balance sheet) increased from 15.4 at the end of December 2009 to the still very good figure of 15.7 at 31 December 2010.

HVB Group enjoyed an adequate liquidity base and a solid financing structure at all times during the 2010 financial year. The funding risk remained low on account of the diversification in our products, markets and investor groups, meaning that adequate funding of our lending operations was ensured at all times. Our Pfandbriefs continued to represent an important source of funding thanks to their very good credit rating and liquidity.

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 Group is in a unique position to leverage its regional strengths in the international UniCredit network for the benefit of its customers.

Operating performance of HVB Group

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

Net interest income

Compared with the previous year, total net interest income decreased by €280 million, or 6.2%, to €4,248 million in the 2010 financial year.

Within this total, net interest fell by €376 million to €4,100 million in an environment of low interest rates. This development can be attributed primarily to the significant year-on-year decline in interest income from trading operations and lower income from reclassified holdings compliant with IAS 39.50. Falling interest margins in deposit-taking operations also contributed to the decrease in net interest.

Compared with last year, there was a substantial increase of €96 million, to €148 million, in income generated from dividends and other income from equity investments, which is mainly due to higher dividends paid by private equity funds.

Financial Review (Continued)

Net fees and commissions

Net fees and commissions developed healthily, increasing a substantial €125 million, to €1,312 million, in the year under review (2009: €1,187 million). Most notably the Corporate & Investment Banking division contributed to this rise with a growth of 17.8% in net fees and commissions. Fee and commission income also increased year-on-year by 3.5% in the Retail division while it remained stable at last year’s level in the Private Banking division.

The sharp rise in HVB Group’s net fees and commissions chiefly results from the significant increase of €85 million, to €732 million, in fee and commission income from management, brokerage and consultancy services (up 13%). In addition, fee and commission income from lending operations improved by 14%, to €403 million, which is partly attributable to higher advisory fees and lower expenses in connection with HVB’s own securitisation transactions. Income from collection and payment services remained unchanged at €180 million while income from other service operations declined by €12 million on account of the cessation of income from BodeHewitt which was sold in 2009.

Net trading income

In 2010, HVB Group generated a pleasing net trading income of €759 million but was unable to reach last year’s high level of €1,074 million. The main reason for this is that the unusually high contribution to profits from held-for-trading financial instruments in the previous year benefited from a strong recovery in the market as a whole, an effect that did not continue to the same extent in the year under review.

HVB Group nevertheless succeeded in achieving a considerable net gain of €654 million on financial assets held for trading in 2010. This result was generated primarily by the Rates (interest-related products), Equities (equity and index products) and the Capital Markets units. Compared with last year, there was an increase in the effects on net trading income from hedge accounting (up €24 million), the gains on fair-value-option holdings including the derivatives concluded for the purpose of hedging them (up €11 million) and other net trading income (up €61 million). The rise in other net trading income can be attributed notably to the higher profit from the buy-back of hybrid capital in the year under review compared with the positive effect from buy-backs in the previous year.

Net other expenses/income

Net other expenses/income totalled €239 million in the year under review (2009: €141 million). This item primarily includes rental income as well as similar income and expenses of our real estate companies and investment properties, income from non-commission services and the leasing income from our leasing companies. In addition, gains on the sale of receivables contributed to net other expenses/income. It should be noted concerning the increase in net other expenses/income that last year this item was weighed down particularly by negative effects, which included the revaluation of assets during the initial consolidation of Redstone Mortgages Limited.

Operating costs

The operating costs decreased for the fifth year in a row and thus continue to reflect the success we have achieved with our consistent cost management. The decline of 0.8%, to €3,433 million, in total operating costs includes a reduction in payroll costs by a total of €66 million, notably as a result of lower expenses for the pension guarantee association while the expenses for wages and salaries remained largely unchanged. In contrast, other administrative expenses including depreciation and impairment losses on property, plant and equipment rose slightly by 2.3% to €1,677 million. This rise is partly due to the integration of CAIB and to outsourcing measures (such as the transfer of IT activities to UniCredit’s IT service provider, UGIS, in May 2009) and the related shift in payroll costs to other administrative expenses.

Operating profit

At €3,125 million, operating profit in 2010 was €343 million lower than the comparable figure for last year. This is due to the declines in net interest income and net trading income, which were partially offset by higher income from net fees and commissions, higher net other expenses/income and the reduction in costs. In the year under review, the cost-income ratio, at 52.3%, was still at a very good level (2009: 50.0%).

Provisions for risks and charges
In 2010, additions to provisions for risks and charges totalled €442 million (2009: €151 million). The largest individual item within this total results from an obligation arising in connection with the completion of an offshore wind farm. This figure also includes provisions for risks and charges, in particular on account of legal risks. In contrast, the reversal of provisions for rental guarantees had a favourable effect on this income statement item in the year under review.

Restructuring costs
In 2010, HVB Group reports restructuring costs of €37 million, which are mainly related to the sale of parts of the private banking business of our subsidiary UniCredit Luxembourg S.A. In the 2009 financial year, most of the restructuring costs (€170 million) related to the restructuring measures taken for the purpose of the strategic reorientation of the Corporate & Investment Banking division (€87 million). The remaining restructuring expenses in 2009 arose in the Retail division (€63 million), Private Banking division (€3 million) and the Other/consolidation segment (€17 million).

Net write-downs of loans and provisions for guarantees and commitments
In 2010, net write-downs of loans and provisions for guarantees and commitments fell a substantial €969 million, or 60.5%, to €632 million, in a significantly improved credit environment compared with the previous year. This strong decline occurred in the Corporate & Investment Banking division in particular (down 63.8%). In addition, the Retail division also reports a considerable improvement in net write-downs of loans and provisions for guarantees and commitments (down 71.4%).

Net income from investments
The net loss from investments amounted to €132 million in 2010 after a loss of €280 million in the previous year. At the same time, write-downs and value adjustments on financial assets totalling €218 million were recognised in the year under review. This figure includes valuation expenses of €169 million for investment properties and other valuation expenses of €49 million for available-for-sale financial assets. These expenses were partially offset by gains of €86 million realised on the disposal of financial assets, which include the profit generated from the sale of shareholdings and gains on the disposal of parts of the private banking activities of our UniCredit Luxembourg S.A. subsidiary.

Last year's net loss from investments was primarily attributable to impairments of €328 million on private equity funds, direct investments and co-investments.

Profit before tax, income tax for the period and consolidated profit
In the 2010 financial year, HVB Group generated a very good profit before tax of €1,882 million, which is an increase of almost 49%, or €616 million, compared with last year's figure.

Income tax decreased by €228 million, to €154 million, despite our good performance. Of the total income tax expense, €469 million relates to current taxes, which were partially offset by deferred taxes of €315 million. In this context, it must be taken into account that the valuation adjustments of deferred tax assets has a favourable effect on tax loss carryforwards of another €467 million.

After deducting taxes, HVB Group generated a consolidated profit of €1,728 million and thus succeeded in almost doubling last year's figure (€884 million).

Appropriation of net income
The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €1,270 million. A proposal will be made to the Annual General Meeting of Shareholders 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 per share of common stock. Last year, the profit disclosed in the annual financial statements of UniCredit Bank AG totalled €1,633 million. This was paid to UniCredit in accordance with the resolution passed by the Annual General Meeting of Shareholders on 21 May 2010.

Segment results by division
The divisions contributed the following amounts to the very pleasing profit before tax of HVB Group totalling €1,882 million:

Corporate & Investment Banking	€1,500 million
Retail	€33 million
Private Banking	€123 million
Other/consolidation	€226 million.

Financial Review (Continued)

The income statements for each segment and comments on the economic performance of the individual segments are provided in Note 28, "Income statement broken down by division" in this Annual Report. The tasks and objectives of each division are described in detail in Note 27, "Notes to segment reporting by division". We have described the change in tasks of the segments compared with last year and the previous quarters of 2010, in particular the reclassification of customers between the Retail division and the Private Banking division due to the implementation of the One for Clients programme (One4C) in 2010, also in Note 27, "Notes to segment reporting by division". The quarterly figures for the current year and last year have been adjusted accordingly.

Financial situation

Total assets

The total assets of HVB Group amounted to €371.9 billion at the end of December 2010, representing a slight increase of around 2% over year-end 2009 despite the first time inclusion of CAIB in June 2010 (initial consolidation effect as per June 2010: €21 billion).

On the assets side, there was particularly an increase of €12.9 billion in financial instruments at fair value through profit or loss due to larger holdings of fixed-income securities. At the same time, loans and receivables with banks rose by €3.1 billion, whereby the initial consolidation effect of CAIB amounting to €5.5 billion must be taken into account. The financial assets held for trading totalled last year's level at year-end 2010. The increase resulting from the initial consolidation of CAIB (€14.1 billion) was compensated by the decline in positive fair values from derivative financial instruments reported under financial assets held for trading, which significantly decreased in the fourth quarter in line with market conditions. Loans and receivables with customers fell by €6.6 billion, to €139.4 billion, compared with year-end 2009. Above all, this decline is attributable to lower volumes of mortgage loans, the reduction of reclassified securities and the decrease in other loans and receivables, while credit balances on current accounts increased.

On the liabilities side, the financial liabilities held for trading, at €127.1 billion on the reporting date, were up €5.9 billion on last year because the initial consolidation effect of CAIB (€11.5 billion) was partially offset by the market-induced decline in negative fair values from derivative financial instruments, in line with the development on the assets side. The rise by a total of €12.0 billion, to €108.5 billion, in deposits from customers was mainly attributable to higher credit balances on current accounts and higher volumes of repurchase agreements while time deposits declined. The slight rise in deposits from banks by a total of €1.2 billion, to €51.9 billion, is largely due to higher volumes of repurchase agreements and time deposits while there was a decline in deposits from central banks. In contrast, the debt securities fell sharply by €12.6 billion, to €48.7 billion, on account of issues due.

At 31 December 2010, shareholders' equity totalled €23.7 billion and had thus increased a slight €32 million compared with the 2009 year-end total. As a result, the dividend payout in 2010 of the profit available for distribution in 2009 (€1,633 million) was more than compensated by the annual consolidated profit of €1,728 million generated in the 2010 financial year.

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

The risk-weighted assets for credit risks of HVB Group determined on the basis of Basel II (German Banking Act/Solvency Regulation – KWG/SolvV) by applying partial use amounted to €111.8 billion at 31 December 2010 (including counterparty default risk in the trading book). At 31 December 2009, the comparable risk-weighted assets amounted to €102.9 billion. This total includes the holdings reclassified compliant with IAS from the trading book to the banking book. The total risk-weighted assets, including market risk and operational risk, amounted to €124.5 billion at 31 December 2010 (31 December 2009: €115.1 billion).

The total risk-weighted assets of HVB Group increased by €9.4 billion compared with year-end 2009. This rise is mainly due to the increase of €8.9 billion in risk-weighted assets for credit risk and of €0.7 billion for operational risk while the risk-weighted assets declined by €0.2 billion for market risk.

The rise in risk-weighted assets for credit risk is chiefly attributable to the end of the relief provided by various securitisation transactions and the acquisition of CAIB with effect as per June 2010.

The risk-weighted asset equivalents for operational risk rose by €0.7 billion. This can be attributed both to the acquisition of CAIB and to the initial application of the Advanced Measurement Approach (AMA) at some subsidiaries.

The total lending volume of all the current securitisation transactions of HVB Group serving to reduce risk-weighted assets amounted to €12.0 billion at 31 December 2010 compliant with Basel II (31 December 2009: €39.6 billion). We have therefore reduced our risk-weighted assets by €4.4 billion gross and have optimised our capital allocation by doing so. The year-on-year decline in the relief is primarily due to the end of several securitisation transactions.

At 31 December 2010, the core capital of HVB Group compliant with KWG totalled €20.6 billion and the equity capital €23.6 billion. Under Basel II, this gives rise to a core capital ratio (Tier 1 ratio, including market risk and operational risk) of 16.6% and an equity funds ratio of 19.1%. The core Tier 1 ratio (ratio of core capital excluding hybrid capital instruments to the total amount of credit risks and equivalent risk-weighted assets from market risk and operational risk) amounted to 15.9% at year-end 2010 (31 December 2009: 16.7%).

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.

Corporate acquisitions and sales

As part of pooling the investment banking activities of UniCredit into HVB Group, UniCredit Bank AG (HVB) acquired UniCredit CAIB AG, Vienna, including its subsidiary UniCredit CAIB Securities UK Ltd., London, from UniCredit Bank Austria AG with effect from 1 June 2010. The purchase price, which was determined on the basis of an independent, external expert appraisal, amounts to €1.24 billion plus the overcapitalisation kept on the books. Both companies were included in the group of fully consolidated companies of HVB Group as of 1 June 2010. Upon entry into the Commercial Register on 1 July 2010, UniCredit CAIB AG was absorbed by UniCredit Bank AG and will be continued with a different structure as the Vienna branch of UniCredit Bank AG.

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

Corporate structure

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

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.

The capital stock of HVB was 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 by being entered in the Commercial Register on 27 September 2010.

Financial Review (Continued)

Organisation of management and control and internal management

The Management Board of HVB is the management body of HVB Group. It is directly responsible for managing the Bank. It develops the strategic orientation of the 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 Group, 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 consolidated financial statements under Note 89, "Members of the Supervisory Board", and Note 90, "Members of the Management Board".

HVB Group's objective is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the 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 Group 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 Group 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 Group 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 Group with the expertise and international branding of one of the leading private banking institutions in Europe. Based on a clear strategic orientation with a focus on the most attractive private-banking customer segments and an all-round, personalised relationship model, HVB Group 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 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.

Financial Review (Continued)

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 Group.

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

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.

At the beginning of 2011, our UniCredit Luxembourg S.A. subsidiary received approval from the financial supervisory authority in Luxembourg (Commission de Surveillance du Secteur Financier – CFFS) to apply what is known as the Advanced Internal Rating-Based Approach (IRBA) to identify risks in the credit portfolio.

Outlook

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

Financial Review (Continued)

Development of HVB Group
In the assumptions of its detailed planning for the 2011 financial year, HVB Group presumes that total revenues will increase in a generally favourable business environment compared with the year under review and can more than compensate the increase in operating costs caused in part by the bank levy. The volatile net trading income will continue to be the crucial driver of the trend in total revenues. The net write-downs of loans and provisions for guarantees and commitments, which fell sharply in the year under review on account of the favourable credit environment and significantly characterised the very good business development of HVB Group in 2010, are not expected to significantly exceed the level of the year under review in the 2011 financial year.

The expectations concerning the performance of HVB Group for the 2012 financial year are derived from the multi-year plan. Provided that the underlying economic conditions continue to develop favourably both in Germany and worldwide and there is no sharp economic downturn, we assume that HVB Group can continue growing and that, at the same time, total revenues will stabilise and rise faster than operating costs. Again in 2012, the development of the volatile net trading income will be the main factor driving the increase in total revenues.

The trends in results of HVB Group in 2011 and 2012 are as follows for the individual operating divisions:

HVB Group's performance in the 2011 financial year will again crucially depend on the operating performance of the Corporate & Investment Banking division, in particular the earnings and the net write-downs of loans and provisions for guarantees and commitments. For 2011, we expect higher total revenues, and a moderate rise in operating costs. For 2012 we also proceed on the assumption that the positive performance of the division's operations will continue. At the same time, total revenues will rise more strongly than operating costs.

In the Family & SME division (F&SME; formerly Retail), we expect an increase in total revenues in the 2011 financial year which should more than compensate a slight increase in operating costs. Taking account of deconsolidation effects, the Private Banking division will again match last year's good result in 2011. We believe that both divisions will perform well on the operating side in 2012.

It still remains unclear whether the financial markets will continue to be affected by the debt crisis in some European countries in particular and by risks arising from changes in interest and exchange rates. Consequently, our performance in the 2011 and 2012 financial years still remains dependent on the further development of the financial markets and the real economy as well as on other imponderables that still exist. In this environment, HVB Group will continually adapt its business strategy to reflect changes in market conditions and carefully review its risk strategy derived from this on a regular basis. With its strategic orientation and excellent capital resources, HVB Group is in a good overall position to effectively exploit the opportunities that may arise from the new operating environment, the further volatility that can still be expected on the financial markets and an expanding real economy.

Opportunities in terms of future business policy and corporate strategy, performance and other factors
HVB Group is an important part of one of the largest, top-performing and strategically 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 Group operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Hence, HVB Group, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers.

With its well-balanced business model focusing on sustainability and its excellent capital base, HVB Group stands for reliability, stability and safety, and can fully leverage the opportunities that arise from this network:
– Proactively exploiting opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany.
– Leveraging the advantage to swiftly and flexibly respond to expansion opportunities arising on the market. HVB Group 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 Group 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 Group have a beneficial impact on the recruitment of managers and employees. Supporting female managers at junior level is an explicit part of the strategy.

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

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

Risk Report

HVB Group as a risk-taking entity

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

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

Management and monitoring of risks in HVB Group

1 Risk management

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

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

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

2 Risk monitoring

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

Risk analysis

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

Risk control

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

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

3 Divisions and committees

Risk management

The divisions are responsible for performing risk management functions within the framework of competencies defined by the Management Board. Important bodies operating at the HVB Group level are the Risk Committee 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.

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 within HVB Group. 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.

Chief Risk Officer (CRO)

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 Group. Its tasks and competencies include ongoing, independent risk measurement and monitoring, responsibility for risk-measurement methods and their ongoing development as well as reporting to the CRO, the Management Board of HVB Group and the Audit Committee of the Supervisory Board.

Risk Report (Continued)

- 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 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. Furthermore, this unit covers all the tasks involved in the continuous monitoring of all issuer and counterparty limits and the related escalation processes across all customer groups.

- 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 within HVB Group (UniCredit Bank AG, UniCredit Luxembourg) 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 HVB Group's return targets.

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

Risk Report (Continued)

overview of audit results as well as major deficiencies, severe deficiencies and particularly severe deficiencies as defined in the Minimum Requirements for Risk Management (MaRisk), including the critical findings as defined in the Group audit policies, the measures taken, and their current status. In addition, the Audit Committee of the Supervisory Board reports on current trends and results in auditing activities on behalf of the responsible Management Board member during its regular meetings with the head of the Internal Audit department.

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

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 and consolidated financial statements. The Management Board states that, to the best of its knowledge and in accordance with applicable reporting principles, the annual and consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group (excerpt from the Management Board statement pursuant to Section 37y No.1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) in the consolidated financial statements of this Annual Report).

The Management Board determines the extent and orientation of the ICS and RMS specifically geared to the Bank under its own responsibility, taking measures for the continuing development of the systems and their adaptation to changing conditions. Value systems such as the Integrity Charter, the Code of Conduct and compliance rules have been applied in all UniCredit 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 and consolidated financial statements rests with the CFO organisation. In particular concerning the valuation of financial instruments and receivables, the CFO is supported by the CRO. The COO is responsible for the IT systems required for the financial reporting process.

To support it in the performance of its duties, including those relating to the financial reporting process, the Supervisory Board set up an Audit Committee made up of five members, 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 and consolidated financial statements, the Supervisory Board is responsible for assessing the annual report and approving the consolidated financial statements. To enable these tasks to be performed, the financial statement documents, including the Management Board's proposal for appropriation of profits together with the auditor's report, are submitted to the Supervisory Board. The Audit Committee examines these documents in great detail during a so-called preliminary audit. The chairman of the Audit Committee reports to the plenary Supervisory Board on the results of the Audit Committee's audit. The independent auditor reports on the findings of the audit, specifically including 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 and approves the consolidated financial statements.

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 Group".

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's Discussion and Analysis and the risk early warning system. In addition, the auditors were mandated to audit the Bank's consolidated financial statements and Management's Discussion and Analysis prepared in accordance with International Financial Reporting Standards (IFRS). 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).

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, and prepares the consolidated financial statements. Moreover, it is in charge of management reporting in accordance with IFRS and preparing external reporting in the annual reports of both HVB and HVB Group.

Risk Report (Continued)

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

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

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 holding categories compliant with IFRS 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 pursuant to the German Commercial Code and portfolio allowances pursuant to IFRS accounting rules are calculated centrally by the Accounting department.

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

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.

Risk Report (Continued)

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.

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 qualtity.

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 and consolidated financial statements, and the interim financial statements, detailed timetables are drawn up on a regular basis with precise dates for the individual process steps. These timetables serve to ensure the timely completion of financial reporting tasks and to identify the dependencies between the individual process steps and the units involved.

In the course of the ongoing development of the internal control system (ICS) and risk management system (RMS), the Bank plans to 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.

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

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

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

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

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

Risk Report (Continued)

Risk types and risk measurement

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

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 Group's risk management system. This results from our own quality expectations as well as the need for HVB Group 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 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 now 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 €2.2 billion, or 31% 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.

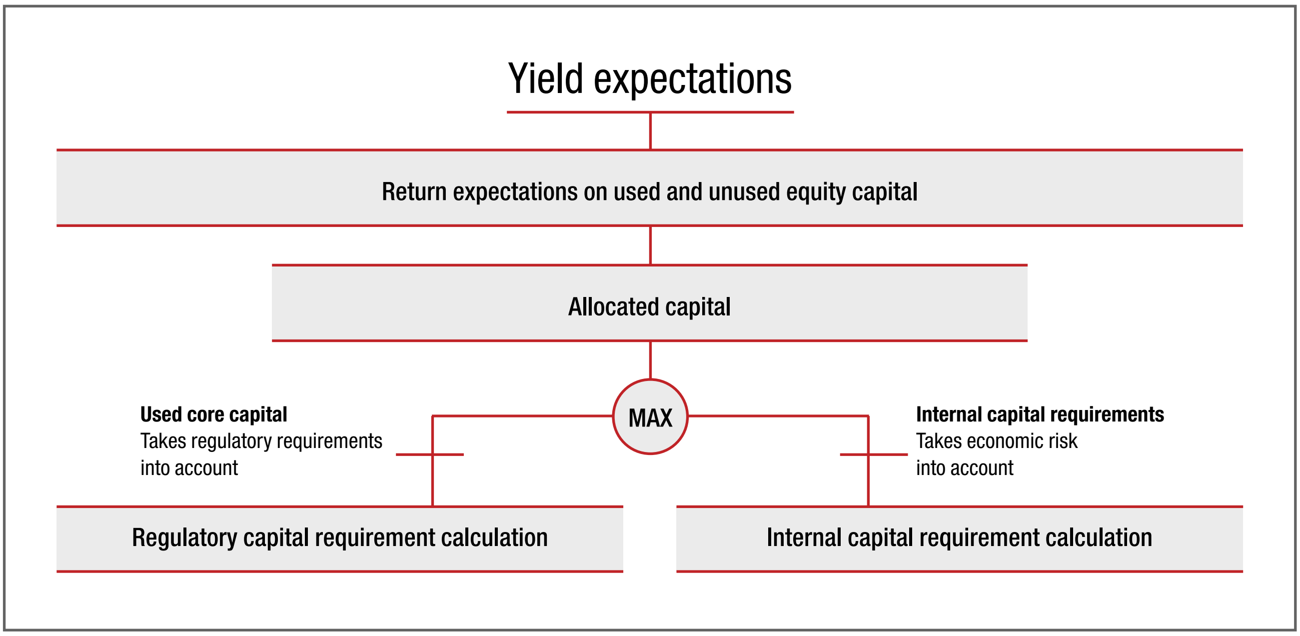
As of the first quarter of 2011, we will be using new macroeconomic factor model parameters in the internal credit risk calculation that will reflect experience gained in the financial and economic crisis in recent years. As a result of this update, we expect a significant rise in credit value-at-risk. 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 Group is on the measurement of all business activities in terms of risk/return considerations, with risk/return targets set for all of the Group's business segments. Under this concept, risks are seen as costs 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.



Risk Report (Continued)

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

The Economic Value Added (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).

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

To determine the appropriate capital funding, we have essentially defined the following process:
– Based on our (multi-)year plan, we prepare a monthly, rolling eight-quarter projection for ongoing forecasting of our capital ratios in accordance with the German Banking Act (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.
– 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 Group’s risk-taking capacity (liquidity scenario). 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 €7.3 billion to €9.6 billion. In 2010, the internal capital (including minority interests) for HVB Group fell to €11.3 billion at 31 December 2010 (2009: €13.0 billion), taking into account all risk-reducing diversification effects of HVB Group.

The 2010 decline in HVB Group'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. Although the increase in default risk is primarily reflected in Corporate & Investment Banking, it also influences the development of economic capital in the Other/consolidation segment. However, the effects from the decline in market risk and risks arising from shareholdings/financial investments dominate in the Corporate & Investment Banking and Other/consolidation segments.

In a quarterly analysis of our risk-taking capacity, 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 corresponding amounts of these components can be found in Notes 50, 70 and 78 in the notes to the consolidated financial statements. 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 after portfolio effects (confidence level 99.97%)

	2010		2009[1]	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Market risk	1,714	15.1	3,034	23.4
Default risk	4,029	35.6	3,509	27.0
Business risk	477	4.2	547	4.2
Operational risk	995	8.8	893	6.9
Risks arising from our own real estate portfolio	363	3.2	373	2.9
Risks arising from our shareholdings/financial investments	784	7.0	1,216	9.4
Aggregated economic capital	**8,362**	**73.9**	**9,572**	**73.8**
Cushion[2]	2,835	25.1	3,245	25.0
Economic capital of small legal entities[3]	115	1.0	152	1.2
Internal capital of HVB Group	**11,312**	**100.0**	**12,969**	**100.0**
Capital cushion of HVB Group	**22,786**		**22,738**	
Utilisation, in % HVB Group	**201.4**		**175.3**	

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
3 HVB Group units for which we do not consider it necessary to measure risk broken down by risk type on account of the low risk content

Risk Report (Continued)

Economic capital[1] after portfolio effects (confidence level 99.97%)

	2010		2009[2]	
Broken down by division	**€ millions**	**in %**	**€ millions**	**in %**
Corporate & Investment Banking	6,957	82.1	7,779	80.0
Retail	486	5.7	589	6.1
Private Banking	178	2.1	169	1.7
Other/consolidation	856	10.1	1,187	12.2
Economic capital of HVB Group	**8,477**	**100.0**	**9,724**	**100.0**

1 sum total of aggregate economic capital and economic capital of small legal entities
2 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 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 Group 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 Group.

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

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

Risk Report (Continued)

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.

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, 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 in HVB Group. Issuer risk is calculated for the banking book, including the reclassified portfolios. The internal default risk model is an internally devised model that 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).

Risk Report (Continued)

The parameters assumed for measuring the exposure at default and the loss given default are based on long-term statistical averages derived from internal defaults and losses, and from external reference parameters. They comply with the strict quality requirements of Basel II (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 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 Group, we measure country risk mainly by using country ratings. Along with the probability of default (PD) and the loss given default (LGD), the measurement of country risk takes into account the structure of transactions in terms of its relevance to country risk.

A portfolio model building on this information is used to calculate the value-at-risk (VaR) stemming from country risks for HVB Group every month, taking into account correlations to credit risk. Due to the small number of countries, country portfolios tend by their nature to be rather undiversified. Thus, the use of an internal portfolio model enables us to achieve important management effects that go beyond the provisions of the 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, credit risk concentrations with affiliated counterparties are limited by credit ratings together with a uniform methodology for all subsidiaries. For this purpose, we use a database encompassing all exposures of a borrower within HVB Group worldwide. This ensures that information on concentrations of credit risk and related limits is regularly provided.

Counterparty risk and issuer risk

We employ limit systems as a key element of our 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 Group facilities engaged in trading activities. The LimeX limit system is used in this context at all locations of HVB and UniCredit Luxembourg. 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 €9.1 billion (down 4.5%), to €193.2 billion. This occurred almost entirely at HVB. As regards industry sectors, the decrease in exposure was found particularly among retail customers (down €2.8 billion), in the public sector (down €2.2 billion), chemistry/health/pharmaceuticals (down €1.4 billion) and automotive (down €1.1 billion). By contrast, an increase in exposures was seen in banking and insurance (up €1.1 billion). There were only minor changes in the other industry sectors.

The issuer exposure of HVB Group for non-trading and ACPM increased year-on-year by €6.1 billion, to €44.0 billion, in 2010 (2009: €37.9 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 €0.5 billion to €20.8 billion in the banking and insurance segment and increasing by €7.6 billion to €20.6 billion in the public sector segment. The share of the remaining industry sectors fell by 3.6 percentage points to 5.9%.

The core portfolio, defined as the overall HVB Group portfolio, excluding the remaining exposures assigned to the former Real Estate Restructuring segment, decreased by 5.1% in 2010 to €191.1 billion. In the Corporate & Investment Banking division, the exposure decreased by €4.3 billion (down 2.9%) to €145.5 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

Risk Report (Continued)

for portfolio enhancement. Our exposure in the Retail division fell by €2.5 billion (down 6.5%) while the exposure in the Private Banking division increased by €0.3 billion (up 5.7%), 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.

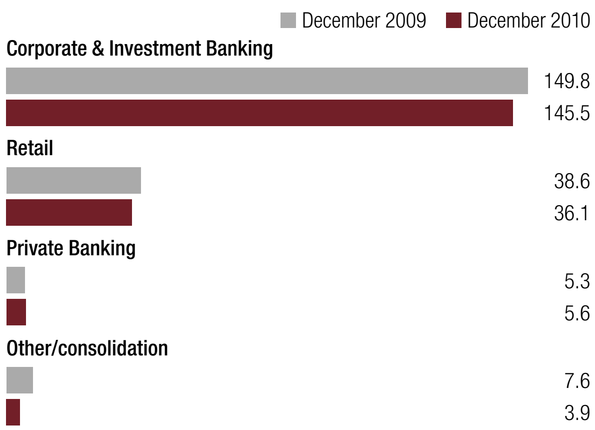
The issuer exposure primarily arises in the Corporate & Investment Banking division.

The credit and counterparty risk in rating classes 1–4 declined by €0.5 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 50.2%. Exposures in rating classes 5–8 decreased by €6.1 billion, to €79.9 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 €6.9 billion.

At €38.3 billion or 87.0%, the issuer exposure in 2010 was concentrated on issuers classified in rating classes 1–4. Issuer exposure remained stable at €1.0 billion in rating classes 5–8. Issuer risk amounted to €0.4 billion in rating classes 9–10. More details on the credit portfolio can be found in Notes 49 and 50 of this Annual Report.

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 (by 4.5 percentage points) and value-at-risk (by 3.0 percentage points). Both expected loss and value-at-risk decreased in

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



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 loan-loss provisions recognised in the income statement by HVB Group for 2010 amounted to €632 million. More details on net write-downs of loans and provisions for guarantees and commitments can be found in Notes 39, 49, 50 and 51 in this Annual Report.

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

Industry sector	2010	2009
Banking and insurance	33.9	32.8
Construction	31.2	31.7
Retail customers	25.9	28.7
Food/consumer goods/services	21.0	21.2
Public sector	12.4	14.6
Transportation	11.7	11.8
Chemicals, health, pharmaceuticals	10.5	11.9
Utilities	9.4	9.5
Other	8.8	9.4
Mechanical engineering, steel	8.3	8.8
Automotive	7.1	8.2
Mineral oil	5.0	4.2
Electrical, IT, communications	4.4	5.4
Media, printing, paper	3.6	4.1
HVB Group	**193.2**	**202.3**

Breakdown of issuer exposure by industry sector (€ billions)

Industry sector	2010	2009
Banking and insurance	20.8	21.3
Public sector	20.6	13.0
Other	0.8	0.8
Food/consumer goods/services	0.5	0.6
Utilities	0.3	0.4
Construction	0.3	0.4
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	0.0
Mineral oil	0.0	0.0
Retail customers	0.0	0.1
HVB Group	**44.0**	**37.9**

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

	2010		2009[1]	
Rating	€ billions	in %	€ billions	in %
Not rated	8.4	4.4	10.1	5.0
Rating classes 1–4	95.9	50.2	96.4	47.9
Rating classes 5–8	79.9	41.8	86.0	42.7
Rating classes 9–10	6.9	3.6	8.8	4.4
HVB Group	**191.1**	**100.0**	**201.3**	**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	4.3	9.8	3.2	8.4
Rating classes 1–4	38.3	87.0	33.3	87.9
Rating classes 5–8	1.0	2.3	1.0	2.6
Rating classes 9–10	0.4	0.9	0.4	1.1
HVB Group	**44.0**	**100.0**	**37.9**	**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

Risk Report (Continued)

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

	EXPECTED LOSS		VALUE-AT-RISK	
Broken down by division	**2010**	**2009**	**2010**	**2009**
Corporate & Investment Banking	81.4	76.9	93.6	90.6
Retail	13.0	14.8	4.4	6.0
Private Banking	1.1	1.0	0.6	0.7
Other/consolidation	4.5	7.3	1.4	2.7
HVB Group	**100.0**	**100.0**	**100.0**	**100.0**

Country risk year-on-year

In the year under review, the exposures of HVB Group including CAIB entailing country risk increased by €664 million to €50.6 billion.

Approximately 96% of the total exposure (2009: 95%) relates to countries with rating classes 1–4. Rating classes 5–9 represent only €2.1 billion (2009: €2.4 billion).

The regional focus of the portfolio is western Europe with 51% (2009: 63%), which decreased due to a decline of €4.4 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, €1.2 billion and €0.8 billion in countries in rating class 1. In connection with the initial inclusion of CAIB and the concentration of its business in eastern Europe, Eastern Europe shows an increase of €1.1 billion in net exposure. The exposure shows satisfactory regional diversification.

At 68% of the total (2009: 65%), the portfolio was dominated by trading activities including the issuer business. In the lending segment, 32% (2009: 35%) 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 portfolio of HVB Group 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	48,520	47,551	24.9	20.6
Rating classes 5–8	2,059	2,360	25.8	25.0
Rating class 9	1	5	0.1	0.8
HVB Group	**50,580**	**49,916**	**50.8**	**46.4**

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 Group's portfolio after the disposal of the Bank Austria Group

Country exposure[1] by region and product category

(€ millions)

Region	LENDING 2010	LENDING 2009	TRADING 2010	TRADING 2009	ISSUER RISK 2010	ISSUER RISK 2009	TOTAL 2010	TOTAL 2009
Western Europe	8,103	9,491	16,724	21,018	982	883	25,809	31,392
North America	1,232	1,396	5,991	2,793	1,491	1,437	8,714	5,626
Asia/Pacific	2,358	2,477	4,485	3,669	394	339	7,237	6,485
Eastern Europe	3,407	3,212	1,540	898	391	163	5,338	4,273
Central and South America	690	721	1,542	319	756	725	2,988	1,765
Africa	402	289	92	86	0	0	494	375
HVB Group	**16,192**	**17,586**	**30,374**	**28,783**	**4,014**	**3,547**	**50,580**	**49,916**

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

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

(€ millions)

Country	EXPOSURE 2010	EXPOSURE 2009	VALUE-AT-RISK[2] 2010	VALUE-AT-RISK[2] 2009
UK	17,941	22,337	1.8	5.9
USA	6,957	4,148	0.0	0.0
Switzerland	5,574	5,930	0.4	0.3
Russian Federation	2,537	2,273	7.1	6.5
Singapore	2,445	2,662	0.2	0.2
Cayman Islands, offshore	1,783	597	4.8	1.0
Hong Kong	1,750	445	0.8	0.0
Turkey	1,224	1,069	9.5	8.1
Denmark	1,125	1,576	0.0	0.1
Canada	1,045	860	0.0	0.0
HVB Group	**42,381**	**41,897**	**24.6**	**22.1**

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 Group's portfolio after the disposal of the Bank Austria Group

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

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB Group at year-end 2010 totalled €92.8 billion (31 December 2009: €84.6 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 Group amounted to €14.9 billion at 31 December 2010 (31 December 2009: €14.1 billion).

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

Risk Report (Continued)

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2010	2009	2010	2009	2010	2009
Interest rate derivatives	**1,168,480**	**1,158,710**	**895,366**	**3,222,556**	**2,873,119**	**64,696**	**60,896**	**63,319**	**59,833**
OTC products									
Forward rate agreements	210,417	12,334	—	222,751	160,391	132	268	105	124
Interest rate swaps	814,583	889,217	737,873	2,441,673	2,174,497	59,960	56,250	57,526	54,271
Interest rate options									
– purchased	39,100	126,568	71,643	237,311	222,170	4,498	4,344	6	—
– written	38,396	105,238	84,492	228,126	224,154	63	28	5,538	5,428
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	**403,895**	**165,637**	**69,907**	**639,439**	**467,793**	**14,268**	**9,499**	**14,162**	**9,599**
OTC products									
Foreign exchange forwards	264,449	25,115	332	289,896	233,748	4,486	3,399	4,242	3,298
Cross-currency swaps	56,461	123,855	68,123	248,439	173,147	8,034	5,069	8,131	5,174
Foreign exchange options									
– purchased	40,905	8,585	717	50,207	30,386	1,743	1,030	—	—
– written	42,048	8,082	735	50,865	30,509	5	1	1,789	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**	**9,321**	**9,212**	**11,868**	**11,742**
OTC products									
Equity/index swaps	10,933	8,294	443	19,670	20,053	281	787	288	494
Equity/index options									
– purchased	7,926	16,929	1,126	25,981	32,143	6,933	4,163	1	—
– written	14,858	31,740	3,535	50,133	68,133	37	38	7,783	5,506
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	3,996	3,795	5,735
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**
HVB Group	**1,675,514**	**1,606,218**	**1,006,094**	**4,287,826**	**3,861,468**	**92,791**	**84,711**	**94,582**	**86,962**

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 €804,105 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	593	724	536
Banks	72,245	67,606	74,848	70,523
Financial institutions	15,479	12,818	17,433	14,286
Other companies and private individuals	3,689	3,694	1,577	1,617
HVB Group	**92,791**	**84,711**	**94,582**	**86,962**

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	—	—	—	—	—	—	—	—	—
HVB Group	**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
HVB Group	**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 and at our subsidiaries. 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.

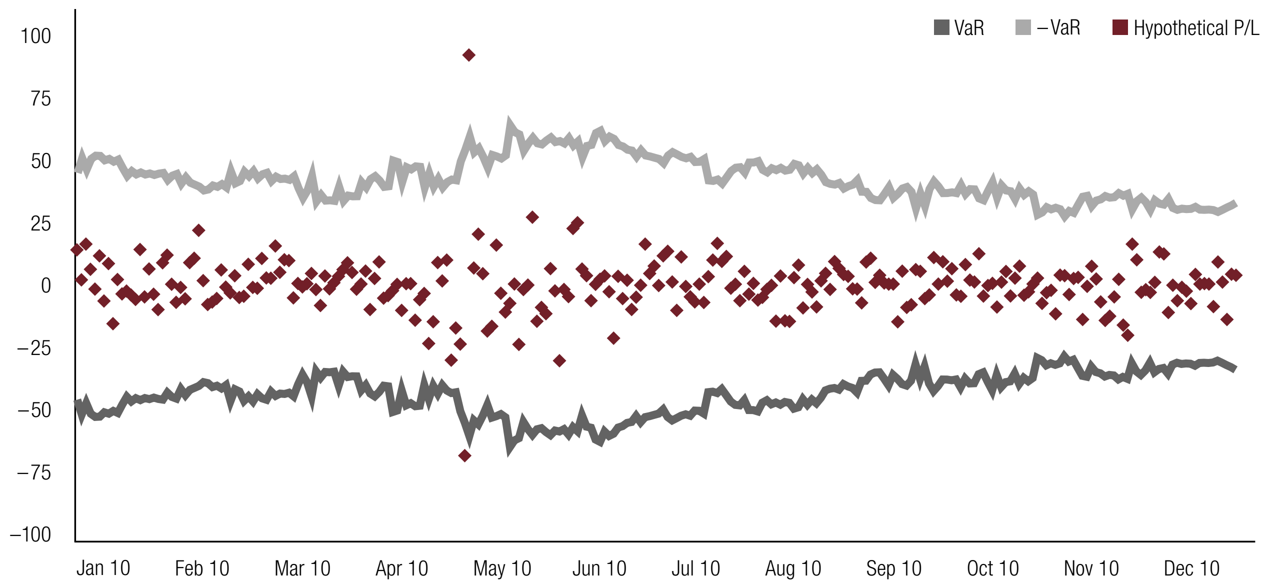
Until the change in our model is accepted by the German Federal Financial Supervisory Authority, HVB's regulatory reporting will be based on the existing methodology. At the end of December the average one-day value-at-risk of the last 60 trading days which serves as a basis for the regulatory report 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 Group to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered for HVB Group, 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 €1,097 million (2009: €929 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.

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 €2.3 billion (sovereign tensions) and €3.3 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.

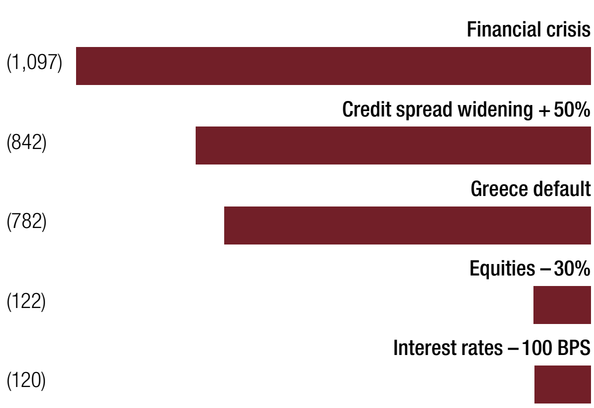
Risk monitoring

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 Group 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. The Bank decreased HVB Group's overall limit for market risk, calculated using the previous internal model, from €99 million to €93 million at the beginning of 2010, and then increased it to €113 million later in the year with the first-time inclusion of CAIB. Due to the higher VaR totals in the new internal model (historical simulation), the relevant HVB Group limit was initially fixed at €123 million and then increased to €143 million on account of the integration of CAIB. As the market risk changed only slightly in almost all lines of business as a result of the migration of the CAIB holdings to the HVB portfolios, the increase in HVB Group limits was only redistributed to the individual lines of business to a minor extent.

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

HVB Group stress testing at 31 December 2010 (€ millions)



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 Group in 2010. The reduction in market risks in the third quarter resulted from the completion of the technical migration of CAIB portfolios, among other factors. The resulting changes in diversification effects lowered the reported market risk as compared with the previous quarter by €11 million. A further risk-reducing effect resulted 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 quarter of 2010.

Market risk from trading positions of HVB Group (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
	NEW MODEL	NEW MODEL	NEW MODEL	NEW MODEL	PREVIOUS MODEL	PREVIOUS MODEL	PREVIOUS MODEL
Interest rate positions (incl. credit spread risks)	43	29	37	62	45	19	22
Foreign exchange derivatives	4	4	7	1	4	3	3
Equity/index positions[2]	9	8	7	12	6	2	5
Diversification effect[3]	(9)	(8)	(10)	(9)	(10)	(5)	(9)
HVB Group	**47**	**33**	**41**	**66**	**45**	**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 Group (value-at-risk, confidence level 99%, one-day holding period) (€ millions)

		AVERAGE 2010[1]	31/12/2010	30/9/2010	30/6/2010	31/3/2010
HVB Group previous model	Market risk				81	54
	Limit				113	93
HVB Group new model	Market risk	72	62	66	93	67
	Limit	138	143	143	143	123

1 arithmetic mean of the four quarter-end figures

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

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

	AVERAGE SECOND HALF OF 2010[1]	31/12/2010	30/9/2010
HVB Group with reclassified portfolios	**129**	**125**	**133**

1 arithmetic mean of the last two quarter-end figures

Risk Report (Continued)

At year-end, the banking book of HVB Group contained market risks of €83 million with a one-day holding period (31 December 2009: €52 million). This includes all the market risks from the banking book. The market risks of the reclassified portfolios, taken in isolation, amounted to €54 million (2009: €36 million). The market risks of the remaining banking book positions show a market risk of €45 million (2009: €25 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 €20 million (0.09% of the regulatory capital) in the banking book of HVB Group (31 December 2009: a decrease of €18.63 million with an appreciation of foreign currency positions).

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

HVB GROUP BANKING BOOK	
Total	(20.42)
USD	5.32
GBP	(23.82)
CHF	8.72
JPY	(9.50)
CZK	1.13
CAD	(0.66)
HKD	(1.08)

A 20% decline in all equity and hedge fund prices results in a decrease in the portfolio value by €44.19 million (0.19% of regulatory capital) in the banking book of HVB Group (31 December 2009: €76.92 million).

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

HVB GROUP BANKING BOOK	
Total	(44.19)
Equity products	(0.29)
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 €353.96 million (1.52% of the regulatory capital) in the banking book of HVB Group. If the hedge effect of the equity capital model book is taken into account, this scenario results in a value increase of €131.41 million (31 December 2009: €2.71 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 Group banking book – without hedge effect of equity capital model book	(353.96)	23.96	(369.91)	(8.01)
HVB Group banking book – with hedge effect	131.41	89.93	43.22	(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 Group.

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 0.64% (2009: 0.66%), or 2.03%, excluding the model book (2009: 2.27%), of its regulatory equity capital at 31 December 2010, HVB Group is well below the reportable outlier value of 20% stipulated by the banking supervisory authorities. Without the valuation effects of the reclassified portfolios, the rate of equity capital utilisation is 0.43% (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 €1.7 billion, the economic capital for market risks at HVB Group has decreased by €1.3 billion over the comparable previous year-end figure (€3.0 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 €0.07 billion at year-end 2010 (2009: €0.08 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.

HVB Group 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 Group that may result from the expiration of the global support measures by central banks and governments.

Risk Report (Continued)

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 Group per working day and limits the positions appropriately.

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

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

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 Group remained at an adequate level at all times.

Short-term liquidity
Within the framework of our limit system, which operates under conservative assumptions, we showed an overall positive balance of short-term liquidity of €28.3 billion in HVB Group for the next banking day at the end of December 2010 (2009: €41.4 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 €29.2 billion at year-end 2010 (2009: €38.4 billion).

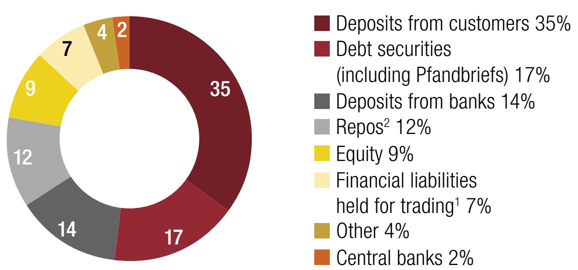
The stress tests we conduct on a regular basis showed that liquidity reserves at the end of 2010 were sufficient to cover liquidity requirements resulting from defined scenarios.

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

Risk Report (Continued)

Funding risk
The funding risk of HVB Group 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 €7.3 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.

Breakdown of sources of funding of HVB Group



1 without the item "Negative fair values arising from derivative financial instruments"
2 repos from the items "Financial liabilities held for trading". "Deposits from customers" and "Deposits from banks"

4 Operational risk

Risk management

We define operational risk as the risk of losses resulting from inadequate or failed internal processes, human error, technological breakdowns or external events. Under the German Solvency Regulation (SolvV), this definition also includes legal risks.

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

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

The 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 and our major subsidiaries, 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.

For our UniCredit Luxembourg S.A. subsidiary, preparations for regulatory approval of the AMA are complete. The regulatory audit is scheduled for early 2011. 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.

The values from the Standard Approach are used for our subsidiaries not included in the AMA. To determine the economic capital, these values are extrapolated to the necessary confidence level.

Risk monitoring
The focus in risk monitoring is on the further development of risk surveys and scenario analysis, the ongoing monitoring of relevant risks and the ad-hoc analysis of current internal and external risk factors. This also reflects the areas of activity specified in our operational risk strategy.

An intensive exchange takes place between the central Operational Risk Control function, the local operational risk managers and the relevant line departments. In addition, regular communication takes place with 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 Group is now largely covered by the Advanced Measurement Approach (AMA). The remaining subsidiaries are integrated through the Standard Approach. Employing the AMA means that HVB Group 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 €1.0 billion at the end of 2010 (2009: €0.9 billion). 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.

Risk Report (Continued)

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 structures 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.

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.

Risk Report (Continued)

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.

Lawsuits in connection with Primeo notes

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

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.

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.

Risk Report (Continued)

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 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.

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 Report (Continued)

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 €0.7 billion, taking into account the parameter update and the refinement in methodology. The calculated economic capital for business risks of HVB Group amounted to €0.5 billion at year-end 2010 (2009: €0.5 billion). These figures also reflect the effects of refinement 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. This includes the portfolio of the property ownership companies of HVB and its special-purpose companies and shareholding companies as well as the portfolios of HVB Group subsidiaries. Real estate collateral is discussed under default risk. 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), divided 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.

HVB Group expects that, despite the favourable economic developments forecasted, the basic conditions for the 2011 financial year will remain difficult both worldwide and in Germany and will be marked by several sources of uncertainty. In this environment we will continue to treat effective risk management as a priority.

The situation in the real estate markets in 2011 will depend on economic trends. If growth remains steady, demand for rental space should pick up. However, with the supply still very plentiful, rents will probably remain under pressure, particularly in less attractive sites and locations, and in buildings lacking up-to-date technical equipment and infrastructure.

Increasing confidence in the economic trend will probably lead to a rise in investor demand, particularly for core properties. The extent to which this stronger demand will spread to other property classes remains to be seen.

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.

Again in 2011, the planned reduction of risk-weighted assets will include the reduction of the non-strategic real estate portfolio. In this environment, we will continue to treat effective risk management as a priority. The situation in the real estate markets will again depend on economic trends in 2011. The impact this will have on the achievement of targets cannot be forecast at present.

Quantification and specification

The portfolio of non-strategic real estate and properties held by HVB Immobilien AG was reduced by approximately 10% in 2010 through disposals.

The Letting and Sales department operated successfully in 2010 and exceeded its letting targets despite the difficult market environment.

The value-at-risk, without taking into account the diversification effects between risk types, declined by €0.1 billion to €0.6 billion. As at year-end 2009, the economic capital for real estate risk again amounted to €0.4 billion for HVB Group at the end of 2010. These figures reflect the effect of the updated correlation matrix for the aggregation of risk types carried out in 2009. The real estate portfolio of HVB Group is located primarily in Munich, which accounts for 40% of the total. The cushion add-on employed to take account of the specific risk in the Bank's risk-bearing capacity was €0.08 billion at year-end 2010 (2009: €0.09 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. Subsidiaries included in the consolidated financial statements of HVB Group, whose risks are already separately identified and recorded as part of the other risk types, are excluded.

The Management Board is responsible for managing our overall portfolio of shareholdings/financial investments (including operational subsidiaries of HVB Group). The strategy for risks arising from our shareholdings/financial investments is based on the direction of business in the medium term and is reflected in planning. The responsibility at HVB Group for preparing business strategies, and thus risk strategies, in connection with shareholdings/investments rests with the divisions and competence lines. Subsidiaries and participating interests are to be seen as instruments for achieving divisional strategies.

Measurement methods

Under the value-at-risk approach, the risk inherent in our investments is calculated on the basis of their market values and volatilities, which, in the case of investments in listed companies, are determined using share-price fluctuations. In the case of investments in unlisted companies, we apply the carrying amounts as market value estimates as well as the volatilities of industry specific indices. 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 Report (Continued)

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

The task of investment controlling falls to the Financial Shareholdings department, which is under the responsibility of the Chief Financial Officer. This department uses auditors' reports, annual reports and interim reporting instruments to regularly verify the value of our investments. This ensures that substantial decreases in value are recognised promptly, analysed and reported to the Chief Financial Officer and, as needed, appropriately taken into account in the form of write-downs.

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

Quantification and specification
The value-at-risk, disregarding the diversification effects but taking account of the further development in methods between risk types, decreased by €0.6 billion, to €1.2 billion. The economic capital of HVB Group for the risks arising from our shareholdings/financial investments was €0.8 billion (2009: €1.2 billion). The cushion add-on to take account of the specific risk for the risk-bearing capacity amounts to €0.4 billion at year-end 2010 (2009: €0.5 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 reputational risk because 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 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

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 ex post in terms of the Bank's long-term 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.

Risk Report (Continued)

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.

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.

For whatever life brings

Financial Statements (2)

Consolidated Financial Statements

Consolidated Income Statement

for the year ended 31 December 2010

Income/Expenses	NOTES	2010 € millions	2009 € millions	CHANGE € millions	CHANGE in %
Interest income		8,700	11,059	(2,359)	(21.3)
Interest expense		(4,600)	(6,583)	+ 1,983	(30.1)
Net interest		4,100	4,476	(376)	(8.4)
Dividends and other income from equity investments		148	52	+ 96	>+ 100.0
Net interest income	32	**4,248**	**4,528**	**(280)**	**(6.2)**
Net fees and commissions	33	1,312	1,187	+ 125	+ 10.5
Net trading income	34	759	1,074	(315)	(29.3)
Net other expenses/income	35	239	141	+ 98	+ 69.5
Net non-interest income		**2,310**	**2,402**	**(92)**	**(3.8)**
TOTAL REVENUES		**6,558**	**6,930**	**(372)**	**(5.4)**
Payroll costs		(1,756)	(1,822)	+ 66	(3.6)
Other administrative expenses		(1,459)	(1,418)	(41)	+ 2.9
Amortisation, depreciation and impairment					
losses on intangible and tangible assets		(218)	(222)	+ 4	(1.8)
Operating costs	36	**(3,433)**	**(3,462)**	**+ 29**	**(0.8)**
OPERATING PROFIT		**3,125**	**3,468**	**(343)**	**(9.9)**
Provisions for risks and charges	37	(442)	(151)	(291)	>+ 100.0
Write-down on goodwill		—	—	—	—
Restructuring costs	38	(37)	(170)	+ 133	(78.2)
Net write-downs of loans and provisions					
for guarantees and commitments	39	(632)	(1,601)	+ 969	(60.5)
Net income from investments	40	(132)	(280)	+ 148	+ 52.9
PROFIT BEFORE TAX		**1,882**	**1,266**	**+ 616**	**+ 48.7**
Income tax for the period	41	(154)	(382)	+ 228	(59.7)
CONSOLIDATED PROFIT		**1,728**	**884**	**+ 844**	**+ 95.5**
attributable to shareholder of UniCredit Bank AG		1,703	819	+ 884	>+ 100.0
attributable to minorities		25	65	(40)	(61.5)

Earnings per share

(in €)

	Notes	2010	2009
Earnings per share (undiluted and diluted)	42	2.12	1.02

Statement of Total Comprehensive Income

(€ millions)

	2010	2009
Consolidated profit recognised in the income statement	**1,728**	**884**
Income and expenses recognised in other comprehensive income		
Changes from foreign currency translation and other changes	45	(36)
Changes from companies accounted for using the equity method	—	—
Actuarial profit on defined benefit plans (pension commitments)	50	(121)
Assets held for sale	—	—
Change in valuation of financial instruments (AfS reserve)	51	106
Change in valuation of financial instruments (hedge reserve)	(111)	(196)
Taxes on income and expenses recognised in equity	54	96
Total income and expenses recognised in equity under other comprehensive income	**89**	**(151)**
Total comprehensive income	**1,817**	**733**
of which		
attributable to shareholder of UniCredit Bank AG	1,739	697
attributable to minority interest	78	36

Balance Sheet

at 31 December 2010

Assets

	NOTES	2010 € millions	2009 € millions	CHANGE € millions	in %
Cash and cash balances	43	3,065	6,400	(3,335)	(52.1)
Financial assets held for trading	44	133,389	133,389	—	—
Financial assets at fair value through profit or loss	45	26,631	13,758	+ 12,873	+ 93.6
Available-for-sale financial assets	46	5,915	4,441	+ 1,474	+ 33.2
Shares in associates accounted for using the equity method					
and joint ventures accounted for using the equity method	47	94	88	+ 6	+ 6.8
Held-to-maturity investments	48	2,600	2,679	(79)	(2.9)
Loans and receivables with banks	49	46,332	43,254	+ 3,078	+ 7.1
Loans and receivables with customers	50	139,351	145,919	(6,568)	(4.5)
Hedging derivatives	52	4,205	3,578	+ 627	+ 17.5
Hedge adjustment of hedged items					
in the fair value hedge portfolio		100	53	+ 47	+ 88.7
Property, plant and equipment	53	3,053	2,581	+ 472	+ 18.3
Investment properties	54	1,879	1,907	(28)	(1.5)
Intangible assets	55	608	656	(48)	(7.3)
of which: goodwill		424	424	—	—
Tax assets	56	3,257	2,612	+ 645	+ 24.7
Current tax assets		406	360	+ 46	+ 12.8
Deferred tax assets		2,851	2,252	+ 599	+ 26.6
Non-current assets or disposal groups held for sale	57	28	4	+ 24	>+ 100.0
Other assets	58	1,402	2,101	(699)	(33.3)
Total assets		**371,909**	**363,420**	**+ 8,489**	**+ 2.3**

Liabilities

	NOTES	2010	2009	CHANGE	
		€ millions	€ millions	€ millions	in %
Deposits from banks	60	51,887	50,704	+ 1,183	+ 2.3
Deposits from customers	61	108,494	96,490	+ 12,004	+ 12.4
Debt securities in issue	62	48,676	61,286	(12,610)	(20.6)
Financial liabilities held for trading	63	127,096	121,206	+ 5,890	+ 4.9
Hedging derivatives	64	2,091	1,369	+ 722	+ 52.7
Hedge adjustment of hedged items					
in the fair value hedge portfolio	65	1,471	1,200	+ 271	+ 22.6
Tax liabilities	66	2,203	1,849	+ 354	+ 19.1
Current tax liabilities		840	674	+ 166	+ 24.6
Deferred tax liabilities		1,363	1,175	+ 188	+ 16.0
Liabilities of disposal groups held for sale	67	598	—	+ 598	
Other liabilities	68	3,822	4,179	(357)	(8.5)
Provisions	69	1,901	1,499	+ 402	+ 26.8
Shareholders' equity	70	23,670	23,638	+ 32	+ 0.1
Shareholders' equity attributable to					
shareholder of UniCredit Bank AG		22,866	22,870	(4)	0.0
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		9,485	9,034	+ 451	+ 5.0
Change in valuation of financial instruments		(87)	5	(92)	
AfS reserve		(141)	(190)	+ 49	+ 25.8
Hedge reserve		54	195	(141)	(72.3)
Consolidated profit		1,270	1,633	(363)	(22.2)
Minority interest		804	768	+ 36	+ 4.7
Total shareholders' equity and liabilities		**371,909**	**363,420**	**+ 8,489**	**+ 2.3**

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €1,270 million. 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.

Statement of Changes in Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES: TOTAL OTHER RESERVES	OTHER RESERVES: OF WHICH: PENSIONS AND SIMILAR (IAS 19)
Shareholders' equity at 1/1/2009	**2,407**	**9,791**	**9,996**	**(139)**
Recognised income and expenses				
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Income and expenses recognised in equity				
Change in valuation of financial instruments not affecting income	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(84)	(84)
Reserve arising from foreign currency translation and other changes	—	—	(14)	—
Total income and expenses recognised				
in equity under other comprehensive income	**—**	**—**	**(98)**	**(84)**
Total income and expenses recognised	**—**	**—**	**(98)**	**(84)**
Other changes recognised in equity				
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	(814)	—
Changes in group of consolidated companies	—	—	(50)	—
Total other changes in equity	**—**	**—**	**(864)**	**—**
Shareholders' equity at 31/12/2009	**2,407**	**9,791**	**9,034**	**(223)**
Shareholders' equity at 1/1/2010	**2,407**	**9,791**	**9,034**	**(223)**
Recognised income and expenses				
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Income and expenses recognised in equity				
Change in valuation of financial instruments not affecting income	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	34	34
Reserve arising from foreign currency translation and other changes	—	—	23	—
Total income and expenses recognised				
in equity under other comprehensive income	**—**	**—**	**57**	**34**
Total income and expenses recognised	**—**	**—**	**57**	**34**
Other changes recognised in equity				
Dividend payouts	—	—	—	—
Transfers to consolidated profit	—	—	433	—
Changes in group of consolidated companies	—	—	(39)	—
Total other changes in equity	**—**	**—**	**394**	**—**
Shareholders' equity at 31/12/2010	**2,407**	**9,791**	**9,485**	**(189)**

1 UniCredit Bank AG (HVB)

2 the Annual General Meeting of Shareholders of 21 May 2010 resolved to distribute the 2009 consolidated profit in the amount of €1,633 million as a dividend to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €2.03 per share of common stock and per share of preferred stock, an advanced dividend of €0.064 per share of preferred stock and a retroactive payment on the advance share of profits of €0.064 per share of preferred stock for 2008

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS					
AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[2]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDER OF HVB[1]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
(306)	**329**	**—**	**22,217**	**807**	**23,024**
—	**—**	**819**	**819**	**65**	**884**
175	(4)	—	171	(2)	169
(70)	(130)	—	(200)	—	(200)
—	—	—	(84)	—	(84)
5	—	—	(9)	(27)	(36)
110	**(134)**	**—**	**(122)**	**(29)**	**(151)**
110	**(134)**	**819**	**697**	**36**	**733**
—	—	—	—	(54)	(54)
—	—	814	—	—	—
6	—	—	(44)	(21)	(65)
6	**—**	**814**	**(44)**	**(75)**	**(119)**
(190)	**195**	**1,633**	**22,870**	**768**	**23,638**
(190)	**195**	**1,633**	**22,870**	**768**	**23,638**
—	**—**	**1,703**	**1,703**	**25**	**1,728**
86	11	—	97	1	98
(31)	(92)	—	(123)	—	(123)
—	—	—	34	—	34
7	(2)	—	28	52	80
62	**(83)**	**—-**	**36**	**53**	**89**
62	**(83)**	**1,703**	**1,739**	**78**	**1,817**
—	—	(1,633)	(1,633)	(44)	(1,677)
—	—	(433)	—	—	—
(13)	(58)	—	(110)	2	(108)
(13)	**(58)**	**(2,066)**	**(1,743)**	**(42)**	**(1,785)**
(141)	**54**	**1,270**	**22,866**	**804**	**23,670**

Cash Flow Statement

(€ millions)

	2010	2009
Consolidated profit	**1,728**	**884**
Write-downs, provisions for losses on, and write-ups of,		
loans and receivables and additions to provisions for losses on guarantees and indemnities	692	1,678
Write-downs and depreciation less write-ups on long-term assets	586	620
Change in other non-cash positions	(1,219)	3,119
Profit from the sale of investments, property, plant and equipment	(41)	(194)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(4,434)	(4,781)
Subtotal	**(2,688)**	**1,326**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	14,668	27,423
Loans and receivables with banks	6,976	(2,880)
Loans and receivables with customers	5,425	27,288
Other assets from operating activities	741	12
Deposits from banks	(4,259)	(33,110)
Deposits from customers	11,852	(15,955)
Debt securities in issue	(11,151)	611
Other liabilities from operating activities	(18,674)	(8,506)
Taxes on income paid	(276)	(109)
Interest received	9,682	11,791
Interest paid	(4,834)	(7,924)
Dividends received	615	415
Cash flows from operating activities	**8,077**	**382**
Proceeds from the sale of investments	1,993	5,475
Proceeds from the sale of property, plant and equipment	167	60
Payments for the acquisition of investments	(3,320)	(1,025)
Payments for the acquisition of property, plant and equipment	(854)	(969)
Effects of the change in the group of companies included in consolidation	(5,942)	107
Cash flows from investing activities	**(7,956)**	**3,648**
Change in additional paid-in capital	—	—
Dividend payments	(1,633)	—
Other financing activities, net (subordinated and hybrid capital)	(1,768)	(2,864)
Other financing activities, net	(55)	(322)
Cash flows from financing activities	**(3,456)**	**(3,186)**

(€ millions)

	2010	2009
Cash and cash equivalents at end of previous period	6,400	5,556
Net cash provided/used by operating activities	8,077	382
Net cash provided/used by investing activities	(7,956)	3,648
Net cash provided/used by financing activities	(3,456)	(3,186)
Effects of exchange rate changes	—	—
Cash and cash equivalents at end of period	3,065	6,400

Notes to the Consolidated Financial Statements

Consolidated financial statements in accordance with IFRS

UniCredit Bank AG (HVB), with its registered office and principal place of business in Munich, Germany, is an affiliated company of UniCredit S.p.A., Rome, Italy (ultimate parent company).

As a globally active company, HVB prepares its financial statements in accordance with the requirements of the International Accounting Standards Board (IASB). This provides a reliable and internationally comparable basis for evaluating the HVB Group and its profitability. Our value-based management is similarly based on these accounting principles.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to EU Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 together with further regulations regarding the adoption of certain IFRS within the framework of the EU endorsement in conjunction with Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS-VO Regulation. The present consolidated financial statements were prepared by the Management Board on 11 March 2011. Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC), respectively. All the standards and interpretations subject to obligatory application in the EU for the 2010 financial year have been applied. Section 315a, HGB, also contains national regulations to be applied alongside the IFRS by capital-market-oriented companies.

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

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

Compliant with Section 264b, HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:

- HVZ GmbH & Co. Objekt KG, Munich
- Salvatorplatz-Grundstücksgesellschaft mbH & Co. oHG Verwaltungszentrum, Munich
- Salvatorplatz-Grundstücksgesellschaft mbH & Co. oHG Saarland, Munich
- Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
- Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
- A&T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
- Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
- HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
- TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich
  (formerly HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG)
- Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
- Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
- SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich
- Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
- TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich.

Compliant with Section 264 (3), HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:

- Argentaurus Immobilien Vermietungs- und Verwaltungs GmbH, Munich
- HVB Immobilien AG, Munich
- HVB Projekt GmbH, Munich
- HVB Tecta GmbH, Munich
- Interra Gesellschaft für Immobilienverwaltung mbH, Munich
- Orestos Immobilien-Verwaltungs GmbH, Munich
- BV Grundstücksentwicklungs-GmbH, Munich
- NF Objekte Berlin GmbH, Munich
- NF Objekt FFM GmbH, Munich
- NF Objekt München GmbH, Munich
- RHOTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
- UniCredit Direct Services GmbH, Munich
- Verwaltungsgesellschaft Katharinenhof m.b.H., Hamburg.

Accounting and Valuation

1 Uniform Group accounting policies

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

2 Consistency

In accordance with the IFRS Framework together with IAS 1 and IAS 8, we apply the accounting and disclosure principles consistently from one period to the next. Where significant accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted retroactively. Where retroactive adjustment is not possible in exceptional circumstances, the amounts involved are adjusted against retained earnings. Where we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively. During the year under review, we made an adjustment compliant with IAS 8.41 that led to an increase of €127 million in loans and receivables with customers and of €10 million in property, plant and equipment, and an increase of €137 million in lease liabilities. This had no impact on the income statement in 2010. For materiality reasons, the 2009 figures have not been adjusted.

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

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

Apart from this, the accounting valuation and publishing principles applied in 2010 are the same as those applied in the consolidated financial statements for 2009, with the exception of the new IFRS rules to be applied as described in Note 3 below.

3 Initial adoption of new IFRS accounting rules

The main new IFRS regulations subject to mandatory adoption for the first time in the 2010 financial year are the revised IFRS 3 "Business Combinations" (IFRS 3 R) and IAS 27 "Consolidated and Separate Financial Statements" (IAS 27 R).

IFRS 3 R defines more closely the application of the purchase method for business combinations. Major changes relate to the measurement of minority interests, the recognition of business combinations achieved in stages and the treatment of conditional purchase price components and acquisition-related costs.

IAS 27 R contains revised regulations for the presentation of minority interests when the control relationship does not change as well as for disclosure in the event of the loss of controlling influence over a subsidiary in the balance sheet.

IFRS 3 R and IAS 27 R did not have any impact on HVB Group in the 2010 financial year as there were no relevant transactions.

The other minor changes to a few of the IFRS standards (2009 Annual Improvements Project, "Improvements to IFRSs"; IFRS 2 "Group Cash-settled Share-based Payment Transactions" and IAS 39 "Eligible Hedged Items") and the new interpretations (IFRIC 12 "Service Concession Arrangements", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", IFRIC 17 "Distributions of Non-cash Assets to Owners" and IFRIC 18 "Transfers of Assets from Customers") that were applicable for the first time in the 2010 financial year did not give rise to any, or any significant effects on the consolidated financial statements. When IFRIC 12, 15 and 16 were adopted into European law, the original date of compulsory application set by the IASB was changed by the EU such that these interpretations would be subject to mandatory adoption for the first time in the 2010 financial year.

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

As permitted, we have decided against the early voluntary adoption of the standard and interpretations adopted or revised by the IASB, which only become the subject of mandatory adoption for the 2011 financial year or thereafter. The Bank is planning to apply these in the financial year in which the standards in question become applicable for the first time.

The EU has adopted the following into European law:
– Annual Improvements Project 2010 “Improvements to IFRSs”. The improvements are subject to obligatory adoption for reporting periods beginning on or after 30 June 2010 or 31 December 2010.
– Amendments to IAS 24 “Related Party Disclosures”. The amendments are applicable for reporting periods beginning on or after 1 January 2011.
– Amendments to IAS 32 “Classification of Right Issues”. The amendments are subject to obligatory adoption in reporting periods beginning on or after 1 February 2010.
– IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”. The provisions are applicable for reporting periods beginning on or after 1 July 2010.
– Amendments to IFRIC 14 “Prepayments of a Minimum Funding Requirement”. The amendments are subject to obligatory adoption for reporting periods beginning on or after 1 January 2011.

The EU has not yet adopted the following into European law:
– IFRS 9 “Financial Instruments”. The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 January 2013.
– Amendments to IFRS 7 “Financial Instruments: Disclosures”. The amendments are applicable for reporting periods beginning on or after 1 July 2011.
– Amendments to IAS 12 “Deferred Tax: Recovery of Underlying Assets”. The amendments are subject to obligatory adoption for reporting periods beginning on or after 1 January 2012.

The new IFRS 9, only part of which has so far been published by the IASB and which has not yet been transformed into European law by the EU and for which the date of introduction is still under discussion, will have a significant impact on the presentation and measurement of financial instruments. The effects are still being analysed. At the same time, however, we do not expect the remaining standards and interpretations to be applied in the future to have any significant effects on the consolidated financial statements.

5 Companies included in consolidation
The group of companies included in consolidation by HVB Group encompasses 146 (2009: 96) subsidiaries. The group of consolidated companies also includes 43 (2009: 41) companies and fund assets which SIC 12 requires to be consolidated as special purpose entities.

The group of companies included in consolidation has been defined taking into account materiality criteria. In addition, smaller companies that are below the materiality thresholds have also been consolidated on account of the rules defined by the supervisory authorities that regulate UniCredit. In order to avoid coordination and reconciliation problems, we have decided to gradually expand the group of companies included in consolidation. The fully consolidated subsidiaries prepared their annual financial statements for the period ending 31 December 2010.

The following companies have different year-end dates:
– Arabella Finance Ltd., Dublin, 30 September
– Central European Confectionery Holdings B.V., Amsterdam, 31 March
– Kinabalu Financial Products LLP, London, 30 November
– Kinabalu Financial Solutions Limited, London, 30 November
– Salome Funding Plc., Dublin, 31 March
– Redstone Mortgages Limited, London, 30 September.

When the consolidated financial statements are being prepared, interim financial statements are prepared at the corporate year-end date for companies with year-end dates of 31 March or 30 September. The annual financial statements of Kinabalu Financial Products LLP and Kinabalu Financial Solutions Limited were carried forward to 31 December 2010, meaning that a total of 13 months are covered (1 December 2009 to 31 December 2010). No events of particular significance for the net assets, financial position or results of operations occurred at these companies in December 2009.

The group of consolidated companies does not include any companies for which the proportionate consolidation method is applied. UniCredit Global Information Services Società per Azioni (UGIS) has been consolidated using the equity method since 1 May 2009.

Accounting and Valuation (Continued)

In 2010, the following companies and special purpose entities, among others, were newly added to the group of companies included in consolidation at HVB Group:
- AB Immobilienverwaltungs-GmbH, Munich
- Active Asset Management GmbH, Grünwald
- Bandon Leasing Limited, Dublin
- Bank Austria ImmobilienService GmbH, Vienna
- BIL Leasing-Fonds GmbH & Co VELUM KG, Munich
- BIL Leasing-Fonds Verwaltungs-GmbH, Munich
- BIL V & V Vermietungs GmbH, Munich
- B.I. International Limited, George Town
- BV Grundstücksentwicklungs-GmbH, Munich
- Claris Limited – Series 64/2006, St. Helier
- Central European Confectionery Holdings B.V., Amsterdam
- Elektra Purchase No. 1 Ltd., St. Helier
- Elektra Purchase No.18 Limited, Dublin
- Food & more GmbH, Munich
- Geldilux-TS-2010 S.A., Luxembourg
- Grand Central Re Limited, Hamilton
- HVB Asset Leasing Limited, London
- HVB Export Leasing GmbH, Munich
- HVB Gesellschaft für Gebäude Beteiligungs GmbH, Munich
- HVB Global Assets Company (GP), LLC, Dover
- HVB Hong Kong Limited, Hong Kong
- HVB International Asset Leasing GmbH, Munich
- HVB London Investments (AVON) Limited, London
- HVB London Investments (CAM) Limited, London
- HVB Principal Equity GmbH, Munich
- HVB Realty Capital Inc., New York
- HVB Secur GmbH, Munich
- HVB Verwa 1 GmbH, Munich
- HVBFF Internationale Leasing GmbH, Munich
- HVBFF International Greece GmbH, Munich
- HVBFF Produktionshalle GmbH, Munich
- HVBFF Objekt Beteiligungs GmbH, Munich
- Hypo-Bank Verwaltungszentrum GmbH, Munich
- Life Management Zweite GmbH, Grünwald
- Life Management Erste GmbH, Munich
- Movie Market Beteiligungs GmbH, Munich
- NF Objekte Berlin GmbH, Munich
- NF Objekt München GmbH, Munich
- NF Objekt FFM GmbH, Munich
- "Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung, Munich
- RHOTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
- Salvatorplatz-Grundstücksgesellschaft mbH, Munich
- Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Saarland, Munich
- Status Vermögensverwaltung GmbH, Schwerin
- Structured Invest Société Anonyme, Luxembourg
- Terronda Development B.V., Amsterdam
- The Trans Value Trust Company Ltd., Tokyo
- Trinitrade Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung, Munich
- UniCredit (China) Advisory Limited, Beijing
- UniCredit Beteiligungs GmbH, Munich
- UniCredit CAIB AG, Vienna
- UniCredit CAIB Securities UK Ltd., London
- UniCredit Direct Services GmbH, Munich
- U.S. Property Investments, Inc., Dallas
- Verba Verwaltungsgesellschaft mbH, Munich
- Verwaltungsgesellschaft Katharinenhof mbH, Hamburg
- WealthCap PEIA Komplementär GmbH, Munich
- WealthCap Stiftungstreuhand GmbH, Hamburg.

On account of the extensions to the group of companies included in consolidation described, HVB added Grand Central Re Ltd. (GCR), City of Hamilton, Bermuda, in which it holds a 92.5% interest, to the group of companies included in consolidation with effect from 31 December 2010 as a subsidiary by way of full consolidation. GCR markets structured reinsurance services in the fields of life, property and accident insurance and generates most of its revenues by charging insurance premiums and generating capital gains (assets under management: €73 million). GCR's risk transfer business is declining. GCR holds a decreasing portfolio of reinsurance policies; it does not underwrite any new insurance risks.

With effect from 1 June 2010, HVB acquired UniCredit CAIB AG and its subsidiary, UniCredit CAIB Securities UK Ltd., from UniCredit Bank Austria AG, Vienna. As this business combination is an intra-group transaction within UniCredit, IFRS 3 does not apply to the acquisition of the two companies (IFRS 3.2 (c): business combinations involving entities or businesses under common control). The first-time inclusion of CAIB caused the total assets of HVB Group to rise by around €21 billion at the time of initial consolidation, of which €14.1 billion relates to financial assets held for trading and €5.5 billion to loans and receivables with banks. Upon its entry in the Commercial Register on 1 July 2010, UniCredit CAIB AG was absorbed by UniCredit Bank AG. It will continue to operate within a modified structure as HVB's Vienna branch and assigned to the CIB division.

In 2010, the following companies and special purpose entities left the group of companies included in consolidation of HVB Group due to absorption or liquidation, among others:
– Beteiligungs- und Handelsgesellschaft in Hamburg mit beschränkter Haftung, Hamburg
– Claris Limited – Series 64/2006, St. Helier
– Geldilux-TS-2005 S.A., Luxembourg
– Geldilux-TS-2009 S.A., Luxembourg
– UniCredit CAIB AG, Vienna.

In total, we have 181 affiliated and associated companies, and joint ventures in HVB Group that were neither fully consolidated nor fully accounted for using the equity method as they do not have a material impact for the Group.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these minor non-consolidated affiliated companies makes up around 0.8% of the consolidated profit of HVB Group, while such companies provide around 0.1% of consolidated assets. Our interests in these companies are carried as available-for-sale financial assets.

	2010	2009
Total subsidiaries	**313**	**343**
Consolidated companies	146	96
Non-consolidated companies	167	247
Joint ventures	**6**	**6**
of which:		
accounted for using the equity method	—	—
Associated companies	**9**	**9**
of which:		
accounted for using the equity method	1	1

Accounting and Valuation (Continued)

6 Principles of consolidation
Consolidation is performed by offsetting the purchase price of an affiliated company against the value of the interest held in the completely remeasured shareholders' equity at the time of acquisition, provided the transactions involved are not internal to UniCredit. This amount represents the difference between the assets and liabilities of the acquired company measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under shares in associates valued at equity and joint ventures valued at equity. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the divisions. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment at least once a year at cash-generating unit level. This involves comparing the carrying amount of the CGU with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell. Since the value in use far exceeds the carrying amount for the CGUs to which goodwill is allocated, the values in use have been used as the recoverable amount. When the values in use are calculated, the divisional (5-year) plans are employed as the basis and division-specific rates in a range from 9.45% to 12.03% for the cost of capital is used for discounting. No growth factor has been assumed for the government perpetuity.

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

Compliant with IAS 28, shares in associates are accounted for using the equity method and disclosed in the balance sheet accordingly. HVB is able to exercise significant influence over associates without being able to control them. Significant influence is assumed when a company holds more than 20% but less than 50% of the voting rights in an associate. This assumption of association can be refuted where a qualitative analysis demonstrates that significant influence over the financial and strategic decisions of the associate is not possible. Shares in associates are recognised at cost upon initial inclusion in the consolidated financial statements. For the purposes of subsequent measurement, the carrying amount increases or decreases in accordance with the share of HVB in the profit or loss of the associate. This share of the associate's profit or loss attributable to HVB is measured on the basis of the fair values of the associate's assets, liabilities and contingent liabilities when the shares were acquired. The accounting and valuation principles of HVB Group are applied for subsequent measurement.

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

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

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

7 Financial instruments

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

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

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

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

Financial assets and liabilities at fair value through profit or loss

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

– Financial assets and liabilities held for trading.

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

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

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

Financial assets and liabilities at fair value through profit or loss are disclosed upon initial recognition at their fair value without any transaction costs.

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

Accounting and Valuation (Continued)

Loans and receivables
The category “loans and receivables” includes non-derivative financial assets – both originated by us and acquired – with fixed or determinable payments that are not quoted in an active market unless they are classified as at fair value through profit or loss or available for sale (AfS). We classify leveraged buyout financing as loans and receivables. Loans and receivables originated by the company are measured at amortised cost and capitalised under loans and receivables with banks, and loans and receivables with customers. Premiums and discounts are taken to the income statement under net interest income over the term of the underlying items. Loans and receivables are disclosed upon initial recognition at their fair value including any transaction costs.

Held-to-maturity investments
Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss, or available for sale. The Bank takes a very restrictive approach when assessing whether the intention to hold to maturity exists and premature resale can be excluded (discretionary decision). This means that investments are only classified as held-to-maturity in exceptional cases. Held-to-maturity investments are disclosed upon initial recognition at their fair value including any transaction costs and thereafter measured at amortised cost, with premiums and discounts taken to the income statement under net interest income over the term of the underlying items.

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

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

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

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

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

The fair value is determined in accordance with the following valuation hierarchy (IAS 39.48 et seq. in conjunction with IAS 39.AG 71 et seq.).
Listed prices on an active market are used as fair value:
– Prices on the closing date
– Prices shortly before the closing date to be adjusted to the extent that the economic data have changed materially since the date the price was determined.

If there is no active market, the fair value is derived using valuation methods:
- The latest transactions between knowledgeable, willing parties in an arm's length transaction for an identical financial instrument are used
- The amount is compared with the current fair value of a different, essentially identical financial instrument
- Valuation models are used (such as discounting of expected cash flows, option price models or other valuation models normally used by market players to value these financial instruments) as far as possible taking into account normal market valuation parameters. In exceptional cases, where price-related factors cannot be included as separate parameters in the model, these factors are taken into account by using a model reserve.

For the first time, the risk of a counterparty defaulting on derivatives is covered by counterparty valuation adjustments (CVAs).

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

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

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

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

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

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

Hedge accounting
Hedges between financial instruments are recognised in accordance with the forms of the fair value hedge described in IAS 39. In 2008 and 2009, HVB Group changed the previously applied macro cash flow hedge accounting to the fair value hedge similarly permitted by IAS 39 for interest-rate risks at portfolio level in large areas of asset/liability interest-rate risk management. This is described additionally below alongside the principles covering general fair value hedges.

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

Accounting and Valuation (Continued)

Starting in 2009, we have applied fair value hedge accounting for credit risks (micro fair value hedge). The purpose of hedge accounting for credit risks is to reduce the volatility in the income statement. This is done by including existing hedges in hedge accounting. Otherwise existing inconsistencies upon valuation (accounting mismatch) are corrected by hedge accounting.

As part of hedge accounting for credit risks, in accordance with IAS 39.86 (a) the credit-induced changes in the fair value of selected hedged items such as loans and receivables with customers and irrevocable credit commitments (off-balance-sheet fixed commitments) and the full-induced changes in the fair value of the hedging instrument (credit default swap, CDS) are offset. Remaining-term effects need to be adjusted in this context.

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

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

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

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

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

If the hedge is terminated prior to the hedging instrument maturing, this derivative is assigned to the held-for-trading portfolio at fair value and continues to be recognised at fair value under net trading income in the income.

In accordance with IAS 39, we apply the fair value hedge accounting for a portfolio hedge of interest rate risk for the accounting treatment of interest rate risk in asset/liability interest rate risk management. Recognising a fair value hedge for a portfolio of interest-bearing financial assets and liabilities using interest rate derivatives makes it possible to largely reflect the standard bank risk management procedures for the hedging of fixed interest rate risks in the accounts.

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

The cash flow hedge reserve existing at the changeover date and the offsetting clean fair values of the existing cash flow hedge derivatives are amortised over the remaining term of the hedging derivatives in net interest income. This means that the amortisation of the cash flow hedge reserve will have no overall impact on profit or loss in the future until they are fully amortised. The changes in value of the same hedged items and hedging derivatives, together with all new contracts arising after the changeover date, are treated in accordance with the new fair value hedge portfolio model.

CAIB, which was initially consolidated in 2010, employed a cash flow hedge to hedge the risk arising from volatile cash flows. This approach was retained for a limited period until the technical aspects of integrating CAIB's holdings into HVB had also been completed, meaning that CAIB did not exist any more as a separate entity and no longer carried out its own risk management. The cash flow hedge was terminated in line with the migration, with the cash flow hedge reserve or the clean fair values of the existing hedge being amortised as described above. Thus, HVB Group employed a cash flow hedge for a transitional period lasting from the initial consolidation of CAIB at 1 June 2010 to the end of the third quarter.

The cash flow hedge was employed to hedge the risk arising from volatile cash flows resulting from a recognised asset, recognised liability or planned transaction to be taken to the income statement. We have employed derivatives in cash flow hedge accounting to hedge future streams of interest payments. In this context, payments arising from variable-interest assets and liabilities have been swapped for fixed payments primarily using interest rate swaps. Hedging instruments were measured at fair value. The valuation result was divided into an effective and an ineffective portion. The effective portion of the hedging instruments was recognised in a separate item within shareholders' equity (hedge reserve) without affecting reported profit or loss. The ineffective portion of the hedging derivatives was recognised directly in profit and loss. The hedged item was recognised at amortised cost.

At the same time, HVB has also employed a fair value hedge for a portfolio of interest rate risks since 2007 for a limited portfolio of liabilities outside of asset/liability interest rate management.

8 Assets held for trading purposes
This item includes securities held for trading purposes and positive market values of traded derivatives. All other derivatives not classified as hedging derivatives (which are shown separately in the balance sheet) are similarly considered held for trading. Provided they are held for trading purposes, promissory notes, registered bonds and treasury bills are carried as other financial assets held for trading.

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

9 Financial assets at fair value through profit or loss
HVB Group mainly applies the fair value option for financial assets with economic hedges for which hedge accounting is not applied. The designation removes or significantly reduces differences resulting from an accounting mismatch. The portfolio mostly comprises interest-bearing securities not held for trading that are hedged against interest rate risks by means of interest rate swaps. In the case of promissory note receivables similarly included here, there is no material fair value change in terms of the credit risk on account of the top rating of the issuers. Changes in fair value of the hedged items and the associated derivatives are shown separately in net trading income; current interest income/expenses are recognised in net interest income. The Bank decided in 2010 to make more use of this category and expanded the holding by making additional purchases. Given a fundamental intention to hold to maturity, the new investments were made primarily with a view to being able to sell the holdings again quickly if necessary (liquidity reserve). Alongside an accounting mismatch as the main grounds for designation, the designation for a specific, smaller portfolio is based on fair value-based risk management.

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

Interest-bearing securities are accrued in accordance with the effective interest method. Should the estimated cash inflows and outflows underlying the calculation of the effective interest change, the effects are recognised in the income statement as interest income compliant with IAS 39 AG 8.

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

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

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

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

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

The same method is applied for held-to-maturity investments.

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

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

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

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

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

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

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

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

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

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

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

15 Property, plant and equipment

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

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

Accounting and Valuation (Continued)

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

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

Government grants for items of property, plant and equipment (IAS 20.24) are deducted from the acquisition or production cost of the underlying assets on the assets side of the balance sheet.

16 Lease operations

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

<u>HVB Group as lessor</u>

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

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

<u>HVB Group as lessee</u>

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

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

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

17 Investment property

Compliant with IAS 40.30 in conjunction with IAS 40.56, as of 2010 land and buildings held by us as investments with a view to generating rental income and/or capital gains are carried at amortised cost and written down on a straight-line basis over a useful economic life of 25 to 50 years.

Current expenses and rental income from investment properties is disclosed in net other expenses/income. Scheduled depreciation on such investments carried at amortised cost is included in operating expenses, whereas impairments are recognised in net income from investments.

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

19 Non-current assets or disposal groups held for sale
Under IFRS 5, non-current assets or disposal groups held for sale are carried at the lower of the carrying amount or fair value less costs to sell at the balance sheet date. Following reclassification, the non-current assets or disposal groups held for sale are carried at fair value (less costs to sell) but at an amount no more than their amortised cost.

20 Liabilities
Deposits from banks and customers, and debt securities in issue that are not hedged items of an effective micro fair value hedge are reported at amortised cost. Upon initial recognition, they are disclosed at their fair value including any transaction costs.

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

Financial liabilities held for trading are carried at fair value. Gains and losses arising from the valuation and realisation of financial liabilities held for trading are taken to the income statement as net trading income. We act as market maker for the structured products we issue.

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

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

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

Accounting and Valuation (Continued)

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

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

HVB Group exercises the option for recognising actuarial gains or losses in shareholders' equity (other comprehensive income) outside the profit or loss for the period permitted in IAS 19.93A.

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

25 Foreign currency translation

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

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

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

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

26 Income tax for the period

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

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

Segment Reporting

27 Notes to segment reporting by division
In segment reporting, the market-related activities of HVB Group are divided into the following globally active divisions: Corporate & Investment Banking, Retail, and Private Banking.

Also shown is the Other/consolidation segment that covers Global Banking Services (GBS) and Group Corporate Centre activities and the effects of consolidation.

Changes in segment allocation

In the second quarter of 2010, we launched our One for Clients programme (One4C), which required the resegmentation of affluent private customers as well as small and medium-sized companies. The overall goal of this programme is the consistent alignment of the Bank with a sustainable customer business model, using it to achieve even closer and more targeted relationship management for our customers. In a first phase, customers with free assets of at least €500,000 were moved from the Retail division to the Private Banking division, and customers with assets of less than €500,000 transferred from the Private Banking division to the Retail division in the second quarter of 2010. This reorganisation resulted in an overall shift in customers from the Retail division to the Private Banking division.

In addition to this transfer of customers between divisions under One4C, other smaller reorganisations took place in 2010, particularly regarding operating costs. The previous year's figures and those of the previous quarters have been adjusted accordingly to reflect changes in the segment allocations described above.

A further phase of One4C, involving the transfer of small and medium-sized companies with revenues of up to €50 million from the Corporate & Investment Banking division, commenced at the start of 2011 as planned. To coincide with the expansion of the customer base, the Retail division was renamed Family & SME at the start of 2011. This resegmentation is not included in the segment figures shown in this annual report.

Method of segment reporting

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

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

Segment Reporting (Continued)

The total revenues shown in the segments, such as net fees and commissions and net trading profit, are based almost exclusively on transactions involving external customers. Net interest income is assigned to the segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses. For this reason, a separate presentation broken down by external/internal revenues (total revenues) has not been included. The equity capital allocation used to calculate the return on investment on companies assigned to several divisions is based on a uniform core capital allocation for each division. Pursuant to Basel II, this involves allocating 6.7% of core capital from risk-weighted assets to the divisions. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. The percentage used to assess the equity capital allocated to the companies assigned to several divisions (HVB, UniCredit Luxembourg) equals the 6-year average of the 5-year euro swap rate plus a premium in the amount of the 6-year average of the 5-year UniCredit S.p.A. spread. This rate is set for one year in advance as part of each budgeting process. The percentage changed from 4.30% in 2009, to 4.09% for the 2010 financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

The income of €6 million from investments in associated companies relates to UniCredit Global Information Services Società Consortile per Azioni (UGIS), a company accounted for using the equity method, and is assigned to the Other/consolidation segment. The amount involved is disclosed under net interest income in the income statement. The carrying amount of this company accounted for using the equity method is €94 million.

Operating costs, which contain payroll costs, other administrative expenses, amortisation, depreciation and impairment losses on tangible and other intangible assets (without goodwill), are allocated to the appropriate division according to causation. Global Banking Services and the Group Corporate Centre are treated as external service providers, charging the divisions for their services at a price which covers their costs. The method of calculating the costs of general banking services involves employing a weighted allocation key (costs, income, FTEs, base amount) in the budgeting process for each segment to determine the assigned costs that cannot be allocated directly. The vast majority of the depreciation and impairment losses taken on property, plant and equipment is posted by the Other/consolidation segment via the real estate companies of HVB Group included in the Global Banking Services activities.

Components of the segments of HVB Group

Corporate & Investment Banking division
The Corporate & Investment Banking division (CIB) serves around 78,000 corporate customers through its domestic and international distribution network. The division’s structure is based on four separate product units: Financing & Advisory (F&A), Global Transaction Banking (GTB), Markets and Leasing. This is the response to a hard-fought market in which the revenue pool has contracted, investment banking products are more closely geared to customer needs and the customer relationship is becoming the key factor. In this context, we are targeting sustained, risk-optimised growth.

Key to our success is our ability to evolve from delivering products to our customers (through lending, payments, foreign trade or derivatives) to providing strategic, transaction-oriented activities, solutions and products. We cover all the corporate banking needs of our customers, including in areas like restructuring, growth and internationalisation. As part of a leading European corporate and investment bank, we serve our customers in Europe and all the world’s key financial centres. A large proportion of our SME customers are expanding into international sales markets.

Our customer segmentation criteria are based on different demand structures and processing standards. Consequently, we differentiate between the following service models: Small Corporates, Mid Corporates, Large Corporates, Multinationals, Public Sector, Real Estate and Financial Institutions Group.

The **Financing & Advisory** product group (F&A) combines financing and advisory expertise. The broad range of structured transactions in financing activities includes advising the customer on corporate strategy and M&As, acquisition and project finance, more complex transactions, syndications and subordinated capital. Hamburg-based Global Shipping is a further specialist unit providing finance for traditional commercial shipping activities.

Global Transaction Banking (GTB) pools our competencies in e-business, cash management and foreign trade financing.

The **Markets** product unit focuses on the oversight of IPOs and capital increases, the syndication of equities, bond products and structured products. The Markets unit essentially comprises Equity Capital Markets, which is responsible for equity products and structured products based on equities, and Debt Equity Markets, which is responsible for debt instruments such as corporate bonds, Pfandbriefs and debentures, and the associated risk transfer. Corporate Treasury Sales offers professional financial risk management involving a wide range of advisory services and products covering all possible ways of hedging entrepreneurial risks, such as liquidity management (including asset management, deposits and investments), foreign exchange and innovative derivatives.

Hamburg-based UniCredit Leasing is a wholly owned subsidiary of UniCredit Bank AG that is one of the leading manufacturer-neutral leasing companies for classical mobile assets. **Leasing** is operated as a separate product unit within the division.

The net income from several subsidiaries and participating interests is included in the division's results. Among others, these include UniCredit Leasing Finance GmbH, HVB Capital Asia Ltd., HVB Capital Partners AG. UniCredit Luxembourg S.A. is assigned to several HVB Group divisions. It handles the settlement, administration and securitisation of national and international loans for the group and is responsible for interest management as the funding unit for the corporate group on the money market.

Our customers in Germany include companies with revenues in excess of €3 million, the public sector, real estate players and institutionals. The business model will be refined at the start of 2011 as part of the group-wide One4C programme, with the Corporate & Investment Banking division (CIB) focusing on customers with revenues in excess of €50 million. Companies with revenues of less than €50 million will then be served by the new Family & SME division (F&SME).

Retail division

In the 2010 financial year, we started to implement our group-wide One4C programme, which made it necessary to resegment wealthy private customers and small and medium-sized enterprises. All in all, this programme is designed to consistently align the Bank with a sustainable customer business model. This will enable us to provide even closer and more targeted relationship management for our customers and combine regional proximity with international competence as a cornerstone of UniCredit.

As part of this programme, private customers with free assets of at least €500,000 moved from the Retail division to the Private Banking division in the second quarter of 2010, while customers with assets of less than €500,000 were transferred from the Private Banking division to the Retail division.

Our customers were divided into three strategic target groups in 2010: mass market, affluents and business customers. In order to increase customer loyalty, these three target groups were served with different service models that reflect their individual needs. Our main aim in the mass market target group is to increase product penetration by providing demand-based advice and expanding online banking. We are also looking to secure further growth in the target groups of affluents and business customers. To do so, we are continuing to invest in systematic customer contact, constantly refining both our needs-based approach and our products.

Segment Reporting (Continued)

Among other things in our **mass market operations,** we looked to expand our lending activities. This included making the terms of our consumer loans more attractive for customers as part of a "price offensive" and carrying out several sales promotions. The high quality of the multi-award-winning advice we provide was spotlighted. In addition, the distribution of consumer loans over the internet was revived in cooperation with UniCredit Family Financing Bank S.p.A. and attractive income-based pricing introduced.

Furthermore, we paid particular attention to increase product penetration in our customer portfolio. Our cross-selling activities are built around our high quality, all-round, demand-oriented advice that puts the focus on the needs of our customers in their specific life situations. This enabled us to considerably increase sales of pension and savings-and-loan products in our mass market operations, which was assisted by the intensified relations with our new cooperation partner, Wüstenrot.

The main focus among **affluent customers** in 2010 was on our asset management offering, HVB VermögensDepot privat. This product meets the needs of our customers particularly well as it combines our Bank's expertise in the field of asset allocation with the transparency of exchange-traded funds (ETFs) and regular performance measurement. Furthermore, in cooperation with Pioneer Investments and the Corporate & Investment Banking division we rolled out a series of guarantee products that have enjoyed a constant rise in sales volumes, most notably in the case of funds that invest in emerging markets. The greater focus on the bancassurance approach led to the desired effect. After the majority of our training offensive for affluent customer account managers had been successfully completed and our range of insurance products had been optimised, a year-on-year increase of more than 20% was achieved across our insurance activities.

In addition, a number of processes were optimised, making it possible for our affluent customer account managers to better identify the needs of our customers and find bespoke financial solutions.

With the economic recovery picking up speed, the provision of liquidity and investment loans to our **business customers** was a key issue, especially in the second half of 2010. From the first quarter to the third quarter, we offered our customers HVB InvestKredit, an attractive loan with an interest rate of 4.99%. Furthermore, we provided our account managers with further training in the use of state-subsidised special credit programmes in order to identify the best possible loan for our customers. All in all, we extended more loans to our customers than in 2009, with growth in lease finance touching an impressive 50%. In 2011, we aim to support our customers as they seek to expand and acquire further new customers.

A further important topic in 2010 was the refinement of our account/payments services with a view to acquiring new customers. We continued our "HVB Konto4Business" campaign. The HVB Konto4Business is an attractive business account featuring value-added services provided in conjunction with Deutsche Post and Creditreform, the purpose of which in part is for us to become the main bank for the personal needs of our business customers. This initiative has helped us acquire more than 1,000 private accounts. Net new customers increased by 10% compared with 2009.

In addition, we refined our target group concept for healthcare professionals, consultants and farmers in 2010. In November we published a report on trends in healthcare that provides an insight into the future development of this ever more important sector.

We manage our **real estate financing activities** across all target groups. We have continued to provide our mass-market, affluent and business customers with plenty of capital to finance property investments. Besides obtaining loans from us directly, our customers could use the full product range of the market from our 40 partner banks. Refocusing sales efforts on real estate finance as an anchor product generating sustainable earnings for the Bank made it possible to increase the volume of new business compared with last year. This was assisted by our positioning as a provider of all-round property services offering multi-award-winning advice. We reinforced our new business activities with an innovative sales campaign.

As part of One4C, **SMEs** (with revenues of up to €50 million) were transferred from the Corporate & Investment Banking division at the start of 2011 as planned. To coincide with the expansion of the customer base, the Retail division was renamed Family & SME at the start of 2011. This gives rise to a unique service model within HVB for private customers and small and medium-sized enterprises, benefiting from one of the largest networks in Europe.

Private Banking division

The Private Banking division (formerly known as Wealth Management) has set itself the goal of optimally meeting the specific expectations of wealthy customers with regard to a bank and the services it offers. The division serves customers with an aggregate investment volume of €42.5 billion. Private Banking is divided into three subdivisions:

HVB Private Banking (PB)

This unit serves some 43,900 HVB customers with assets under management of €23 billion. Our 500 or so employees offer individual, personal advice at 43 locations throughout Germany. Since the group-wide One4C programme was implemented in the second quarter of 2010, Private Banking has offered all-round, bespoke advice to customers and customer groups with liquid assets of more than €0.5 million; the Family Office serves family groups with complex assets of more than €30 million.

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

Wealth Management Capital Holding (WMC)

WMC structures and issues sophisticated investment products that are tailored exclusively and perfectly to the Private Banking customer group. It is one of the biggest initiators of closed-ended funds in Germany. Around 142,300 customers are served by some 250 employees in this unit.

UniCredit Luxembourg S.A.

UniCredit Luxembourg S.A. gives customers of HVB Group access to the financial centre of Luxembourg. Together with HVB's Private Banking division, UniCredit Luxembourg has devised solutions that enable its customers to benefit from the advantageous underlying conditions offered by Luxembourg as a financial centre. The Private Banking unit based in Luxembourg provides specialised portfolio solutions for 11,000 customers with an investment volume of €12.3 billion and employs 81 people. In September 2010, UniCredit Luxembourg S.A. and DZ Privatbank S.A. reached agreement to sell parts of the private banking activities of UniCredit Luxembourg S.A. to DZ Privatbank. Since the sale of this unit took effect on 31 December 2010, UniCredit Luxembourg S.A. has focused its private banking activities in Luxembourg on serving especially wealthy customers and offering specialist services for the corporate group in areas like the asset management of life insurance policies.

Other/consolidation segment

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

Global Banking Services activities encompass purchasing, organisation, logistics and facility management, cost management and back-office functions for credit, accounts, foreign exchange, money market and derivatives. Payments, securities settlement, IT application development and IT operation have been outsourced. The Special Credit Portfolio (SCP) is also included.

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

Segment Reporting (Continued)

28 Income statement broken down by division

(€ millions)

	CORPORATE & INVESTMENT BANKING	RETAIL	PRIVATE BANKING	OTHER/ CONSOLIDATION	HVB GROUP
TOTAL REVENUES					
2010	4,316	1,351	289	602	6,558
2009	4,683	1,425	306	516	6,930
Operating costs					
2010	(1,770)	(1,303)	(168)	(192)	(3,433)
2009	(1,716)	(1,363)	(173)	(210)	(3,462)
OPERATING PROFIT					
2010	2,546	48	121	410	3,125
2009	2,967	62	133	306	3,468
Restructuring costs					
2010	3	—	(22)	(18)	(37)
2009	(87)	(63)	(3)	(17)	(170)
Net write-downs of loans					
and provisions for guarantees					
and commitments					
2010	(556)	(18)	(2)	(56)	(632)
2009	(1,536)	(63)	4	(6)	(1,601)
Net income from					
investments and other items[1]					
2010	(493)	3	26	(110)	(574)
2009	(413)	(7)	(9)	(2)	(431)
PROFIT/(LOSS) BEFORE TAX					
2010	1,500	33	123	226	1,882
2009	931	(71)	125	281	1,266

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

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

INCOME/EXPENSES	2010	2009	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Net interest income	**3,000**	**3,237**	**827**	**703**	**773**	**697**
Net fees and commissions	608	516	169	133	123	183
Net trading income	660	927	16	242	29	373
Net other expenses/income	48	3	(9)	10	20	27
Net non-interest income	**1,316**	**1,446**	**176**	**385**	**172**	**583**
TOTAL REVENUES	**4,316**	**4,683**	**1,003**	**1,088**	**945**	**1,280**
Payroll costs	(702)	(694)	(125)	(180)	(212)	(185)
Other administrative expenses	(1,044)	(1,012)	(266)	(264)	(269)	(245)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(24)	(10)	(7)	(6)	(6)	(5)
Operating costs	**(1,770)**	**(1,716)**	**(398)**	**(450)**	**(487)**	**(435)**
OPERATING PROFIT	**2,546**	**2,967**	**605**	**638**	**458**	**845**
Restructuring costs	3	(87)	3	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(556)	(1,536)	18	(162)	(68)	(344)
Net income from investments and other items[1]	(493)	(413)	(533)	(2)	12	30
PROFIT BEFORE TAX	**1,500**	**931**	**93**	**474**	**402**	**531**
Cost-income ratio in %	41.0	36.6	39.7	41.4	51.5	34.0

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

Development of the Corporate & Investment Banking division
In the year under review, the Corporate & Investment Banking division recorded a very good profit before tax of €1,500 million, which is a significant increase of €569 million compared with last year (€931 million).

Net interest income decreased by €237 million, to €3,000 million (down 7.3%) compared with the previous year. With lending business remaining largely stable, this development can be attributed primarily to lower trading-related interest income together with a decline in income from reclassified assets compliant with IAS 39. Furthermore, net interest income fell in deposit-taking activities, despite an increase in volumes, on account of lower margins caused by the development in interest rates. However, the dividends included in net interest income increased mainly on account of higher dividends paid by private equity funds.

Net fees and commissions improved, increasing by €92 million, or 17.8%, which can be mainly attributed to the pleasing development in the area of project and structured finance coupled with lower expenses for securitisation transactions. In the year under review the division reported net trading income of €660 million. This figure does not match the contribution to profits of €927 million generated in 2009, which was supported by the strong recovery of the overall market at that time. In particular, the Rates (interest-related products), Equities (share and index products) and Capital Markets units contributed to this performance in the year under review. In addition, this result was improved by holdings assigned to the fair value option, which were still under considerable pressure last year due to widening spreads caused by the market conditions.

Operating costs rose year-on-year by a total of €54 million, or 3.1%. At 41.0%, the cost-income ratio is still at a good level (2009: 36.6%).

The year under review was concluded with much lower net write-downs of loans and provisions for guarantees and commitments compared with 2009. The positive development of risks (€980 million less in impairments) made a significant contribution to the overall increase in net income. At the same time, the provisions for risks and charges and net income from investments increased. In 2010, this item essentially included expenses arising from an obligation in connection with the completion of an offshore wind farm. The 2009 total included high valuation expenses for private equity funds and direct and co-investments. Overall the division was able to record a very good profit before tax of €1,500 million and thus exceed last year's figure (€931 million) by more than 60%.

Segment Reporting (Continued)

Income statement of the Retail division (€ millions)

INCOME/EXPENSES	2010	2009	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Net interest income	**841**	**938**	**217**	**211**	**205**	**208**
Net fees and commissions	509	492	126	112	135	136
Net trading income	14	10	6	1	3	4
Net other expenses/income	(13)	(15)	(5)	(3)	(4)	(1)
Net non-interest income	**510**	**487**	**127**	**110**	**134**	**139**
TOTAL REVENUES	**1,351**	**1,425**	**344**	**321**	**339**	**347**
Payroll costs	(526)	(557)	(133)	(134)	(125)	(134)
Other administrative expenses	(761)	(793)	(198)	(182)	(191)	(190)
Amortisation, depreciation and impairment losses						
on intangible and tangible assets	(16)	(13)	(7)	(3)	(3)	(3)
Operating costs	**(1,303)**	**(1,363)**	**(338)**	**(319)**	**(319)**	**(327)**
OPERATING PROFIT	**48**	**62**	**6**	**2**	**20**	**20**
Restructuring costs	—	(63)	—	—	—	—
Net write-downs of loans and provisions						
for guarantees and commitments	(18)	(63)	16	5	(27)	(12)
Net income from investments and other items[1]	3	(7)	(2)	—	4	1
PROFIT/(LOSS) BEFORE TAX	**33**	**(71)**	**20**	**7**	**(3)**	**9**
Cost-income ratio in %	96.4	95.6	98.3	99.4	94.1	94.2

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

Development of the Retail division

In the first phase of implementing our One4C initiative, customers were transferred between the Retail and Private Banking divisions in 2010. Customers with free assets of at least €500,000 were moved from the Retail division to the Private Banking division, and customers with assets of less than €500,000 were moved from the Private Banking division to the Retail division. This reorganisation resulted in an overall shift in customers from the Retail division to the Private Banking division and, with it, a disproportionate transfer of total revenues. Figures from the previous year and previous quarters have been adjusted accordingly.

In the 2010 financial year the total revenues of the Retail division fell by around 5% compared with the previous year. This decline is primarily attributable to the decrease in net interest income by around 10%, to €841 million. This is essentially due to lower interest margins in deposit-taking activities which, despite an increase in volumes, resulted in a decline in net interest income in the deposit-taking business. In addition, there was a decrease in net interest income on the lending side as a result of falling volumes, whereby a significant rise in new real estate financing business (up 21%) partially offset the decrease in volumes. Furthermore, net interest income declined due to the deconsolidation of Vereinsbank Victoria Bausparkasse in the second half of 2009. In contrast, net fees and commissions developed pleasingly, increasing by 3.5%, to €509 million. This rise was mainly a result of better year-on-year securities operations, which improved particularly in the area of assets under management. In addition, the division has benefited from the successful sales of pension products and the increased distribution of savings-and-loan products. The cooperations with ERGO and Wüstenrot Bausparkasse AG contributed to this success.

The decline in total revenues was partially offset by applying consistent cost management to achieve savings in operating costs (down 4.4%). In the process, payroll costs fell by 5.6% in particular due to a reduction in headcount. In addition, other administrative expenses decreased by 4.0%.

The sharp decline in net write-downs of loans and provisions for guarantees and commitments of around 71.4%, to €18 million, coupled with the non-recurring restructuring costs included last year led to an improvement in the now positive profit before tax of €33 million (2009: a loss of €71 million).

As the second phase of One4C, the transfer of medium-sized corporate customers (with revenues up to €50 million) from the Corporate & Investment Banking division was carried out as planned at the start of 2011 and not in the 2010 financial year, the net income for 2010 does not yet fully reflect the profitability of the division.

Income statement of the Private Banking division (€ millions)

INCOME/EXPENSES	2010	2009	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Net interest income	**109**	**119**	**34**	**26**	**25**	**24**
Net fees and commissions	179	179	41	39	48	51
Net trading income	—	—	—	—	—	—
Net other expenses/income	1	8	—	2	(1)	—
Net non-interest income	**180**	**187**	**41**	**41**	**47**	**51**
TOTAL REVENUES	**289**	**306**	**75**	**67**	**72**	**75**
Payroll costs	(75)	(72)	(18)	(19)	(19)	(19)
Other administrative expenses	(91)	(100)	(21)	(23)	(23)	(24)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(2)	(1)	(1)	—	(1)	—
Operating costs	**(168)**	**(173)**	**(40)**	**(42)**	**(43)**	**(43)**
OPERATING PROFIT	**121**	**133**	**35**	**25**	**29**	**32**
Restructuring costs	(22)	(3)	(22)	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(2)	4	—	(1)	—	(1)
Net income from investments and other items[1]	26	(9)	28	(2)	—	—
PROFIT BEFORE TAX	**123**	**125**	**41**	**22**	**29**	**31**
Cost-income ratio in %	58.1	56.5	53.3	62.7	59.7	57.3

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

Development of the Private Banking division
The Private Banking division generated a profit before tax of €123 million in the 2010 financial year and thus almost equalled last year's figure (€125 million).

There was a 5.6% decline in total revenues, primarily on account of lower net interest income. Net interest income fell by €10 million to €109 million largely as a result of falling interest margins but also because of a decline in the average volume in the deposit-taking business.

The cost-income ratio rose by 1.6 percentage points to 58.1% in 2010 due to the reduction in total revenues. This was partly offset by the development in operating costs, where a 2.9% reduction was achieved by implementing cost-cutting measures.

In non-operating profit, restructuring costs of €22 million incurred in connection with the sale of parts of the private banking business of UniCredit Luxembourg S.A. were more than compensated by the resulting gain on disposal of €27 million reported under net income from investments.

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

INCOME/EXPENSES	2010	2009	Q4 2010	Q3 2010	Q2 2010	Q1 2010
TOTAL REVENUES	**602**	**516**	**139**	**170**	**92**	**201**
Operating costs	**(192)**	**(210)**	**(44)**	**(51)**	**(43)**	**(54)**
OPERATING PROFIT	**410**	**306**	**95**	**119**	**49**	**147**
Restructuring costs	(18)	(17)	(18)	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(56)	(6)	(2)	3	(42)	(15)
Net income from investments and other items[1]	(110)	(2)	(33)	(35)	(33)	(9)
PROFIT/(LOSS) BEFORE TAX	**226**	**281**	**42**	**87**	**(26)**	**123**

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

Segment Reporting (Continued)

Development of the Other/consolidation segment
In the year under review, the total revenues of this segment increased by €86 million, to €602 million, compared with the €516 million in the previous year. Within this total, there was a significant increase particularly in net interest income and net other expenses/income whereas net trading income decreased.

With operating costs declining by €18 million, the operating profit significantly improved by €104 million, to €410 million (2009: €306 million) on account of higher earnings.

It was necessary to add €56 million (2009: €6 million) to net write-downs of loans and provisions for guarantees and commitments in the year under review. The loss of €110 million in net income from investments and other items (2009: a loss of €2 million) arose in the year under review primarily as a result of higher impairments taken on investment properties. The profit before tax declined by €55 million, to €226 million (2009: €281 million), in the 2010 financial year.

29 Balance sheet figures, broken down by division

(€ millions)

	CORPORATE & INVESTMENT BANKING	RETAIL	PRIVATE BANKING	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables with banks					
2010	45,426	660	26	220	**46,332**
2009	41,009	721	7	1,517	**43,254**
Loans and receivables with customers					
2010	98,641	31,788	4,673	4,249	**139,351**
2009	102,173	34,091	4,570	5,085	**145,919**
Goodwill					
2010	419	5	—	—	**424**
2009	419	5	—	—	**424**
Deposits from banks					
2010	45,126	2,517	226	4,018	**51,887**
2009	43,834	2,447	221	4,202	**50,704**
Deposits from customers					
2010	63,957	29,828	8,011	6,698	**108,494**
2009	49,509	29,840	10,103	7,038	**96,490**
Debt securities in issue					
2010	7,439	193	139	40,905	**48,676**
2009	15,090	394	194	45,608	**61,286**
Risk-weighted assets compliant with Basel II					
(including equivalents for market risk and					
operational risk)					
2010	105,313	10,133	1,690	7,335	**124,471**
2009	95,898	9,348	1,486	8,370	**115,102**

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

30 Employees, broken down by operating and service division[1]

	2010	2009
Corporate & Investment Banking	4,496	4,594
Retail	7,611	7,404
Private Banking	777	758
Global Banking Services	1,937	1,734
Group Corporate Centre	4,325	4,384
Total	**19,146**	**18,874**

1 in full-time equivalents

The total number of HVB Group employees (shown as full-time equivalents) at 31 December 2010 was 272 more than at year-end 2009. This change is attributable primarily to the initial consolidation of subsidiaries at year-end 2010. Adjusted for the effects of consolidation, the total declined by 790, with the number of employees falling in the divisions with the exception of Private Banking.

31 Segment reporting by region

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

Income statement, broken down by region (€ millions)

	GERMANY	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP
TOTAL REVENUES						
2010	5,133	1,822	162	33	(592)	6,558
2009[1]	5,681	1,685	287	118	(841)	6,930
OPERATING PROFIT/(LOSS)						
2010	2,064	1,178	81	24	(222)	3,125
2009[1]	2,233	1,353	198	46	(362)	3,468

1 definition of total revenues and operating profit/(loss) in the regions adjusted in 2009

Total assets, broken down by region (€ millions)

	2010	2009
Germany	305,009	290,892
Rest of Europe	129,932	139,386
Americas	12,041	11,273
Asia	5,310	4,988
Consolidation	(80,383)	(83,119)
Total	**371,909**	**363,420**

Employees, broken down by region[1]

	2010	2009
Germany	17,119	17,020
Rest of Europe	1,590	1,356
Africa	3	2
Americas	218	237
Asia	216	259
Total	**19,146**	**18,874**

1 in full-time equivalents

Notes to the Income Statement

32 Net interest income

(€ millions)

	2010	2009
Interest income from		
lending and money market transactions	5,996	7,563
other interest income	2,704	3,496
Interest expense from		
deposits	(1,273)	(2,174)
debt securities in issue and other interest expenses	(3,327)	(4,409)
Net interest	**4,100**	**4,476**
Dividends and other income from equity investments		
Dividends and other similar income	142	45
Companies accounted for using the equity method	6	7
Total	**4,248**	**4,528**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €6,517 million (2009: €8,140 million) and €3,994 million (2009: €5,669 million), respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

33 Net fees and commissions

(€ millions)

	2010	2009
Management, brokerage and consultancy services	732	647
Collection and payment services	180	179
Lending operations	403	352
Other service operations	(3)	9
Total	**1,312**	**1,187**

This item comprises the balance of fee and commission income of €2,154 million (2009: €2,160 million) and fee and commission expense of €842 million (2009: €973 million).

34 Net trading income

(€ millions)

	2010	2009
Net gains on financial assets held for trading[1]	654	1,065
Effects arising from hedge accounting	54	30
Changes in fair value of hedged items	(403)	(428)
Changes in fair value of hedging derivatives	457	458
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	(62)	(73)
Other net trading income	113	52
Total	**759**	**1,074**

1 including dividends from financial assets held for trading
2 also including the valuation results of derivatives concluded to hedge financial assets through fair value at profit or loss (effect in 2010: minus €200 million; 2009: plus €159 million)

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

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

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

35 Net other expenses/income

(€ millions)

	2010	2009
Other income	373	399
Other expenses	(134)	(258)
Total	**239**	**141**

Net other expenses/income totalled €239 million in 2010 (2009: €141 million). The total includes a net gain from income and current expenses from investment properties and from rental income less current expenses from mixed usage buildings (€143 million; 2009: €104 million).

At the same time, there were gains of €18 million (2009: €76 million) on the sale of unimpaired receivables.

The 2009 total included income of €74 million arising from services performed and charged on. Other expenses also included effects of €73 million arising from the revaluation of assets as part of the initial consolidation of Redstone Mortgages Limited, London, and valuation expenses of €43 million accruing in connection with the acquisition of shares in real estate funds.

36 Operating costs

(€ millions)

	2010	2009
Payroll costs	**(1,756)**	**(1,822)**
Wages and salaries	(1,473)	(1,514)
Social security costs	(215)	(211)
Pension and other employee benefit costs	(68)	(97)
Other administrative expenses	**(1,459)**	**(1,418)**
Amortisation, depreciation and impairment losses	**(218)**	**(222)**
on property, plant and equipment	(132)	(116)
on software and other intangible assets, excluding goodwill	(86)	(106)
Total	**(3,433)**	**(3,462)**

The Bank has modified its bonus schemes to reflect the new regulations coming into force with the amended supervisory rules governing bonus payments (Instituts-Vergütungsverordnung). For employees whose activities have a significant influence on the Bank's overall risk, the bonus promised for 2010 is divided into a cash component and an equity component. The cash component is disbursed in stages over a longer period of time. Accordingly, this group of employees receives 20–30% of the bonus in 2011 with a commitment to disburse a further 20–30% after the end of 2012; for the remaining 40–60% of the bonus, at the start of 2011 the eligible employees receive a commitment for the allocation of shares of UniCredit S.p.A. as part of the bonus for 2010 to be transferred to the eligible employees after the end of the 2013 financial year. The payment to the eligible employees deferred until after the end of the 2012 financial year and the allocation of shares after the end of the 2013 financial year are subject to two conditions. First, the employee in question must continue to work at UniCredit until the time of payment or transfer; and second, it must be ensured as part of a bonus-malus arrangement that no loss has been recorded, or no significant decline in the result generated, at either the UniCredit consolidated level or the personal level of the individual eligible employee. The promised equity component is subject to the proviso that the Annual General Meeting of UniCredit S.p.A. formally approves the corresponding volume of shares in April 2011.

In addition, the Bank makes deferred disbursement of bonuses in excess of €150 thousand on a voluntary basis: the amount in excess of €150 thousand will be disbursed in three tranches in 2012, 2013 and 2014. The deferred payment of the bonus is subject to two conditions. First, the employee in question must continue to work at UniCredit until the time of payment or transfer; and second, it must be ensured as part of a bonus-malus arrangement that no loss has been recorded, or no significant decline in the result generated, at either the UniCredit consolidated level or the personal level of the individual eligible employee.

Notes to the Income Statement (Continued)

Bonuses falling due for disbursement in 2011 are recognised in full as expense. Where cash payments are made at a later date, such payments are subject to the condition that the eligible employees remain employed by UniCredit or partly subject to further performance targets. Accordingly, the vesting period for the promised bonus consists of several financial years (target achievement plus waiting period) and is to be deferred over this period compliant with IAS 19.68. Thus, deferred cash disbursements under the bonus promised for 2010 are recognised as expense in the respective period (from the 2010 financial year to the end of the financial year in which the waiting period for the tranche in question ends) on a pro rata basis.

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

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

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

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

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

No new stock options were granted in 2010.

Analysis of outstanding stock options

	2010			2009		
	TOTAL	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY	TOTAL	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY
Outstanding at start of period	**17,586,931[1]**	**4.77[1]**	**August 2018**	**20,833,630**	**4.78**	**August 2018**
Additions						
Newly granted options	—	—	—	974,483[1]	—	—
Releases						
Forfeited stock options	1,596,039	4.98	August 2018	4,221,182	4.87	August 2018
Exercised stock options	—	—	—	—	—	—
Expired stock options	—	—	—	—	—	—
Total at end of period	**15,990,892**	**4.75**	**August 2018**	**17,586,931[1]**	**4.75**	**August 2018**
Exercisable options at end of period	3,131,100	5.37	June 2019	1,780,000	4.82	December 2018

1 figures differ from previous year due to Group transfers

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

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

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

In 2010, no new performance shares were granted with the exception of the shares arising from the capital increase.

Analysis of outstanding performance shares

	2010		2009	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**5,302,700**	**July 2011**	**6,398,643**	**March 2011**
Additions				
Increase in portfolio arising from capital increase from company funds	247,277	July 2011	741,200	February 2011
Newly granted performance shares	—	—	313,233[1]	—
Releases				
Forfeited performance shares	403,441	September 2011	1,141,624	June 2011
Transferred performance shares	186,424	December 2009	102,156	December 2008
Expired performance shares	669,607	December 2009	906,596	December 2008
Total at end of period	**4,290,505**	**November 2011**	**5,302,700[1]**	**July 2011**

1 figures differ from previous year due to Group transfers

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

The expenses for both programmes (stock options and performance shares) totalled €2.7 million at HVB Group in 2010 and will be reimbursed to UniCredit S.p.A. when they fall due.

Employee share ownership plan

An employee share ownership plan has been set up enabling UniCredit employees to purchase UniCredit shares at discounted prices.

Between January 2010 and December 2010, people participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). The plan offers the following advantages compared with buying the shares directly on the market:
– One free share (known as a discount share) for every 20 investment shares purchased under the plan (this represents a discount of 5%; the discount shares were allocated in January 2011);
– One additional free share (known as a matching share) for every five investment and discount shares purchased under the plan (this represents a discount of 21%). The matching shares will be allocated in January 2014 until when they are granted as “rights to matching shares”.

Thus, employees can enjoy an advantage of around 26% of the investment made as a result of the granting of free shares. Added to this is a tax break that exists in Germany for such employee share ownership plans.

The sale of all free shares (discount and matching shares or the right to such shares) is not permitted for a lock-up period of three years, meaning until January 2014. The rights to matching shares generally expire when employees sell investment shares or they cease to be employed by a UniCredit company before the lock-up period ends. In this case, however, discount shares are retained in every instance. It is intended to operate the plan on an annual basis.

Notes to the Income Statement (Continued)

37 Provisions for risks and charges

Provisions for risks and charges amounted to €442 million in the 2010 financial year. The biggest single item is a provision of €425 million for anticipated losses arising from an obligation in connection with the completion of an offshore wind farm. This item also includes provisions for risks and charges relating to litigation risks. A net reversal of provisions relating to property (mainly for rental guarantees and pre-emptive rights) had an offsetting effect.

In 2009, provisions for risks and charges amounted to €151 million. The total included mainly additions to provisions for risks and charges relating to property (for example for rental guarantees) and litigation risks.

38 Restructuring costs

HVB Group recorded restructuring costs of €37 million in the 2010 financial year, mostly in connection with the sale of parts of the private banking activities of UniCredit Luxembourg S.A. (Private Banking division: €22 million). In addition, restructuring expenses of €18 million accrued in the Group Corporate Centre within the Other/consolidation segment.

In 2009, restructuring costs totalled €170 million, resulting mainly from the elimination of positions. Most of the restructuring costs were a result of restructuring activities undertaken as part of the strategic reorientation of the Corporate & Investment Banking division (€87 million). The remaining restructuring costs relate to the Retail (€63 million) and Private Banking (€3 million) divisions and Other/consolidation (€17 million).

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

(€ millions)

	2010	2009
Additions	**(1,594)**	**(2,480)**
Allowances for losses on loans and receivables	(1,485)	(2,368)
Allowances for losses on guarantees and indemnities	(109)	(112)
Releases	**914**	**800**
Allowances for losses on loans and receivables	882	783
Allowances for losses on guarantees and indemnities	32	17
Recoveries from write-offs of loans and receivables	**60**	**77**
Gains on the disposal of impaired loans and receivables	**(12)**	**2**
Total	**(632)**	**(1,601)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €18 million in the year under review. The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €537 million (2009: €1,430 million).

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

(€ millions)

	2010	2009
Non-consolidated affiliated companies	—	—
Joint ventures	—	—
Associated companies	9	—
Other participating interests	97	—
Total	**106**	**—**

40 Net income from investments

(€ millions)

	2010	2009
Available-for-sale financial assets	10	(290)
Shares in affiliated companies	—	32
Companies accounted for using the equity method	—	(12)
Held-to-maturity investments	—	2
Land and buildings	—	13
Investment properties[1]	(169)	(42)
Other	27	17
Total	**(132)**	**(280)**

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

Net income from investments breaks down as follows:

(€ millions)

	2010	2009
Gains on the disposal of	**86**	**194**
available-for-sale financial assets	59	115
shares in affiliated companies	—	47
companies accounted for using the equity method	—	(6)
held-to-maturity investments	—	8
land and buildings	—	13
other	27	17
Write-downs and value adjustments on	**(218)**	**(474)**
available-for-sale financial assets	(49)	(405)
shares in affiliated companies	—	(15)
companies accounted for using the equity method	—	(6)
held-to-maturity investments	—	(6)
investment properties[1]	(169)	(42)
Total	**(132)**	**(280)**

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

In the 2010 financial year, HVB Group recorded a net loss from investments of €132 million, which is mainly attributable to write-downs and value adjustments of €169 million on investment properties.

The sale of parts of the private banking activities of UniCredit Luxembourg S.A. generated a gain on disposal of €27 million, which is shown under other.

The net loss (gains on disposal less write-downs and valuation adjustments) of €12 million on available-for-sale financial instruments in 2010 arises from private equity funds and direct and co-investments. The total comprises gains of €29 million on disposal and write-downs of €41 million.

The aggregate net loss of €280 million from investments in 2009 was primarily attributable to valuation expenses of €328 million from private equity funds and direct and co-investments together with write-downs of €42 million on investment properties.

Notes to the Income Statement (Continued)

The largest single item included in the gains on the disposal of available-for-sale financial assets in 2009 was a gain on the disposal of our holding in ERGO. Among other things, the net income of €32 million from shares in affiliated companies in 2009 included a gain of €46 million on the disposal of our BodeHewitt subsidary and a write-down of €16 million recognised in compliance with IFRS 5 in connection with the sale of Vereinsbank Victoria Bauspar AG in 2009.

41 Income taxes for the period

(€ millions)

	2010	2009
Current taxes	(469)	(398)
Deferred taxes	315	16
Total	**(154)**	**(382)**

The current tax expense for 2010 includes tax expenses of €14 million for previous years. In 2009, this item was reduced by tax income of €41 million for previous years.

The deferred tax income in 2010 comprises net income of €467 million from valuation adjustments on deferred tax assets arising from tax losses carried forward and net expense of €152 million relating to the utilisation of tax losses and the origination, reversal and valuation adjustments of deferred taxes arising from temporary differences.

The deferred tax income in 2009 comprised net income of €32 million from write-ups and write-downs of deferred tax assets as well as net deferred tax expenses of €16 million arising from the origination and utilisation of tax losses and deferred taxes from the origination and reversal of temporary differences.

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

(€ millions)

	2010	2009
Profit before tax	1,882	1,266
Applicable tax rate	15.8%	15.8%
Computed income taxes	(297)	(200)
Tax effects		
arising from previous years and changes in tax rates	(21)	+ 91
arising from foreign income	(127)	(99)
arising from non-taxable income	+ 45	+ 55
arising from different tax laws	+ 95	(140)
arising from non-deductible expenses	(55)	(70)
arising from valuation adjustments and the non-recognition		
of deferred taxes	+ 207	(17)
arising from amortisation of goodwill	—	—
arising from other differences	(1)	(2)
Recognised income taxes	**(154)**	**(382)**

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

The effects arising from tax on foreign income are a result of the different tax rates applicable in other countries.

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

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

(€ millions)

	2010	2009
Deferred tax liabilities		
Loans and receivables with banks and customers, incl. provisions for losses on loans and receivables	62	85
Financial assets/liabilities held for trading	100	102
Investments	155	78
Property, plant and equipment/intangible assets	65	76
Other assets/other liabilities/hedging derivatives	639	555
Deposits from banks/customers	77	87
Other	265	192
Recognised deferred tax liabilities	**1,363**	**1,175**
Deferred tax assets		
Financial assets/liabilities held for trading	390	403
Investments	85	67
Property, plant and equipment/intangible assets	142	75
Provisions	408	296
Other assets/other liabilities/hedging derivatives	699	568
Loans and receivables with banks and customers, incl. provisions for losses on loans and receivables	317	308
Losses carried forward/tax credits	807	524
Other	3	11
Recognised deferred tax assets	**2,851**	**2,252**

German corporations are generally charged a corporate income tax rate of 15.0%, irrespective of any dividend distribution. Deferred taxes are measured for our domestic companies using the uniform corporate income tax rate of 15.8%, including the solidarity surcharge, and the municipal trade tax rate dependent on the applicable municipal trade tax multiplier. At HVB, this resulted in an unchanged overall valuation rate for deferred taxes of 31.4%.

Deferred tax assets of €43 million (2009: €21 million) were credited to the AfS reserve and deferred tax liabilities of €27 million (2009: €91 million) were offset against the hedge reserve. On account of the option set forth in IAS 19.93A, deferred tax assets of €86 million (2009: €101 million) were directly credited to shareholders' equity. In each case, the deferred tax items offset directly against reserves are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for unused tax losses of HVB Group of €4,138 million (2009: €5,814 million), most of which do not expire, unused tax credits of €60 million and deductible temporary differences of €1,578 million (2009: €1,432 million).

The deferred tax assets recognised on tax losses carried forward were calculated using plans of the individual divisions, which are based on segment-specific and general macroeconomic assumptions. The amounts were measured taking into account appropriate valuation discounts. The planning horizon remained unchanged at five years. Measurement was carried out taking into account possible restrictions of local regulations regarding time and the so-called minimum taxation rule for domestic tax losses carried forward. Estimation uncertainties are inherent in the assumptions used in any multi-year plan. Where changes are made to the multi-year plan and the underlying assumptions over the course of time, this may have an impact on the valuation of the volume of deferred tax assets already capitalised or to be capitalised on tax losses carried forward.

42 Earnings per share

	2010	2009
Consolidated profit attributable to shareholder (€ millions)	1,703	819
Average number of shares	802,383,672	802,383,672
Earnings per share (€)	2.12	1.02

Notes to the Consolidated Balance Sheet

43 Cash and cash balances

(€ millions)

	2010	2009
Cash on hand	491	506
Deposits central banks	2,574	5,894
Total	**3,065**	**6,400**

44 Financial assets held for trading

(€ millions)

	2010	2009
Balance-sheet assets		
Fixed-income securities	26,952	33,950
Equity instruments	6,422	6,586
Other financial assets held for trading	11,529	11,772
Positive fair value from derivative financial instruments	**88,486**	**81,081**
Total	**133,389**	**133,389**

The financial assets held for trading include €392 million (2009: €512 million) in subordinated assets.

Financial assets held for trading of related entities

The following table shows the breakdown of financial assets held for trading involving related entities:

(€ millions)

	2010	2009
Non-consolidated affiliated companies	16,765	15,173
Joint ventures	—	—
Associated companies	—	—
Other participating interests	31	299
Total	**16,796**	**15,472**

The largest single item within financial assets held for trading of non-consolidated affiliated companies relates to derivative transactions involving UniCredit and UniCredit Bank Austria AG.

45 Financial assets at fair value through profit or loss

(€ millions)

	2010	2009
Fixed-income securities	24,555	11,266
Equity instruments	—	1
Investment certificates	1	1
Promissory notes	2,075	2,490
Other financial assets at fair value through profit or loss	—	—
Total	**26,631**	**13,758**

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

On account of the prime ratings of the promissory notes, the fair value fluctuations contain no effects from changes in credit ratings.

The financial assets at fair value through profit or loss include €297 million (2009: €274 million) in subordinated assets.

46 Available-for-sale financial assets

(€ millions)

	2010	2009
Fixed-income securities	3,974	2,433
Equity instruments	778	862
Other available-for-sale financial assets	448	475
Impaired assets	715	671
Total	**5,915**	**4,441**

Available-for-sale financial assets include financial instruments of €1,416 million (2009: €1,444 million) valued at cost compliant with IAS 39.46. Within this total, equity instruments with a carrying amount of €20 million were sold during 2010, yielding a gain of €24 million.

The available-for-sale financial assets contain a total of €715 million (2009: €671 million) in impaired assets for which impairments of €61 million (2009: €419 million) were taken to the income statement during the year under review. None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets include €493 million (2009: €257 million) in subordinated assets.

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

(€ millions)

	2010	2009
Associated companies accounted for using the equity method	94	88
of which: goodwill	—	—
Joint ventures accounted for using the equity method	—	—
Total	**94**	**88**

Change in portfolio of shares in associated companies

(€ millions)

2009	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**32**
Additions	**88**
Purchases	—
Write-ups	—
Changes from currency translation	—
Other additions[1]	88
Disposals	**(32)**
Sales	(25)
Impairments	(6)
Changes from currency translation	(1)
Non-current assets or disposal groups held for sale	—
Other disposals[1]	—
Carrying amounts at 31 December	**88**
2010	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**88**
Additions	**6**
Purchases	—
Write-ups	—
Changes from currency translation	—
Other additions[1]	6
Disposals	**—**
Sales	—
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[1]	—
Carrying amounts at 31 December	**94**

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

Notes to the Consolidated Balance Sheet (Continued)

The following tables show the main items in the balance sheets and income statements of the companies accounted for using the equity method:

(€ millions)

	2010	2009
Property, plant and equipment	241	252
Intangible assets	601	475
Other assets	262	240
Total assets	**1,104**	**967**

(€ millions)

	2010	2009
Deposits from banks	194	169
Other liabilities	531	440
Equity	379	358
Total liabilities	**1,104**	**967**

(€ millions)

	2010	2009
Net interest income	2	—
Net other expenses/income	1,412	1,318
Operating costs	(1,377)	(1,270)
Profit before tax	**37**	**48**
Income tax	(14)	(18)
Consolidated profit	**23**	**30**

There were no changes in value at companies accounted for using the equity method arising from other comprehensive income or other equity items.

48 Held-to-maturity investments

(€ millions)

	2010	2009
Fixed-income securities	2,596	2,675
Impaired assets	4	4
Total	**2,600**	**2,679**

Held-to-maturity investments include a total of €4 million (2009: €4 million) in impaired assets. No impairments were taken to the income statement during the year under review. None of the non-impaired debt instruments are financial instruments past due.

The held-to-maturity investments include €15 million (2009: €15 million) in subordinated assets.

The disposals carried out in 2009 were immaterial as a proportion of the item as a whole, meaning that HVB Group complied with the tainting rules defined in IAS 39 AG22.

Development of held-to-maturity investments (€ millions)

	2010	2009
Balance at 1 January	**2,679**	**6,020**
Additions		
Purchases	—	18
Write-ups	—	—
Other additions	19	—
Disposals		
Sales	—	(95)
Redemptions at maturity	(98)	(3,200)
Write-downs	—	(7)
Other disposals	—	(57)
Balance at 31 December	**2,600**	**2,679**

Held-to-maturity investments of related entities

The following table shows the breakdown of held-to-maturity investments involving related entities: (€ millions)

	2010	2009
Non-consolidated affiliated companies	2,105	2,104
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**2,105**	**2,104**

This item relates exclusively to a security issued by UniCredit.

49 Loans and receivables with banks

(€ millions)

	2010	2009
Current accounts and demand deposits	16,222	14,887
Repos[1]	12,343	10,265
Reclassified securities	4,983	8,349
Other loans to banks	12,784	9,753
Total	**46,332**	**43,254**

1 repurchase agreements

The loans and receivables with banks included €784 million (2009: €862 million) in subordinated assets at 31 December 2010.

Loans and receivables with related entities

The following table shows the breakdown of loans and receivables with banks involving related entities: (€ millions)

	2010	2009
Non-consolidated affiliated companies	11,006	4,568
Joint ventures	—	—
Associated companies	—	—
Other participating interests	182	50
Total	**11,188**	**4,618**

Notes to the Consolidated Balance Sheet (Continued)

The largest single item within loans and receivables from non-consolidated affiliated companies relates to loans and receivables with UniCredit and UniCredit Bank Austria AG.

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

(€ millions)

	2010	2009
Properly serviced loans and receivables		
Carrying amount before allowances	46,206	42,884
Portfolio allowances[1]	19	19
Carrying amount	**46,187**	**42,865**
Properly serviced loans and receivables past due		
Carrying amount before allowances	—	—
Portfolio allowances[1]	—	—
Carrying amount	**—**	**—**
Non-performing loans and receivables		
Carrying amount before allowances	296	566
Specific allowances	151	177
Carrying amount	**145**	**389**

1 including provisions for country risks

The non-performing loans and receivables are essentially the loans and receivables in rating classes 8–, 9 and 10. These include receivables totalling €40 million that are no longer assigned to rating classes 8–, 9 and 10 due to improved credit standings, but which have been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2010	2009
Loans and receivables broken down by rating class		
Not rated	7,848	4,919
Rating class 1 – 4	35,969	36,593
Rating class 5 – 8	2,422	1,362
Rating class 9 – 10	93	380
Collateral broken down by rating class		
Not rated	2	—
Rating class 1 – 4	11,785	11,083
Rating class 5 – 8	670	1,036
Rating class 9 – 10	21	251

50 Loans and receivables with customers

(€ millions)

	2010	2009
Current accounts	8,923	6,349
Repos[1]	484	971
Mortgage loans	50,062	56,012
Finance leases	2,600	2,357
Reclassified securities	6,068	8,009
Non-performing loans and receivables	5,095	5,029
Other loans and receivables	66,119	67,192
Total	**139,351**	**145,919**

1 repurchase agreements

The loans and receivables with customers include €2,006 million (2009: €2,054 million) in subordinated assets.

Loans and receivables with related entities

The following table shows the breakdown of loans and receivables with customers involving related entities:

(€ millions)

	2010	2009
Non-consolidated affiliated companies	656	336
Joint ventures	—	—
Associated companies	10	69
Other participating interests	891	860
Total	**1,557**	**1,265**

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

(€ millions)

	2010	2009
Properly serviced loans and receivables		
Carrying amount before allowances	130,496	138,629
Portfolio allowances[1]	579	550
Carrying amount	**129,917**	**138,079**
Properly serviced loans and receivables past due		
Carrying amount before allowances	4,364	2,823
Portfolio allowances[1]	25	12
Carrying amount	**4,339**	**2,811**
Non-performing loans and receivables		
Carrying amount before allowances	9,380	9,493
Portfolio allowances[1]	4,285	4,464
Carrying amount	**5,095**	**5,029**

1 including provisions for country risks

The non-performing loans and receivables are essentially the loans and receivables in rating classes 8–, 9 and 10. These include receivables totalling €600 million that are no longer assigned to rating classes 8–, 9 and 10 due to improved credit standings, but which have been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2010	2009
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1 – 30 days	3,852	2,426
31 – 60 days	363	300
61 – 90 days	124	85

(€ millions)

	2010	2009
Value of collateral broken down by period past due		
1 – 30 days	1,421	871
31 – 60 days	37	50
61 – 90 days	21	11

Notes to the Consolidated Balance Sheet (Continued)

(€ millions)

	2010	2009
Loans and receivables broken down by rating class		
Not rated	9,254	10,267
Rating class 1 – 4	59,721	64,975
Rating class 5 – 8	65,787	66,418
Rating class 9 – 10	4,589	4,259
Collateral broken down by rating class		
Not rated	2,154	3,011
Rating class 1 – 4	22,774	21,147
Rating class 5 – 8	31,263	32,283
Rating class 9 – 10	2,151	2,148

Amounts receivable from lease operations (finance leases)

(€ millions)

	2010	2009
Gross investment value (by remaining maturity)		
up to 12 months	1,263	1,138
from 1 year to 5 years	1,518	1,418
from 5 years and over	145	161
Total gross investment	**2,926**	**2,717**
of which:		
unguaranteed residual values	—	—
Unrealised finance income (by remaining maturity)		
up to 12 months	(115)	(125)
from 1 year to 5 years	(142)	(149)
from 5 years and over	(16)	(15)
Total unrealised finance income	**(273)**	**(289)**
Net investment (by remaining maturity)		
up to 12 months	1,148	1,013
from 1 year to 5 years	1,376	1,269
from 5 years and over	129	146
Total net investment	**2,653**	**2,428**

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

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

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

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

Analysis of loans and receivables

(€ millions)

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2009	**4,305**	**536**	**4,841**
Changes affecting income			
Gross additions[1]	2,303	63	2,366
Releases	(768)	(15)	(783)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	(9)	(2)	(11)
Use of existing loan-loss allowances	(1,285)	—	(1,285)
Effects of currency translation and other changes not affecting income	95	(1)	94
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2009	**4,641**	**581**	**5,222**
	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2010	**4,641**	**581**	**5,222**
Changes affecting income			
Gross additions[1]	1,453	44	1,497
Releases	(869)	(13)	(882)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(858)	—	(858)
Effects of currency translation and other changes not affecting income	69	11	80
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2010	**4,436**	**623**	**5,059**

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

Breakdown of allowances for receivables

(€ millions)

	LOANS AND RECEIVABLES WITH BANKS 2010	LOANS AND RECEIVABLES WITH BANKS 2009	LOANS AND RECEIVABLES WITH CUSTOMERS 2010	LOANS AND RECEIVABLES WITH CUSTOMERS 2009
Properly serviced loans and receivables				
Carrying amount before allowances	46,206	42,884	134,860	141,452
Portfolio allowance	19	19	604	562
Carrying amount	**46,187**	**42,865**	**134,256**	**140,890**
Loans and receivables with allowances				
Carrying amount before allowances	296	566	9,380	9,493
Specific allowances	151	177	4,285	4,464
Carrying amount	**145**	**389**	**5,095**	**5,029**

Notes to the Consolidated Balance Sheet (Continued)

52 Hedging derivatives

(€ millions)

	2010	2009
Micro fair value hedge	3	278
Fair value hedge portfolio	4,202	3,300
Cash flow hedge	—	—
Total	**4,205**	**3,578**

53 Property, plant and equipment

(€ millions)

	2010	2009
Land and buildings	1,028	1,078
Plant and office equipment	302	278
Other property	1,723	1,225
Total[1]	**3,053**	**2,581**

1 including leased assets of €90 million (2009: €65 million)

Other property refers essentially to Ocean Breeze Energy GmbH & Co KG, Munich. This item also includes the grants of €34 million provided by the European Union that are classified as government grants in accordance with IAS 20. Compliant with IAS 20.24, these grants have been deducted from the acquisition and production cost of the other property on the assets side of the balance sheet. The cash funds were granted on condition that specific expenses could be demonstrated by Ocean Breeze Energy GmbH & Co. KG. The company has provided the necessary evidence.

Development of property, plant and equipment (€ millions)

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

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERN-ALLY USED PROPERTY, PLANT AND EQUIPMENT[1]	OTHER PROPERTY	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2010	**2,298**	**922**	**3,220**	**1,225**	**4,445**
Write-downs and write-ups from previous years	(1,220)	(644)	(1,864)	—	(1,864)
Carrying amounts at 1 January 2010	**1,078**	**278**	**1,356**	**1,225**	**2,581**
Additions					
Acquisition/production costs[2]	7	61	68	476	544
Write-ups	1	—	1	—	1
Changes from currency translation	—	2	2	—	2
Other additions[3]	158	26	184	27	211
Disposals					
Sales	(1)	(14)	(15)	—	(15)
Amortisation and write-downs	(50)	(49)	(99)	(4)	(103)
Impairments	(1)	—	(1)	(1)	(2)
Changes from currency translation	—	—	—	—	—
Non-current assets					
or disposal groups held for sale	—	—	—	—	—
Other disposals[3]	(164)	(2)	(166)	—	(166)
Carrying amounts at 31 December 2010	**1,028**	**302**	**1,330**	**1,723**	**3,053**
Write-downs and write-ups					
from previous years plus year under review	1,383	650	2,033	5	2,038
Acquisition costs at 31 December 2010	**2,411**	**952**	**3,363**	**1,728**	**5,091**

1 including leased assets
2 including government grants of €34 million deducted from other assets on the assets side of the balance sheet
3 also including changes in the group of companies included in consolidation. Company acquisitions had no significant effect

Notes to the Consolidated Balance Sheet (Continued)

54 Investment properties

The fair value of investment properties at HVB Group, which are measured at amortised cost, totalled €2,026 million (2009: €2,034 million). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. No investment properties measured at fair value were held in 2010.

Investment properties (€ millions)

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

	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at 1 January 2010	**2,270**	**—**
Write-downs and write-ups from previous years	(363)	—
Carrying amounts at 1 January 2010	**1,907**	**—**
Additions		
Purchases	156	—
Write-ups	4	—
Changes from currency translation	—	—
Other additions[1]	39	—
Disposals		
Sales	(10)	—
Amortisation and write-downs	(41)	—
Impairments	(173)	—
Changes from currency translation	—	—
Non-current assets or disposal groups held for sale	(3)	—
Net gains/losses on the adjustment of fair values	—	—
Other disposals[1]	—	—
Carrying amounts at 31 December 2010	**1,879**	**—**
Write-downs and write-ups from previous years plus year under review	595	—
Acquisition costs at 31 December 2010	**2,474**	**—**

1 also including changes in the group of companies included in consolidation. Company acquisitions had no significant effect

55 Intangible assets

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

(€ millions)

	2010	2009
Goodwill	**424**	**424**
Other intangible assets		
Internally generated intangible assets	123	129
Other intangible assets	61	103
Total	**608**	**656**

Development of intangible assets (€ millions)

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

1 also including changes in the group of companies included in consolidation. Company acquisitions had no significant effect

Notes to the Consolidated Balance Sheet (Continued)

Development of intangible assets (€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2010	**1,084**	**416**	**430**
Write-downs and write-ups from previous years	(660)	(287)	(327)
Carrying amounts at 1 January 2010	**424**	**129**	**103**
Additions			
Purchases/internally generated	—	29	14
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	6	1
Disposals			
Sales	—	—	(6)
Amortisation and write-downs	—	(40)	(45)
Impairments	—	(1)	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	—	(6)
Carrying amounts at 31 December 2010	**424**	**123**	**61**
Write-downs and write-ups from previous years plus year under review	660	327	366
Acquisition costs at 31 December 2010	**1,084**	**450**	**427**

1 also including changes in the group of companies included in consolidation. Company acquisitions had no significant effect

HVB no longer generates any software internally. Software is provided to HVB by the UniCredit-wide service provider UGIS. Since we have consolidated UGIS using the equity method since 2009, corresponding spending by UGIS is no longer included here.

56 Income tax assets

(€ millions)

	2010	2009
Current tax assets	406	360
Deferred tax assets	2,851	2,252
Total	**3,257**	**2,612**

57 Non-current assets or disposal groups held for sale

The sale of parts of the private banking activities of UniCredit Luxembourg S.A. agreed by UniCredit Luxembourg S.A. and DZ Privatbank S.A. in September 2010 was completed with effect from 31 December 2010. The gain on disposal of €27 million realised on the transaction is included under net income from investments in the income statement (see Note 40). The assets (loans and receivables with customers) were transferred at the beginning of January 2011. Also classified as held for sale are certain investment properties relating to the disposal of non-strategic property.

(€ millions)

ASSETS	2010	2009
Loans and receivables with customers	25	—
Investment properties	3	4
Total	**28**	**4**

58 Other assets
Other assets include prepaid expenses of €80 million (2009: €78 million).

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

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

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

The Provide-A 2004-1, Geldilux-TS-2005, Building Comfort 2007 and SFA-3-2008 transactions expired or were terminated during 2010. The SFA-1-2008, SFA-2-2008, Geldilux-TS-2008 and EuroConnect Issuer LC 2007-1 transactions are no longer recognised so as to reduce risk-weighted assets.

At 31 December 2010, the total volume of lending in HVB Group's full set of existing securitisation programmes put in place to reduce risk-weighted assets amounted to €12.0 billion, serving to deduct a gross amount of €4.4 billion from risk-weighted assets compliant with Basel II or a net amount of €2.4 billion, taking account of the retained tranches. Here, a risk weighting of 1.250% is assumed for the items deductible from capital.

With the Geldilux-TS-2007 and Geldilux-TS-2008 true sale transactions that have been carried out, the underlying receivables with a carrying amount of €3.6 billion are still recognised in full in the balance sheet. Compliant with SIC 12, the special purpose entities set up for this purpose – Geldilux-TS-2007 S.A. and Geldilux-TS-2008 S.A. – are fully consolidated.

The Rosenkavalier 2008 true sale transaction was carried out with a view to using the securities generated as collateral for repurchase agreements with the ECB. HVB Group continues to recognise the underlying receivables and the special purpose entity set up for this purpose as fully consolidated compliant with SIC 12. The volume of lending involved totalled €8.6 billion at 31 December 2010. The Bank has retained all the tranches, meaning that there is no reduction in risk-weighted assets.

HVB Group continued its securitisation activities in 2010 with a new Geldilux transaction (Geldilux-TS-2010). This true sale transaction was carried out with a volume of €0.5 billion in order to exploit attractive funding conditions. The special purpose entity set up for this purpose is fully consolidated compliant with SIC 12 and the underlying receivables with a carrying amount of €0.6 billion are still recognised in the balance sheet in full. Since the subordinated tranche was retained, there is no reduction in risk-weighted assets.

Notes to the Consolidated Balance Sheet (Continued)

Current securitisation transactions serving to reduce risk-weighted assets:

The figures shown in the table are carrying amounts at the reporting date of 31 December 2010.

ISSUER	TRANSACTION NAME	LEGAL TRANSACTION MATURITY TRANSACTION CALL DATE	TYPE OF ASSET SECURITISED	TOTAL VOLUME OF LENDING BASEL II € millions	REDUCTION IN RISK-WEIGHTED ASSETS COMPLIANT WITH BASEL II[1] € millions
UniCredit Bank AG	PROVIDE-A 2005-1	25/8/2048 25/2/2011	Private mortgage loans	2,245	264
Total for 2005				**2,245**	**264**
UniCredit Bank AG	PROVIDE-A 2006-1	25/8/2048 25/5/2012	Private mortgage loans	1,469	215
UniCredit Bank AG	Promise-XXS 2006-1	12/5/2024 12/8/2012	Corporate loans	1,475	671
Total for 2006				**2,944**	**886**
UniCredit Luxembourg S. A.	GELDILUX-TS-2007	8/9/2012 8/4/2012	Euroloans	2,100	1,866
UniCredit Bank AG	EuroConnect Issuer SME 2007-1	15/11/2030 15/2/2015	Corporate loans	1,297	614
Total for 2007				**3,397**	**2,480**
UniCredit Bank AG	Building Comfort 2008	25/9/2050 25/9/2013	Private mortgage loans	2,124	283
UniCredit Bank AG	EuroConnect Issuer SME 2008-1	17/4/2033 17/4/2014	Corporate loans	1,295	483
Total for 2008				**3,419**	**766**
Total				**12,005**	**4,396**

1 does not include any retained risks

60 Deposits from banks

(€ millions)

	2010	2009
Deposits from central banks	**4,396**	**8,385**
Deposits from banks	**47,491**	**42,319**
Current accounts and demand deposits	12,815	13,553
Reverse repos[1]	8,071	5,574
Other liabilities	26,605	23,192
Total	**51,887**	**50,704**

1 repurchase agreements

Amounts owed to related entities

The following table shows the breakdown of deposits from banks involving related entities:

(€ millions)

	2010	2009
Non-consolidated affiliated companies	7,506	4,325
Joint ventures	—	—
Associated companies	—	—
Other participating interests	73	12
Total	**7,579**	**4,337**

The largest single amount within amounts owed to non-consolidated affiliated companies relates to UniCredit and UniCredit Bank Austria AG.

61 Deposits from customers

(€ millions)

	2010	2009
Current accounts and demand deposits	47,893	41,281
Savings deposits	14,893	13,183
Reverse repos[1]	10,010	1,834
Other liabilities	35,698	40,192
Total	**108,494**	**96,490**

1 repurchase agreements

Amounts owed to related entities and persons

The following table shows the breakdown of deposits from customers involving related entities:

(€ millions)

	2010	2009
Non-consolidated affiliated companies	1,061	320
Joint ventures	—	1
Associated companies	16	27
Other participating interests	154	628
Total	**1,231**	**976**

62 Debt securities in issue

(€ millions)

	2010	2009
Bonds	46,142	59,265
Other securities	2,534	2,021
Total	**48,676**	**61,286**

Debt securities in issue, payable to related entities

The following table shows the breakdown of debt securities in issue involving related entities:

(€ millions)

	2010	2009
Non-consolidated affiliated companies	1,591	1,545
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**1,591**	**1,545**

63 Financial liabilities held for trading

(€ millions)

	2010	2009
Negative fair values arising from derivative financial instruments	91,019	84,394
Other financial liabilities held for trading	36,077	36,812
Total	**127,096**	**121,206**

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

The cumulative valuation effects of the financial liabilities held for trading in the portfolio at 31 December 2010, which result from including the own credit spread, total €115 million. Valuation income of €15 million arising from own credit spread changes accrued for these holdings in the year under review.

Notes to the Consolidated Balance Sheet (Continued)

64 Hedging derivatives

(€ millions)

	2010	2009
Micro fair value hedge	16	98
Fair value hedge portfolio	2,075	1,271
Cash flow hedge	—	—
Total	**2,091**	**1,369**

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

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €1,471 million. This is offset on the assets side by an economic equivalent amount of approximately the same size disclosed under hedging derivatives. The hedge adjustments are recognised as gross amounts for some subsidiaries for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €100 million.

66 Income tax liabilities

(€ millions)

	2010	2009
Current tax liabilities	840	674
Deferred tax liabilities	1,363	1,175
Total	**2,203**	**1,849**

67 Liabilities of disposal groups held for sale

In line with the assets attributable to the sale of parts of the private banking activities of UniCredit Luxembourg S.A., as shown in Note 57, we are showing the liabilities allocated to this activity separately in the balance sheet compliant with IFRS 5.

(€ millions)

LIABILITIES	2010	2009
Deposits from customers	597	—
Financial liabilities held for trading	1	—
Total	**598**	**—**

68 Other liabilities

This item essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

69 Provisions

(€ millions)

	2010	2009
Provisions for pensions and similar commitments	51	50
Allowances for losses on guarantees and commitments	283	237
Restructuring provisions	87	121
Actuarial provisions	35	—
Other provisions	1,445	1,091
Total	**1,901**	**1,499**

Provisions for pensions and similar commitments

HVB Group operates both defined benefit plans and defined contribution plans for its employees.

In the case of defined benefit plans, the company undertakes to pay a defined future pension. The financial resources required to do so in the future can be accrued within the company (internal financing) or by payment of specific amounts to external pension funds (external financing).

In the case of defined contribution plans, the company undertakes to pay defined contributions to external pension funds which will later make the pension payments. Apart from paying the periodic contributions, the company has no further de facto commitments.

Defined benefit plans
The provisions for pensions and similar commitments include the direct commitments to HVB Group employees under company pension plans. These defined benefit plans are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights.

Funded pension commitments differ from unfunded pension commitments in that plan assets are allocated to cover the claims of the beneficiaries. The funded pension obligations are offset against the fair value of a plan's assets. The recognised funded pension provision reflects the balance of the present value of the pension obligations and the fair value of the plan assets.

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

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

	31/12/2010/ 1/1/2011	31/12/2009/ 1/1/2010
Interest rate	5.00	5.25
Expected return on plan assets	5.00	5.25
Rate of increase in pension commitments	1.70	1.90
Rate of increase in future compensation and vested rights	2.00	2.50
Rate of increase over career	0 – 1.5	0 – 1.5

The funding status developed as follows: (€ millions)

	2010	2009	2008	2007	2006
Funded pension commitments:					
Present value of funded pension commitments	2,937	2,861	2,751	2,305	2,399
Fair value of plan assets	(3,153)	(3,066)	(3,010)	(2,321)	(2,343)
Reduction due to asset ceiling compliant with IAS 19.58B	51	69	104	2	—
Capitalised excess cover of plan assets	171	139	174	37	—
Recognised pension provisions	**6**	**3**	**19**	**23**	**56**
Unfunded pension commitments:					
Present value of unfunded pension commitments	45	47	85	82	134
Total recognised pension provisions	**51**	**50**	**104**	**105**	**190**

The development of the experience adjustments is as follows: (€ millions)

	2010	2009	2008	2007	2006
Experience adjustments to plan liabilities	(32)	(55)	(18)	(27)	5
Experience adjustments to plan assets	30	(15)	(102)	(58)	9

HVB Group exercises the option permitted by IAS 19.93A for defined benefit pension plans to carry unrealised actuarial gains or losses in shareholders' equity outside the profit or loss for the period in accordance with the other comprehensive income method (OCI method).

Notes to the Consolidated Balance Sheet (Continued)

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

	2010	2009
Present value of the pension claims vested in the year under review	(33)	(20)
Interest expense	(117)	(124)
Expected income from plan assets	122	119
Losses from changes to plans	—	—
Total	**(28)**	**(25)**

Pension expense is recognised in payroll costs (pension and other employee benefit costs) as a net amount. The contributions transferred to the pension fund are shown under defined contribution plans and not in this table.

The following table shows an analysis of funded and covered pension commitments: (€ millions)

	2010	2009
Balance at 1 January	**2,861**	**2,751**
Present value of the pension claims vested in the year under review	43	29
Interest expense	147	153
Contributions from plan participants	4	3
Actuarial gains/(losses)	5	161
Payments affecting liquidity	(129)	(125)
Changes in consolidated group	3	(98)
Changes arising from foreign currency translation	2	3
Other changes	1	(16)
Balance at 31 December	**2,937**	**2,861**

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

	2010	2009
Balance at 1 January	**47**	**85**
Present value of the pension claims vested in the year under review	1	1
Interest expense	2	3
Contributions from plan participants	—	—
Actuarial gains/(losses)	—	1
Payments affecting liquidity	(3)	(4)
Changes in consolidated group	—	(33)
Changes arising from foreign currency translation	—	—
Other changes	(2)	(6)
Balance at 31 December	**45**	**47**

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

HVB reorganised its company pension plans (direct commitments). HVB Trust Pensionsfonds AG (pension fund) was set up in the process. Both the pension commitments to pensioners, who in October 2009 had already received pension benefits from the Bank, and the assets required to cover these commitments were transferred to the pension fund. The pensioners' pension claims are not affected by the restructuring; HVB continues to guarantee the pension. The pension fund is a legally independent institution regulated by the German Federal Financial Supervisory Authority (BaFin).

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

	2010	2009
Equities	13	5
Fixed-income securities	90	89
Property	85	84
Other assets	84	89
Investment funds	2,881	2,799
Plan assets	**3,153**	**3,066**

The following table shows the development of the plan assets: **(€ millions)**

	2010	2009
Balance at 1 January	**3,066**	**3,010**
Expected income from plan assets	158	153
Actuarial gains/(losses)	30	5
Allocations to plan assets	24	105
Employee contributions	—	—
Disbursements to beneficiaries	(129)	(125)
Additional allocations in the form of benefits not taken	—	—
Changes in exchange rates	2	4
Changes in consolidated group	2	(86)
Balance at 31 December	**3,153**	**3,066**

With regard to the plan assets, the item actuarial gains shows the difference between the expected income from plan assets and the income from plan assets actually realised. The balance of expected income and actuarial gains from plan assets gives the actual income from plan assets of €188 million.

Notes to the Consolidated Balance Sheet (Continued)

The cumulative actuarial losses recognised in shareholders' equity compliant with IAS 19.93A totalled €274 million in 2010 (2009: €324 million) before deferred taxes and minority interests. Compliant with IAS 19.93C, the total also includes adjustments caused by changes in the limit defined in IAS 19.58B in that changes to the fair value of plan assets that are subject to a cap due to the limit set in IAS 19.58B are not included in the income from plan assets.

The expected long-term return on the plan assets is essentially derived from the asset allocation of the plan assets and the expected returns on the asset classes held in the portfolios. Temporary fluctuations in the allocations of the plan assets do not lead to an adjustment of the expected long-term return on the plan assets. The Investment Committee, which is responsible for the plan assets, sets the respective return target on the basis of the returns forecast by our capital market research. In addition to this, the average long-term returns generated by the plan assets and historical returns on the overall market are included when the expected return is calculated.

HVB Group is planning to make contributions totalling €21 million to defined benefit plans in 2011.

Defined contribution plans
HVB Group companies make contributions for commitments made by independent pension organisations. The pension obligations funded through retirement benefit corporations with matching cover are recognised as defined contribution plans. The cost of defined contribution plans and for the retirement benefit corporation totalled €41 million in 2010 (2009: €61 million).

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

	ALLOWANCES FOR LOSSES ON FINANCIAL GUARANTEES	RESTRUCTURING PROVISIONS	ACTUARIAL PROVISIONS	OTHER PROVISIONS
Balance at 1 January 2010	**237**	**121**	**—**	**1,091**
Changes in consolidated group	—	—	35	5
Changes arising from foreign currency translation	—	—	—	4
Transfers to provisions	110	36	—	658
Reversals	(32)	(7)	—	(206)
Reclassifications	—	(16)	—	11
Amounts used	(32)	(47)	—	(118)
Non-current assets or disposal groups held for sale	—	—	—	—
Balance at 31 December 2010	**283**	**87**	**35**	**1,445**

The allowances for losses on guarantees and commitments primarily include allowances for contingent liabilities (guarantee risks and documentary credits) that will essentially be utilised in the following year.

Transfers were made to restructuring provisions in 2010 within the framework of the sale of parts of the private banking activities of UniCredit Luxembourg S.A. and for optimisations in the Group Corporate Centre. For the most part, this relates to provisions for severance payments, most of which are expected to be used by 2012. The amounts used in 2010 result from restructuring provisions set up in previous years.

The actuarial provisions relate to commitments arising from reinsurance policies written by our Grand Central Re Ltd subsidiary that was consolidated for the first time in the 2010 financial year.

Other provisions include provisions for litigation fees, damage payments, anticipated losses including rental guarantees, a provision arising from an obligation in connection with the completion of an offshore wind farm, and provisions for long-term liabilities to employees such as service anniversary awards, early retirement and partial retirement. The amount of the provision reflects the best estimate of the amount required to settle the obligation at the reporting date. Nevertheless, the amounts involved are subject to uncertainties in the estimates made. Besides the assumptions regarding periods, the cost estimates are validated regularly for rental guarantees in particular.

Other provisions also include the parts of the bonus for 2010 that have been taken to the income statement in the 2010 finiancial year and are disbursed on a deferred basis (starting in 2012). It is considered highly probable that the bonus will be disbursed. For details of the bonus plan for 2010, please refer to Note 36. Besides this, the provisions for the Retention Awards Programme were also carried under other provisions in 2009. In addition to the bonus for the current financial year, selected employees in investment banking receive a retention award which is disbursed later (after two years), provided that these employees are still working for HVB Group at that time. The award granted to the eligible employees attracts interest of 4.2% over the waiting period.

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

With the exception of the provision for rental guarantees and pre-emptive rights, the other provisions are normally expected to be utilised during the following financial year.

70 Shareholders' equity

Breakdown of subscribed capital

At 31 December 2010, the subscribed capital of UniCredit Bank AG totalled €2,407 million (2009: €2,407 million) and consisted of the following:

(total)

	2010	2009
Shares of common bearer stock (no par shares)	802,383,672	787,830,072
Shares of registered preferred stock (no par shares)	—	14,553,600

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

The capital stock of UniCredit Bank AG was 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.

Change in valuation of financial instruments

The reserves arising from changes in the valuation of financial instruments recognised in equity totalled minus €87 million (2009: plus €5 million) at 31 December 2010. The €92 million decline year-on-year can be attributed to the €141 million decrease in the hedge reserve to €54 million, while the AfS reserve rose by €49 million to minus €141 million. This results primarily from positive fair value fluctuations notably in our shareholdings and fixed-income securities classified as available for sale. This was offset by the effect arising from the sale of available-for-sale financial assets. In 2010, there was a market-related increase in the value of ABS holdings in the available-for-sale portfolio, for which there were no impairment criteria as defined in IAS 39.59 and hence no impairment losses needed to be recognised.

Notes to the Consolidated Balance Sheet (Continued)

71 Subordinated capital

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

	2010	2009
Subordinated liabilities	2,628	4,232
Participating certificates outstanding	205	205
Hybrid capital instruments	1,299	1,671
Total	**4,132**	**6,108**

Pursuant to Section 10 (4 and 5a) and as of 31 December 2010 Section 64m (1) KWG and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities and hybrid capital instruments) was carried as core capital and supplementary capital in 2010.

No participating certificates outstanding were included in the supplementary capital as of 31 December 2010, as the participating certificates fall due for repayment in less than two years.

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

	2010	2009
Deposits from customers	234	307
Deposits from banks	538	902
Debt securities in issue	3,360	4,899
Total	**4,132**	**6,108**

We have incurred interest expenses of €266 million in connection with this subordinated capital. Subordinated capital includes proportionate interest of €108 million.

Subordinated liabilities

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

There were subordinated liabilities of €802 million payable to related entities in 2010.

Participating certificates outstanding

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

ISSUER	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT € millions	INTEREST RATE in %	MATURITY
UniCredit Bank AG	2001	Bearer participating certificates	100	6.30	2011

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

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

In the event of the interest payment being reduced, the shortfall is to be repaid in the subsequent financial years, provided this does not result in a net loss for the year; a claim to repayment only exists, however, during the term of the participating certificates.

Repayment is at the nominal amount; in the event of a net loss for the year or a reduction in the capital stock to cover losses, the redemption amount to which holders are entitled declines proportionately. Where net profits are generated in the subsequent financial years following a participation of the participating certificates in a net loss, the claims to repayment of the participating certificates are to be increased out of these profits before the net income is appropriated in any other way, once the legal reserves have been replenished; this obligation terminates when the participating certificates expire.

Hybrid capital instruments

At 31 December 2010, HVB Group had hybrid core capital of €864 million (eligible amount compliant with the German Banking Act) to bolster its capital base.

The eligible hybrid core capital fell by €322 million compared with the year-ago total, mainly due to the partial buy-backs of the hybrid issues, which were approved by the German Federal Financial Supervisory Authority (BaFin) on account of HVB Group's strong core capital base.

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

These instruments differ from supplementary capital in that they are subject to more stringent conditions in terms of maturity. The terms of issue for capital contributions from silent partners envisage a minimum term of 30 years, while an unlimited term has been agreed with the investors for preferred shares. In addition, hybrid capital instruments are not repaid until after supplementary capital has been repaid (subordinated liabilities) in the event of bankruptcy.

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

Both the German Federal Banking Supervisory Authority and the Basel Committee on Banking Supervision have expressly confirmed the recognition of hybrid capital for banking supervisory purposes. The eligibility of hybrid core capital under Section 64m KWG is continued by the version of the German Banking Act applicable from 31 December 2010.

Notes to the Cash Flow Statement

72 Notes to the items in the cash flow statement

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

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

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

During 2010, HVB acquired CAIB together with its UniCredit CAIB Securities UK Ltd., London, subsidiary from UniCredit Bank Austria AG with effect from 1 June 2010. The purchase price, which was determined on the basis of an independent, external valuation, totalled €1.24 billion plus the overcapitalisation on hand. The purchase price was paid in cash and is shown in a total amount of €5.9 billion under cash flow from investing activities in the cash flow statement.

The following table shows the assets and liabilities of the companies acquired during 2010. There were no disposals in 2010.

(€ millions)

	ACQUIRED	SOLD	
	2010	2010	2009
Assets			
Cash and cash balances	—	—	—
Financial assets held for trading	17,807	—	—
Financial assets at fair value through profit or loss	2	—	—
Available-for-sale financial assets	82	—	143
Shares in associated companies accounted for using the equity method			
and joint ventures accounted for using the equity method	—	—	—
Held-to-maturity investments	—	—	—
Loans and receivables with banks	9,943	—	1,135
Loans and receivables with customers	26	—	925
Hedging derivatives	1,663	—	—
Property, plant and equipment	—	—	83
Investment properties	—	—	—
Intangible assets	—	—	128
of which: goodwill	—	—	—
Tax assets	59	—	9
Non-current assets or disposal groups held for sale	—	—	—
Other assets	20	—	57
Liabilities			
Deposits from banks	5,758	—	102
Deposits from customers	152	—	1,883
Debt securities in issue	—	—	—
Financial liabilities held for trading	15,843	—	—
Hedging derivatives	1,829	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—
Tax liabilities	54	—	11
Liabilities of disposal groups held for sale	—	—	—
Other liabilities	21	—	159
Provisions	1	—	129

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

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

No further assets held for trading have been reclassified as loans and receivables in 2010. The intention to trade no longer exists for the assets reclassified in 2008 and 2009 since the markets in these financial instruments had become illiquid as a result of the extraordinary circumstances created by the financial crisis through to the time of reclassification. Given the high quality of the assets concerned, HVB intends to retain the assets for a longer period. HVB has not reclassified any assets from the available-for-sale portfolio.

The following table shows the development of the reclassified holdings:

(€ billions)

RECLASSIFIED ASSET-BACKED SECURITIES AND OTHER DEBT SECURITIES	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1]	FAIR VALUE OF ALL RECLASSIFIED ASSETS	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS
Reclassified in 2008			
Balance at 31/12/2008	13.7	11.8	14.6
Balance at 31/12/2009	9.0	8.0	9.7
Balance at 31/12/2010	6.5	5.9	7.0
Reclassified in 2009			
Balance at 31/12/2009	7.3	7.4	7.4
Balance at 31/12/2010	4.6	4.5	4.6
Balance of reclassified assets at 31/12/2010	**11.1**	**10.4**	**11.6**

1 before accrued interest

The fair value of the financial instruments reclassified as loans and receivables with banks and customers amounts to a total of €10.4 billion at 31 December 2010. If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (including realised disposals) would have given rise to a net gain of €416 million in net trading income in the 2010 financial year. A net gain of €1,159 million would have arisen in net trading income in 2009 while a net loss of €1,792 million would have accrued in net trading income from the reclassified holdings in 2008. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification.

We took write-downs of loans of €8 million on the reclassified assets in 2010 (2009: €80 million, 2008: €63 million). The fair value at the date when the reclassification takes effect represents the new acquisition cost, which in some cases is considerably less than the nominal value. Accordingly, this difference (discount) is to be amortised over the remaining term of the reclassified financial assets. This together with the reclassified securities that had matured or been partially repaid gives rise to an effect of €160 million (2009: €208 million, 2008: €127 million), which is recognised in net interest income. The effective interest rates for the reclassified securities are in a range from 0.6% to 17.5%.

A gain of €19 million (2009: €83 million) on reclassified securities that had been sold was recognised in the income statement in 2010.

In 2010, the reclassifications carried out in 2008 and 2009 resulted in a profit before tax that was €245 million too low. Between the date when the reclassifications took effect and the reporting date, the cumulative net impact on the income statement from the reclassifications already carried out totalled €663 million before tax (2010: minus €245 million, 2009: minus €948 million, 2008: plus €1,856 million).

74 Notes to selected structured products

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

ABS portfolio

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

Other Information (Continued)

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

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

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

		31/12/2010				31/12/2009
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Positions retained from own securitisations		**317**	**152**	**—**	**469**	**238**
Positions in third-party ABS transactions		**3,816**	**1,309**	**14**	**5,139**	**5,404**
Residential mortgage-backed securities (RMBS)		1,868	452	—	2,320	2,309
thereof:						
US subprime		—	—	—	—	—
US Alt-A		6	—	—	6	43
Commercial mortgage-backed securities (CMBS)		701	317	—	1,018	1,142
Collateralised debt obligations (CDO)		85	157	—	242	226
thereof:						
US subprime		—	7	—	7	7
US Alt-A		—	4	—	4	4
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)		659	240	14	913	904
Consumer loans		212	59	—	271	391
Credit cards		3	—	—	3	95
Leases		203	60	—	263	204
Others		85	24	—	109	133
Total	**31/12/2010**	**4,133**	**1,461**	**14**	**5,608**	
	31/12/2009	**4,030**	**1,558**	**54**	**5,642**	
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2010**	**15**	**237**	**44**	**296**	
	31/12/2009	**4**	**306**	**83**	**393**	

1 the amounts shown in the table represent the carrying amount (fair value)

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

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

CARRYING AMOUNTS		31/12/2010 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**469**	**—**	**—**	**—**	**469**
Positions in third-party ABS transactions		**4,382**	**452**	**62**	**243**	**5,139**
Residential mortgage-backed securities (RMBS)		2,099	7	31	183	2,320
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	6	—	—	6
Commercial mortgage-backed securities (CMBS)		884	92	25	17	1,018
Collateralised debt obligations (CDO)		81	159	2	—	242
thereof:						
US subprime		—	7	—	—	7
US Alt-A		—	4	—	—	4
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)		786	84	—	43	913
Consumer loans		185	85	1	—	271
Credit cards		—	—	3	—	3
Leases		239	24	—	—	263
Others		108	1	—	—	109
Total	**31/12/2010**	**4,851**	**452**	**62**	**243**	**5,608**
	31/12/2009	**4,696**	**510**	**200**	**236**	**5,642**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2010**	**10**	**286**	**—**	**—**	**296**
	31/12/2009	**28**	**365**	**—**	**—**	**393**

1 the amounts shown in the table represent the carrying amount (fair value)

Other Information (Continued)

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

CARRYING AMOUNTS		31/12/2010 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**92**	**377**	**—**	**469**
Positions in third-party ABS transactions		**479**	**3,281**	**1,379**	**5,139**
Residential mortgage-backed securities (RMBS)		153	1,230	937	2,320
thereof:					
US subprime		—	—	—	—
US Alt-A		—	4	2	6
Commercial mortgage-backed securities (CMBS)		69	822	127	1,018
Collateralised debt obligations (CDO)		27	116	99	242
thereof:					
US subprime		—	2	5	7
US Alt-A		—	—	4	4
Collateralised loan obligations (CLO)/					
Collateralised bond obligations (CBO)		30	696	187	913
Consumer loans		100	155	16	271
Credit cards		3	—	—	3
Leases		17	245	1	263
Others		80	17	12	109
Total	**31/12/2010**	**571**	**3,658**	**1,379**	**5,608**
	31/12/2009	**373**	**3,801**	**1,468**	**5,642**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2010**	**—**	**71**	**225**	**296**
	31/12/2009	**—**	**163**	**230**	**393**

1 the amounts shown in the table represent the carrying amount (fair value)

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

		31/12/2010					
CARRYING AMOUNTS		HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**86**	**—**	**—**	**—**	**383**	**469**
Positions in third-party ABS transactions		**480**	**96**	**4,204**	**42**	**317**	**5,139**
Residential mortgage-backed securities (RMBS)		121	36	2,050	—	113	2,320
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	6	—	—	6
Commercial mortgage-backed securities (CMBS)		61	6	934	—	17	1,018
Collateralised debt obligations (CDO)		19	31	151	39	2	242
thereof:							
US subprime		—	—	7	—	—	7
US Alt-A		—	—	4	—	—	4
Collateralised loan obligations (CLO)/							
Collateralised bond obligations (CBO)		261	13	588	—	51	913
Consumer loans		—	—	271	—	—	271
Credit cards		—	—	—	—	3	3
Leases		18	—	112	2	131	263
Others		—	10	98	1	—	109
Total	**31/12/2010**	**566**	**96**	**4,204**	**42**	**700**	**5,608**
	31/12/2009	**347**	**97**	**4,712**	**56**	**430**	**5,642**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2010**	**296**	**—**	**—**	**—**	**—**	**296**
	31/12/2009	**393**	**—**	**—**	**—**	**—**	**393**

1 the amounts shown in the table represent the carrying amount (fair value)

Other Information (Continued)

Fully consolidated commercial paper conduits and other consolidated special purpose vehicles

Alongside the directly held portfolios of own and external ABS transactions, further structured products are held through commercial paper conduits (SPVs that issue short-term commercial paper to refinance their assets) and other fully consolidated special purpose vehicles that are managed by HVB. Essentially, these involve credit receivables of third parties that are securitised by HVB using the services of the commercial paper conduits. Positions in ABS transactions issued by third parties, in hedge funds and customer receivables held by fully consolidated special purpose entities are also shown. An amount of €229 million out of the total €1,726 million disclosed under "Other" relates to investments under which HVB passes on all the risks and rewards to customers.

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

		31/12/2010				31/12/2009
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Residential mortgage loans/ residential mortgage-backed securities (RMBS)		1	1,302	419[1]	1,722	1,709
Commercial mortgage loans/ commercial mortgage-backed securities (CMBS)		702	290	—	992	718
Collateralised debt obligations (CDO)		—	3	—	3	4
Collateralised loan obligations (CLO)/ collateralised bond obligations (CBO)		—	95	—	95	86
Consumer loans		400	199	—	599	903
Credit cards		—	—	—	—	—
Leases		540	13	—	553	493
Other (including hedge fund investments)		388	929	409[2]	1,726	2,033
Total	**31/12/2010**	**2,031**	**2,831**	**828**	**5,690**	
	31/12/2009	**2,337**	**2,777**	**832**	**5,946**	

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

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

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

		31/12/2010				
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**

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

(€ millions)

CARRYING AMOUNTS		31/12/2010 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Residential mortgage loans/					
residential mortgage-backed securities (RMBS)		418	—	1,304	1,722
Commercial mortgage loans/					
commercial mortgage-backed securities (CMBS)		267	4	721	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)		1,150	74	502	1,726
Total	**31/12/2010**	**2,974**	**91**	**2,625**	**5,690**
	31/12/2009	**3,161**	**116**	**2,669**	**5,946**

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

(€ millions)

CARRYING AMOUNTS		31/12/2010 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Residential mortgage loans/							
residential mortgage-backed securities (RMBS)		—	—	1,721	1	—	**1,722**
Commercial mortgage loans/							
commercial mortgage-backed securities (CMBS)		—	71	887	—	34	**992**
Collateralised debt obligations (CDO)		—	—	—	3	—	**3**
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		—	—	—	59	36	**95**
Consumer loans		—	—	599	—	—	**599**
Credit cards		—	—	—	—	—	**—**
Leases		—	—	553	—	—	**553**
Other (including hedge fund investments)		409	250	776	12	279	**1,726**
Total	**31/12/2010**	**409**	**321**	**4,536**	**75**	**349**	**5,690**
	31/12/2009	**643**	**378**	**4,471**	**143**	**311**	**5,946**

75 Fair value hierarchy

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

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

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

Other Information (Continued)

Financial assets and liabilities of €1,368 million (2009: €384 million) have been transferred between Level 1 and Level 2. Almost all of this total relates to fixed-income securities issued by reliable borrowers for which the fair value is calculated using valuation models based on valuation parameters that can be observed on an active market as the fair value can no longer be observed on an active market. At the same time, financial assets and liabilities of €1,494 million (2009: €3,136 million) migrated between Level 2 and Level 1. For the most part, this involves fixed-income securities for which a fair value can now be observed on an active market. The other securities concerned are equities.

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

If the value of a financial instrument is based on non-observable input parameters, the value of these parameters may be selected from a range of possible appropriate alternatives at the balance sheet date. Appropriate values are determined for these non-observable parameters and applied for valuation purposes, when the annual financial statements are prepared, reflecting the predominant market conditions of the Group. In addition, individual parameters that cannot be incorporated separately as standalone valuation parameters are taken into account by applying a model reserve.

The impact of changing possible appropriate alternative parameter values on the fair value (after adjustments) is shown in the sensitivity analysis presented below. For portfolios at fair value through profit or loss, the positive change in fair values at 31 December 2010 resulting from the use of possible appropriate alternatives would be €186 million (2009: €212 million), and the negative change would be €67 million (2009: €71 million).

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

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

More conservative and more aggressive values for correlations between the fair value of the credit derivative (CDS) and the respective underlying and implicit correlations were applied for credit derivatives than was the case as part of the fair value calculation. Furthermore, rating-dependent shifts were assumed for illiquid CDS. The same approach is applied when measuring the issuer risk associated with securities.

The use of appropriate alternatives for available-for-sale financial assets gives rise to a positive change in fair value at 31 December 2010 of €147 million (2009: €16 million) or a negative fair value change at 31 December 2010 of €67 million (2009: €6 million). This fluctuation in terms of fair value essentially relates to debt instruments shown under available-for-sale debt instruments with cash flows that are largely dependent on individual debtor KPIs, like EBITDA, in terms of nature or amount. At the same time, the instruments grant the debtor a range of repayment options.

In terms of these debt instruments, varying plausible repayment scenarios and associated developments in debtor-specific ratios were assumed as value drivers for debt instruments as part of the sensitivity analyses that would lead to modified cash flows from the instruments.

The following tables show the assignment of the financial assets and financial liabilities shown in the balance sheet to the respective levels of the fair value hierarchy:

(€ millions)

	31/12/2009		
	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET[1] (LEVEL 3)
Financial assets recognised in the			
balance sheet at fair value			
Financial assets held for trading	35,017	95,643	2,729
thereof: derivatives	4,198	75,211	1,672
Financial assets at fair value through profit or loss	7,790	5,568	400
Available-for-sale financial assets[1]	1,611	915	471
Hedging derivatives	194	3,383	1
Financial liabilities recognised in the			
balance sheet at fair value			
Financial liabilities held for trading	14,419	103,579	3,208
thereof: derivatives	6,158	75,732	2,504
Hedging derivatives	50	1,319	—

1 available-for-sale financial assets include financial instruments of €1,444 million valued at historical cost that are not included in these totals at 31 December 2009

(€ millions)

	31/12/2010		
	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET[1] (LEVEL 3)
Financial assets recognised in the			
balance sheet at fair value			
Financial assets held for trading	28,220	101,456	3,713
thereof: derivatives	2,562	83,491	2,433
Financial assets at fair value through profit or loss	15,856	10,099	676
Available-for-sale financial assets[1]	2,369	1,234	896
Hedging derivatives	—	4,205	—
Financial liabilities recognised in the			
balance sheet at fair value			
Financial liabilities held for trading	12,906	110,710	3,480
thereof: derivatives	4,285	83,556	3,178
Hedging derivatives	1	2,090	—

1 available-for-sale financial assets include financial instruments of €1,416 million valued at historical cost that are not included in these totals at 31 December 2010

Other Information (Continued)

The following tables show the development of the financial assets and financial liabilities that are assigned to Level 3 as part of the fair value hierarchy:

(€ millions)

	2010			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2010	**2,729**	**400**	**471**	**1**
Additions				
Acquisitions	2,185	10	194	—
Realised gains[1]	755	7	44	1
Transfer from other levels	1,975	715	428	—
Other additions[2]	517	26	182	—
Reductions				
Sale/repayment	(1,452)	(23)	(181)	—
Realised losses[1]	(612)	(4)	6	—
Transfer to other levels	(2,384)	(455)	(215)	(2)
Other reductions	—	—	(33)	—
Balance at 31/12/2010	**3,713**	**676**	**896**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

(€ millions)

	2010	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2010	**3,208**	**—**
Additions		
Sale/issue	1,318	—
Realised losses[1]	587	—
Transfer from other levels	2,040	—
Other additions[2]	181	—
Reductions		
Buy-back/redemption	(389)	—
Realised gains[1]	(591)	—
Transfer to other levels	(2,874)	—
Other reductions	—	—
Balance at 31/12/2010	**3,480**	**—**

1 in the income statement
2 also including changes in the group of companies included in consolidation

76 Fair values of financial instruments compliant with IFRS 7

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

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

(€ billions)

	2010		2009	
ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash balances	3.1	3.1	6.4	6.4
Financial assets held for trading	133.4	133.4	133.4	133.4
Financial assets at fair value through profit or loss	26.6	26.6	13.8	13.8
Available-for-sale financial assets				
thereof measured				
at cost	1.4	1.4	1.4	1.4
at fair value	4.5	4.5	3.0	3.0
Shares in associated companies accounted for using the equity method				
and joint ventures accounted for using the equity method	0.1	0.1	0.1	0.1
Held-to-maturity investments	2.6	2.6	2.7	2.7
Loans and receivables with banks	46.3	46.6	43.3	43.3
Loans and receivables with customers	139.4	141.4	145.9	148.0
Hedging derivatives	4.2	4.2	3.6	3.6
Total	**361.6**	**363.9**	**353.6**	**355.7**

The hedge adjustment amount of hedged items in the fair value hedge portfolio shown in 2009 under assets and liabilities is an item that contains commercially interest-induced changes in the fair value of the items hedged against interest rate risk and does not reflect standalone assets or liabilities. When comparing carrying amounts and fair values for the hedged items shown in the table above, it should be noted that part of the undisclosed reserves/charges has already been included in the hedge adjustment amount.

(€ billions)

	2010		2009	
LIABILITIES	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Deposits from banks	51.9	52.0	50.7	50.7
Deposits from customers	108.5	108.5	96.5	97.1
Debt securities in issue	48.7	50.4	61.3	62.8
Financial liabilities held for trading	127.1	127.1	121.2	121.2
Hedging derivatives	2.1	2.1	1.4	1.4
Total	**338.3**	**340.1**	**331.1**	**333.2**

Other Information (Continued)

(€ billions)

	2010		2009	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial guarantees and irrevocable credit commitments	**58.9**	**58.9**	**56.8**	**56.8**

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate.

For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates taking into account the respective spreads. The spread used here for receivables is determined on the basis of Basel II-compliant expected loss values and the cost of capital. Where loans and receivables with banks and customers contain reclassified securities, these are stated at the fair value shown in Note 73.

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

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

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

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

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

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

The difference in HVB Group between the fair values and carrying amounts totals €2.3 billion for assets and €1.8 billion for liabilities.

77 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39 (c). These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the respective maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €39.7 billion. This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as the complete utilisation of all open credit commitments and financial guarantees on the next day cannot be expected. The same holds true for the presentation of the fair values of trading derivatives.

Breakdown of financial assets by maturity bucket (€ millions)

	2009						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	18,859	1,894	1,735	4,729	10,625	7,459	9,091
Derivatives on financial assets held for trading	81,081	—	—	—	—	—	—
Financial assets at fair value							
through profit or loss	—	186	258	712	7,407	5,550	—
Available-for-sale financial assets	1	71	27	190	1,201	2,325	1,927
Held-to-maturity investments	—	5	—	29	2,545	59	4
Loans and receivables with banks	36,529	18,014	1,976	4,786	6,426	3,205	1,234
Loans and receivables with customers	13,547	14,490	12,319	19,114	58,821	43,724	5,126
Hedging derivatives	—	64	414	819	1,698	369	—

(€ millions)

	2010						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	20,411	1,155	1,053	2,821	15,127	6,638	8,300
Derivatives on financial assets held for trading	88,700	—	—	—	—	—	—
Financial assets at fair value							
through profit or loss	—	503	937	1,996	21,494	3,551	—
Available-for-sale financial assets	12	25	36	192	2,609	4,224	1,125
Held-to-maturity investments	7	—	—	13	2,440	167	4
Loans and receivables with banks	8,075	20,421	1,920	4,836	6,323	3,651	167
Loans and receivables with customers	7,578	13,054	13,658	18,571	56,145	37,225	6,018
Hedging derivatives	—	109	533	998	2,212	623	—

Other Information (Continued)

Breakdown of non-derivative and derivative financial liabilities by maturity bucket

(€ millions)

	2009						
CARRYING AMOUNTS	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	27,710	14,045	4,022	6,315	9,339	5,175	81
Deposits from customers	54,933	12,848	7,226	10,649	8,020	5,225	855
Debt securities in issue	48	4,812	6,393	10,620	28,705	20,260	41
Financial liabilities held for trading	15,868	59	712	1,649	10,008	1,584	5,171
Derivatives on financial assets held for trading	84,394	—	—	—	—	—	—
Hedging derivatives	—	25	179	222	636	201	—
Credit commitments and financial guarantees	56,796	—	—	—	—	—	—

(€ millions)

	2010						
CARRYING AMOUNTS	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	15,292	10,376	3,745	6,634	10,238	6,384	43
Deposits from customers	69,906	11,818	7,888	6,937	7,265	4,499	593
Debt securities in issue	41	2,888	2,832	7,835	17,564	15,001	—
Financial liabilities held for trading	20,903	64	283	631	5,376	2,521	4,865
Derivatives on financial assets held for trading	91,029	—	—	—	—	—	—
Hedging derivatives	—	82	262	506	1,041	334	—
Credit commitments and financial guarantees	58,853	—	—	—	—	—	—

78 Key capital ratios (based on German Commercial Code)

HVB Group manages its economic and supervisory capital as part of its overall bank management strategy. 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. 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 supervisory ratios are discussed below.

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

The eligible equity which is used to calculate the capital ratio in accordance with the German Solvency Regulation consists of the core capital, the supplementary capital and Tier 3 capital. The Tier 3 capital comprises current subordinated liabilities which are only used to back market risk positions. HVB Group, in particular, uses internal models to measure market risk positions.

The following table shows equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2010:

Equity funds[1] **(€ millions)**

	2010	2009
Tier 1		
Shares of common stock	2,407	2,363
Additional paid-in capital, retained earnings, minority interest, own shares	17,302	16,813
Hybrid capital instruments (silent partnership certificates and trust preferred securities)		
without prorated interest	864	1,186
Other	223	314
50% deductible items	(174)	(229)
Total core capital for solvency purposes	**20,622**	**20,447**
Tier 2		
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	47	45
Cumulative shares of preferred stock	—	44
Participating certificates outstanding	—	155
Subordinated liabilities	2,779	3,542
Value adjustment excess for IRBA positions	426	386
Other	19	17
50% deductible items	(174)	(228)
Total supplementary capital for solvency purposes	**3,097**	**3,961**
Total equity capital	**23,719**	**24,408**
Tier 3 capital	—	—
Total equity funds	**23,719**	**24,408**

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

Pursuant to Sections 10 and 10a KWG, the equity funds of HVB Group amounted to €23,719 million at 31 December 2010. Supplementary capital includes no unrealised reserves pursuant to Section 10 (2b) 1 No. 6 and 7 KWG.

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

Other Information (Continued)

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

	CORE CAPITAL	SUPPLEMENTARY CAPITAL	TIER 3 CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	23,670	—	—	23,670
Reconciliation to the equity funds compliant with the German Banking Act				
AfS reserve	141	—	—	141
Hedge reserves	(54)	—	—	(54)
Cumulative shares of preferred stock	—	—	—	—
Deduction of intangible assets	(608)	—	—	(608)
Ineligible profit components under banking supervisory regulations	(2,027)	—	—	(2,027)
Consolidated profit for 2010	(1,270)	—	—	(1,270)
Hybrid capital recognised under banking supervisory regulations	864	—	—	864
Eligible portion of certificates outstanding	—	—	—	—
Eligible portion of subordinated liabilities	—	2,779	—	2,779
Reclassifications to Tier 3 capital due to banking supervisory regulations	—	—	—	—
Eligible Tier 3 capital unused	—	—	—	—
Unrealised reserves in land and buildings and in securities	—	—	—	—
Value adjustment excess for IRBA positions	—	426	—	426
Deductible items due to non-consolidated investments	(29)	(28)	—	(57)
Deductible items compliant with Sect.10 (6a) KWG	(95)	(94)	—	(189)
Other effects				
(e. g. differences in group of consolidated companies and principles of consolidation)	30	14	—	44
Equity funds compliant with German Banking Act	**20,622**	**3,097**	**—**	**23,719**

(€ billions)

	2010 BASEL II	2009 BASEL II
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	79.3	70.8
off-balance sheet counterparty risk positions	16.7	17.2
other counterparty risk positions[1]	0.7	0.6
derivative counterparty risk positions	15.1	14.3
Total credit risk-weighted assets	**111.8**	**102.9**
Risk-weighted asset equivalent for market risk positions	**3.7**	**3.9**
Risk-weighted asset equivalent for operational risk	**9.0**	**8.3**
Total risk-weighted assets	**124.5**	**115.1**

1 primarily including repos and securities lending transactions

At 31 December 2010, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows: (in %)

	2010 BASEL II	2009 BASEL II
Core capital ratio (Tier 1 ratio)		
(core capital (Tier 1 capital)/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk))	16.6	17.8
Core capital ratio without hybrid core capital (core Tier 1 ratio)		
(core capital without hybrid core capital (core Tier 1 capital)/		
(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk))	15.9	16.7
Capital ratio		
(equity funds/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk))	19.1	21.2

79 Contingent liabilities and other commitments

(€ millions)

	2010	2009
Contingent liabilities[1]	**19,170**	**19,544**
Guarantees and indemnities	19,170	19,544
Other commitments	**65,015**	**56,787**
Irrevocable credit commitments	39,721	37,252
Other commitments	25,294	19,535
Total	**84,185**	**76,331**

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

Neither contingent liabilities nor irrevocable lending commitments contain any significant items. The gross volume of contingent liabilities for which provisions have been created in the above totals €594 million (2009: €662 million). The provisions of €283 million (2009: €237 million) set up for these liabilities have been deducted from the contingent liabilities recognised and are carried under provisions in the balance sheet (see Note 69, "Provisions").

The vast majority of the other commitments of €25,294 million in the year under review relates to delivery obligations arising from securities lending transactions. Commitments arising from rental, leasing and maintenance agreements, and from rental of office space and use of technical equipment are also included. The contracts run for standard market periods and no charges have been put off to future years.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by our H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement.

Commitments for uncalled payments on shares not fully paid up amounted to €489 million at year-end 2010 (2009: €639 million), and similar obligations for shares in cooperatives totalled €1 million (2009: €1 million). Under Section 22 (3 and 24) of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG), we were also liable for defaults on such calls in respect of one company for an aggregate of €1 million (2009: €1 million).

Under Section 26 GmbHG, we were liable for calls for additional capital of €5 million (2009: €5 million) with regard to CMP Fonds I GmbH and of €57 million (2009: €58 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.

At the balance sheet date, we had unlimited personal liability arising from shares in 64 partnerships.

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

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

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

Contingent liabilities payable to related entities

(€ millions)

	2010	2009
Non-consolidated affiliated companies	3,649	3,817
Joint ventures	—	—
Associated companies	—	—
Other participating interests	140	78
Total	**3,789**	**3,895**

Other Information (Continued)

80 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

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

HVB no longer provides a Statement of Responsibility for companies which left HVB Group 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.

81 Trust business

Trust assets (€ millions)

	2010	2009
Loans and receivables with banks	587	87
Loans and receivables with customers	705	440
Equity securities and other variable-yield securities	1,959	239
Bonds	—	—
Participating interests	23	—
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	1,492	1,492
Remaining trust receivables	—	—
Total	**4,766**	**2,258**

Trust liabilities (€ millions)

	2010	2009
Deposits from banks	1,028	199
Deposits from customers	1,968	2,059
Debt securities in issue	1,768	—
Other liabilities	2	—
Total	**4,766**	**2,258**

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.

82 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €47.8 billion (2009: €51.4 billion). These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

The following table shows the breakdown of own liabilities for which we provide collateral: (€ millions)

	2010	2009
Deposits from banks	39,779	51,493
Deposits from customers	19,923	8,716
Debt securities in issue	—	—
Financial liabilities held for trading	15,554	14,008
Contingent liabilities	—	—
Total	**75,256**	**74,217**

The assets pledged as security for own liabilities can be broken down as follows: (€ millions)

	2010	2009
Financial assets held for trading	40,239	50,801
Financial assets at fair value through profit or loss	23,763	12,037
Available-for-sale financial assets	3,027	3,389
Held-to-maturity investments	—	—
Deposits from banks	447	338
Deposits from customers	7,780	7,652
Property, plant and equipment	—	—
Total	**75,256**	**74,217**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition, details will be added to the extent to which the security provided may be pledged or sold on by the borrower.

(€ millions)

	2010	2009
Aggregate carrying amount of assets pledged as security	75,256	74,217
of which:		
pledged/sold on	26,562	15,825

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

As part of repurchase agreements and securities lending transactions, HVB Group has received security that it may sell on or pledge on at any time without the security provider having to be in arrears. The fair value of this security is €22.4 billion.

HVB Group has actually sold or pledged on €9.9 billion of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

Other Information (Continued)

84 Information on relationships with related parties

Besides the relationships with consolidated, affiliated companies, there are a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies as a result of the integration of HVB into the UniCredit group of companies. The quantitative information in this regard can be found in the notes to the balance sheet.

In the course of the integration of HVB into the UniCredit group of companies, HVB has been assigned the role of centre of competence for markets and investment banking for the entire corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via HVB.

In connection with its role as centre of competence for markets and investment banking, HVB acquired UniCredit CAIB AG and its UniCredit CAIB Securities UK Ltd. subsidiary from UniCredit Bank Austria AG during 2010. Details of this intra-group transaction can be found in the note regarding the group of companies included in consolidation.

With due regard to the statutory and supervisory requirements, HVB is integrated in UniCredit's liquidity management system in which the clearing of liquidity positions is performed across the entire corporate group. Within the framework of this liquidity management, HVB also performs liquidity management for its subsidiaries.

Like other affiliated companies, UniCredit Bank AG 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 services by means of a service level agreement. UniCredit Bank AG incurred expenses of €433.3 million for these services during 2010. This was offset by income of €10.1 million from services rendered and internal charges. Moreover, software products worth €24.6 million were purchased from UniCredit Global Information Services S.C.p.A.

Furthermore, UniCredit Bank AG 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. UniCredit Bank AG incurred expenses of €82.5 million for these services during 2010. This was offset by income of €8.1 million from services rendered and internal charges.

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

The Annual General Meeting of Shareholders of 23 May 2006 invoked the so-called opting-out clause under the Act concerning the Disclosure of Management Board Remuneration was used and adopted a resolution whereby the information required in Section 285 (1) No. 9a and (5) to (9) and Section 314 (1) No. 6a (5) to (9) HGB is not to be disclosed in our annual and consolidated financial statements for the financial years 2006 to 2010, at the latest until 22 May 2011. Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed anymore. Consequently, the compensation paid to members of the Management Board is not shown on an individualised basis.

Emoluments paid to members of the Supervisory Board and Management Board (€ millions)

	FIXED COMPENSATION		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVES[1]		TOTAL	
	2010	2009	2010	2009	2010	2009	2010	2009
Management Board of UniCredit Bank AG	3	3	2[2]	2[2]	1[3]	1[4]	6[5]	6[5]
Supervisory Board of UniCredit Bank AG								
for Supervisory Board activities	1	1	2[6]	—[6]	—	—	3[6]	1[6]
Former members of the Management Board								
of UniCredit Bank AG and their surviving dependants							2	10
Transitional allowances for former members								
of the Management Board							2	4

1 cash value of the share-based compensation
2 the profit-related components for 2010 are generally deferred over two years, as was also the case in 2009, with disbursement in subsequent years dependent on defined company targets being met
3 prorated disclosure of the long-term incentive plans for 2005 to 2008. No long-term incentive plan has been set up for 2010 to date
4 prorated disclosure of the long-term incentive plans for 2005 to 2008. A long-term incentive cash plan was set up for 2009, with disbursement in 2013 dependent on targets being met
5 the accrued taxes and lawyer fees of €0.4 million (2009: €2.6 million) relating to pending legal disputes have been advanced to executives as part of the insurance benefits arising from a corporate Directors and Officers insurance policy
6 the profit-related component of €1.7 million for the 2009 financial year was disbursed in 2010. Added to this is a profit-related component of €0.3 million for the 2010 financial year, provided the Annual General Meeting of Shareholders adopts a resolution regarding the profit available for distribution as proposed

The full Supervisory Board has been responsible for setting the total remuneration paid to the individual members of the Management Board. Direct compensation has three components and comprises fixed and variable elements: fixed compensation, variable compensation as an incentive with a profit-related component (short-term incentive) and a long-term incentive.

Besides direct remuneration, Management Board members have received pension commitments. Seven members of the Management Board (one of whom left the Bank during the year and one of whom joined the Bank during the year) took part in the fund-linked deferred compensation scheme (FDC) in 2010, which is also available to the Bank's employees. The Bank will provide, or has provided, 20% of the fixed salary and the short-term disbursed as contributions; this is subject to a cap of €200,000 per financial year for four members of the Management Board, a cap of €120,000 per financial year for two members of the Management Board and a total of €120,000 per financial year for one member of the Management Board. It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

Details of share-based compensation (number)

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	
Options	
Stock options 2009	—[1]
Stock options 2010	—[2]
Performance shares	
Performance shares 2009	—[1]
Performance shares 2010	—[2]
Additional information: one member of the Management Board was granted 19,063 performance shares in the 2010 financial year at the end of the vesting period (equivalent to €41,223.74 at the time of granting). These performance shares were already disclosed in the full amount of 32,300 units in the 2006 Annual Report.	

1 long-term incentive: no long-term incentive plan based on options and performance shares was set up for the 2009 financial year; a cash-based plan was set up instead
2 long-term incentive: no long-term incentive plan has been set up for the 2010 financial year to date

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

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

Compensation paid to members of the Management Board or employees of HVB for positions on supervisory boards of Group companies is surrendered to the Bank.

A sum of €89,100 was transferred to provisions for pensions in the 2010 financial year to cover the commitments made to the members of the Management Board; this relates to the deferred compensation invested in a fund.

Compliant with IFRS, the provisions for pensions payable to retired members of the Management Board, including the commitments transferred to HVB Trust Pensionsfonds, totalled €120 million (2009: €121 million) for retired members of the HVB Management Board.

Compliant with Section 285, HGB, the provisions for pensions payable to former members of the Management Board and their surviving dependants totalled €33 million (2009: €23 million) at HVB at 31 December 2010.

Following the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG, the payments made to former members of the Management Board and their surviving dependents totalled €1.7 million in 2010 (2009: €9.8 million, including the pension commitments transferred to HVB Trust Pensionsfonds).

Other Information (Continued)

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2010:

(€)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION[4]	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Sergio Ermotti, Chairman	60,000.00	—	30,000.00	90,000.00	61,515.00[3]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00	—	22,500.00	67,500.00	67,500.00
Gerhard Bayreuther[1]	21,780.82	19,965.75	10,890.41	52,636.98	52,636.98
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[3]
Beate Dura-Kempf	30,000.00	—	15,000.00	45,000.00	45,000.00
Paolo Fiorentino[1]	21,780.82	—	10,890.41	32,671.23	22,330.79[3]
Giulio Gambino[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Klaus Grünewald	30,000.00	—	15,000.00	45,000.00	45,000.00
Karl Guha[1]	21,780.82	—	10,890.41	32,671.23	22,330.79[3]
Beate Mensch[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[3]
Roberto Nicastro[1]	21,780.82	—	10,890.41	32,671.23	22,330.79[3]
Klaus-Peter Prinz[2]	8,219.18	—	4,109.59	12,328.77	12,328.77
Panagiotis Sfeliniotis[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Professor Hans-Werner Sinn[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Jutta Streit	30,000.00	—	15,000.00	45,000.00	45,000.00
Michael Voss[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Jens-Uwe Wächter	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00	—	15,000.00	45,000.00	45.000,00
Total	**594,246.56**	**157,465.75**	**297,123.28**	**1,048,835.59**	**943,436.77[3]**

1 member until 22 September 2010
2 member since 22 September 2010
3 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
4 subject to a resolution adopted by the Annual General Meeting of Shareholders regarding the appropriation of profit available for distribution

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2009: (€)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Alessandro Profumo, Chairman[1]	4,931.51	—	15,070.68	20,002.19	13,671.50[9]
Sergio Ermotti, Chairman[2]	47,534.24	—	145,264.66	192,798.90	131,778.06[9]
Peter König, Deputy Chairman	37,500.00	27,500.00	114,600.00	179,600.00	179,600.00
Dr Lothar Meyer, Deputy Chairman[3]	26,232.88	55,000.00	80,167.67	161,400.55	161,400.55
Dr Wolfgang Sprissler, Deputy Chairman[4]	33,801.37	—	103,296.99	137,098.36	137,098.36
Gerhard Bayreuther	25,000.00	27,500.00	76,400.00	128,900.00	128,900.00
Aldo Bulgarelli	25,000.00	27,500.00	76,400.00	128,900.00	88,103.15[9]
Beate Dura-Kempf	25,000.00	—	76,400.00	101,400.00	101,400.00
Paolo Fiorentino	25,000.00	—	76,400.00	101,400.00	69,306.90[9]
Dario Frigerio[5]	2,465.75	—	7,535.34	10,001.09	6,835.74[9]
Giulio Gambino	25,000.00	—	76,400.00	101,400.00	101,400.00
Klaus Grünewald	25,000.00	—	76,400.00	101,400.00	101,400.00
Karl Guha[6]	22,534.25	—	68,864.66	91,398.91	62,471.14[9]
Ranieri de Marchis[7]	13,972.60	15,369.86	42,700.27	72,042.73	49,241.21[9]
Beate Mensch	25,000.00	—	76,400.00	101,400.00	101,400.00
Marina Natale[8]	11,027.40	11,828.77	33,699.73	56,555.90	38,655.95[9]
Roberto Nicastro	25,000.00	—	76,400.00	101,400.00	69,306.90[9]
Vittorio Ogliengo[5]	2,465.75	—	7,535.34	10,001.09	6,835.74[9]
Panagiotis Sfeliniotis	25,000.00	—	76,400.00	101,400.00	101,400.00
Professor Hans-Werner Sinn	25,000.00	—	76,400.00	101,400.00	101,400.00
Jutta Streit	25,000.00	—	76,400.00	101,400.00	101,400.00
Michael Voss	25,000.00	—	76,400.00	101,400.00	101,400.00
Jens-Uwe Wächter	25,000.00	—	76,400.00	101,400.00	101,400.00
Dr Susanne Weiss[6]	22,534.25	—	68,864.66	91,398.91	91,398.91
Total	**550,000.00**	**164,698.63**	**1,680,800.00**	**2,395,498.63**	**2,147,204.11[9]**

1 member and chairman until 5 February 2009
2 chairman since 5 February 2009
3 deputy chairman until 5 February 2009
4 member and deputy chairman since 5 February 2009
5 member until 5 February 2009
6 member since 5 February 2009
7 member until 23 July 2009
8 member since 24 July 2009
9 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Bank's Articles of Association. The currently applicable arrangements under these articles are based on a resolution adopted by the Extraordinary Shareholders' Meeting on 22 September 2010; the arrangements are applicable for the whole of the 2010 financial year. The compensation is divided into a fixed and a variable, dividend-dependent component. Under the terms of the arrangements, the members of the Supervisory Board each receive fixed compensation of €30,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share, but no more than €15,000. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the members of the Audit Committee each receive fixed annual compensation of €27,500 upon conclusion of the financial year. The chairman of the Audit Committee receives twice this amount. The members of the Remuneration & Nomination Committee receive no separate compensation for committee work. Furthermore, every member of the Supervisory Board and every member of the Audit Committee receives meeting compensation of €250 for attending a meeting of the Supervisory Board or the Audit Committee. In addition, the members of the Supervisory Board are reimbursed all reasonable expenses and the value-added tax payable on their Supervisory Board functions. Where they sit on the Management Committee of UniCredit S.p.A., the members of the Supervisory Board transfer to UniCredit S.p.A. the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty. Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the financial year receive pro rata compensation. The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2010, expense allowances totalling €48,491.80 were paid to members of the Supervisory Board. No remuneration was paid in the 2010 financial year for services provided personally.

Other Information (Continued)

The total amount of loans and advances made to, and liabilities assumed for, related parties (members of the Supervisory Board and Management Board of HVB and members of the Executive Management Committee of UniCredit) at the balance sheet date was as follows: (€ millions)

	2010	2009
Management Board of UniCredit Bank AG	2	1
Supervisory Board of UniCredit Bank AG	4	5
Members of the Executive Management Committee	0	0

Interest is payable at usual market rates on all loans and advances extended to the groups of people listed above.

85 Fees paid to the independent auditors

The following table shows the breakdown of fees of €14 million recorded as expense in the year under review, as paid to the independent auditors KPMG AG, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group: (€ millions)

	2010[1]	2009[2]
Fee for auditing of the financial statements	6	7
Other auditing and appraisal services	3	4
Tax advisory services	—	—
Other services	5	5

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

86 Employees

Average number of people employed by us

	2010	2009
Employees (excluding trainees)	20,038	19,788
Full-time	14,936	15,496
Part-time	5,102	4,292
Trainees	1,062	1,096

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				
31 years or more	9.0	10.6	9.7	10.2
from 21 years to less than 31 years	19.5	18.4	19.0	19.1
from 11 years to less than 21 years	39.6	30.6	35.4	35.6
less than 11 years	32.0	40.4	35.8	35.2

87 Offices

Offices, broken down by region

	1/1/2010	ADDITIONS NEW OPENINGS	REDUCTIONS CLOSURES	 CONSOLIDATIONS	CHANGE IN CONSOLIDATED GROUP	31/12/2010
Germany						
Baden-Wuerttemberg	33	2	—	—	—	35
Bavaria	458	8	—	1	32	497
Berlin	15	1	—	—	—	16
Brandenburg	8	—	—	—	—	8
Bremen	7	—	—	—	—	7
Hamburg	40	1	—	1	2	42
Hesse	17	1	1	—	1	18
Lower Saxony	31	—	1	—	—	30
Mecklenburg-Western Pomerania	9	—	1	—	1	9
North Rhine-Westphalia	26	2	—	—	—	28
Rhineland-Palatinate	26	1	2	—	—	25
Saarland	10	—	—	—	—	10
Saxony	15	4	—	—	—	19
Saxony-Anhalt	11	—	—	—	—	11
Schleswig-Holstein	65	4	—	—	—	69
Thuringia	10	1	—	—	—	11
Subtotal	**781**	**25**	**5**	**2**	**36**	**835**
Other regions						
Austria	7	3	—	1	2	11
Other western Europe	29	1	1	—	9	38
Africa	1	—	—	—	—	1
Americas	18	—	—	—	4	22
Asia	16	1	—	—	3	20
Subtotal	**71**	**5**	**1**	**1**	**18**	**92**
Total	**852**	**30**	**6**	**3**	**54**	**927**

88 List of holdings pursuant to Section 313 HGB

The separate list of holdings drawn up in compliance with Section 313 (2), HGB, contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not, together with other holdings. The list also includes selected holdings of less than 20% and fully consolidated special purposes entities without shareholding of UniCredit Bank AG compliant with IAS 27 in connection with SIC 12.

Other Information (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
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]

		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
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

Other Information (Continued)

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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

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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

Other Information (Continued)

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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]

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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			

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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			

Other Information (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

Other Information (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.

Other Information (Continued)

89 Members of the Supervisory Board

Sergio Ermotti until 1 March 2011	**Chairman**
Federico Ghizzoni since 2 March 2011 Chairman since 4 March 2011	**Chairman**
Peter König	**Deputy Chairman**
Dr Wolfgang Sprissler	**Deputy Chairman**
Gerhard Bayreuther until 22 September 2010	**Members**
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	

90 Members of the Management Board

Peter Buschbeck	Family & SME division[1]
Lutz Diederichs	Corporate & Investment Banking division
Rolf Friedhofen until 31 May 2010 Peter Hofbauer since 1 November 2010	Chief Financial Officer (CFO)
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 to 31 October 2010, provisionally
3 formerly Wealth Management division; renamed Private Banking division on 1 April 2010

Munich, 11 March 2011

UniCredit Bank AG
The Management Board

Buschbeck Diederichs Hofbauer Laber

Varese Dr Weimer Wölfer

Statement by the Management Board

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

Munich, 11 March 2011

UniCredit Bank AG
The Management Board

Buschbeck Diederichs Hofbauer Laber

Varese Dr Weimer Wölfer

Auditors’ Report

We have audited the consolidated financial statements prepared by UniCredit Bank AG, Munich, comprising the balance sheet, the consolidated income statement, statement of other comprehensive income, statement of changes in shareholders’ equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch “German Commercial Code”] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, 14 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski	Pfeiffer
Wirtschaftsprüfer	Wirtschaftsprüfer

For whatever life brings

Corporate Governance

Supervisory Board, Trustees, Management Board

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] 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[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] 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

Supervisory Board, Trustees, Management Board (Continued)

Supervisory Board Committees[3]

Remuneration & Nomination Committee
Sergio Ermotti, until 1 March 2011
Federico Ghizzoni, since 4 March 2011
Peter König
Dr Wolfgang Sprissler

Audit Committee
Dr Lothar Meyer, Chairman
Gerhard Bayreuther, until 22 September 2010
Aldo Bulgarelli
Peter König
Marina Natale

Negotiating Committee (until 22 September 2010)
Sergio Ermotti
Peter König
Dr Lothar Meyer
Michael Voss

Ad-hoc Committee
Aldo Bulgarelli
Peter König
Dr Lothar Meyer
Jens-Uwe Wächter

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Dieter Knauer
Managing director of Immobilien Freistaat Bayern, Munich
until 30 September 2010

Bernd Schreiber
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Markt Schwaben
since 1 October 2010

Deputies

Dr Alexander Didczuhn
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Munich
since 1 October 2010

Dr Ulrich Klein
Ministerialdirigent in the Bavarian State Ministry of Finance, Munich

Bernd Schreiber
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Markt Schwaben,
until 30 September 2010

3 see also comments in the Report of the Supervisory Board

Management Board

NAME	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Peter Buschbeck Born 1961 Family & SME division[4]	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 Born 1962 Corporate & Investment Banking division	Deutsche Schiffsbank AG, Bremen/Hamburg Köhler & Krenzer Fashion AG, Ehrenberg	UniCredit Leasing S.p.A., Bologna (Italy)
Rolf Friedhofen Born 1958 Chief Financial Officer (CFO) until 31 May 2010	HVB Immobilien AG, Munich (Deputy Chairman)[2], until 31 May 2010 HVB Trust Pensionsfonds AG, Munich, until 31 May 2010	Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2], until 31 May 2010
Peter Hofbauer Born 1964 Chief Financial Officer (CFO) 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 Born 1953 Human Resources Management Global Banking Services	Internationales Immobilien-Institut GmbH, Munich[2] HVB Immobilien AG, Munich (Chairman)[2] HVB Trust Pensionsfonds AG, Munich (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 Born 1964 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2]	UniCredit Credit Management Bank S.p.A., Verona, since 1 August 2010 Wealth Management Capital Holding GmbH, Munich[2]
Dr Theodor Weimer Born 1959 Board Spokesman, Chief Financial Officer (CFO)[5]	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 Born 1961 Private Banking division[6]		Schoellerbank AG, Vienna (Chairman) UniCredit Luxembourg S.A., Luxembourg (Chairman)[2] Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2] UniCredit Private Banking S.p.A., Turin (Italy), until 1 November 2010

1 as of 31 December 2010
2 Group directorship
4 formerly Retail division; the division was renamed Family & SME on 1 January 2011 after resegmentation
5 from 1 June 2010 to 31 October 2010, provisionally
6 formerly Wealth Management division; renamed Private Banking division on 1 April 2010

Women's Advisory Board

Patrons:
Dr Theodor Weimer, spokesman of the Bank's Management Board and Country Chairman Germany
Dr Susanne Weiss, attorney and member of the Bank's Supervisory Board

In December 2009, HVB became the first bank in Germany to form its own Women's Advisory Board. Besides dealing with feedback and comments and regularly discussing economic and social issues relating to women, the Advisory Board looks at ways of improving the position of women in the financial sector, among other things. The Women's Advisory Board also helps the Bank to make better provision for the specific needs of female customers and employees. The Advisory Board is specifically empowered by the Management Board of HVB to make recommendations and launch its own initiatives. The members – 30 or so female entrepreneurs and managers – meet for plenary sessions at least twice a year and also collaborate in workgroups when drawing up the initiatives. For current information about the HVB Women's Advisory Board, visit www.hvb-frauenbeirat.de.

Dr Dadja Altenburg-Kohl
Member of the Management Board of Kohl Medical AG, Merzig

Dr Christine Bortenlänger
Member of the Management Board of Bayerische Börse AG, Munich

Evi Brandl
Managing director of Vinzenz Murr GmbH, Munich

Stephanie Czerny
Managing director of DLD Media GmbH, Munich

Angelika Diekmann
Manager, publisher of Verlagsgruppe Passau GmbH, Passau

Britta Döttger
Head of Group Treasury of SGL Carbon SE, Wiesbaden

Nina Hugendubel
Managing director of H. Hugendubel GmbH & Co. KG, Munich

Andrea Karg
Designer, managing director of ALLUDE GmbH, Munich

Sabine Kauper
Chief Financial Officer of Phoenix Solar AG, Sulzemoos

Ines Kolmsee
Chief Executive Officer of SKW Stahl-Metallurgie Holding AG, Unterneukirchen

Dr Marita Kraemer
Member of the Management Board of Zurich Group Germany, Frankfurt am Main

Anja Krusel
Senior Director Finance and Administration of Microsoft GmbH, Unterschleissheim

Andrea Kustermann
CFO/Finance Management & Controlling of the Obermaier Group, Munich

Dr Christine Ffr. von Münchhausen
Attorney/mediator,
consulting, training, coaching & mediation, Pullach

Andrea Neuroth
Head of Finance of KION Group GmbH, Wiesbaden

Kristina Gräfin Pilati
Attorney and notary, Pilati + Partner Rechtsanwälte, Frankfurt am Main

Professor Susanne Porsche
Managing director of Summerset GmbH, Munich

Monika Rödl-Kastl
Managing partner of Rödl & Partner GbR, Nuremberg

Sabine Schaedle
Vice president of BMW Bank GmbH, Munich

Annette Schnell
Owner of Dr. Schnell Chemie GmbH, Munich

Alexandra Schöneck
Managing director of Alexandra Schöneck Schatzmeisterei, Munich

Alexandra Schörghuber
Chairwoman of the Foundation Board of Schörghuber Stiftung & Co. Holding KG, Munich

Maria-Theresia von Seidlein
Managing director of VS Management GmbH, Munich

Gabriele Strehle
Head designer of Strenesse AG, Nördlingen

Claudia Strittmatter
Senior Manager Corporate Finance of Wacker Chemie AG, Munich

Ildikó M. Várady
Head of Finance of Krauss-Maffei Wegmann GmbH & Co. KG, Munich

Gabriele Zedlmayer
Vice President Global Social Innovation & Global Citizenship of
Hewlett Packard International, Zurich

Report of the Supervisory Board

In 2010, as in previous years, the Supervisory Board again paid close attention to the work of the Management Board. The Supervisory Board advised the Management Board on the running of the Bank in line with the rights and obligations imposed on it by law, the Bank's Articles of Association and its internal regulations, and monitored its management of the Bank. The Supervisory Board was consulted on all major decisions and, whenever necessary, granted its approval after detailed consultations.

The Management Board kept the Supervisory Board informed regularly, promptly and comprehensively about the performance and economic situation of the Bank, the planning and budget process, the risk situation and risk management as well as compliance-related issues. This happened primarily during the meetings of the Supervisory Board and its committees, but also in writing at other times. Furthermore, the Chairman of the Supervisory Board was in constant, close contact with the Board Spokesman and was kept continually informed about the current business situation, major transactions and decisions taken by the Management Board.

Focus of discussion during the plenary sessions of the Supervisory Board

The Supervisory Board met at eight plenary sessions last year (four in the first half and four in the second half of 2010), three of which were extraordinary meetings. Furthermore, 44 of its resolutions were adopted by written circular, 35 of which concerned approval for lending transactions with companies in compliance with Section 136 of the Italian Banking Act (Testo Unico Bancario – TUB). This banking supervisory regulation which, in essence, is similar to Section 15 ("Loans to executives and Board members") of the German Banking Act (Kreditwesengesetz – KWG) primarily aims at preventing abuse of special privileges granted to corporate officers.

In 2010, the Supervisory Board focused on the strategic orientation and performance of the Bank in an environment that remained difficult and highly volatile. It was also concerned to a considerable extent with internal proceedings and events in the Bank.

At its first meeting in 2010 (3 February), the Supervisory Board had the Management Board report to it in detail on the UniCredit-wide One4C project and the resulting planned resegmentation of the Retail, Corporate & Investment Banking and Private Banking divisions. The changes were discussed in depth with the Management Board. With the goal of aligning structures to customers and their needs, adjustments were made in the allocation of customers to these divisions.

In the course of establishing the new segment structures, the Retail division was broken down into two sales departments, one for retail customers and the other for small and medium-sized enterprises, and thus renamed the Family & SME division (F&SME) with effect from 1 January 2011.

At the February meeting, the Supervisory Board also addressed another strategically important measure, namely the purchase of UniCredit CAIB AG, Vienna, and discussed this acquisition in detail with the Management Board. For the assessment of this transaction, which represents a further step in pooling the UniCredit-wide investment activities within HVB, the Management Board provided the Supervisory Board with extensive documentation. In addition to the contract documents, this included the valuation report prepared by an independent auditor as well as the legal opinion of a firm of solicitors. Moreover, in the run-up to the meeting the Supervisory Board had the opportunity in preliminary discussions of the shareholder and employee representatives to gather information about this transaction and its effects.
At the Supervisory Board meeting, the documents were explained in detail by the Management Board as well as representatives of the auditor and the firm of solicitors. An intensive discussion took place and further questions from Supervisory Board members were answered. Subsequent to the meeting, the Supervisory Board approved the acquisition of UniCredit CAIB AG followed by its absorption by UniCredit Bank AG by written circular. To avoid potential conflicts of interest on the part of members also sitting on the Supervisory Board of UniCredit Bank Austria AG, four members of the Supervisory Board abstained from voting on this resolution. The Management Board also informed the Supervisory Board that one member of the Management Board would not be voting on this transaction at the Management Board meeting owing to possible conflicts of interest. The merger took effect on 1 July 2010.

At the meeting devoted to the annual financial statements on 11 March 2010, the 2009 annual and consolidated financial statements were discussed in detail and respectively approved or adopted by the Supervisory Board. Furthermore, the Supervisory Board was informed at this meeting by the Management Board about the 2010 annual budget and the business and risk strategies. The performance of the Bank and the individual divisions was then also the topic of extensive discussions at the other meetings of the Supervisory Board in July (presentation of the Half-yearly Financial Report) and November (Interim Report at 30 September). On the basis of suitable documents, in particular the Half-yearly Financial Report and the Interim Reports, the Management Board provided information on the current business development of the Bank and any deviations from budgets or planning.

Report of the Supervisory Board (Continued)

Other topics of discussion were the net write-downs of loans and provisions for guarantees and commitments, which had decreased in 2010 compared with the previous year as a result of the economic recovery, and the liquidity situation, as well as the economic environment, which was subject to uncertainties due to the debt crisis of some European states.

Another topic which the Supervisory Board intensively examined during the year under review was the EuroSIG project, which was established to introduce a uniform IT platform for UniCredit. After the scheduled start of implementation in HVB was postponed to gain more time to ensure smooth operations, the Supervisory Board was informed at each of the following meetings about the current status of this project, which is of vital importance to HVB. At the Supervisory Board meeting of 29 July 2010, the Supervisory Board was informed about the roll-out of EuroSIG on the first weekend in August. The Management Board explained to the Supervisory Board that all prerequisites defined by the Management Board for the migration to the new platform were met, and that the internal and independent auditors had not expressed any arguments against the decision to have the system go live. At the Supervisory Board meeting on 22 September 2010, the Management Board reported on the successful migration together with the additional requirements defined by the German Federal Financial Supervisory Authority (BaFin) shortly before the system went live.

At the Supervisory Board meeting on 4 November 2010 and in the previous preliminary discussions of the shareholder and employee representatives, the Management Board again explained the status of implementation in great detail against the backdrop of the BaFin requirements. In an extraordinary meeting of the Supervisory Board on 25 November 2010, the Supervisory Board received detailed explanations and conducted discussions with the Management Board on the model for preparing the annual financial statements with the new IT platform, which the Management Board coordinated with the independent auditors.

Over the course of 2010, the Supervisory Board also repeatedly examined audit findings of the independent auditor and the Deutsche Bundesbank from audits that had taken place. To work through these audit findings, the Management Board initiated a project, and the Supervisory Board was informed on the status of the project on a regular basis at its meetings.

As in previous years, in 2010 the Supervisory Board again had to examine the various lawsuits filed by former shareholders. In letters dated 4 March and 11 March 2010, the Management Board informed the Supervisory Board that Munich Higher Regional Court had upheld the resolution by the Extraordinary Shareholders' Meeting of 10 November 2008 on the dismissal of the special representative and that a constitutional motion filed against the ruling by Munich Higher Regional Court dated 28 August 2009 regarding the squeeze-out of the former HVB shareholders was dismissed with no ruling. This means that the proceedings against the squeeze-out resolution of the Annual General Meeting of 26/27 June 2007 are now closed.

At its meeting on 11 March 2010, the Supervisory Board discussed in great depth the question of whether, in view of the lawsuits for damages filed by the hedge funds and the allegations raised the former special representative after his dismissal, the Supervisory Board itself has a duty to pursue claims for damages by the Bank against the Management Board in connection with the sale of Bank Austria to UniCredit S.p.A. and the acquisition of the investment banking business of UniCredit S.p.A. The Supervisory Board had its legal advisor, a highly respected firm of solicitors, provide an overview of the status of the pending lawsuits. On the basis of a comprehensive report sent to the Supervisory Board members in advance, the legal advisor explained the legal background of the allegations behind the pending lawsuits and his assessment of the various allegations. On the previous day, the Ad-hoc Committee, which was set up in 2008 in connection with these lawsuits, and thus had one meeting in 2010, also discussed this report in great detail. In the course of the in-depth discussion, the legal advisor explained that up to that point there was no evidence for the Bank to assert claims for damages against members of the Management Board in connection with the hedge fund lawsuits or the allegations made by the former special representative. Taking into account the court rulings made in the meantime in the various legal proceedings, and based on a recommendation by the ad-hoc committee, the Supervisory Board decided to wait for further developments in the pending court proceedings and to refrain from asserting any possible claims for damages against former and current Management Board members. To avoid any conflicts of interest, the deliberations were held without the Management Board attending; moreover, one member of the Supervisory Board did not take part in the deliberations or vote on the resolution, as this member is a defendant in the hedge fund lawsuit.

At the Supervisory Board meeting on 3 February 2010, the Supervisory Board had reports submitted by the Chief Risk Officer (CRO) on the new Minimum Requirements for the Risk Management of Credit Institutions (MaRisk) and on the status of implementation within HVB. The Supervisory Board was informed, among other matters, of the decision by the Management Board to set up a Remuneration Committee in accordance with the new regulatory requirements. It will be tasked with monitoring the structure of the Bank's remuneration systems to ensure that they are appropriate. On 4 November 2010, the chairman of that committee complied with the obligation to present a compensation report to the Supervisory Board at least once a year. The Supervisory Board was also notified that the Management Board had granted the chairman of the Supervisory Board a right to obtain information directly from the Remuneration Committee.

In addition, at its meeting on 11 March 2010, the Supervisory Board received a comprehensive portfolio report from the CRO. Based on the report and the documents presented, the Supervisory Board gained an overview of the development of credit risk, market risk, operational risk and liquidity risk as well as risk provisioning. The report also included the business and risk strategies of the divisions. In addition, the Bank's business strategy was presented to the Supervisory Board at this meeting. The Supervisory Board again addressed an updated overall bank strategy, in which the risk strategy is more closely linked with the business strategy, at its meeting on 29 July 2010 and discussed it in detail with the Management Board. Towards the end of the year, the Management Board also forwarded the annual personnel report to the Supervisory Board.

Finally, the Supervisory Board had to deal with executive personnel matters. As proposed by the Remuneration & Nomination Committee, the contract of one member of the Management Board was terminated by mutual agreement and a new member was appointed to the Management Board. There was no reason to inspect additional books and written documents of the Bank as defined by Section 111 of the German Stock Corporation Act (Aktiengesetz – AktG).

Corporate governance

In 2010, the Supervisory Board again examined corporate governance issues in depth.

In the course of the Bank's delisting in 2008, the Management Board and Supervisory Board decided that HVB would voluntarily comply with the provisions of the German Corporate Governance Code (the "Code") to the extent that these provisions can be applied to a non-listed company with just one shareholder.

In a letter dated 22 July 2010, the Supervisory Board was informed of the new provisions of the Code, in particular on the subject of the qualification of Supervisory Board members. The Supervisory Board concurred with the recommendation added in sub-paragraph 5.4.1 of the Code stating that specific objectives should be specified for the composition of the Supervisory Board, and at the Supervisory Board meeting on 29 July 2010 passed a resolution on a qualification profile for members of the Bank's Supervisory Board. The Supervisory Board again addressed this subject area at its meeting on 4 November 2010 with regard to the training and further education measures mentioned in sub-paragraph 5.4.1 of the Code.

As a result of the cross-border absorption of UniCredit CAIB, Vienna, by UniCredit Bank AG, the provisions of the German Co-determination Act (Mitbestimmungsgesetz) were no longer applicable when the merger was entered in the Commercial Register on 1 July 2010. Instead, the German Act on the Co-determination of Employees in Connection with a Cross-border Merger (Gesetz über die Mitbestimmung der Arbeitnehmer bei einer grenzüberschreitenden Verschmelzung – MgVG) took effect. This had an impact on the size and composition of the Supervisory Board. At an Extraordinary Shareholders' Meeting on 29 July 2010, a resolution to amend the Articles of Association was passed, reducing the number of Supervisory Board

Report of the Supervisory Board (Continued)

members from 20 to 12, with six members to be elected by the employees and six by the shareholders. The agenda for the Extraordinary Shareholders' Meeting on 29 July 2010, at which the resolution to amend the Articles of Association was adopted, was approved by the Supervisory Board by written circular. In addition, it was necessary to amend the internal regulations of the Supervisory Board. A resolution to that end was approved at the Supervisory Board meeting on 29 July 2010. At a further Extraordinary Shareholders' Meeting on 22 September 2010 a new election of shareholder representatives took place; the employee representatives were elected prior to that date in accordance with the provisions of the MgVG. The Supervisory Board approved the nominations for the Supervisory Board representatives to be elected at the Extraordinary Shareholders' Meeting by written circular. Pursuant to Section 97 (2) 3 AktG, the terms of office of all serving Supervisory Board members ended with the completion of the additional Extraordinary Shareholders' Meeting on 22 September 2010. Consequently, the terms of office of all newly elected shareholder and employee representatives began at the end of the Extraordinary Shareholders' Meeting on 22 September 2010. Since then, in accordance with the amended Articles of Association, the Supervisory Board has had 12 members.

Other changes in the Articles of Association which the Supervisory Board had to address in the 2010 financial year related to the conversion of preferred stock into common stock and the adjustment of the compensation of Supervisory Board members to reflect the changed conditions by increasing the fixed compensation components while reducing the variable compensation. The new regulations on the compensation of the Supervisory Board apply to the entire 2010 financial year. They are described in detail in the Compensation Report and broken down on an individual basis.

In accordance with the allocation of responsibilities set out in the German Act on the Appropriateness of Management Board Remuneration (Vorstandsvergütungsangemessenheitsgesetz – VorstAG), the Supervisory Board – without the Management Board members concerned – resolved on the short-term incentive payments to the Management Board members for the preceding 2009 financial year, an adjustment to the executive incentive system, which defines the basic terms for variable compensation, and the target agreements with the Management Board members for 2010 at its plenary session on 16 April 2010. These in-depth discussions were conducted with a legal advisor in attendance, and were followed by the adoption of a resolution on these matters. In the run-up to the meeting, the members of the Supervisory Board had the opportunity to have the documents provided on these matters explained at the preliminary discussions of the shareholder and employee representatives.

Subsequently, the Supervisory Board again had to discuss the employment contract and target agreements for 2010 for a new Management Board member at its meeting on 29 July 2010. Based on the explanations given and documents presented, the Supervisory Board was able to satisfy itself that the terms agreed for this Management Board member were appropriate. Further details on the compensation of Management Board members are provided in the Compensation Report comprising part of the Corporate Governance Report in this Annual Report.

At its meeting on 4 November 2010, the Supervisory Board also examined the efficiency of its work based on the German Corporate Governance Code. For this purpose, a questionnaire was sent to the members of the Supervisory Board in the run-up to the meeting. A voluntary statement of compliance was adopted by written circular in December 2010. In 2010 nine of the Code's recommendations were not followed, six of which are not applicable to a non-listed company with only one shareholder. Further details are given in the joint Corporate Governance Report by the Management Board and Supervisory Board which follows the present Report of the Supervisory Board in this Annual Report.

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. One member of the Supervisory Board attended fewer than half of the meetings held in 2010 due to prior commitments that could not be postponed during his term of office on the Board.

Main focus of committee work

The Supervisory Board had three standing committees in 2010 to support the work of the Supervisory Board (two as of 22 September 2010). A description of the tasks performed by the committees is given in the Corporate Governance Report; their composition is shown in the Supervisory Board list in this Annual Report.

Remuneration & Nomination Committee

The Remuneration & Nomination Committee met four times last year and adopted ten resolutions by written circular. In particular, it discussed executive personnel matters. A topic of discussion was also remuneration levels for the Management Board, in which details of short-term incentive payments and targets were discussed for 2010 and the adoption of the respective resolutions was prepared for the plenary session of the Supervisory Board. Moreover, the Remuneration & Nomination Committee approved loans to executives and Board members and granted approval to the Management Board members who wished to accept seats on supervisory boards of other companies.

Audit Committee

The Audit Committee had five meetings last year. Dr Lothar Meyer, former Chairman of the Management Board of ERGO Versicherungsgruppe AG, chairs this committee. In particular, the Audit Committee examined the preliminary audit of the annual financial statements and consolidated financial statements, the report on relations with affiliated companies and discussed the half-yearly Financial Report and the interim reports at 31 March and 30 September 2010. The independent auditor was present when the Half-yearly Financial Report was discussed – as he was when the annual financial statements were considered – and gave a report on the findings of the review of the data forwarded to UniCredit S.p.A. for the purpose of preparing UniCredit's Half-yearly Financial Report.

At four meetings, the committee requested the Chief Risk Officer (CRO) to submit an extensive portfolio report and had the development of credit risk, market risk, operational risk and liquidity risk explained on the basis of the documents. Against the backdrop of the debt crisis in some European countries, the committee solicited information in particular on loans provided to the countries in question and discussed the current market trends in detail. In addition, the committee focused intensively on the topic of internal capital and, at a half-day meeting on 28 July 2010, had the CRO explain the master concept for risk appetite and its effect on the business strategy and the limitation of risk as well as the determination of the Bank's risk-bearing capacity. In this context, the applied models and calculation methods for the risk types were explained. The committee was able to satisfy itself that, in general, even in a worst-case scenario, the risk-bearing capacity is adequate. The committee also repeatedly requested reports on the liquidity situation and the project for working through audit findings.

The business and risk strategies of the divisions and regular MaRisk reports were submitted to the committee in compliance with the MaRisk regulations. The new MaRisk standards, which came into effect in 2010, resulted in much more stringent requirements for credit institutions, with standards for stress tests in particular now much higher after the financial crisis. In this context, the committee had a report presented to it at its December meeting on a project initiated in this area by the Management Board with the objective of ensuring that the regulatory requirements are met as quickly as possible. Other topics discussed at length were the internal control system, the risk management system and the internal audit system. In this connection, the Audit Committee discussed especially reports of the Management Board regarding the further development of these systems. Among other things, the risk cockpit established in 2010 to control the risk management system was presented to the committee.

To prepare for the election of the independent auditor for the 2010 financial year by the Annual General Meeting, the committee assessed the independence of the proposed auditor. For this purpose, it received a detailed statement from the auditor on facts which might limit their independence. Following this, the Audit Committee reached the conclusion that the facts presented were not detrimental to the auditor's independence. Based on the documents presented and supplementary explanations, the committee was also able to satisfy itself that the audit team was appropriately qualified. The committee had the auditor explain the plan, the main points of the audit and the fee proposal, and gave the audit assignment, setting the fee. Furthermore, the committee gave its consent for the appointment of the independent auditor to perform audit-related consulting work.

The audit plan prepared by the Internal Audit department was forwarded to the committee at the beginning of 2010. The Audit Committee subsequently discussed the reports of the Internal Audit department on the audit findings for the first three quarters of 2010. Furthermore, the independent auditor's report on the annual audit of the securities account business was discussed in detail, the outcome of which was that the securities account business is conducted in due form. With regard to the effectiveness of the compliance system, which has become much more important due to the changed environment, the committee obtained an overview of the organisational structure, the strategy and the specific consulting and audit topics discussed. In addition, the committee was notified that a Compliance Assessment Managing and Planning (CAMP) process was carried out to identify compliance areas and define action items.

In addition, the committee examined a report on money laundering prevention at its meeting on 10 March 2010, a report on compliance in the securities business on 10 May 2010 and a report from the data protection officer on 4 November 2010. Moreover, the committee was informed at almost all of its meetings about the current status of the EuroSIG project and the measures taken to meet additional regulatory requirements after the roll-out of the new IT platform.

Report of the Supervisory Board (Continued)

Negotiating Committee
The Negotiating Committee, which was formed in accordance with the German Co-determination Act, was dissolved on 22 September 2010, as the composition of the Supervisory Board was no longer governed by the provisions of the German Co-determination Act following the cross-border absorption of UniCredit CAIB AG, Vienna, by UniCredit Bank AG. The committee did not have to convene in 2010 up to the time of its dissolution.

The Chairmen of the Supervisory Board committees reported to the Supervisory Board meetings on the topics discussed at the committee meetings, the results of these discussions and any votes held.

Audit and approval of the 2010 financial statements
The annual financial statements and Management Report of UniCredit Bank AG for the 2010 financial year as well as the consolidated financial statements and Management's Discussion and Analysis prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, were audited by KPMG. The independent auditor issued an unqualified opinion in both cases.

The Chairman of the Audit Committee attended the final discussion of the Management Board with the independent auditor. The documents listed above were forwarded to the Supervisory Board, together with the Management Board's proposal for the appropriation of net profit and the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The auditor reported on the findings of the audit, in particular on the internal control system and the risk management system compliant with Section 171 (1) of the German Stock Corporation Act relating to the accounting process, and provided detailed answers to the questions of the members of the Supervisory Board at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the independent auditor also stated that there were no circumstances that might be understood to impair his independence and reported on the work he had performed in addition to the audit of the financial statements.

Moreover, the Management Board explained the financial statements in detail at the meeting of the Audit Committee and the Supervisory Board. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. The Supervisory Board concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. It determined that, on the basis of its own examination of the annual financial statements, the consolidated financial statements, the Management Report and Management's Discussion and Analysis as well as the proposal for the appropriation of net profit, no objections were to be raised. At its meeting on 15 March 2011, the Supervisory Board therefore approved the annual financial statements prepared by the Management Board. Consequently, the annual financial statements were adopted. At the same meeting, the Supervisory Board also approved the consolidated financial statements prepared by the Management Board as well as the Management Board's proposal for the appropriation of net profit.

UniCredit S.p.A. (UniCredit) has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relations of HVB with affiliated companies for the 2010 financial year in accordance with Section 312 of the German Stock Corporation Act. The report contains the following concluding statement by the Management Board:

"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted."

KPMG audited this report and issued the following opinion:
"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high or disadvantages were compensated for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relations with affiliated companies and the related audit report by KPMG were also forwarded to the Supervisory Board. In the course of the preliminary audit, the Audit Committee and then the Supervisory Board considered these documents in depth at the meeting devoted to the annual financial statements. The Supervisory Board checked the information for plausibility and consistency, and carefully examined individual legal transactions between HVB and UniCredit and its affiliated companies together with other cost-generating measures initiated by UniCredit. KPMG took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. The Supervisory Board concurred with the results of the audit by KPMG after intensive deliberations. Based on the final outcome of its own examination of the report on relations of HVB with affiliated companies in the 2010 financial year prepared by the Management Board compliant with Section 312 of the German Stock Corporation Act, which did not identify any deficiencies, no objections are to be made about the final declaration of the Management Board in this report.

Personnel

On 31 May 2010, Rolf Friedhofen (Chief Financial Officer) left the Management Board by mutual consent. Peter Hofbauer was appointed to succeed him as Chief Financial Officer on the Management Board with effect from 1 November 2010. During the period from 1 June 2010 to 31 October 2010, the Board Spokesman, Dr Weimer, took temporary responsibility for the CFO unit. The Supervisory Board would like to thank Rolf Friedhofen for his work as a member of the Bank's Management Board.

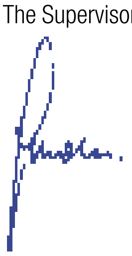
With the MgVG regulations on co-determination now applicable to the Bank, as described above, the term of office of all 20 Supervisory Board members expired at the end of the Extraordinary Shareholders' Meeting on 22 September 2010. In addition, the term of office of the newly elected Supervisory Board members began at the end of that Extraordinary Shareholders' Meeting and will extend until the end of the Annual General Meeting that will vote to approve the actions of the Management and Supervisory Boards in the 2014 financial year. Re-elected to the Supervisory Board as shareholder representatives were Aldo Bulgarelli, Sergio Ermotti, Dr Lothar Meyer, Marina Natale, Dr Wolfgang Sprissler and Dr Susanne Weiss. Shareholder representatives departing from the Supervisory Board were Paolo Fiorentino, Karl Guha, Roberto Nicastro and Professor Hans-Werner Sinn. Employee representatives elected to the Supervisory Board following the election under the provisions of the MgVG were Beate Dura-Kempf, Klaus Grünewald, Peter König, Jutta Streit and Jens-Uwe Wächter, who were re-elected, and Klaus-Peter Prinz, who was elected for the first time. Employee representatives departing from the Supervisory Board were Gerhard Bayreuther, Giulio Gambino, Beate Mensch, Panagiotis Sfeliniotis and Michael Voss. At the constituent meeting of the Supervisory Board following the Extraordinary Shareholders' Meeting, the Chairman of the Supervisory Board, Sergio Ermotti, the first Deputy Chairman, Peter König, and the other Deputy Chairman, Dr Wolfgang Sprissler, were re-elected to their offices.

At the beginning of 2011, there were other changes in the composition of the Supervisory Board. With effect from 15 January 2011, Jutta Streit resigned from office as a member of the Supervisory Board. Succeeding her is Werner Habich, who was elected as a substitute member for Jutta Streit under the provisions of the MgVG. He will serve as a member of the Supervisory Board for the remaining term of office. In addition, Sergio Ermotti resigned from his position as Chairman and member of the Supervisory Board by the end of 1 March 2011. Federico Ghizzoni was appointed his successor for the remaining term of office with effect from 2 March 2011 by an Extraordinary Shareholders' Meeting and elected Chairman of the Supervisory Board on 4 March 2011.

The Supervisory Board would like to thank all the members who have left the Supervisory Board for their committed and valuable work on this Board. This applies in particular to the departing Chairman of the Supervisory Board, Sergio Ermotti, who was a member of the Supervisory Board in August 2006 and its Chairman from February 2009.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work in the past year. They all contributed to the Bank's good performance in a difficult and highly volatile market environment in the 2010 financial year.

Munich, 15 March 2011
The Supervisory Board



Federico Ghizzoni
Chairman

Corporate Governance and Compensation Report

For UniCredit Bank AG, good corporate governance entails the responsible management of enterprises. It is of vital importance for achieving corporate objectives and a sustained increase in company value, thus helping to increase the confidence of stakeholders in UniCredit Bank AG.

In accordance with sub-paragraph 3.10 of the German Corporate Governance Code, the Management Board and Supervisory Board report on corporate governance at UniCredit Bank AG (hereinafter referred to as "HVB" or "the Bank") in the following Corporate Governance Report.

Management Board and Supervisory Board

Management Board

The Management Board is directly responsible for managing the company and works closely with the other bodies of the company and employee representatives in the interests of the enterprise. It is obligated to acting in the interests of the company and to increasing its sustainable value. Within the framework of its leadership function, it is responsible for corporate planning and strategic orientation, and for ensuring adequate risk management and risk control.

The members of the Management Board are jointly responsible for managing the Bank. They work together cooperatively and inform each other about important business events and developments in their respective areas of responsibility. The matters reserved for the Management Board and the respective segment responsibilities on the Bank's Management Board are specified in a schedule of responsibility, which forms part of the Management Board's internal regulations. The Management Board's internal regulations also specify the details of the work within the Management Board and the requirements for adopting resolutions and the required majorities.

The Management Board generally adopts resolutions during meetings that are supposed to be held at least twice a month. As a general rule, Management Board meetings are held every week. Any member may request a meeting be convened, citing the matter for discussion. In addition to this, resolutions may also be adopted outside of meetings. The Management Board is responsible for preparing the annual financial statements of HVB and the consolidated financial statements, and for preparing the interim reports and the half-yearly financial report. The Management Board is also responsible for ensuring compliance with the statutory provisions and internal guidelines and encouraging group companies to ensure compliance as well. The Bank's Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning, including any deviation from plans, strategic development, the course of business and the state of the Bank, including the risk situation as well as compliance issues.

When appointing people to management positions in the Bank, the Management Board takes account of diversity and seeks in particular to ensure that women are adequately represented through mechanisms such as the Women's Advisory Board and special mentoring programmes for women.

The Bank's Management Board currently consists of seven members. The segment responsibilities on HVB's Management Board match HVB's organisational structure, which is divided into customer groups (business divisions) and functions. The Management Board consists of the Board Spokesman, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Head of Human Resources Management (HRM), who is also responsible for Global Banking Services (GBS) and labour relations and social affairs (Director of Labour Relations according to German Co-determination Act until 1 July 2010) together with the heads of the operating divisions: Family & Small and Medium-Sized Enterprises (Familiy & SME; Retail prior to 2011), Private Banking (PB) and Corporate & Investment Banking (CIB). The Management Board consisted of only six members in the period from 1 June 2010 to 31 October 2010 – the Board Spokesman was simultaneously responsible for the CFO segment during this period.

The Board Spokesman, Dr Weimer, is simultaneously a member of the Executive Business Committee of UniCredit S.p.A. as Country Chairman Germany. As the member of the Management Board responsible for the Private Banking division, Mr Wölfer is simultaneously a member of the Executive Business Committee of UniCredit S.p.A. as Head of Private Banking UniCredit S.p.A., while Mr Buschbeck (the member of the Management Board responsible for the Family & SME division) is simultaneously a member of the Executive Business Committee of UniCredit S.p.A. in the function of Head of Family & Small and Medium-Sized Enterprises Germany. The member of the Management Board responsible for the Corporate & Investment Banking division, Mr Diederichs, is also a member of the Executive Business Committee of UniCredit S.p.A. in the function of Head of CIB Network Germany. The members of the Executive Business Committee have an advisory function at the level of the holding company, where they also represent the interests of HVB.

The compensation paid to members of the Management Board is shown in detail in the Compensation Report below.

Supervisory Board

The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business. It is directly involved in decisions that are of fundamental importance for the Bank. The Management Board informs the Supervisory Board at regular intervals about business policy as well as fundamental issues regarding the Bank's financial, earnings and assets position, its risk position, risk management and risk control. At least once a year, it receives a report on corporate planning. The Supervisory Board appoints and dismisses the members of the Management Board. The Supervisory Board sets the total remuneration payable to the individual members of the Management Board as proposed by the Remuneration & Nomination Committee, adopts the remuneration system for the Management Board, complete with the key contractual elements, and reviews this at regular intervals. The Supervisory Board has adopted by-laws specifically defining the details of the work within the Supervisory Board, the creation and tasks of committees and the tasks of the chairman. In addition, the by-laws state that certain types of transaction require the approval of the Supervisory Board. Once a year, the Supervisory Board examines the efficiency of its work, including its collaboration with the Management Board.

The chairman of the Supervisory Board coordinates the work of the Supervisory Board. He maintains contact with the Management Board, notably with the Board spokesman, and discusses the Bank's strategy, performance and risk management with the Management Board. The Management Board spokesman informs him immediately about events that are important for assessing the Bank's position and development and for managing the company. In accordance with Article 13 (2) of the Bank's Articles of Association, the chairman may under certain circumstances have two votes on Supervisory Board resolutions.

The compensation paid to members of the Supervisory Board is shown in detail in the Compensation Report below.

New co-determination rules applicable for the Supervisory Board

As a result of the cross-border absorption of UniCredit CAIB AG, Vienna, by HVB on 1 July 2010, the co-determination rules specified in the German Act on the Co-determination of Employees in Connection with a Cross-border Merger (Gesetz über die Mitbestimmung der Arbeitnehmer bei einer grenzüberschreitenden Verschmelzung – MgVG) are applicable for the composition of the Supervisory Board and no longer the provisions of the German Co-determination Act (Mitbestimmungsgesetz – MitbestG). The Management Board has carried out the status procedure regarding the composition of the Supervisory Board defined in Section 97 et seq. of the German Stock Corporation Act (AktG). Consequently, the Supervisory Board must be constituted in accordance with Sections 95 and 96 (1), AktG in conjunction with Section 24 (1) 2, MgVG. It must have equal numbers of shareholder and employee representatives, and the number of members must also be divisible by three. On this basis, the General Meeting of Shareholders of HVB held on 29 July 2010 adopted an amendment to the Articles of Association such that the number of Supervisory Board members now totals 12 (previously 20), of whom six are to be elected by the employees and six by the shareholders. The new shareholder representatives were elected during an Extraordinary Shareholders' Meeting held on 22 September 2010; the employee representatives had already been elected previously under the newly applicable provisions of the MgVG. Compliant with Section 97 (2) 3 AktG, the terms of office of all previously appointed and elected members of the Supervisory Board terminated at the conclusion of the Extraordinary Shareholders' Meeting on 22 September 2010. The terms of office of all the new members of the Supervisory Board commenced at the conclusion of this meeting and will run until the end of the General Meeting of Shareholders ratifying the actions of the Management Board and Supervisory Board in the 2014 financial year.

Composition of the Supervisory Board

The Supervisory Board is constituted primarily on the basis of the relevant legal provisions, the German Corporate Governance Code, the by-laws of the Supervisory Board and in line with the objectives defined in sub-paragraph 5.4.1 of the German Corporate Governance Code regarding its composition.

According to Section 36 (3) of the German Banking Act (Kreditwesengesetz – KWG), the members of the Supervisory Board must be fit and proper persons and must possess the knowledge and skills required to perform the control function and to assess and monitor the Bank's commercial activities.

The Supervisory Board's by-laws essentially contain the following regulations regarding its composition: An adequate number of independent members should sit on the Supervisory Board. In addition, no more than two former members of the Management Board may sit on the Supervisory Board. It must also be ensured that no members of the Supervisory Board serve on governing bodies or perform advisory functions for key competitors of the Bank. The members of the Supervisory Board should also make sure that they have enough time available to perform their functions properly. Members of the Supervisory Board should not normally be more than 70 years old.

Corporate Governance and Compensation Report (Continued)

Objectives of the Supervisory Board regarding its composition
At its meeting on 29 July 2010, the Supervisory Board adopted the following objectives regarding its composition in line with sub-paragraph 5.4.1 of the German Corporate Governance Code:

– The Supervisory Board of HVB should be composed in such a way that the Management Board can be effectively monitored and advised by the Supervisory Board.
  Its members as a group should possess the knowledge, ability and expert experience required to properly complete the Supervisory Board's task, such that all the capabilities required for the Bank's Supervisory Board are represented on the Supervisory Board. The necessary general knowledge and experience should be supplemented in this way with regard to the Bank's specific situation and orientation. The general knowledge that every member is expected to possess specifically includes theoretical knowledge and practical experience in the following areas: legal principles and compliance, corporate accounting and risk control.
  The candidates proposed for election should, by virtue of their integrity and personality, be in a position to perform the tasks of a member of the Supervisory Board in a commercial bank with international operations.
  The members of the Supervisory Board shall on their own take on the necessary training and further education measures required for their tasks, with appropriate support from the Bank.

– Furthermore, diversity should be taken into consideration when proposing candidates for election. In other words, the Supervisory Board should include an appropriate proportion of women and members with international professional experience or an international cultural background.

The current composition of the Supervisory Board of HVB already meets these objectives. The idea is to continue satisfying these objectives with the composition of the Supervisory Board into the future. With Marina Natale and Dr Susanne Weiss as shareholder representatives and Beate Dura-Kempf as an employee representative, 25% of the Supervisory Board members are female, even after the departure of Jutta Streit at the start of 2011.

A list of members of the Supervisory Board, complete with information on their professions and an overview of their positions on other supervisory boards or comparable boards required by law, is published in the section of the present Annual Report entitled Corporate Governance and in the notes to the annual financial statements in the Annual Report of HVB.

Supervisory Board committees

To support its work, the Bank's Supervisory Board has set up three standing committees (two standing committees as of 22 September 2010) in 2010. The chairmen of the committees report in detail on the committees' activities at plenary meetings of the Supervisory Board. Information on the committees' work over the last financial year is provided in the Report of the Supervisory Board in the present Annual Report.

The composition and tasks of the committees are as follows:

Remuneration & Nomination Committee
The Remuneration & Nomination Committee, comprised of the chairman of the Supervisory Board and the two deputy chairmen, is primarily concerned with succession planning for the Management Board, preparing the resolutions of the Supervisory Board regarding the structure of Management Board remuneration and the process of setting the total remuneration of the individual members of the Management Board.

Audit Committee
The Audit Committee, which generally conducts five meetings each year, had five members until 22 September 2010, since when it has had four members. Compliant with Section 107 (4) in conjunction with Section 100 (5) of the German Stock Corporation Act, the Audit Committee has at least one independent member with expert knowledge in the field of accounting or auditing.

The Chairman of the Audit Committee, Dr Lothar Meyer, has particular knowledge and experience in the application of accounting principles and internal control procedures, as required by sub-paragraph 5.3.2 of the German Corporate Governance Code. Furthermore, he is independent and not a former member of the Bank's Management Board whose appointment ended less than two years ago. Neither is Dr Lothar Meyer the same person as the Chairman of the Supervisory Board, meaning that the suggestion made in sub-paragraph 5.2 of the German Corporate Governance Code has also been met.

The major functions of the Audit Committee include preparing the Supervisory Board's decision on the approval of the annual financial statements and the consolidated financial statements, conducting a preliminary audit on the report on relationships with affiliated companies and elucidating the half-yearly financial report and interim reports. The Audit Committee submits a recommendation to the Supervisory Board regarding the Supervisory Board's proposal for the election of the independent auditor by the Annual General Meeting of Shareholders. Its tasks in this regard include checking the necessary independence of the auditor and specifying the type and scope of the non-auditing services to be provided by the auditor. The Audit

Committee is also responsible for commissioning the auditor for the annual financial statements and the consolidated financial statements on the basis of the resolution adopted by the Annual General Meeting of Shareholders, including the specification of the main areas subject to scrutiny and the fee.

Further key tasks of the Audit Committee include monitoring the effectiveness of the internal control system (ICS) and the risk management system (RMS). In this context, the RMS is geared to identifying not only risks endangering the Bank's continued existence at an early stage but also all significant risks, including ways of managing and mitigating them. The risk situation and the early identification of risk are of fundamental importance for the Bank's continuing existence. In accordance with the Minimum Requirements for Risk Management by banks laid down by the German Financial Supervisory Authority, risk reports are presented to the Audit Committee each quarter. In addition to this, key information from the risk point of view is passed on to the Audit Committee immediately. The sustainable business strategy defined by the Management Board and a risk strategy that is consistent with it are presented to both the Audit Committee and the Supervisory Board together with any necessary amendments to the strategies for consideration. This approach ensures that both the Supervisory Board and the Audit Committee are provided with detailed reports on a regular basis, particularly on the risk strategy, credit risks, market risks and operational risks as well as liquidity and reputational risks.

The main activities of the Audit Committee also include monitoring the effectiveness of the internal audit system (IAS). This involves the committee assessing whether the resources, the audit plan and the audit finding are appropriate. The Audit Committee is informed on a regular basis about any serious shortcomings identified by the Internal Audit department, significant shortcomings that have not yet been remedied and the measures that have been initiated to achieve this. The Management Board informs the Audit Committee about any particularly serious shortcomings immediately. Furthermore, the chairman of the Audit Committee has the right to request information directly from the head of the Internal Audit department upon consultation with the Management Board.

The Audit Committee has also been tasked with reviewing the effectiveness of the compliance system set up by the Management Board. At its meetings, the Audit Committee also discusses any compliance issues that may have arisen.

Negotiating Committee (until 22 September 2010)

The Negotiating Committee set up in accordance with Section 27 (3) of the German Co-determination Act, which had two shareholder representatives and two employee representatives, was responsible for submitting proposals to the Supervisory Board pertaining to the appointment or dismissal of members of the Management Board when a vote by the Supervisory Board did not yield the necessary two-thirds majority. The Negotiating Committee required by law did not have to meet last year. Subsequent to the absorption of UniCredit CAIB AG, Vienna by HVB, the committee was dissolved on 22 September 2010 as the composition of the Supervisory Board is no longer based on the provisions of the German Co-determination Act.

Ad-hoc Committee

The Supervisory Board has also employed an ad-hoc committee since 2008 to look at the pending lawsuits brought by former shareholders. The Report of the Supervisory Board contains information on the activities of the ad-hoc working group.

Integrity Charter, Code of Conduct, Compliance

The Integrity Charter is a common set of values connecting all UniCredit companies which is supported by the introduction of an ombudsman system. It contains guidelines on the conduct of Management Board members and employees at the workplace and lays down standards of behaviour for the employees of all UniCredit companies.

In addition to this, a Code of Conduct is in force at HVB. This code summarises existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all Bank employees. With effect from 1 December 2010, the Bank set up a new compliance structure to monitor compliance with the relevant legal and supervisory provisions. The new organisational structure follows the divisional structure of the sales units. HVB's Compliance unit has been tasked with assisting the Management Board of HVB and its subsidiaries in the management of compliance risk. Compliance advises management and staff with regard to existing, proposed and pending laws, rules and regulations as well as standards within the competence of Compliance governing existing and new business, transactions, products (new product process) and offices. Compliance focuses primarily on the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and associated directives, rules and regulations, including stock market rules, the German Money Laundering Act (Geldwäschegesetz – GwG) and applicable financial sanctions. However, it also deals with regulations arising from the German Banking Act (Kreditwesengesetz – KWG) and other rules affecting the Bank's operations, including regulations regarding corruption prevention and antitrust issues. Compliance

Corporate Governance and Compensation Report (Continued)

runs various training courses regarding these topics, some of which are voluntary although they may also be compulsory. A risk analysis forms the basis of the annual Compliance Plan which encompasses the individual measures such as organising training courses and drawing up policies and the monitoring plan. A further key task of Compliance is to ensure that activities like employee transactions and the Bank's trading activities are monitored on a daily basis and matters like churning, investment logs and marketing materials are monitored both on a daily basis and on the basis of random checks. Compliance is also the point of contact for the German Federal Banking Supervisory Authority (BaFin) and the supervisory authorities it the countries where HVB operates as well as for stock market trading oversight units.

Remuneration Committee

The Management Board of HVB has set up a Remuneration Committee compliant with BaFin Circular 22/2009 covering supervisory requirements for institutions' remuneration systems (Aufsichtsrechtliche Anforderungen an die Vergütungssysteme von Instituten) dated 21 December 2009 and the regulations governing supervisory requirements for institutions' remuneration systems (Institutsvergütungs-Verordnung) dated 6 October 2010. This committee is tasked with reviewing the appropriateness of the remuneration systems in light of these standards. Members of the Committee are drawn from the HR, Finance, Risk Control, Compliance and Trading/Markets departments as well as front office and back office units. The Internal Audit department is involved within the bounds of its functions. The chairmen of the Central Works Council and the Speakers' Committee for Senior Executives are ex officio members of this committee. The other members are appointed and removed by the Bank's Management Board. All members of the Remuneration Committee are Bank employees or executives; they do not receive any separate compensation for their work on the Remuneration Committee.

The Remuneration Committee reports to the Management Board and the Supervisory Board at least once a year on the appropriate structure of the Bank's compensation systems. The chairman of the Supervisory Board has the right to request information directly from the Remuneration Committee.

Stock option plans and share-based incentive schemes for employees

UniCredit has two different share-based schemes:

First, a long term incentive programme including share-based remuneration transactions in UniCredit S.p.A. shares (stock options and performance shares) has been set up for executives and junior managers of all UniCredit group companies selected using defined criteria. No new stock options or performance shares were granted in 2010, with the exception of the shares arising from the capital increase of UniCredit S.p.A.

Second, an employee share ownership plan has been set up enabling employees to buy UniCredit shares at favourable terms. For more information about these share-based plans, please refer to Note 36 in the notes to the consolidated financial statements in the present Annual Report.

Shareholders, General Meeting of Shareholders

Since the squeeze-out was filed in the Commercial Register on 15 September 2008, the rights in the General Meeting of Shareholders have been exercised by the sole shareholder, UniCredit S.p.A.

Shareholdings

Since UniCredit S.p.A. is the sole shareholder of HVB, none of the members of the Management Board and/or Supervisory Board personally holds any shares in HVB.

Executives' conflicts of interest

During the year under review, one member of the Management Board informed the Supervisory Board that he would not participate in the voting by the Management Board with regard to the acquisition and subsequent absorption of UniCredit CAIB by HVB due to a possible conflict of interest. Four members of the Supervisory Board abstained in the corresponding voting by the Supervisory Board.

In order to avoid a potential conflict of interests, one member of the Supervisory Board did not participate in the discussion and subsequent voting by the Supervisory Board in the question of how best to proceed with regard to the claims for damages asserted by the former special representative against former members of the Management Board in connection with the sale of Bank Austria to UniCredit S.p.A.

The Report of the Supervisory Board contains more information in this regard.

Risk management
The Bank conducts extensive risk monitoring and risk management, encompassing its subsidiaries. This notably covers strategies, the ability to bear risk, and risk management and control processes. The monitoring and coordination of the main risks come under the responsibility of the Chief Risk Officer, who reports to the Audit Committee of the Supervisory Board on a regular basis. Please refer to the Risk Report in the present Annual Report for more details.

Communication, transparency
HVB greatly values regular and prompt communication with its customers, its shareholder, its employees and the general public. Press releases and reports provide information on the state of the Bank. Information that could have a substantial impact on share and market prices as defined in Section 12 of the German Securities Trading Act is published in ad-hoc communications and also made available on the Bank's website. In addition, the Board spokesman and CFO of HVB report on issues important to the Bank and current business results in communications on results and at press telephone conferences held regularly, the dates of which are published in a financial calendar. This financial calendar and other information published by HVB, such as the Bank's Articles of Association and corporate governance topics, can similarly be found online together with the latest consolidated financial statements and interim reports. The publications are released in both German and English.

Voluntary statement of compliance
The Management Board and Supervisory Board issued the following voluntary statement of compliance on 17 December 2010:

"Voluntary statement on compliance with the German Corporate Governance Code in 2010
UniCredit Bank AG is not required to submit a statement on compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act. Nevertheless the Management Board and Supervisory Board of UniCredit Bank AG decided to adhere to the German Corporate Governance Code on a voluntary basis, inasmuch as the provisions of the Code can be applied to a non-listed company with only one shareholder. For this reason a voluntary statement on compliance with the German Corporate Governance Code will be submitted as follows:

The Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" made by the Federal Ministry of Justice in the official part of the electronic Federal Gazette have been complied with, apart from the following recommendations, which are listed below, including why these recommendations were not complied with. The German Corporate Governance Code as amended on 18 June 2009 is applicable for the time period from 18 December 2009 (date of the last statement on compliance) to 1 July 2010. The recommendations of the German Corporate Governance Code as amended on 26 May 2010 have been applicable for the corporate governance practice of UniCredit Bank AG since 2 July 2010.

UniCredit Bank AG did not comply with the following recommendations:

1. In accordance with sub-paragraph 3.8 a deductible in a D&O insurance policy is to be agreed upon for the Supervisory Board.

   The insurance policy valid until 31 January 2010 did not include a deductible as it was formerly not the usual procedure. In view of the now legally required agreement of a deductible for the Management Board's policy, a deductible was also introduced for the Supervisory Board under the terms of its currently valid insurance policy with effect from 1 February 2010.

Corporate Governance and Compensation Report (Continued)

2. In accordance with sub-paragraph 4.2.3 sentence 11 of the Code, payments to a management board member in the event of premature termination of their activity without serious cause neither exceed the equivalent of two years' compensation including fringe benefits (severance cap) nor the compensation due for the residual term of the employment agreement.

   New employment contracts with Management Board members do no longer provide for severance payments. However, due to the length of service to the Bank and the fact that the contracts are old versions that must be observed, one Management Board member's employment contract did not and a second employment contract does not fully comply with this recommendation.

3. In accordance with sub-paragraph 5.3.3 of the Code, the Supervisory Board is to establish a Nomination Committee, which shall exist exclusively of shareholder representatives and is to propose names of suitable candidates to the Supervisory Board for the latter's election nominations.

   In view of the company structure with one shareholder and the new size of the Supervisory Board, the Supervisory Board considers the forming of a Nomination Committee unnecessary.

4. Furthermore, UniCredit Bank AG did not comply with the following recommendations:

   Sub-paragraph 2.3.2 (the transmitting of Annual General Meeting documents in electronic form),
   Sub-paragraph 2.3.3 (assistance for shareholders for absentee and proxy voting),
   Sub-paragraph 4.2.3 sentence 14 (explanation of the compensation system at the Annual General Meeting),
   Sub-paragraph 5.4.3 sentence 1 (elections to the Supervisory Board on an individual basis),
   Sub-paragraph 6.6 (directors' dealings) and
   Sub-paragraph 6.7 (publishing of the date of the Annual General Meeting in the financial calendar).

   The purpose of the recommendations only relates to stock-market-listed public limited companies with free float and not to a non-listed company with only one shareholder.

Furthermore, the Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission Corporate Governance Code", as amended on 26 May 2010, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette continue to be observed, with the abovementioned deviations.

Munich, 17 December 2010

The Supervisory Board
Sergio Ermotti

The Management Board
Dr Theodor Weimer
Peter Hofbauer"

HVB has applied the numerous **suggestions** included in the German Corporate Governance Code ("should" or "can" provisions) with the following exceptions:
– Sub-paragraph 3.6: On co-determined supervisory boards, the shareholder representatives and the employee representatives are each required to prepare supervisory board meetings separately, if appropriate in conjunction with members of the management board. In 2010, both the shareholder representatives and the employee representatives held preparatory meetings on an ad-hoc basis rather than regularly.
– Sub-paragraph 5.4.6: The remuneration paid to members of the Supervisory Board does not contain any components linked to the Bank's long-term success. A large majority of our Supervisory Board members are required to surrender the Supervisory Board compensation, which means that no individual Supervisory Board member would profit from an appropriate regulation.

Furthermore, UniCredit Bank AG has not applied the following suggestions as only they relate to listed companies with free float and not to non-listed companies with only one shareholder:
– Sub-paragraph 2.2.1 (authorisation of the remuneration system for the members of the management board by the Annual General Meeting),
– Sub-paragraph 2.3.3 (presence of a proxy representative at the Annual General Meeting) and
– Sub-paragraph 2.3.4 (transmission of the Annual General Meeting using modern communication media).

Compensation Report

The first part of the following compensation report describes the system of compensation for members of the Management Board of UniCredit Bank AG ("HVB" or "the Bank"). The second part describes the amount of compensation paid to members of the Supervisory Board in detail and shown individually, broken down into remuneration categories.

1. Structure of compensation paid to members of the Management Board for 2010

It is the task of the plenary sessions of the Supervisory Board to discuss, regularly review and decide on a proposal put forward by the Remuneration & Nomination Committee of the Supervisory Board regarding the structure of the compensation of members of the Management Board. Furthermore, the plenary sessions of the Supervisory Board have determined the total compensation of each member of the Management Board, also upon proposal by the Remuneration & Nomination Committee.

The direct compensation of the Management Board members of the Bank has three components and comprises fixed and variable elements: fixed compensation, variable compensation as a bonus featuring profit-related components (short-term incentive) and a long-term incentive.

The variable components are linked to success in achieving the agreed targets. Competitive profit-related compensation and postponing payment to the medium-term future are intended to ensure that the management is bound to the Bank and to support the sustainable success of the Bank.

To evaluate whether the compensation paid to Management Board members is commensurate with market conditions, an external remuneration advisor performed a market survey for the year under review which specifically covered the compensation paid to management board members in similar companies. The compensation paid to members of the Bank's Management Board for the year under review was stipulated in the plenary session of the Supervisory Board in November 2009 taking account of this survey.

1.1 Fixed salary

The fixed salary is equivalent to the level paid in similar financial institutions. It is disbursed in 12 monthly amounts.

1.2 Short-term incentive

The incentive scheme was modified in 2010 to reflect the changed economic conditions and the regulatory requirements, and to reinforce the importance of sustainable corporate success. The short-term incentive is permanently linked to the core capital ratio and the adjusted return on equity of UniCredit. At the same time, the size of the short-term incentive also depends on the achievement of specific targets agreed individually with Management Board members. Disbursement of part of the incentive is deferred over a period of three years.

Each year, the conditions for the sustainable corporate earnings are set in the form of new target ratios for profitability and sustainability ("Group Gate"). 100% of the incentive budget (incentive opportunity) is released if the set ratios are met in full or exceeded, and 75% or 50% of the budget is released if the set ratios are missed, with the amount released depending on the shortfall measured. If the profit after tax is less than zero and/or UniCredit is unable to meet its liquidity requirements on a given number of days, no budget is released ("zero factor"). There is similarly no entitlement to the disbursement of a short-term incentive whatsoever if any compliance or values rules have been violated.

The targets agreed individually with the respective Management Board members are recorded in matrices. They encompass operational targets with a weighting of 30% or 50% and sustainability targets with a weighting of 70% or 50%. The sustainability targets include parameters such as customer satisfaction, the Reputation Index and People Survey results.

Where an incentive budget is made available, this is used as the basis for calculating the incentive amount using the level of target achievement indicated by the matrix. The resulting incentive amount is disbursed in accordance with the following rules:
– Amount up to €100,000: disbursement in a single lump sum.
– Amount in excess of €100,000: €100,000 disbursed immediately; half of the remaining amount is disbursed in each of the second and third year, provided the sustainable corporate earnings ratios has been achieved for the year in question (including the tiered conditions as mentioned above).

Corporate Governance and Compensation Report (CONTINUED)

– Amount in excess of €165,000: 60% disbursed in the first year; half of the remaining 40% is disbursed in each of the second and third year (meaning 20% in each year), provided the sustainable corporate earnings ratios has been achieved for the year in question (including the tiered conditions as mentioned above).
– Where the recipients of the incentives are Senior Executive Vice Presidents (SEVPs) (currently two people), disbursement is in line with the rules for amounts in excess of €165,000, no matter how high the amount involved.

It is intended to modify the disbursement conditions for the amounts in excess of €100,000 and €165,000 such that disbursement in the second and third year does not take place if the zero factor takes effect. This change in the conditions is subject to a corresponding resolution being adopted by the Supervisory Board.

1.3 Long-term incentive
No long-term incentive plan has been set up for 2010 so far. Subject to a corresponding Supervisory Board resolution, a long-term incentive plan is to be set up for the 2010 financial year.

1.4 Additional comments
In 2010, five members of the Management Board had a corporate employment contract with UniCredit S.p.A. as well as an employment contract with HVB. Compensation is paid from this corporate employment contract to the same extent as the proportion of their duties performed within UniCredit. The entitlement from the employment contract with HVB declines accordingly; the entitlements are offset between HVB and UniCredit S.p.A. on a pro rata basis. In other words, each member of the Management Board is only entitled to one set of compensation in the amount set by the Supervisory Board of HVB for the financial year in question.

In 2010, one member of the Management Board, who was appointed during the year, had an employment contract with UniCredit Bank Austria AG as well as an employment contract with HVB. The same procedure as with corporate employment contracts was applied to the compensation paid under these two employment contracts.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit companies is surrendered to the Bank.

1.5 Compensation paid to members of the Management Board for 2010
The compensation paid to members of the Management Board for the 2010 financial year totalled €6.0 million (2009: €6.0 million).

The Annual General Meeting of Shareholders of 23 May 2006 invoked the so-called opt-out clause under the Act Concerning the Disclosure of Management Board Remuneration and resolved that the remuneration received by Management Board members will not be disclosed on an individualised basis in the company's annual and consolidated financial statements for the financial years from 2006 to 2010, at the latest until 22 March 2011. Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to members of the Management Board is not shown on an individualised basis.

(€ millions)

	FIXED COMPENSATION		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVES[1]		TOTAL	
	2010	2009	2010	2009	2010	2009	2010	2009
Management Board of UniCredit Bank AG	3	3	2[2]	2[2]	1[3]	1[4]	6[5]	6[5]
Supervisory Board of UniCredit Bank AG for Supervisory Board activities	1	1	2[6]	—[6]	—	—	3[6]	1[6]
Former members of the Management Board of UniCredit Bank AG and their surviving dependants							2	10
Transitional allowances for former members of the Management Board							2	4

1 cash value of the share-based compensation
2 the profit-related components for 2010 are generally deferred over two years, as was also the case in 2009, with disbursement in subsequent years dependent on defined company targets being met
3 prorated disclosure of the long-term incentive plans for 2005 to 2008. No long-term incentive plan has been set up for 2010 to date
4 prorated disclosure of the long-term incentive plans for 2005 to 2008. A long-term incentive cash plan was set up for 2009, with disbursement in 2013 dependent on targets being met
5 the accrued taxes and lawyer fees of €0.4 million (2009: €2.6 million) relating to pending legal disputes have been advanced to executives as part of the insurance benefits arising from a corporate Directors and Officers insurance policy
6 the profit-related component of €1.7 million for the 2009 financial year was disbursed in 2010. Added to this is a profit-related component of €0.3 million for the 2010 financial year, provided the Annual General Meeting of Shareholders adopts a resolution regarding the profit available for distribution as proposed

Details of share-based compensation

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	NUMBER
Options	
Stock options 2009	—[1]
Stock options 2010	—[2]
Performance shares	
Performance shares 2009	—[1]
Performance shares 2010	—[2]
Additional information: one member of the Management Board was granted 19,063 performance shares in the 2010 financial year	
at the end of the vesting period (equivalent to €41,223.74 at the time of granting). These performance shares were already disclosed	
in the full amount of 32,300 units in the 2006 Annual Report.	

1 long-term incentive: no long-term incentive plan based on options and performance shares was set up for the 2009 financial year; a cash-based plan was set up instead
2 long-term incentive: no long-term incentive plan has been set up for the 2010 financial year to date

1.6 Pension commitments

Besides direct remuneration, Management Board members have received pension commitments.

Seven members of the Management Board (one of whom left the Bank during the year and one of whom was appointed during the year) took part in the fund-linked deferred compensation scheme (FDC) in 2010, which is also available to the Bank's employees. The Bank will provide, or has provided, 20% of the fixed salary and the short-term incentive disbursed as contributions; this is subject to a cap of €200,000 per financial year for four members of the Management Board, a cap of €120,000 per financial year for two members of the Management Board and a total of €120,000 per financial year for one member of the Management Board. It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

The Bank credits the contributions to the deferred compensation plans to the Management Board member's capital account (FDC) and invests them in a fund. The Bank guarantees an annual return of 2.75%. A higher yield is initially allocated to a fluctuation reserve amounting to 10% of the separate FDC funds. Any surplus return is credited to the Management Board member's pension account. When the beneficiary becomes entitled to receive benefits, the capital credit balance is converted into a pension for life. In the process, the actuarial calculations applicable at the time, in particular life expectancy, are taken as a basis. An annual adjustment of 1% is granted for the pension; this fulfils the Bank's obligation to adjust pension commitments. Alternatively, the capital can be disbursed if the eligible Management Board member has applied for this two years before the insured event occurs.

A sum of €89,100 was transferred to provisions for pensions in the 2010 financial year to cover the commitments made to the members of the Management Board; this relates to the deferred compensation invested in a fund. One member of the Management Board receives allocations to a UniCredit group pension fund. Contributions were made to a pension fund for another member of the Management Board, which were deducted on a pro rata basis from the transfer to the FDC.

The provisions for pensions compliant with IFRS for retired members of the Management Board of HVB (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €120 million (2009: €121 million). Compliant with Section 285 of the German Commercial Code (Handelsgesetzbuch – HGB), the provisions for pensions payable to former members of the Management Board and their surviving dependants totalled €33 million (2009: €23 million) at HVB at 31 December 2010. The compensation paid to former members of the Management Board and their surviving dependants amounted to €1.7 million in 2010 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2009: €9.8 million, including the pension commitments transferred to HVB Trust Pensionsfonds AG).

1.7 Fringe benefits

The members of the Management Board can also use their company car for private purposes, among other things. The Bank paid the premiums for an accident insurance policy valid 24-hours a day and with a sum insured of €1,200,000 in the event of death and €1,400,000 in the event of complete disability. Furthermore, members of the Management Board receive the same preferential terms for bank services as the Bank's employees.

Corporate Governance and Compensation Report (Continued)

1.8 Commitments to pay a transitional allowance

Two contracts with members of the Management Board, one of whom left the Bank in 2010, contain the following arrangements regarding the payment of a transitional allowance. If a contract is not extended for reasons for which the member of the Management Board is not responsible, a transitional allowance of at least one year's salary (fixed salary and incentive), but a maximum of three years' salary depending on the length of service, is usually paid; the maximum amount of three years' salary is paid after 20 years of service. The transitional allowance is limited to the annual salaries (fixed salary and bonus) still outstanding until the minimum retirement age in each case.

The new contracts concluded with members of the Management Board as of 2009 do not contain a commitment to pay a transitional allowance in the event of non-extension or a severance allowance in the event of early termination of Management Board activities.

Neither do the contracts contain any commitments to make payments in respect of early termination of Management Board activities as a result of a change of control (change of control clause).

2. Compensation paid to members of the Supervisory Board

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Bank's Articles of Association. The currently applicable arrangements under these articles are based on a resolution adopted by the Extraordinary Shareholders' Meeting on 22 September 2010; the arrangements are applicable for the whole of the 2010 financial year. The compensation is divided into a fixed and a variable, dividend-dependent component. Under the terms of the arrangements, the members of the Supervisory Board each receive fixed compensation of €30,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share, but no more than €15,000. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the members of the Audit Committee each receive fixed annual compensation of €27,500 payable upon conclusion of the financial year. The chairman of the Audit Committee receives twice this amount. The members of the Remuneration & Nomination Committee receive no separate compensation for committee work. Furthermore, every member of the Supervisory Board and every member of the Audit Committee receives meeting compensation of €250 for attending a meeting of the Supervisory Board or the Audit Committee. In addition, the members of the Supervisory Board are reimbursed all reasonable expenses and the value-added tax payable on their Supervisory Board functions. Where they sit on the Management Committee of UniCredit S.p.A., the members of the Supervisory Board transfer to UniCredit S.p.A. the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty.

Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the financial year receive pro rata compensation.

The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2010, expense allowances totalling €48,491.80 were paid to members of the Supervisory Board. No remuneration was paid in the 2010 financial year for services provided personally.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2010: (€)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COM-PENSATION[4]	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Sergio Ermotti, Chairman	60,000.00		30,000.00	90,000.00	61,515.00[3]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00		22,500.00	67,500.00	67,500.00
Gerhard Bayreuther[1]	21,780.82	19,965.75	10,890.41	52,636.98	52,636.98
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[3]
Beate Dura-Kempf	30,000.00		15,000.00	45,000.00	45,000.00
Paolo Fiorentino[1]	21,780.82		10,890.41	32,671.23	22,330.79[3]
Giulio Gambino[1]	21,780.82		10,890.41	32,671.23	32,671.23
Klaus Grünewald	30,000.00		15,000.00	45,000.00	45,000.00
Karl Guha[1]	21,780.82		10,890.41	32,671.23	22,330.79[3]
Beate Mensch[1]	21,780.82		10,890.41	32,671.23	32,671.23
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[3]
Roberto Nicastro[1]	21,780.82		10,890.41	32,671.23	22,330.79[3]
Klaus-Peter Prinz[2]	8,219.18		4,109.59	12,328.77	12,328.77
Panagiotis Sfeliniotis[1]	21,780.82		10,890.41	32,671.23	32,671.23
Professor Hans-Werner Sinn[1]	21,780.82		10,890.41	32,671.23	32,671.23
Jutta Streit	30,000.00		15,000.00	45,000.00	45,000.00
Michael Voss[1]	21,780.82		10,890.41	32,671.23	32,671.23
Jens-Uwe Wächter	30,000.00		15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00		15,000.00	45,000.00	45,000.00
Total	**594,246.56**	**157,465.75**	**297,123.28**	**1,048,835.59**	**943,436.77**[3]

1 member until 22 September 2010
2 member since 22 September 2010
3 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
4 subject to a resolution adopted by the Annual General Meeting of Shareholders regarding the appropriation of profit available for distribution

Munich, 15 March 2011

The Management Board The Supervisory Board

For whatever life brings

Additional Information

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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Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Net interest income	1,025	1,072	1,010	1,141
Net fees and commissions	373	308	286	345
Net trading income	440	16	293	10
Net other expenses/income	65	52	57	65
TOTAL REVENUES	**1,903**	**1,448**	**1,646**	**1,561**
Operating costs	(859)	(892)	(862)	(820)
OPERATING PROFIT	**1,044**	**556**	**784**	**741**
Provisions for risks and charges	(5)	(12)	(8)	(417)
Write-down on goodwill	—	—	—	—
Restructuring costs	—	—	—	(37)
Net write-downs of loans and provisions				
for guarantees and commitments	(372)	(137)	(155)	32
Net income from investments	27	(5)	(31)	(123)
PROFIT BEFORE TAX	**694**	**402**	**590**	**196**
Income tax for the period	(234)	(142)	(171)	393
CONSOLIDATED PROFIT	**460**	**260**	**419**	**589**
attributable to shareholder of UniCredit Bank AG	468	272	379	584
attributable to minorities	(8)	(12)	40	5
Earnings per share (€)	**0.58**	**0.34**	**0.47**	**0.73**

Summary of Annual Financial Data

HVB Group

(€ millions)

OPERATING PERFORMANCE	2010	2009	2008	2007	2006
Net interest	4,100	4,476	4,059	3,753	3,148
Dividends and other income from equity investments	148	52	200	376	251
Net interest income	**4,248**	**4,528**	**4,259**	**4,129**	**3,399**
Net fees and commissions	1,312	1,187	1,453	1,721	1,753
Net trading income	759	1,074	(1,882)	473	730
Net other expenses/income	239	141	147	169	32
Net non-interest income	**2,310**	**2,402**	**(282)**	**2,363**	**2,515**
TOTAL REVENUES	**6,558**	**6,930**	**3,977**	**6,492**	**5,914**
Payroll costs	(1,756)	(1,822)	(1,961)	(2,067)	(2,216)
Other administrative expenses	(1,459)	(1,418)	(1,281)	(1,250)	(1,166)
Amortisation, depreciation and impairment					
losses on intangible and tangible assets	(218)	(222)	(253)	(259)	(313)
Operating costs	**(3,433)**	**(3,462)**	**(3,495)**	**(3,576)**	**(3,695)**
OPERATING PROFIT	**3,125**	**3,468**	**482**	**2,916**	**2,219**
Provisions for risks and charges	(442)	(151)	(6)	(161)	(164)
Write-down on goodwill	—	—	—	—	—
Restructuring costs	(37)	(170)	(26)	13	(60)
Net write-downs of loans and provisions for guarantees and commitments	(632)	(1,601)	(760)	(536)	(933)
Net income from investments	(132)	(280)	(285)	730	709
Other non-operating expenses	—	—	—	—	(153)
PROFIT/(LOSS) BEFORE TAX	**1,882**	**1,266**	**(595)**	**2,962**	**1,618**
Income tax for the period	(154)	(382)	(54)	(794)	125
CONSOLIDATED PROFIT/(LOSS) OF HVB GROUP	**1,728**	**884**	**(649)**	**2,168**	**1,743**
attributable to minorities	25	65	22	118	103
attributable to shareholders of UniCredit Bank AG	1,703	819	(671)	2,050	1,640
Cost-income ratio in % (based on total revenues)	52.3	50.0	87.9	55.1	62.5
Earnings per share (€) (adjusted)[1]	—	1.18	(0.80)	2.03	1.50
Earnings per share (€)	2.12	1.02	(0.84)	2.60	2.18
CONSOLIDATED PROFIT/(LOSS) OF HVB GROUP,					
attributable to shareholders of UniCredit Bank AG	**1,703**	**819**	**(671)**	**2,050**	**1,640**
Consolidated profit of discontinued operations	—	—	—	3,698	3,457
Minorities in consolidated profit of discontinued operations	—	—	—	—	(677)
CONSOLIDATED PROFIT/(LOSS) OF HVB GROUP,					
including discontinued operations, attributable to					
shareholders of UniCredit Bank AG	**1,703**	**819**	**(671)**	**5,748**	**4,420**

1 2009 and 2008 adjusted for restructuring costs
2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and non-recurring tax charges arising from German tax reforms
2006 adjusted for the gain on disposal of Activest companies and Munich Re, valuation expenses for the announced disposal of a portfolio of non-strategic real estate, restructuring costs, changes in the method of calculating write-downs of loans and provisions for guarantees and commitments, and other non-operating expenses

HVB Group[1]

	2010	2009	2008	2007	2006
Balance sheet figures (€ billions)					
Total assets	371.9	363.4	458.6	422.1	343.6
Shareholders' equity	23.7	23.6	23.0	24.0	21.9
Key capital ratios	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with German Banking Act, (KWG)**	**Compliant with KWG**
Core capital (Tier 1 capital) (€ billions)	20.6	20.4	21.2	23.6[2]	21.6[3]
Risk-weighted assets (€ billions) (including					
equivalents for market risk and operational risk)	124.5	115.1	148.2	145.5	144.9
Core capital ratio (Tier 1 ratio) (%)					
(calculated based on risk-weighted assets including					
equivalents for market risk and operational risk)	16.6	17.8	14.3	16.2[2]	14.9[3]
Employees	19,146[4]	18,874[4]	24,638	24,784	25,738
Offices	927	852	852	846	788

1 without discontinued operations
2 pro forma: based on approved annual financial statements, including the transfer of €3.7 billion to reserves approved by the Annual General Meeting of Shareholders on 30 July 2008
3 pro forma: including the inflow to shareholders' equity from the disposal of discontinued operations
4 number of employees in full-time equivalents

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Annex

UniCredit Profile

Highlights

UniCredit operates in 22 countries, with more than 162,000 employees and over 9,600 branches.

UniCredit benefits from a strong European identity, extensive international presence and broad customer base.

Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.

EMPLOYEES[1]

over 162,000

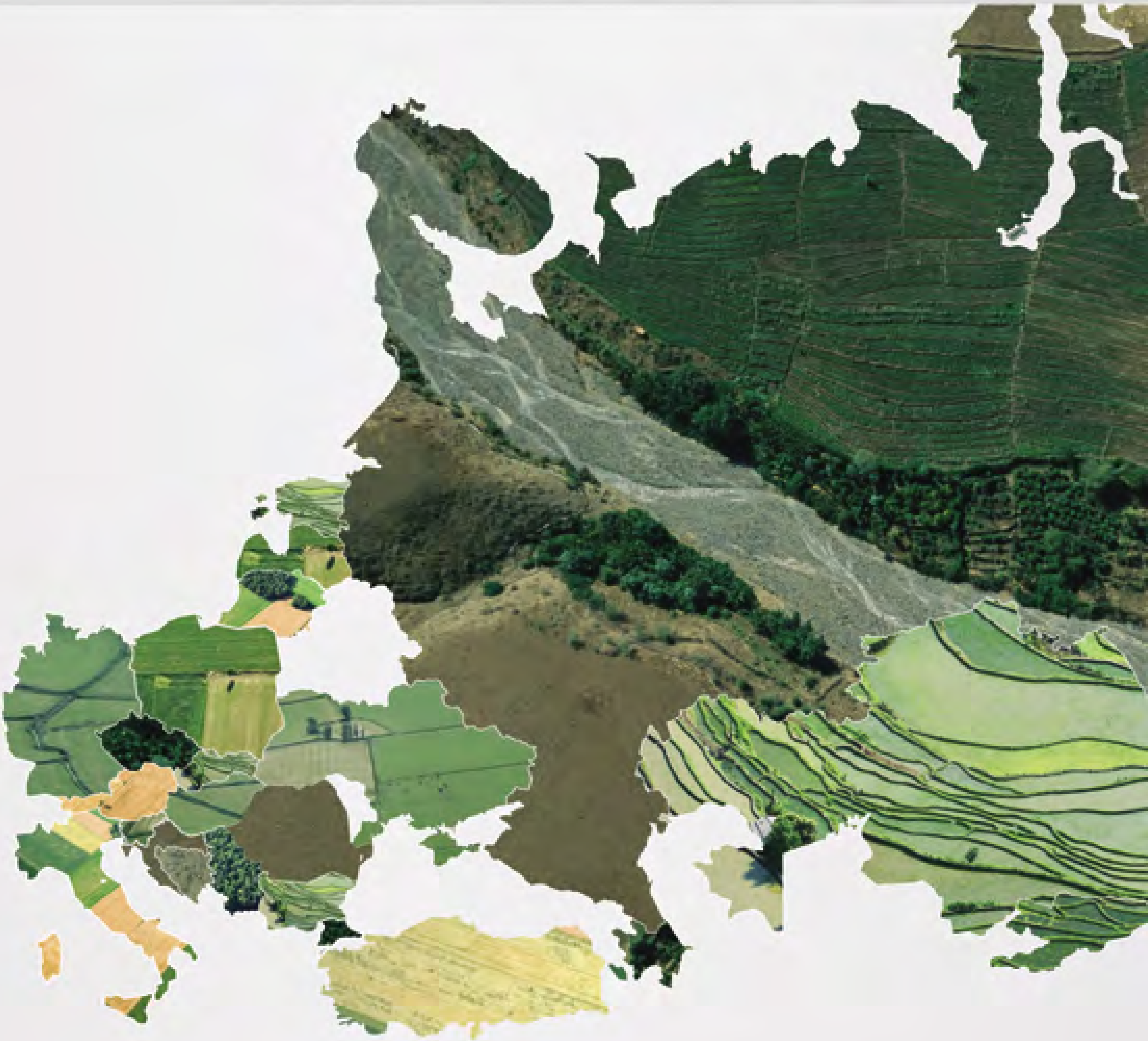
BRANCHES[2]

over 9,600

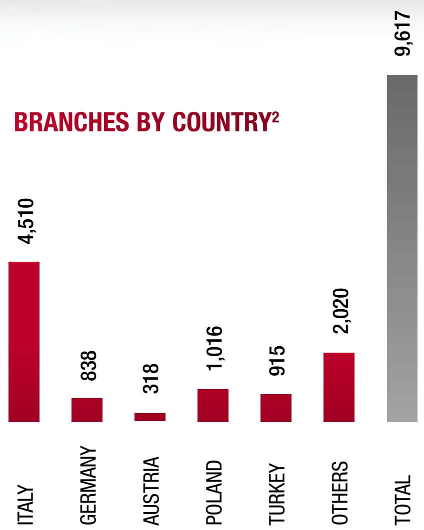
WE ARE HERE

AUSTRIA
AZERBAIJAN
BOSNIA AND HERZEGOVINA
BULGARIA
CROATIA
CZECH REPUBLIC
ESTONIA
GERMANY
HUNGARY
ITALY
KAZAKHSTAN
KYRGYZSTAN
LATVIA
LITHUANIA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SLOVENIA
TURKEY
UKRAINE

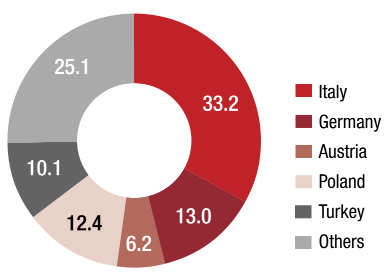
1. Data as at December 31, 2010. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services branches.



BRANCHES BY COUNTRY[2]



EMPLOYEES BY COUNTRY[1] (%)



Focus

AUSTRIA, GERMANY AND ITALY

UniCredit has a strategic position in Austria, Germany and Italy - three countries accounting for more than one-third of the GDP of all European Union economies combined. Together, they comprise one of the continent's wealthiest transnational regions.

GDP per capita in each of these countries is higher than the average for the European Union as a whole. In particular Germany ranks first in terms of GDP per capita among the four largest EU economies, surpassing France, the United Kingdom and Italy.

UniCredit has one of the largest banking networks in each of its three core Western European countries, providing access to 318 branches in Austria, 838 in Germany and 4,510 in Italy. Each of these countries is also closely linked to the growing economies of Central and Eastern Europe.

In terms of economic performance, all our core countries last year resumed positive growth after the unprecedented slowdown recorded in 2009. As a matter of fact, the explosion of the sovereign debt crisis in Greece, which had important spill-over effects on such other countries as Ireland, Spain and Portugal, did not materially affect growth prospects in our core countries. This is because, from a structural point of view, the three countries in which UniCredit operates have enjoyed over the last few years a more balanced growth model compared to the affected countries, with a very low level of private sector indebtedness and a more cautious handling of public finance.

Real economic growth is expected to continue at an average annual rate of about 1.6 percent in Austria, 1.8 percent in Germany and 1.1 percent in Italy from 2011 to 2015, which would surpass the rates achieved over the previous five-year period.

Another favorable development is that domestic demand is becoming an increasingly important engine of economic development in this region. The result should be a more sustainable pattern of growth, no longer exclusively export driven.

GDP PER CAPITA[1]

AUSTRIA	144.0
GERMANY	129.8
ITALY	108.6

MARKET SHARE[2] (%)

AUSTRIA	15.6
GERMANY	3.0
ITALY	13.9

1. Nominal GDP per capita as at December 31, 2010 (EU27=100). Estimate of Nominal GDP per capita within the EU27 as at December 31, 2010 (last update March 10, 2011).
2. Market Share in terms of Total Customer Loans as at December 31, 2010.

Source: Eurostat, UniCredit Research.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, where it has a broad network of roughly 3,900 branches.

The Group's regional footprint is broad, with a direct presence in 19 countries where it ranks among the top five in 12 countries.* The CEE now accounts for 17.7 percent of the Group revenues.

UniCredit has a long history in this dynamic region, which accounts for nearly half of all its employees. The Group is therefore well positioned to benefit from the process of economic convergence that has been generating higher living standards and a better business environment in these countries.

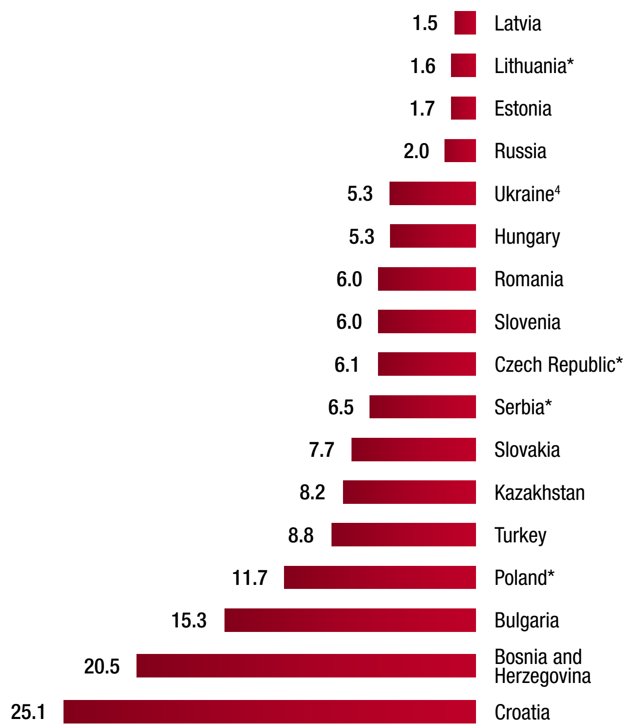
UniCredit's market position in the region provides its local banks with substantial competitive advantages, including the sharing of best practices, significant economies of scale, access to international markets and strong brand recognition. Furthermore, the Group's diversified portfolio in this region enables modular growth and increased market penetration for its global product factories.

After a challenging 2009, in 2010 CEE economies showed convincing signs of recovery, benefiting from stronger external demand and in some cases from a recovery in domestic demand. Among the EU members, Poland was a top performer. As the only EU country not to suffer a recession in 2009, it posted a GDP gain of almost 4 percent last year.

Overall, Turkey was the fifth-largest emerging market worldwide and the fastest-growing European economy in 2010, boasting a gain in real GDP in excess of 7 percent.

Russia benefited from higher oil prices and a strong sovereign balance sheet, which permitted the government to support domestic demand while increasing foreign investment in the latter part of the year. Only Romania and Croatia remained in recession in 2010. However, their more difficult circumstances were offset by reform and fiscal consolidation.

MARKET SHARE[3] (%)

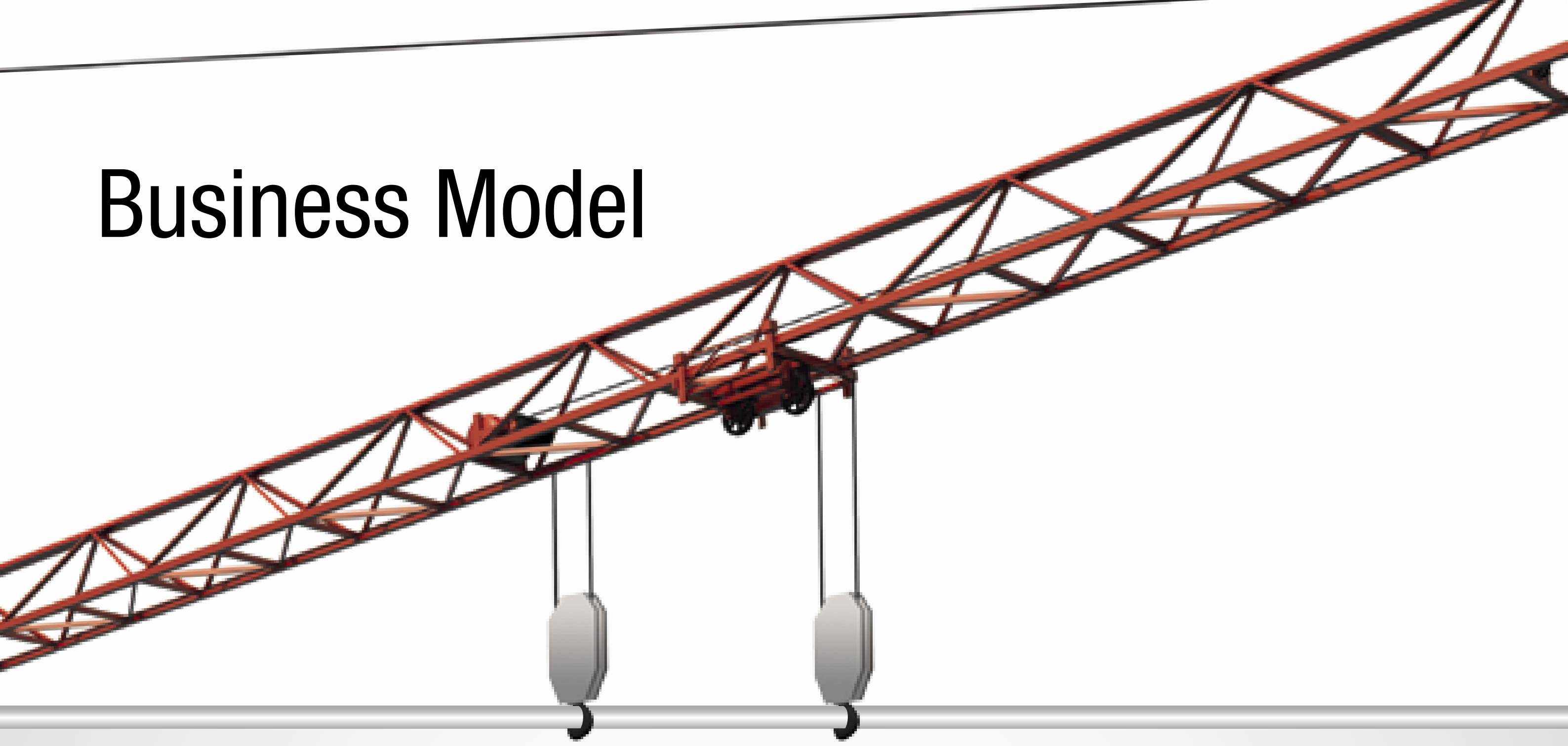


3. Market Share in terms of Total Assets as at December 31, 2010.
Market Share in Azerbaijan and Kyrgyzstan not available.
* as at September, 2010.

4. Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).

Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Business Model



THIS MODEL FOCUSES ON FOUR PILLARS:

Customer-centricity

It's the focus of the Business Divisions - *Families & Small-Medium sized Enterprises, Corporate & Investment Banking, Private Banking and Central and Eastern Europe*.
With their highly specialized services, they offer clear and simple solutions to all customer segments, thereby maximizing long-term value and generating customer satisfaction.

A multi-local approach

UniCredit combines an international distribution network with deep local roots and close ties to its customers by leveraging its global product lines, like Leasing and Factoring, its global service lines and the local expertise of UniCredit's people operating in local markets.

Global product lines

Each of the product lines is responsible for the centralized development of a complete portfolio of financial products and services suitable to the diverse needs of its customers.
These product lines generate added value for customer segments in all countries and regions by leveraging also the specialized skills and knowledge of the Group's product factories, such as Fineco Bank.

Global service lines

UniCredit's service lines provide a broad range of specialized internal services to the Group's commercial units and product factories such as information technologies, back-office activities, personnel administrative management, loan recovery, purchasing and real estate management.

Organizational structure

UniCredit's organization reflects its divisional business model and geographic scope.
To meet customers' needs, UniCredit is divided into **specialized Business Divisions,** as follows:

- Three divisions - *Families & Small-Medium sized Enterprises, Corporate & Investment Banking, Private Banking* - manage all activities intended for their respective customer segments. These include marketing, defining service models and developing products, as well as overseeing and coordinating some specific businesses.
- The CEE Division serves to align the activities in 19 countries of Central and Eastern Europe to a single, comprehensive business vision.

In line with the multi-local approach, responsibility for individual countries is lodged with leadership roles - such as the Country Chairman in the four main markets of Austria, Germany, Italy and Poland and the Country CEO in the six divisionalized CEE countries. Their task is to combine the Group's strategic business vision with that of their country.

Lastly, a range of support and control functions, called **Competence Lines,** oversee the guidance, coordination and control of UniCredit's activities and manage the related risks. These competence lines include Planning, Finance & Administration, Risk Management, Legal & Compliance, Internal Audit, Human Resources, Organization and Identity & Communications.

Our Mission

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.

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

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