HypoVereinsbank Member of UniCredit

UniCredit Bank AG 2011 Annual Report

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

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Business Situation and Trends

Underlying conditions and general comments on the business situation

Following on from a dynamic first six months of the year, the global economy lost much of its momentum in the second half of 2011. Growth was slowed among other things by the expiry and reversal of earlier fiscal stimuli. Moreover, a rapid rise in commodity prices had a negative impact on purchasing power, especially in emerging markets like China, while a tightening of monetary policy also served to dampen growth in these countries. As a result of this, global trade, which by the middle of the year had significantly exceeded pre-crisis volumes, expanded at a much slower rate in the second half of the year.

The United States has only recorded weak economic growth since the start of 2011. Although the unemployment rate fell somewhat towards the end of the year, the recovery on the labour market continued to prove sluggish. House building activities remained at a very low level throughout the year, while property prices fell further. The extension of tax breaks and the weak economy again led to a very high fiscal deficit. In light of the persistently depressed labour market and declining inflationary pressure, the Federal Reserve (Fed) maintained its zero interest rate policy. In addition, it aims to lower long-term interest rates by selling short-term government bonds and simultaneously purchasing long-term equivalents. After suffering a bout of weakness at the start of the year, the US dollar had gained tangibly in value by the end of 2011, mainly on account of the worsening debt crisis in the eurozone.

Although economic output in the eurozone countries was still expanding slowly in the summer, their GDP contracted slightly in the fourth quarter of 2011, impacted by the slowdown in the global economy coupled with the massive consolidation of government finances in the highly indebted member states. The European Central Bank (ECB) started reversing its interest rate strategy in November following two interest rate increases in 2011, reducing interest rates to 1.0% again. Furthermore, the ECB continued to supply banks with plenty of liquidity for a period of up to three years and carried out selective purchases of sovereign bonds issued by peripheral countries.

Germany recorded economic expansion of 3.0% in 2011 as a whole. Within this overall trend, the economy performed well through to the summer, driven by a solid backlog of orders and stable domestic economy. However, the German economy contracted in the fourth quarter, with GDP declining by 0.2% compared with the previous quarter. Weaker demand for exports had a negative impact on manufacturing industry, where production declined sharply in the fourth quarter, although capacity utilisation levels remained high and the positive trend of falling unemployment continued unabated. At the same time, consumer confidence was still at a very good level, even if the official retail sales figures at year-end proved disappointing.

European capital markets proved to be highly volatile during the course of 2011. The year started out very stable across all asset classes. The disaster in Japan set off a strong downward correction in March, followed by a sharp rebound. Starting in the third quarter, market fears regarding the effects of the debt crisis in a number of EU members states led to a collapse in stock prices and the euro, whereas German government bonds strengthened and spreads widened sharply over peripheral countries and banks in these states in particular. The situation only started to stabilise towards the end of 2011. Germany's benchmark index, the DAX30, and its eurozone equivalent, the EURO STOXX 50, lost 14.7% and 17.1% respectively between year-end 2010 and year-end 2011.

After interest rates on ten-year German government bonds rose in the first quarter of 2011, this trend reversed in the second quarter and reached a historical low of 1.674% in the third quarter. Following on from short-lived jumps to as high as 2.331% at the end of November, the interest rate at year-end 2011 was 1.829% (2010: 2.963%). The ECB raised its benchmark rate by 25 basis points to 1.25% in March, followed by a further increase to 1.5% in July. These increases were pegged back again in two stages in November and December. The first interest rate hike resulted in the European single currency strengthening, at times considerably, against the US dollar, British pound, Swiss franc and Japanese yen, although it did slide back again during the rest of the year to the 2010 year-end level. Starting in April 2011, but more markedly as of August 2011, the credit market was characterised by rapidly widening spreads, notably on debt issued by sovereigns and banks in the peripheral countries, coupled with associated higher funding costs. The generally difficult situation in the EU led to downgrades in the credit ratings of not only peripheral countries, in some cases by several notches. Furthermore, the situation on the interbank market deteriorated in the second half of the year, with banks increasingly choosing to park their liquidity with the ECB. In response to this renewed crisis of confidence in the banking industry and in order to head off a looming credit crunch, the six leading European central banks injected massive liquidity into the European financial market in a concerted action in the fourth quarter of 2011.

UniCredit Bank AG (HVB) generated a pleasing profit before tax of around €1.2 billion in this difficult capital market environment particularly in the second half of 2011 but was unable to quite match last year's figure (€1.7 million). In the process the individual profit components developed in very different ways. While there was a rise of €105 million in net interest income, net income from the held-for-trading portfolio was down by €571 million and general administrative expenses increased by €328 million. The rise of €577 million in other operating income less other operating expenses largely compensated the increase of €540 million in provisions for losses on loans and receivables. The cost-income ratio (ratio of operating costs to total operating revenues) rose to 63.0% (2010: 58.6%) and is thus still at a good level, also by national comparison.

The shareholders' equity shown in the balance sheet totalled €20.4 billion at 31 December 2011 and was thus down slightly compared with year-end 2010. The core capital ratio (Tier 1 ratio) in accordance with Basel II stood at 15.8% at 31 December 2011, after 17.3% at year-end 2010, which is still a very good level by both national and international standards. The decline in the core capital ratio is due to the €11.6 billion rise in total risk-weighted assets. This sharp rise in the risk-weighted assets is mainly attributable to the increase in risk equivalents for market risk which were calculated for the first time based on the recently introduced Capital Requirements Directive 3 (CRD3) and the tighter regulatory requirements, resulting in an increase of €19.6 billion in market risk-weighted assets.

HVB had an adequate liquidity situation and a solid financing structure at all times during the 2011 financial year. The funding risk was still low due to diversified funding with regard to products, markets and investor groups which ensured that we were able to obtain adequate funding for our lending operations at all times. With their excellent credit quality and liquidity, our Pfandbriefs still remain an important funding instrument.

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

Business Situation and Trends (CONTINUED)

Operating performance

The 2011 income statement and important events in the 2011 financial year

	2011	2010	CHANGE	
INCOME STATEMENT	€ millions	€ millions	€ millions	in %
Net interest income	4,265	4,160	105	2.5
Net fees and commissions	1,373	1,346	27	2.0
Net income from the held-for-trading portfolio	(365)	206	(571)	>(100.0)
Other operating income less other operating expenses	280	(297)	577	
Operating revenues	**5,553**	**5,415**	**138**	**2.5**
General administrative expenses	(3,500)	(3,172)	(328)	10.3
Payroll costs	(1,701)	(1,601)	(100)	6.2
Other administrative expenses[1]	(1,799)	(1,571)	(228)	14.5
Operating result before provisions for losses on loans and receivables	**2,053**	**2,243**	**(190)**	**(8.5)**
Provisions for losses on loans and receivables	(945)	(405)	(540)	>+ 100.0
Operating result	**1,108**	**1,838**	**(730)**	**(39.7)**
Other income less other expenses	80	(150)	230	
Extraordinary expenses	(22)	(22)	0	0.0
Profit/(loss) before tax	**1,166**	**1,666**	**(500)**	**(30.0)**
Taxes	(149)	(396)	247	(62.4)
Net income/(loss)	**1,017**	**1,270**	**(253)**	**(19.9)**
Withdrawal from other retained earnings	(10)	—	(10)	
Additions to reserve for shares in a company				
with a controlling or majority interest	10	—	10	
Profit available for distribution	**1,017**	**1,270**	**(253)**	**(19.9)**

1 including standard depreciation on property, plant and equipment

Net interest income
Net interest income increased by €105 million, or 2.5%, to €4,265 million compared with last year.

This rise is partly attributable to higher income from fixed-interest securities and better margins in the deposit-taking business. By contrast, there was a decline in income from the mortgage business on account of lower volumes of mortgage loans.

Net fees and commissions
Net fees and commissions developed very well also in the year under review, increasing by €27 million to €1,373 million. This is attributable to a rise in commissions from lending operations and a reduction of commission expense in connection with HVB's own securitisation transactions.

Net income from the held-for-trading portfolio
In the 2011 financial year, the net loss from the held-for-trading portfolio amounted to €365 million. Due to the difficult market conditions in the second half of 2011, the previous year's figure of €206 million could not be matched. The year-on-year decline can primarily be attributed to the trading-related domestic Markets units: Rates (interest-related products) and Credit Markets, and foreign branches. Set against this is a credit value adjustment of €485 million arising from rating-related changes relating to debtors. Higher income from strategic portfolio assets and from other business was only able to partially offset this development.

General administrative expenses
Compared with 2010, general administrative expenses rose a substantial 10.3%, to €3,500 million.

This rise contains an increase of €100 million in payroll costs, to €1,701 million, which, in addition to higher pension expenses, is chiefly attributable to restructuring costs in connection with changes in the strategic orientation of the Corporate & Investment Banking division, particularly the discontinuation of cash-equities operations for western Europe and equity research. It is also due to a cost optimisation programme in the divisions' Corporate Centre functions and selected competence lines.

Other administrative expenses, including standard depreciation on property, plant and equipment, increased by a total of €228 million, to €1,799 million. Besides the expenses for the bank levy charged in Germany (€101 million) for the first time in the 2011 financial year, higher expenses for IT and consulting services contributed to this sharp rise. The bank levies also charged for the first time in Austria (€48 million) and the UK (€19 million) are contained in other taxes. All the bank levies to be paid by HVB and its foreign branches thus totalled €168 million in 2011.

Other operating income less other operating expenses
A net income of €280 million was accrued for other operating income less other operating expenses in the 2011 financial year (2010: net loss of €297 million). The high net income was primarily attributable to the reversal of a provision which had been set up in 2010 in connection with guarantees provided for the completion of an off-shore wind farm. In the year under review, the exposure concerned was restructured. In this connection, the provision was reversed and transferred to provisions for losses on loans and receivables.

Operating result before provisions for losses on loans and receivables
There was a substantial €190 million decrease, to €2,053 million, in the operating result before provisions for losses on loans and receivables compared with last year. This was chiefly due to the decline in net income from the held-for-trading portfolio and the rise in operating costs which could not be offset by the increase in other operating income less other operating expenses as a result of the reversal of a provision described above and the pleasing development of net interest income.

Provisions for losses on loans and receivables
The provisions for losses on loans and receivables totalled €945 million, representing an increase of €540 million over last year's figure. In the process, the valuation result for lending operations rose by €215 million, to €741 million. This figure also contains additions to provisions for losses on loans and receivables which had been included as a provision expense in other operating income less other operating expenses last year.

The net expense from securities held for liquidity purposes amounted to €204 million (2010: net income of €121 million) in the 2011 financial year. This sharp decline is partly due to a valuation loss which arose on account of widening spreads in connection with buy-backs of parts of our hybrid capital.

Other income less other expenses
The net income totalled €80 million in the year under review (2010: a net expense of €150 million). This total includes the gains on the partial sale of our shares in UniCredit Global Information Services and UniCredit Business Partners to UniCredit S.p.A. at a total amount of €63 million. In addition, the total includes income of €46 million from the liquidation of our share in HVB Capital Asia Limited. Besides this, this item includes losses absorbed from subsidiaries totalling €21 million and other gains on the realisation of, and valuation adjustments to, our shareholdings.

Extraordinary expenses
Within the framework of the introduction of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) in 2010, HVB makes use of the option to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The allocation accruing for the 2011 financial year amounts to €22 million and is reported under extraordinary expenses.

Profit before tax
At €1,166 million, the profit before tax in 2011 failed to match the figure for 2010 (€1,666 million).

Business Situation and Trends (Continued)

Taxes
The expense for taxes on income stands at €79 million (2010: €393 million). Other taxes amount to €70 million (2010: €3 million) and include the bank levies totalling €67 million charged in Austria and the UK for the first time.

Net income for the year and appropriation of net income
Net income totalled €1,017 million (2010: €1,270 million). At the Annual General Meeting of Shareholders, a proposal will be made that a dividend of €1,017 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €1.27 per share. The profit of €1,270 million available for distribution generated in the previous year was paid to UniCredit according to the resolution adopted by the Annual General Meeting of Shareholders on 18 May 2011.

Balance sheet
HVB's total assets amounted to €395.7 billion at 31 December 2011. Compared with the 2010 year-end total, this represents an increase of €14.1 billion, or 3.7%.

The rise in total assets is chiefly attributable to the increase in the held-for-trading portfolio (balance sheet item A.6a) by €16.3 billion to €167.2 billion; this includes an increase in the positive fair values of the derivative financial instruments by €31.2 billion while there was a €9.7 billion decline in bonds and other fixed-interest securities and €3.7 billion decline in equity securities and other variable-yield securities. In addition, the balance sheet item bonds and other fixed-income securities increased by €6.1 billion, to €56.9 billion. This figure includes securities of intragroup companies, mainly from UniCredit S.p.A., UniCredit Bank Austria AG and UniCredit Bank Ireland plc. In contrast, the loans and receivables with banks fell by €7.5 billion, to €50.9 billion, chiefly on account of lower repurchase agreements. There was hardly any change in the loans and receivables with customers, which increased by only €0.3 billion, to €108.6 billion, since the decline in the volume of mortgage loans and the rise in volumes of repurchase agreements offset each other to a large extent.

In line with the assets side, total liabilities increased particularly due to the held-for-trading portfolio, which increased by a total of €12.8 billion, to €152.8 billion, as a result of a rise in negative fair values. Deposits from banks also rose by €6.7 billion, to €62.0 billion, notably on account of higher volumes of repurchase agreements while deposits from customers fell primarily with regard to short-term liabilities by a total of €2.1 billion, to €116.6 billion.

At 31 December 2011, shareholders' equity fell to €20.4 billion from €20.6 billion in 2010. This decline can essentially be attributed to the dividend payout of the profit available for distribution for the 2010 financial year (€1,270 million) which could not be offset by the profit available for distribution for the 2011 financial year (€1,017 million). Both the additional paid-in capital and the retained earnings remained unchanged.

Risk-weighted assets for the credit risk compliant with Basel II totalled €89.8 billion at 31 December 2011 (2010: €100.2 billion). The risk equivalent amounts to €23.3 billion for the market risk, and €9.2 billion for the operational risk. Total risk-weighted assets thus stood at €122.4 billion at 31 December 2011, after €110.8 billion at year-end 2010.

At 31 December 2011, our core capital for solvency purposes (compliant with the German Banking Act (Kreditwesengesetz – KWG) totalled €19.3 billion according to the approved financial statements. Equity funds, which consist of core capital and supplementary capital for solvency purposes, amount to €22.6 billion. This gives rise to a core capital ratio of 15.8% compliant with Basel II (including market risk and operational risk) and an equity funds ratio of 18.5% compliant with Basel II.

A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 KWG. This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if the ratio is at least 1.00. At HVB, this figure amounted to 1.26 at the end of December 2011, after 1.41 at year-end 2010.

Offices

HVB maintained 618 bank offices in Germany and 19 offices abroad at 31 December 2011.

Offices, broken down by region

		ADDITIONS	REDUCTIONS		
	1/1/2011	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	31/12/2011
Germany					
Baden-Wuerttemberg	25	—	—	—	25
Bavaria	370	—	—	—	370
Berlin	9	—	—	—	9
Brandenburg	8	—	—	—	8
Bremen	—	—	—	—	—
Hamburg	24	—	—	—	24
Hesse	11	—	—	—	11
Lower Saxony	25	—	—	—	25
Mecklenburg-Western Pomerania	8	—	—	—	8
North Rhine-Westphalia	17	—	—	—	17
Rhineland-Palatinate	22	—	—	—	22
Saarland	9	—	—	—	9
Saxony	11	—	—	—	11
Saxony-Anhalt	11	—	—	—	11
Schleswig-Holstein	59	—	—	—	59
Thuringia	9	—	—	—	9
Subtotal	**618**	**—**	**—**	**—**	**618**
Other regions					
Africa	1	—	—	—	1
Americas	6	—	2	—	4
Asia	11	—	3	—	8
Europe	9	—	3	—	6
Subtotal	**27**	**—**	**8**	**—**	**19**
Total	**645**	**—**	**8**	**—**	**637**

Business Situation and Trends (Continued)

Structure and business operations

Legal structure

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

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

Business segments

HVB consists of the following divisions: Corporate & Investment Banking (CIB), Family & SME (F&SME), and Private Banking (PB). Also shown is a segment called "Other" that covers Global Business Services and Group Corporate Centre activities.

Organisation of management and control and internal management

The Management Board of HVB is directly responsible for managing the Bank. It develops the strategic orientation of the company and is responsible for its implementation. The Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning and strategic development, the course of business and the state of HVB, including the risk situation as well as compliance issues. Matters reserved for the Management Board and the respective segment responsibilities of 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, Family & SME 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.

Andreas Wölfer, previously responsible for the Private Banking division as a member of the Management Board of HVB, left the Bank with effect from 30 June 2011 at his own request and by amicable agreement. At its meeting on 1 June 2011, the Supervisory Board appointed Jürgen Danzmayr as his successor and member of the Management Board of HVB with effect from 1 July 2011.

The Supervisory Board of the Bank has 12 members and has an equal number of employee and shareholder representatives. 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 the place of Ms Streit compliant with the provisions 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), replaced her on the Supervisory Board for the remaining term of office. Furthermore, Sergio Ermotti resigned as Chairman of the Supervisory Board and as a member of the Supervisory Board on 1 March 2011. Federico Ghizzoni was elected to take his place on the Supervisory Board for the remaining term of office with effect from 2 March 2011 by an Extraordinary Shareholders' Meeting and was elected Chairman of the Supervisory Board on 4 March 2011.

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

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

Main products, sales markets, competitive position and facilities

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

HVB is well positioned in the highly sophisticated German banking market, benefiting from the diversified operating income of the Corporate & Investment Banking, Family & SME and Private Banking divisions.

HVB is a strong corporate and investment bank. The Corporate & Investment Banking division serves around 49,400 corporate customers through its national and international distribution network. The business model focuses on different customer groups and the customer relationship as a decisive factor in the allocation of resources while the structure reflects the requirements in a hard-fought market in the process of re-regulation.

The business success of the Corporate & Investment Banking division is based on the close cooperation and coordination between the sales, service and product units as well as on its collaboration with other countries and divisions of UniCredit. The three global product lines: Markets, Financing & Advisory and Global Transaction Banking are integral parts of the division's integrated value-added chain. They support customers in strategic, transaction-based activities, solutions and products. In the light of the change in markets and increase in market risks, we are seeking to closely support customers. We also cover all the corporate banking needs of our customers, including in areas like restructuring, growth and internationalisation. This requires up-to-date knowledge of specific branches and markets which also meets the growing demands on a finance provider.

The Corporate & Investment Banking division serves corporate customers with annual revenues of more than €50 million. Our customer segmentation criteria and sales channel differentiations are based on various challenges, demand structures and processing standards. Consequently, we differentiate between the following service models: Multinational Corporates, Corporates Germany, Real Estate, Shipping and Financial Institutions and Sponsors.

We want to be the first port of call for our customers in terms of advisory expertise, product and process quality as well as creation of value. At the same time, we seek to build stable, strategic business partnerships in the long-term and to bolster our position as a core bank for customers in commercial and investment banking. The Corporate & Investment Banking division supports our customers in their positioning, growth and internationalisation by acting as an intermediary to the capital market. An integrated value-added chain consisting of a service network and product specialists ensures high-quality advisory services with a creative, solution-based approach. Moreover, HVB is the centre of competence for the international markets and investment banking activities of the whole of UniCredit. Due to the change in the market environment, we adjusted our business model to the new underlying conditions at the beginning of 2012. It focuses on customer-related operations, an expansion of the new value-added chain in Financing & Advisory through Capital Markets solutions (transfer of the Capital Market units from Markets to Financing & Advisory), transactions with a low absorption of risk assets and optimised liquidity management. In addition, some employees will be transferred to strengthen our core business and to reduce unprofitable units.

As part of One4C, medium-sized corporate customers (with revenues of up to €50 million) were transferred from the Corporate & Investment Banking division to the Family & SME division at the start of 2011 as planned. This gave rise to a unique service model within HVB for private customers and small and medium-sized enterprises, which benefits from one of the largest networks in Europe. All in all, we aim to achieve a consistent orientation of the Bank towards a sustainable customer business model with this programme, using it to achieve even closer and more targeted relationship management in the interests of customers and to combine local proximity with international expertise as the main pillars of UniCredit.

Our customers are divided into the following strategic target groups in the Family and SME division: mass markets, affluents and small and medium-sized enterprises including business customers. These target groups are served on the basis of different service models that reflect their individual needs. Our main aim in the mass-market target group is to increase the penetration of attractive customer groups, offer a lean and demand-based product range and promote the acquisition of new customers. In the affluents target group, we are

Business Situation and Trends (Continued)

building on greater use of mandated products (such as asset management) and the systematic development of customer contacts with the aim of winning new customer funds. To do so, we are continuing to invest in systematic customer contact, constantly refining both our needs-based approach and our products. For business customers, we focus on borrowing requirements in connection with customer-friendly loan processes, the development of customers' needs for private purposes and the continued expansion of our specialisation in the target groups: public sector (municipalities and local authorities with up to 500,000 inhabitants and their enterprises as well as churches, associations and charitable organisations), health care professions, insolvency administrators and agriculture. Besides traditional sales via our branches, we offer business customers all of the classic services for the self-employed and tradespeople via a hotline with a personal customer contact. Suitable online services complete our range of products and services. In the field of medium-sized enterprises with annual revenues of up to €50 million, we build on a high standard of quality in our advisory services for companies and, by incorporating subsidies and payments solutions, tailored financing solutions which also serve to optimise the working capital management, in addition to offering classic cash management services.

Generally, the primary objective of the Family & SME division is a consistent customer orientation based on an optimum service culture. This is achieved by providing a high standard of advice and service, by optimising the product range and expanding multi-channel management. Professional advisory tools such as "Basis- und Premium-Dialog" for private customers and "Business-Dialog" for business customers ensure consistent quality standards and individual advisory services at a high level. For medium-sized companies, this is safeguarded by a strategic dialogue supported with business advisory tools. Specialists specifically assigned to provide advice on real estate finance, succession planning and pensions as well as tailored advice on securities help us to implement our quality strategy.

HVB has a good positioning in private banking. With 46 offices, around 44,000 customers served and a market share of around 5% in the affluent retail business segment in Germany, the Private Banking division is one of the market leaders in this business segment. In the wealthiest regions of Germany, Bavaria and the Hamburg area, HVB has an excellent competitive position due to its historically strong local presence and proximity. HVB has set itself the goal of significantly bolstering this business, which requires little capital and is thus highly attractive. Positioned under Private Banking, Private Wealth Management, which serves very wealthy affluents, will be significantly expanded so that the market potential that is identified can be tapped in the best way possible. Consequently, the preconditions are being put in place for the long-term growth of Private Banking, which is founded on a comprehensive range of products and solutions, and includes the clearly defined internal cooperation with the F&SME and CIB divisions. Based on a clear strategic orientation with a focus on the most attractive private-banking customer segments and an all-round personalised relationship model, HVB has succeeded in expanding its position among the leading private-banking players in Germany.

HVB is part of an international banking group which offers its financial services on the European market in particular. This enables 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 banks in the countries of central and eastern Europe. Ultimately, it is our customers who benefit from this international diversification.

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

Relations with affiliated companies

We have prepared a separate report on our relations with affiliated companies in the 2011 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act (AktG):

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

Events after 31 December 2011

On 10 February 2012, Standard & Poor's rating agency confirmed its long-term and short-term rating of A/A-1 for HVB. The rating agency explains this as HVB being less affected by the downgrading of Italy than its parent company. The outlook was changed from „watch negative" to „outlook negative".

Outlook

The Management Report and the rest of the Annual Report include statements, expectations and forecasts concerning the future. These statements are based on plans and estimates that are supported by information available to us at the present time. We assume no obligation to update these statements in the light of new information or future events. Known or unknown risks and uncertainties may be entailed in forward-looking statements, and the actual results and developments may thus differ significantly from those expected at present. Such discrepancies may result particularly from changes to the general economic situation and the competitive situation, developments on international capital markets, the possible default of borrowers or contracting parties in commercial transactions, the implementation of restructuring measures, amendments to national and international laws relating to supervisory and tax regulations, the reliability of our risk-management procedures and methods as well as other risks, some of which are described in detail in the Risk Report.

General economic outlook and sector development in 2012

The global leading indicators were increasingly pointing towards stabilisation at the start of the year. The slowdown is showing signs of petering out, especially in emerging markets, supported by a consolidation of commodity prices and the reversal of monetary tightening. The economic recovery in the United States is continuing, even if only at a moderate pace.

Economic forecasts for Germany in particular have already improved greatly since the economy contracted in the fourth quarter. After the dynamic growth of 3% in 2011, the growth in the German GDP is nevertheless expected to expand at a far more moderate rate of 1.2% this year. The tangible decline in new orders recorded in the second half of 2011 imply a weaker growth trend for manufacturing industry in 2012 compared with the previous year. However, the leading indicators do not suggest a marked decline. While depressed demand from major eurozone trading partners is causing strain, the recovery in other economic regions represents an important counterweight. Companies are planning to expand capital spending and the labour market is driving private consumption. Inflation already passed its cyclical high at the end of 2011. The decline in the rate of inflation should remain limited as the fall in commodity prices has slowed tangibly as the global economic prospects have improved again and domestic demand has continued to rise. At the same time, developments in the peripheral countries are trailing significantly in some cases.

The financial industry will again face major challenges in 2012. As a result of the uncertainty on the markets surrounding the creditworthiness of significant sovereigns, the restructuring of European sovereign debt and the related impact on the financial system and the real economy, the credit market will continue to be characterised by very high spreads and marked volatility. Central banks will continue to be called upon to make enough liquidity available to the banking sector to counteract the prevailing volatile and structurally unstable situation on money and capital markets and to prevent any market-related bottlenecks, although this will merely treat the symptoms and not solve the structural problems on financial markets. The level of debt will probably continue to increase in many countries in the short-term. Thus, these countries will face rising structural funding costs and hence a liquidity and funding situation that generally persists to be difficult. Added to this are the stipulations of the European banking supervisors with regard to the greater regulatory capital requirements for banks in line with their exposure to various eurozone countries from mid-2012. To the extent that institutions aim to meet the stricter capital requirements mainly by reducing risk-weighted assets, this could have a negative impact on profitability.

The final effects of additional regulation, such as those arising from Basel III, 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. Moreover, banks classified as systematically important will be required to hold more equity capital. In addition to the fundamental challenges mentioned above, the bank levies charged by some countries as of 2011 will continue to depress the profitability of the banking sector. Key questions remain regarding how the shape of relations between the financial world and real economy will evolve and what global restrictions can be expected in the regulatory and political sphere, such as the much-discussed financial transaction tax or the

Business Situation and Trends (Continued)

impact of the haircut applied to Greek sovereign bonds. Generally, the situation on the financial markets will remain very unstable despite the intervention of central banks because as long as the debt crisis remains unresolved, even seemingly insignificant items of bad news can cause market distortions and possibly have long-lasting adverse effects on the markets and the real economy.

General economic outlook and sector development in 2013

The ongoing recovery in the global economy predicted for 2012 should essentially continue in 2013, again driven by emerging markets. At the same time, the negative effects of the drastic austerity measures taken by numerous eurozone countries should lessen. This means above all that Germany should remain on course for stable growth on the back of both foreign demand and an ongoing upwards trend in domestic spending. Eurozone growth is expected to recover tangibly overall compared with 2012.

The banking sector can expect to enjoy a healthier earnings position in 2013 compared with recent years, even if the permanently greater supervisory requirements will have a negative impact on earnings. This is based on the assumption that the debt crisis in the eurozone eases markedly, the equity capital required to meet the additional regulatory requirements can be successfully raised and economic growth materialises as forecast in 2013.

Development of HVB

In the assumptions of its planning for the 2012 financial year, HVB presumes that operating income will fall in a persistently difficult environment compared with the year under review. The net income from the held-for-trading portfolio will be crucial to operating performance. At the same time we will continue our strict cost management so that costs should remain slightly below the level of 2011. For provisions for losses on loans and receivables we assume that these will be below the level of the year under review. Due to the individual income components named above we expect an increase in profit before tax compared with the year under review.

Provided that the underlying economic conditions develop favourably both in Germany and worldwide and there is no sharp economic downturn, based on the multi-year plan we expect that the basically slightly positive trend in operations will continue at HVB in 2013. The performance of the net income from the held-for-trading portfolio will have a significant effect on operating income. In addition, we assume that general administrative expenses will remain stable on account of our continued consistent cost management.

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

HVB is an important part of one of the largest and strategically best positioned and capitalised banking groups in Europe: UniCredit. It is one of the largest financial institutions in Germany and has core competence within UniCredit for all of the customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of UniCredit as a whole. HVB operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Moreover, Germany is one of the few countries worldwide that continues to have a financial rating of AAA. Hence, HVB, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers. With its well-balanced business model focusing on sustainability and its excellent capital base, HVB stands for reliability, stability and safety. This results in the opportunities and risks described below:

– The bolstering of Corporate & Investment Banking division activities by building up products with a low level of equity and liquidity requirements and by winning deposits. The strategic focus is placed on consistent pricing in line with risks, a more intensive creation of value for customers to generate earnings and the further development of strategic customer transactions and solutions in investment banking. We offer top quality advisory services based on a creative, solution-based approach by means of an integrated value-added chain consisting of network and product specialists. Our investment banking operations are well equipped to build up a sustained and long-term customer relationship. Even though investment banking activities are exclusively attuned to customers, the results naturally remain relatively volatile. While investment banking is very profitable in a normal market environment, it is subject to increased income risks arising from fluctuation margins in fair values in difficult market situations.

- The Family & SME division is an essential part of HVB's strategy as a German universal bank. In addition to consistently endeavouring to further industrialise processes and thus enhance efficiency, we intend to achieve strong retail customer operations and long-term success for small and medium-sized companies partly by winning new customers. At the same time, we will constantly adapt to medium and long-term trends in customer behaviour and, for instance, not only significantly expand our multi-channel range but also create added value for our customers in our traditional branch operations via excellent advice and innovative services and processes. Among other things, we intend to achieve this with the "Best in Class" programme through an innovative service model, an optimisation of our branch network and format as well as through efficient sales management. Although the outlook for GDP growth is generally favourable, particularly in our domestic market in Germany, a downturn in economic growth could depress the earnings situation in the Family & SME division through higher unemployment levels, a rise in insolvency rates and a persistently low interest level.
- In our Private Banking division, we will generate further growth through our good positioning in the business with affluent customers. In the process we will benefit from our appearance as a strong local bank with more than 40 sites in Germany and the close proximity and high frequency of communications. More new customers can be won in the new financial year through our structured, comprehensive advisory approach and our excellent service quality. However, competition in the market for very affluent customers will be much fiercer than in the past, particularly in view of the latest regulatory requirements. An increasing number of not only national but also foreign competitors are entering the market and can intensify the competitive situation along with a risk of falling margins. If the uncertainty of customers and the resulting restraint in their investment behaviour persists, the earnings situation of the Private Banking division could be negatively affected.
- HVB will proactively exploit opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany. Due to the uncertainty of the consolidation and concentration in the German banking sector, it remains questionable as to how future earnings potential will be distributed between competitors and at what expense market shares can be won. Fiercer competition associated with this situation could negatively affect the earnings situation of HVB.
- HVB can respond swiftly and flexibly to expansion opportunities arising on the market. On account of its excellent capital base, it 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. If the statutory and regulatory framework should continue to become even more stringent as a consequence of the sovereign debt and financial crisis, this could also lead to further expenses for the technical implementation of these additional requirements in addition to higher capital costs.
- HVB continues to exploit 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 improve operating income by creating and using new products for all customer segments through product factories with tailored solutions.
- For years, HVB has been developing into a bank with strong and consistent cost management. The ability to manage costs is well developed throughout the Bank. It is seeking to further improve operating costs in the coming years, also through the realisation of synergies by optimising all production capacity, the rationalisation of overlapping functions and an optimisation of process flows; and by boosting efficiency by centralising IT functions throughout UniCredit.
- HVB has opportunities of winning highly qualified employees and managers as an attractive employer. Both the size of UniCredit and the strategic positioning of HVB have a beneficial impact on the recruitment of managers and employees. Supporting female managers at junior level is an explicit part of the strategy.

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

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

Risk Report

HVB as a risk-taking entity

Deliberately taking on risk, actively managing it, and monitoring it on an ongoing basis: these are core elements of profit-oriented management of business transactions and risk by HVB. In the course of our business activities, risks are identified, quantified, assessed, monitored and actively managed.

We therefore regard it as one of our core objectives to apply these considerations in order to integrate profitability and risk criteria in all Group divisions and functions.

Management and monitoring of risks in HVB

Risk management

In the course of our business activities, risks are identified, quantified, assessed, monitored and actively managed. HVB Group defines risk as the danger of suffering losses or foregoing gains on account of internal or external factors. Risk management makes a fundamental distinction between quantifiable risk types, which can normally be disclosed in the annual financial statements or measured in terms of used capital, and non-quantifiable risk types, such as reputational and compliance risk.

The Chief Risk Officer (CRO) organisation is responsible for implementing the risk strategies defined by the Management Board.

In its planning process, HVB Group defines its overall risk strategy at HVB level and divisional risk strategies at divisional level on the basis of, and coordinated with, the business strategy. Starting from this, the Bank's ability to bear risk upon achievement of the targets set is assessed in advance using the available financial resources on the basis of the business and risk plans. At the same time, limits are defined in the planning process to ensure that the ability to bear risk is ensured.

The various divisions take on risk positions in a deliberate and controlled manner within the framework of the divisional risk strategies and evaluate whether it is worth doing so from the overall perspective of the customer relationship and on the basis of risk/return considerations.

Risk monitoring

The risk management process begins at the preliminary stage of a business transaction in the form of a risk assessment. Separately from this, the process is accompanied by comprehensive risk monitoring, which is functionally and organisationally independent.

Risk analysis

Risk analysis involves the systematic identification and analysis of the risks from business activities and the development of methods for measuring them. The various risk categories are classified according to economic criteria and used to determine the required economic capital. Parallel to these activities, the available financial resources are defined and quantified, and compared with the risk capital. A qualitative approach is used to monitor and manage risks that cannot be meaningfully 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 provides management with an overview of the risk situation.

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

Divisions and committees

The divisions are responsible for performing risk management functions within the framework of competencies defined by the Management Board. Important bodies operating at HVB level are the Risk Committee, the Asset Liability Committee and the Stress Testing Council.

Risk Committee

With the exception of liquidity risk which is covered by the Asset Liability Committee, 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 main issues addressed by the RC are:
– lending policies as well as policies and regulations for the treatment of other risk-related issues (e.g. market risk, operational risk, reputational risk)
– risk strategies
– presentation of industry portfolio reports and reports on current market risk
– rating processes (implementation/amendment of processes, validation reports) and models for risk measurement and control
– fundamental issues related to the credit organisation structure
– risk-related aspects of the credit process and processing standards
– decisions on new products and important product changes in the lending business (including entry into new markets)
– country limits.

The RC is chaired by the Chief Risk Officer (CRO) and includes senior managers from all divisions as well as the related back office units: Market Risk, Credit Risk Control & Economic Capital, Senior Risk Management CIB (SRM), Recovery Management (Restructuring/ Workout) and Credit RR F&SME Germany.

Asset Liability Committee

The Asset Liability Committee (ALCO) makes decisions at its monthly meetings on the asset/liability management of HVB.

The committee pursues the following key goals:
– establishment of uniform asset/liability management methods for HVB
– optimum utilisation of liquidity and capital resources
– coordination between the requirements of the divisions for financial resources and the business strategy.

The ALCO is made up of the Chief Financial Officer (CFO) and CRO, the Management Board members responsible for the Corporate & Investment Banking division (CIB), Family & SME division (F&SME) and Private Banking division (PB), and the heads of Regional Planning & Controlling, Planning & Controlling, Accounting, Tax and Shareholdings, Markets, Market Risk, Treasury and Finance.

Stress Testing Council

To provide management with additional analysis for bank management purposes and to meet the stricter regulatory requirements under the Internal Capital Adequacy Assessment Process (ICAAP), HVB made significant improvements to the stress testing process in December 2011. For this purpose, the Management Board, as the body responsible for bank management, delegated stress testing to the RC and the Stress Testing Council as a specialist committee. The tasks of the Stress Testing Council include:
– coordination of all stress testing activities within HVB, including the development of the stress testing methodology
– definition of stress scenarios encompassing all risk types, including the validation of the underlying parameters
– analysis of stress testing results and their use to prepare recommendations for management
– quarterly reports and the presentation of stress testing results in the RC as well as the proposed measures derived from them.

This committee has representatives from the CIB, F&SME and PB divisions, the risk control units, the CFO, the Board Spokesman (CEO) and the Economic Research department.

Risk Report (Continued)

Chief Risk Officer

The control and cross-divisional management of risk at HVB Group fall within the competence of the Chief Risk Officer. This is where all the key functions involved in the identification, analysis and assessment of risk are performed together with the ongoing tracking, handling, monitoring and management of risk. These activities are supported and complemented by various CFO departments.

At the end of 2011, the organisational structure under the Chief Risk Officer was broken down into the following units, which perform tasks for HVB:

Credit Risk Control & Economic Capital

– Credit Risk Control & Economic Capital includes operational and strategic risk control units strongly focused on credit risk. Its principal tasks are: performing the monthly credit risk calculation for Pillar 1 (calculation of minimum capital requirements) and Pillar 2 (individual regulatory review processes) for HVB with the aid of the ARAMIS calculation engine; serving as a centre of competence for credit risk methods and securitisation under Basel II and Basel III and the credit portfolio model; implementing a homogeneous stress culture within HVB in cooperation with UniCredit and in communication with the HVB Group companies; developing concepts to determine and control credit risk and credit risk concentrations; developing country risk strategies in cooperation with UniCredit; setting regional value-at-risk limits and allocating the net risk limits; developing and improving the rating models for probability of default (PD), loss given default (LGD) and exposure at default (EaD), as well as their annual validation, parameter definition and calibration. Another focal point in addition to credit risk is the calculation of internal capital as the basis for the quarterly valuation of the economic capital base, including the ability to assume risk. A further task under the responsibility for credit risk and economic capital is to ensure the consistency of economic capital calculations across all relevant risk types and analyse internal capital under stress conditions. This includes preparing contingency plans and ensuring compliance with the MaRisk rules and ICAAP along with the related regulatory framework and compliance with regulatory requirements for internal and external reporting.

Market Risk

– The Market Risk department deals with market risk, reputational risk and operational risk. Its tasks and competencies include ongoing, independent risk measurement and monitoring, responsibility for risk measurement methods and systems and their ongoing development, and reporting to the CRO and the Management Board of HVB. Another area it addresses in addition to market risk is the modelling of counterparty and issuer risk. The required operational risk management is carried out by Senior Risk Management.

Senior Risk Management CIB (SRM)

– Senior Risk Management's duties are based on the Bank's time-tested industry-based structured risk management. It has responsibility for credit risk and also acts as the approval authority for HVB's industry and real estate portfolios. This core function is complemented by units for Structured Finance – Special Products, Collateral Management, country risk and the ongoing monitoring of issuer and counterparty limits together with the associated escalation processes across all customer groups. Key responsibilities of the industry teams are the lending decisions for exposures from the assigned industry segments and the presentation of these decisions to the Credit Committee as well as risk management and the risk strategy for the assigned industry portfolios. SRM is also responsible for the lending decision for exposures from the PB division and small and mid-sized enterprises from the F&SME division.

Credit NNR & Quality

– The Credit NNR & Quality department pools the operational functions of the lending decision and monitoring processes for the risk-bearing lending business of the F&SME division. In particular, the core tasks of these units consist of the systematic rating analysis based on segment-specific rating processes, the auditing and valuation of the collateral provided and the preparation of structured arguments and documentation of lending decisions, including all lending administration functions. These units are also responsible for ongoing monitoring of the credit exposures. In addition, the department is responsible for the early identification of risk, property valuation in the lending business and the quality of data in the lending decision process.

Credit RR F&SME Germany
– Credit RR F&SME Germany handles the lending decisions and processing for the risk-bearing lending business of the F&SME division where the approval authority does not rest with that division. The regional credit teams prepare credit requests and make lending decisions for credit exposures with an approval limit of up to €5 million, if necessary with the involvement of other approval authorities. For exposures with an approval limit above €5 million, the decision is made by SRM as the responsible approval authority.

Planning, Controlling and Service Functions
– The Planning, Controlling and Service Functions department pools the reporting on risk provisions (including analysis, projections and posting), data management for the restructuring and workout portfolio and the responsibility for managing the cover funds for Pfandbriefs.

Restructuring
– The Restructuring unit is responsible for restructuring activities with the goal of minimising the risk of losses to the Bank and returning exposures to 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.

Workout Services
– The Workout Services unit (part of the Global Banking Services division) is responsible for processing all loans for which the measures taken during the restructuring phase were not successful. In doing so, the most important actions are to liquidate collateral under the best-possible terms, assert our claims in insolvency proceedings and initiate any appropriate legal action against the borrower. In addition, Workout Services manages all loans subject to legal challenges related to real estate finance, derivatives and the financing of fund shares, and performs after-sales management of the true sales portfolios.

Risk Asia & Pacific Rim
– A separate department, Risk Asia & Pacific Rim, pools the SRM, risk control and restructuring functions for Asia.

In compliance with the MaRisk rules issued for banks by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin), the CRO department submits risk reports to the Audit Committee of the Supervisory Board on a quarterly basis. In addition, essential risk-related information is forwarded without delay to the Audit Committee. The business strategy set out by the Management Board, a risk strategy consistent with that business strategy and any necessary adjustments to those strategies are submitted to the Supervisory Board for acknowledgement and discussed with it.

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".

Asset Liability Management
The Finance department controls Asset Liability Management by managing short-term and long-term liquidity within HVB. Its main objectives are to ensure that the Bank has adequate liquidity at all times and to optimise funding costs. Asset Liability Management monitors trends and happenings on the money and capital markets, and liquidity and refinancing requirements. As part of liquidity risk management, for instance, it defines underlying conditions, limits and processes, specifies responsibilities and oversees funding activities together with the front office units. The internal cost of funds for the lending and deposit-taking business is continually reviewed for appropriateness and regularly adjusted to reflect the market situation. The measures implemented in connection with these functions serve to support the return targets.

Audit Management
The Audit Managementdepartment 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 Audit Management department and ensuring that it functions properly. In 2011, operational responsibility for the audit function was assigned to the Board Spokesman.

Risk Report (Continued)

The Audit Management department is responsible for the risk-oriented, process-neutral auditing and assessment of all activities and processes, regardless of whether they are outsourced or not. For this purpose, a risk-based selection of individual operating and business processes is carried out in order to set scheduling priorities. The MaRisk rules stipulate that all operating 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, it is permissible to deviate from the three-year cycle. Operating and business processes subject to especially high levels of risk are audited at least once a year. If the need arises or it is instructed to do so, the Audit Management department may also carry out tasks in various subsidiaries, taking into account the findings of any audits performed by Audit Management departments in those companies.

Close cooperation is maintained with the Audit Management department of UniCredit S.p.A., including joint audits, for example. HVB's Audit Management department is involved on a regular basis in drawing up corporate audit regulations.

The Bank's Audit Management 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 audit reports are submitted to audited units and the responsible Management Board members, the Management Board as a whole receives an annual report which includes a comprehensive overview of audit findings as well as major deficiencies, severe deficiencies and particularly severe deficiencies as defined in the MaRisk rules, including the critical findings as defined in the Group Audit Policies, the measures taken, and their current status. The Board Spokesman and the head of the Audit Management department give quarterly presentations at meetings of the Audit Committee of the Supervisory Board to report on the main findings of the audits carried out by Audit Management and other significant aspects of its work.

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

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

The RMS is formulated in broad terms and relates above all to strategic management, the identification and assessment of risk, 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.

In the course of refining the ICS and RMS, the Bank plans to introduce additional measures besides the projects carried out in 2011.
With the strengthening of the ICS and RMS which these measures are intended to achieve, HVB will meet all statutory and regulatory requirements in Germany.

To this end, HVB set up a Bank-wide project aimed at resolving deficiencies highlighted in audits of earlier annual financial statements and regulatory audits, first defining appropriate measures and action plans. The Bank already resolved numerous deficiencies as part of this project in 2011 and will press ahead with the project in 2012.

HVB and UniCredit S.p.A. have agreed with the regulatory authorities that the equity funds ratio of HVB will not fall below 13%, which exceeds the statutory minimum requirement. This agreement will remain in place until the measures required to strengthen the ICS and RMS as described above have been implemented. The equity funds ratio of HVB Group at the end of December 2011 was 18.4% (2010: 19.1%).

With regard to the financial reporting process, the ICS and RMS encompass the policies, processes and measures needed to ensure the effectiveness of financial reporting and compliance with the applicable legal provisions as well as risk hedging and the recording of mapping valuation units. They ensure that internal and external financial reporting are correct and reliable and that the assets, liabilities and equity are classified, recognised and measured.

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 the annual financial statements together with the Management Report are prepared in compliance with regulations despite the identified risks.

Responsibilities for the ICS and RMS in connection with financial reporting

Responsibilities of the Management Board and Supervisory Board

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

The Management Board determines the extent and orientation of the ICS and RMS specifically geared to the Bank under its own responsibility, taking measures to refine the systems and adapt them to changing conditions. It will be supported in this task in the future by the Internal Control Business Committee (ICBC) Germany, which was established in 2011, notably in terms of the consolidation and monitoring of all ICS-related projects and measures. Sets of values such as the Integrity Charter, the Code of Conduct and compliance rules have been implemented in all UniCredit countries for many years, and hence also in HVB Group. These values form the basis for responsible action on the part of employees involved in the financial reporting process. Despite all of the risk-reducing measures set up within the framework of the ICS and RMS, even systems and processes designed to be appropriate and functional cannot ensure absolute certainty in the identification and management of risk.

Responsibility for the financial reporting process and, in particular, for the preparation of the annual financial statements rests with the CFO organisation. In particular, the CRO is responsible for measuring financial instruments and receivables with support from the CFO. GBS is responsible for ensuring the availability of the IT systems required for the financial reporting process.

It is the task of the Supervisory Board to monitor and regularly advise the Management Board as it conducts its business. It is directly involved in decisions that are of fundamental importance. 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 four of its members. 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 two of its meetings in 2011 on the basis of documents and verbal explanations provided by the Management Board. In the process of preparing the annual financial statements, the Supervisory Board is responsible for approving the annual financial statements. To enable these tasks to be performed, the financial statement documents are submitted to the Supervisory Board complete with the Management Board's proposal for appropriation of profits together with the auditors' report. The Audit Committee examines these documents in great detail during a preliminary audit. At the preparatory meeting of the Audit Committee and at the subsequent Supervisory Board

Risk Report (Continued)

meeting devoted to the annual financial statements, the independent auditor reports on the material findings of the audit of the annual financial statements, specifically including any significant weaknesses of the ICS and RMS in connection with the financial reporting process identified during the audit. In addition, the Management Board explains the annual financial statements in detail at the meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the financial statements. The chairman of the Audit Committee also reports to that meeting on the results of the Audit Committee's audit of the documents. Based on the written reports and verbal explanations, the Supervisory Board determines at its meeting devoted to the financial statements whether it concurs with the findings of the audit by the independent auditor and whether objections are to be raised after its own examination of the annual financial statements and the Management Report, and whether it approves the annual financial statements prepared by the Management Board.

Tasks and responsibilities of the Audit Management department

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

Tasks and responsibilities of the independent auditors

The Supervisory Board commissioned the independent auditors KPMG AG Wirtschaftsprüfungsgesellschaft to audit the annual financial statements, including the account records, the Management Report and the risk early warning system in accordance with Section 91 of the German Stock Corporation Act (Aktiengesetz – AktG). Furthermore, the independent auditors audited the report by the Management Board on relations with affiliated companies in accordance with Section 313 AktG.

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 the purposes of the 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 Shareholdings (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. The Accounting Markets, Foreign Branches (CFM) department is responsible for financial reporting on the markets and investment banking activities of HVB. Local accounting units of foreign HVB branches also report to this unit. HVB's financial statements are prepared by CFA. In addition, this department has functional responsibility for the financial reporting systems used at HVB and for fundamental accounting questions under IFRS. Moreover, it is in charge of management reporting in accordance with IFRS and preparing external reporting in the annual reports of both HVB and HVB Group. Responsibility for the management and administration of participating interests rests with the Shareholdings department (CFS). The Tax Affairs department (CFT) is responsible for all tax-related concerns of HVB, including its foreign branches. The Regulatory Reporting department (CFR) submits reports to the banking supervisors. In particular, this includes 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.

– For purposes of the financial reporting process, the **Data Governance (CFG)** department is essentially responsible for providing and refining processes, systems and services for the CFO organisation, in particular the Accounting, Tax and Shareholdings department. Moreover, this department is also responsible for implementing various projects (e.g. corporate governance and data warehouse architecture).

– **Finance (GAL)** notably deals with liquidity management in close cooperation with the front office units and Asset Liability Management. Its tasks are described in the section of this Risk Report entitled "Divisions and committees".

– **Regional Planning & Controlling (CFC)** is tasked with central business management, cost management and equity capital management. Overall, this department is responsible for the preparation of income budgets and income projections.

  Furthermore, the Planning & Analysis unit (CPA) and the division-related controlling departments for the operational divisions CIB, F&SME and PB are assigned to CFC.

Process of accounting and preparing HVB's financial statements

HVB uses SAP's standard SAP Balance Analyzer and Business Warehouse software to prepare its annual financial statements. The SAP Balance Analyzer concept is based on the mainly automated uploading of individual transaction data from the upstream systems relevant to financial reporting (sub-ledger).

The Accounting department collates the data relevant to the financial statements. It reconciles the positions delivered by the upstream systems, automatically checks the totals against the general ledger account balances, 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 figures 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.

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 department is also responsible for the related valuation and booking standards as well as analysing and commenting on the results and coordination with the Product Control unit, which is assigned to the Regional Planning & Controlling department. The relevant transaction data are delivered by the systems managing the respective portfolios. The Risk Control department, which reports to the CRO, checks transactions to ensure compliance with market pricing. The allocation of transactions to the holding categories is governed by the orientation of the operating units. Risk control staff are responsible for checking the valuations of the trading portfolios in the front office systems. Depending on the market parameters and asset classes, market data are supplied both by the trading departments and external sources such as Bloomberg, Reuters and MarkIT. In accordance with the separation of functions, the back office handles the further processing of HVB trades. In October 2011, these tasks were outsourced to UniCredit Global Business Services GmbH (UGBS), which reports to GBS. This ensures that the processing of trades is independent of the Trading department.

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. Risk Control checks on a monthly basis the trading income calculated for purposes of financial reporting against the result of the economic income statement that serves as the basis for the daily information provided to the Management Board members.

Under the new product process, all concerned departments are involved to the extent that they have veto rights at the least and are authorised to enforce adjustments up to and including the termination of the new product process. The approval of Regulatory Reporting is actually defined as mandatory in the new product process for both trading and credit products.

Responsibility for checking, creating and adjusting specific allowances for losses on guarantees and indemnities rests with the respective restructuring and workout units in the CRO division. When an impairment

Risk Report (Continued)

trigger occurs, the relevant restructuring and workout units are responsible for assessing the risk and setting up and adjusting allowances. The exposures involved are transferred in accordance with defined criteria. The restructuring or workout specialist is responsible for calculating any required allowance within the framework of impairment measurement. When determining the amount of an allowance, factors specified in the Operating Guidelines must be taken into account:
– the borrower's financial situation (liquidity, income and cash flow situation, ability to service debt and equity position)
– future opportunities and risks in relation to the extent to which restructuring is deemed possible
– anticipated repayment (e.g. agreed amortisation payments over a limited period)
– collateral values.

The proposal by the responsible restructuring or workout specialist to create a specific allowance must be submitted to the appropriate lending approval authority or the Loan Loss Provision Committee (LLP Committee) for approval. A risk provision report serves to keep the Management Board regularly informed about the current risk provision situation and as required by current developments.

The Bank uses the IBV system to record and manage the approved risk provision amounts. It is used for the preparation and final booking of risk provisions by Accounting when drawing up the financial statements.

General allowances are calculated centrally by the Accounting department in conjunction with Planning, Controlling and Service Functions.

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.

Technical system support for the Accounting department and especially in connection with preparing the financial statements has been outsourced to the German branch of UniCredit Business Integrated Solutions S.C.p.A. (UBIS), the subsidiary of UniCredit responsible for IT (formed on 1 January 2012 by the merger of UniCredit Global Information Services S.C.p.A. (UGIS) and UniCredit Business Partners S.C.p.A. (UCBP)). The outsourced activities are monitored from a technical viewpoint by Regional Business Services (CFG1), a department which reports to the CFO, with the Finance Tools central service unit within CFG. The technical support processes of the central service unit are governed by operating guidelines. UBIS carries out the back-up and archiving of data from accounting-related application systems in accordance with Section 257 HGB in conjunction with Sections 238 and 239 HGB and the German Generally Accepted Accounting Principles (GAAP) under the supervision of Data Governance (CFG).

The required protection against unauthorised access and compliance with the principles of functional separation when using the Bank's financial reporting application systems is ensured by the concept of job profiles and the processes used to create these profiles in particular. The job profiles are created and maintained by the individual departments, which are also responsible for approving access rights and maintaining the separation of functions.

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 AON Hewitt GmbH.

Process documentation
As a UniCredit company, HVB Group is obliged to comply with Law 262 ("the Savings Law" – Law 262/2005, passed in Italy in 2005 and amended by Legislative Decree 303/2006, based on the Sarbanes-Oxley Act in the United States). The basic objective of this law 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 (Bilanzrechtsmodernisierungsgesetz – BilMoG), a number of accounting processes were already 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 are defined, together with their assessment, and documented.

The focus of risk and monitoring analysis is on identifying and evaluating the risks relevant to financial reporting. The goal is to reduce identified risk potential as far as possible through defined control steps. Periodic random sampling serves to document the implementation of these controls and provide adequate records. 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 performed. Moreover, with the process documentation which was improved in 2011 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 dedicated unit within the CFO organisation to support the Management Board in the ongoing development and efficient monitoring of the ICS and RMS.

Continuous updates of the ICS and RMS

The new EuroSIG IT platform was introduced in 2010 and used to prepare the 2010 annual financial statements. We were able to complete further steps in the reporting period to stabilise and optimise the financial reporting and control processes associated with the system launch. The workarounds still in place at the beginning of 2011 were integrated into routine operations.

The migrations relating to the trading systems in Munich and London planned for 2011 were completed as part of the restructuring of the IT system architecture in the Markets unit of the CIB division. The Management Board decided to roll out the systems after carefully weighing up and reviewing all the risks based on detailed reports by internal and external experts and consultants. In the course of these migrations, processes were extensively adapted and harmonised across the entire value chain. For example, the integration of the new market risk model was accompanied by a change in the calculations of risk metrics, which are now performed largely by the trading systems themselves. For the CFO division, additional locations and product groups for the Markets unit were linked to the established sub-ledger, and further improvements were made in the daily income statement calculations and the reconciliation of profit/loss items as per cost accounts and financial accounts. These adjustments served to reduce operational risk across the Bank's entire value chain.

To ensure the greatest possible efficiency in the process of preparing the annual financial statements, detailed timetables are drawn up on a regular basis showing 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.

Risk Report (Continued)

When changes are made to the legal provisions and regulations for financial reporting, they must be assessed to determine what consequences, if any, they have for the financial reporting processes. The CFF unit dedicated to fundamental accounting issues is responsible for dealing with the content of such changes. In the case of amendments or new regulations that would have a substantial impact on the accounting processes, a corresponding project is set up to cover all measures such as IT adaptations, working procedures and booking instructions across all departments.

Risk types and risk measurement

Relevant risk types

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

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

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.

The internal capital is equal to the sum of the aggregate economic capital, the cushion (percentage of aggregated economic capital to cover cyclical fluctuations, model weaknesses and specific risks, which is added to the aggregate economic capital) and the economic capital of small legal entities. A 99.97% confidence level and a one-year holding period are applied consistently in the calculation for all risk types (except business risk: three-year holding period).

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

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. Moreover, an additional cushion is maintained for the specific exposures in real estate and investment risk.

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. At present there is no quantitative measurement of reputational risk and strategic risk in HVB.

Refinement of risk measurement and monitoring methods

One of the main tasks of the CRO organisation is to refine and improve the methods used by HVB to measure and monitor risk. This results from our own quality expectations for the presentation of risk in economic terms as well as our requirement for an integrated overall bank management strategy guided by risk/return considerations. This also takes into account the more stringent legal requirements, in particular from the regulatory authorities.

We started using new macroeconomic factor model parameters in our internal credit risk calculations as of the first quarter of 2011. This change served primarily to update the time series for the various industries.

The risk metrics listed below represent important changes with regard to the booked positions in the trading book in 2011. The German Financial Supervisory Authority (BaFin) granted conditional permission to include them in the calculation of the regulatory capital charge for market risk in the fourth quarter of 2011. This requirement comes from the Capital Requirements Directive (CRD III) and relates to Pillar 1.

– Stressed VaR (SvaR): relates to the calculation of the potential crisis risk. The calculated amount applies to a 10-day holding period and a 99% confidence level.
– Incremental risk charge (IRC): equal to the amount used in the internal calculation of additional default and migration risk from net interest rate positions. The calculated amount applies to a one-year holding period and a 99.9% confidence level.
– Comprehensive risk measure (CRM): equal to the amount used in the internal calculation of the risk of changes in the value of the correlation trading portfolio. The calculated amount applies to a one-year holding period and a 99.9% confidence level.
– Eligible amount under the standard approach for (re-)securitisations outside the correlation trading portfolio.

In 2010, HVB started to systematically integrate the increased regulatory requirements for an integrated overall bank management process in the sense of an ICAAP into its existing processes and to adjust and expand its methods and processes accordingly. Within the framework of a project specifically established for this purpose, various measures were defined to refine the methods, models, processes and guidelines used to measure, manage and monitor risk, and in some cases the Bank began to implement and apply these measures. The timetable approved by the Management Board sets key milestones for gradual implementation within risk management and in operational management by the end of 2012. An essential element in this context is the planned switch to the Group-wide credit portfolio model, which took place in January 2012. Furthermore, the refined methods for the smaller risk types – such as real estate and investment risk – and the revised approach to risk aggregation used to determine economic capital will be handed over for regular operation with effect from the reporting date for the first quarter of 2012. The first analysis of the impact of these changes has already been submitted to the bodies responsible and approved. The most important finding in this regard is that the Bank's ability to bear risk can still be classified as comfortable. Alongside the consistent liquidation approach that has already been implemented ("gone concern"), the design and implementation of the "going concern" approach will form a key part of the ICAAP project. This approach envisages the Bank continuing to operate in the event of a substantial loss event while complying with the regulatory minimum capital requirements. In addition, further developments are planned for the risk management methods and processes as well as risk limits, risk management and reporting. These steps will be implemented one by one.

These measures will also help to take account of the new version of the MaRisk rules as well as the requirements for risk management systems.

Overall bank management

Overall bank management at Group level

The focus of the value-oriented management of HVB Group is on the measurement of 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 units 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 bear risk.

The economic yield expectations are 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. In the future, the internal capital will be used to calculate the allocated capital for all divisions and for HVB Group as a whole in accordance with the principle of dual control. This approach has currently only been adopted for the Private Banking division, where the maximum of the regulatory capital requirements and internal capital is included as the allocated capital in the calculation of the economic yield expectations.

The most important metrics for overall bank management are Economic Value Added and the risk-adjusted return on risk-adjusted capital.

The Economic Value Added (EVA) expresses the capacity as part of value-oriented management to create value in monetary terms. It is calculated as the difference between the profit after tax and minorities

Risk Report (Continued)

– adjusted for non-operating items such as integration costs that make it difficult to assess the value added on the basis of ordinary business – and the return expectations on invested or allocated capital.

The risk-adjusted return on risk-adjusted capital (RaRoRaC) is the ratio of EVA to used core capital (allocated capital) and indicates the value created for each unit of allocated capital.

Regulatory capital adequacy

Used core capital

For the purposes of planning and controlling in accordance with Basel II, the divisions are required to have core capital backing for credit, market and operational risk equal to an average of 7% of equivalent risk-weighted assets. To meet the advanced European regulatory requirements for systemically important financial institutions, UniCredit S.p.A. plans to raise the regulatory core capital backing rate for 2012. The regulatory capital requirement for all divisions at HVB has been set at 9% of risk-weighted assets. Furthermore, the expected return on investment is derived from the average used core capital including capital deductions on the basis of ordinary activities. 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)

The section of the Risk Report entitled "Market risk" contains details of the newly introduced market risk metrics of stressed VaR, IRC, CRM and the standard approach for (re-)securitisations.

To determine the appropriate capital funding, we have essentially defined the following process:
– Based on our (multi-year) annual 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 about 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.

Economic capital adequacy

The future internal capital requirements of the divisions are determined under the annual planning process in close cooperation between the Credit Risk Control & Economic Capital department and the individual operating units. After approval by the HVB Management Board, the internal capital metrics are anchored in the Bank's relevant control and reporting instruments. Internal capital planning is carried out in an iterative process, taking into account the strategies of the divisions together with the planned available financial resources and risk appetite of HVB Group. Divisional limits for internal capital are derived from the budget, for which regular monitoring is also envisaged. A comparison between the targets and the actual values of the metrics is produced on a quarterly basis and reported to the divisions and the CRO. An overview summarising the risk situation of HVB Group is obtained by regularly measuring internal capital and assessing the Group's ability to bear risk.

In a quarterly analysis of our risk-bearing capacity, we measure our internal capital against the available financial resources. In addition, this sustainability analysis is carried out with a corresponding one-year forecasting horizon as a component of our planning process.

Effective 31 December 2011, HVB introduced an updated internal definition for the measurement of the available financial resources, based on a consistent liquidation approach ("gone concern"). Under this approach, the ability to bear risk is defined by comparing potential losses (internal capital) with the ability to absorb losses using the available equity (available financial resources). The previous calculation of the available financial resources, which was used until the third quarter, consisted of IFRS capital components (taking into account the appropriation of net income), participatory certificates and hybrid capital. Minority interests were included in full, and goodwill was deducted. The updated definition of the available financial resources includes undisclosed charges and reserves among other items, deducts intangible assets and deferred tax assets, and takes into account minority interests only to the extent of the risk-bearing portion. At the same time, subordinate liabilities recognised as equity under banking supervision regulations are included. The available financial resources for HVB Group amounted to €22.7 billion at the end of 2011 (year-ago figure under the old calculation method: €22.8 billion).

With internal capital of €13.2 billion, the risk-bearing ability, defined as the available financial resources divided by the internal capital, is approximately 172% (year-end 2010: 201%). We see this as a comfortable value, as the available financial resources still leave room at present for further economic losses. The decrease by 29 percentage points for HVB Group compared with year-end 2010 is attributable to the €1.8 billion (16%) increase in internal capital, which had a greater impact than the €0.1 billion (0.4%) decrease in the available financial resources.

The economic capital of HVB totalled €7.6 billion at year-end 2011 (year-end 2010: €6.2 billion). The internal capital rose by 22% to €10.2 billion (year-end 2010: €8.4 billion). The internal capital trend is determined to a large extent by default risk: we have been using revised macroeconomic factor model metrics and expanded time series for the various industries since the first quarter of 2011 in the internal credit risk calculation. This update is the cause of the increase in credit value-at-risk.

The Bank made significant developments in stress testing as a risk management tool during 2011. By the end of the year, the Stress Testing Council had become established as a platform for regular consultation among the functional units responsible for calculating the Bank's ability to bear risk, along with the Research department and the sales divisions. The focus is on defining important stress scenarios, discussing the results of those scenarios and developing any necessary measures. At the same time, the Stress Testing Council prepares decisions on proposed measures for the RC. For the purpose of identifying concentrations in the portfolio promptly and defining stress scenarios geared to that situation, an expert committee was set up in conjunction with the SRM unit in order to integrate knowledge about existing concentrations in the credit portfolio into the stress test. For 2012, the Bank plans to refine the process further and expand its stress test analysis.

Even taking into account the results of cross-risk-type stress results, HVB had a substantial cushion in the available financial resources over the entire financial year. In 2011, (hypothetical) macroeconomic scenarios were examined for cross-risk-type stress testing:
- The "Sovereign Tensions" scenario assumed the default of another eurozone country.
- The "Widespread Contagion" scenario (up to the second quarter of 2011) is based on a further escalation of the debt crisis, with the impact spreading to the larger EU economies.
- The "Emerging Market Slowdown" scenario (starting in the third quarter of 2011) assumes an economic slowdown in emerging markets.
- In addition, a "Recession in Germany in 2012" was simulated under the assumption of a 2% decrease in GDP.
- As an example of a scenario based on historical market events, the "Financial Crisis" scenario utilises the knowledge gained in the 2008 financial crisis and assumes a further economic slump on a similar scale.

Despite the increased importance of credit risk (in particular due to the update of the portfolio model) and the related rise in internal capital, all the scenarios indicate an adequate ability to bear risk.

Risk Report (Continued)

Internal capital after portfolio effects (confidence level 99.97%)

	2011[1]		2010	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Market risk	1,133	11.1	1,597	19.1
Default risk	4,362	42.9	2,994	35.8
Business risk	570	5.6	343	4.1
Operational risk	1,084	10.7	823	9.9
Risks arising from our own real estate portfolio	21	0.2	20	0.2
Risks arising from our shareholdings/financial investments	428	4.2	470	5.6
Aggregated economic capital	**7,598**	**74.7**	**6,247**	**74.7**
Cushion[2]	2,576	25.3	2,118	25.3
Internal capital of HVB	**10,174**	**100**	**8,365**	**100.0**

1 figures at 31 December 2011 taking into account the refinements in methodology
2 additional components of the internal capital through which possible modelling risks are included in the assessment of economic capital adequacy as well as cyclical fluctuations in the aggregate economic capital

Economic capital after portfolio effects (confidence level 99.97%)

	2011[1]		2010	
Broken down by division	**€ millions**	**in %**	**€ millions**	**in %**
Corporate & Investment Banking	5,826	76.7	5,447	87.2
Family & SME	854	11.2	396	6.4
Private Banking	121	1.6	102	1.6
Other/consolidation	797	10.5	302	4.8
Economic capital of HVB	**7,598**	**100.0**	**6,247**	**100.0**

1 figures at 31 December 2011 taking into account the refinements in methodology

Risk strategy

For 2011, the Management Board approved a risk strategy for HVB 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's risk-bearing capacity. HVB's risk strategy is updated annually, taking into account the current market and risk situation, and the further development of the risk management instruments. The risk strategies consist of the overall risk strategy, broken down by risk type, and the divisional strategies. The current business strategy serves as the basis for the risk strategies. If changes are made to the business strategy, the risk strategies should be adjusted accordingly. They consist of qualitative statements about business and risk trends and a quantitative part with risk metrics and limits. In 2012, the risk strategies will be coordinated closely with the Bank's overall planning process. At the same time, greater emphasis will also be placed on integrating HVB subsidiaries into the process.

The divisional risk strategies specify concrete measures in response to the financial crisis, making it possible to better prepare the credit portfolios for unpredictable scenarios.

The credit portfolio in CIB has been reduced overall and sub-portfolios that caused higher risk costs during the last crisis have been deliberately restructured. In the event of lending activities being expanded at F&SME, for instance, close attention will be paid to risk development. Our markets and our customers' markets will be hard to forecast in the future on account of their volatility, which we have taken account of within the framework of suitably conservative future projections. Defining limits for underwriting risk is an additional element aimed at keeping future developments under control. In terms of market risk, further metrics have been introduced as a result of the crisis and both the limits and the stress scenarios modified to reflect market developments.

Risk types in detail

1 Default risk

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, the guidelines for which are defined by the credit risk strategy.

Credit risk strategy

A credit risk strategy has been approved for HVB that allows limits – or, if required, targets – to be set for various parameters for the management of counterparty default risk. These limits and targets are set and monitored for HVB, the divisions, industries, regions and countries, and individual counterparties. Escalation processes are defined to ensure compliance with the limits. Apart from these quantitative guidelines for credit risk, additional qualitative standards for lending decisions and credit portfolio management serve to define the readiness to assume risk.

Risk categories

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 downgraded credit ratings of counterparties with whom we have engaged in derivative transactions involving interest rates, foreign exchange, 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 payment that the counterparty will make the corresponding payment. 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. 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 of an issuer defaulting or suffering a downgraded credit rating. It arises in connection with the purchase of securities for own account, securities issuance and placement transactions, and credit derivatives.

Country risk

Country risk is defined as the risk of losses arising from transfer/conversion restrictions, sovereign risk (risk of governments and central banks defaulting) and delivery risk (default through state interference in the delivery agreement).

Risk management

Default risk is managed on the basis of defined policies, approval authority structures and risk assessment processes.

With reference to default risk, the HVB units involved in credit activities 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. This does not apply to the non-risk-related area. The back office functions are pooled under the Chief Risk Officer. In addition, all divisions must involve the central SRM unit allocated to the CRO 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.

Risk Report (Continued)

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.

Country risk is managed by utilising volume and regional VaR limits. Volume limits are set for each country in the annual budget rounds. No limits need to be set for countries with a very good rating and that are members of the OECD. In addition, VaR limits are in place for each region at HVB level. They take effect in the event of risk concentrations or a significant deterioration of individual country ratings in the region. An HVB-wide strategy for country risk is drawn up on an annual basis. This involves the classification of countries in three resilience categories based on their economic backgrounds in order to define appropriate strategies. Eurozone countries are covered by default risk standards and are not shown under classical country risk or subject to the applicable limits. Sovereign and bank risk is managed by way of weekly monitoring and analysis using the radar screen. This includes defining strategies for individual banks or sovereigns and regulating individual lines of business. In addition, a hard limit structure has been applied to Greece based on the unsecured portion of the exposure.

Measurement methods
We use the following risk measurement methods and metrics to assess our credit risk.

Expected loss
For the purpose of measuring default risk, we distinguish between the expected loss and the unexpected loss (expressed as the 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.

To calculate the expected loss, the exposure at default (EaD) is estimated in the same way as stipulated by Basel II. For credit risk, this amount is equal to the line utilisation at the reporting date plus portions of the unused, externally committed credit lines. The expected EaD for country risk is calculated as line utilisation at the reporting date plus unused, externally committed credit lines, weighted with the country-risk-specific product weighting factor CEQ.

Future exposures are not determined for counterparty risk, so that they must be defined with a probability distribution for each point in time. Whereas a high quantile of this distribution is used as the exposure metric when determining limits (99% confidence level), the expected exposure (EE) is used as the exposure metric when calculating losses. The credit equivalent for counterparty risk is defined as the mean value across the one-year profile of the EE. The EEs are calculated at the level of netting sets. When individual transaction amounts are aggregated, the netting options under the related master agreements are taken into account. Similarly, the reduction of exposure through collateral is taken into account for collateral agreements. For most OTC derivatives, the method for estimating probability distributions for future exposures is based on techniques used to extrapolate single-day price movements in 500 historical simulation scenarios from the internal market risk model. In the aggregation, this permits portfolio effects to be taken into account. For repo/lending transactions, a normal distribution of the exposure is estimated using the market value and the add-on. The same applies for OTC transactions not covered by the simulation method. For covered OTC and repo/lending transactions, the exposure distribution is considered only for the point in time at the end of a margining period of risk (usually 10 days). The EE value at that time is applied as a constant across the entire annual profile.

The credit equivalent for money market transactions is based on the current exposure.

Rating analysis
It is vitally important for us to reliably assess the probability of default 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 rating analysis instruments.

HVB has a wide range of rating and scoring processes tailored to the needs of its various customer groups. The systems are validated on a regular basis, with recourse to statistical methods, and the results are taken into account in the further development of the individual rating processes.

In addition to the rating processes developed by HVB, there are several Group-wide rating processes developed and validated by the UniCredit S.p.A. holding company that are used in the entire corporate group (in particular rating processes for financial institutions, sovereigns and multinationals).

The result of a rating or scoring process is the classification in a rating class with a ten-point scale. Rating classes 1 to 7 are set aside for performing loans and classes 8 to 10 for non-performing loans. The (further) development of rating processes utilises historical data, ideally covering an entire business cycle. This ensures that the rating allows conclusions to be drawn on the quality of the customer over the long term, and not just the short term.

In 2011, we focused primarily on the following refinements in our ratings, among other things:
– extending the rating process for foreign mid-sized corporate customers to all previously excluded countries worldwide
– development of a rating process for start-ups as an extension of the rating system for business customers
– expansion of the retail customer rating system to include customers not domiciled in Germany
– involvement in the development of the Group-wide rating processes for insurance companies, leasing companies and investment funds.

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 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.

Exposure at default and loss given default
The parameters assumed for measuring the exposure at default (EaD) and the loss given default (LGD) 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).

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 the event 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. An essential point 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 based on a default history as well as the time needed for realisation. In addition, special collateral valuation processes were developed for collateral types lacking an extensive default history (such as pledges related to wind power loans and ship financing) 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 data. In addition, collateral is taken into account using a substitution approach if permissible under the German Solvency Regulation.

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. The Bank received the approval from the regulatory authorities at the end of 2010 to utilise pledges to reduce credit risk.

The Bank operates a central collateral system in which all relevant data on collateral agreements and collateral allocations are managed and collateral valuations are carried out. Following the roll-out of the EuroSIG system, further improvements were made in the quality of the collateral-valuation data by streamlining the data migration process and adding new functionality in CL&C and COM.

Risk Report (Continued)

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

Credit value-at-risk
The credit VaR (unexpected loss) provides information about the maximum negative deviation of an actual loss from the expected loss (99.97% probability) within one year. This potential loss provides a figure that makes the risk inherent in the various sub-portfolios transparent. It is also used in pricing and the Bank's profitability calculations. In addition, the credit VaR is backed by economic capital as a safety cushion, taking portfolio effects into account.

Internal default risk model
To measure default risk, we employ an internal default risk model to quantify and assess our credit, counterparty and issuer risk in HVB. 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 for the probability of default (PD), the exposure at default (EaD), the loss given default (LGD), the credit-risk reduction techniques (such as land charges and guarantees) and available data. Because the HVB credit risk portfolio model includes no country risk, the VaR has been calculated since 2001 using a portfolio model which includes the PD and LGD risk parameters based on ratings and the CEQ product weighting factor for country risk. In addition, correlations for default risk and for regions and individual countries are taken into account.

The core element of credit VaR measurement is a factor model which describes the correlation between the probability of default of our customers and changes in macroeconomic factors. The greater the sensitivities of the customers (clusters) to macroeconomic factors, the greater their reaction will be to economic fluctuations, thus resulting in greater variations in their probabilities of default. The joint dependency of two customers (clusters) on the same macroeconomic factors also determines their joint default behaviour, measured as the default correlation. The interrelationships of the factor model are used in our simulation model to identify the possible range of losses from defaults. For each scenario, the model determines the probability of default of the customers (clusters) and, thus, the amount of loss. An analysis examination of all the scenarios yields a loss distribution that serves as the basis for calculating the credit VaR. The share of unexpected losses (in the form of credit value-at-risk) is allocated at the customer level through the expected shortfall.

We plan to introduce the UniCredit credit portfolio model in 2012. This new model, to be used across the entire corporate group, represents an enhancement of our model, and will be used to ensure Group-wide management and planning.

Measuring country risk
Lending and trading transactions and realisable collateral entail country risk if they represent cross-border business from the standpoint of the office disbursing the loan and are denominated in a foreign currency from the borrower's standpoint. The following types of receivable are excluded from country risk considerations:
– claims against supranational organisations not tied to a specific country
– receivables for which no specific allowances have been set up
– the assumption of risk in the corporate group for local lending business of HVB subsidiaries and for business brokered by UniCredit Luxembourg S.A.
– settlement risk
– any exchange-traded financial instruments (with regard to counterparty risk)
– investments.

Country risk is based on exposure values after deduction of collateral.

The definition of country risk includes sovereign risk. However, as the definition "in foreign currency from the borrower's standpoint" also applies to eurozone countries, euro-denominated business would not be shown as foreign currency, and the risk would be underestimated. Consequently, risk measurement is not carried out for eurozone countries according to the classical country risk definition, but rather using default risk-related EaD, which covers all currencies.

At HVB, we measure country risk on the basis of the net exposure and the VaR, which is largely determined by the country rating. Along with the PD and the LGD, the structure of the transactions in terms of relevance to country risk is taken into account in the VaR measurement using the product weighting factor (CEQ).

A portfolio model building on this information is used to calculate the VaR, stemming from country risk for HVB every month, taking into account correlations with credit risk. Due to the small number of countries involved, country portfolios tend by their nature to be rather undiversified.

Risk-based and market-oriented pricing
Pricing methods and tools are used to manage risk and profitability in the lending business that take into account all cost components – in particular the expected standard risk costs and the cost of capital – 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.

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.

In order to avoid cluster risk, concentrations of credit risk towards affiliated borrowers ("exposure groups") are limited at HVB level in line with the rating (PD) of the exposure group with regard to the net EaD. Monitoring and reporting of any limit overshoots takes place on a monthly basis.

Counterparty risk and issuer risk
We employ limit systems as a key element of our risk management and control of counterparty risk and issuer risk to prevent the unintended and uncontrolled increase of our risk position. These systems are available online at all key HVB facilities engaged in trading activities. Each new trade is immediately entered and applied to the corresponding limit within an appropriate timeframe. 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. Constant system availability ensures that each trader has a tool on hand to check limit utilisation and lets the risk controller perform prompt limit monitoring for each counterparty or issuer. To reduce counterparty risk relating to financial institutions, HVB is making greater use of derivative exchanges in its function as a central counterparty.

In terms of issuer risk, the market-risk-oriented limits based on the specific risk inherent in a given position were replaced by a credit-risk-oriented calculation of exposure and limits when the methodology was refined in 2011. This involves calculating a market-value-oriented exposure for the individual positions in the trading book, which shows and limits the maximum potential market value loss without taking account of residual values. A credit-risk-oriented, nominal-value-based exposure is used to limit the banking book and ABS positions. The limits are defined taking into account netting effects.

Country risk
Country risk is managed on the basis of the measurement methods and exceptions described above, with the aid of volume limits for each country (broken down by product risk group) and regional VaR limits. By taking into account the correlation with 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 flexible exposure management based on transaction potential.

Default risk is 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.

Risk Report (Continued)

The internal reporting function provides support for risk monitoring at the portfolio level in particular. In compliance with the MaRisk rules, the Management Board and the Audit Committee of the Supervisory Board must receive a report on the credit portfolio at least once a quarter 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

For 2011, credit risk, issuer risk in the banking book and counterparty risk are shown together and the figures for 2010 adjusted accordingly. The measures taken during the course of the financial and economic crisis regarding active risk and line management for business customers led to a slight rise of €2.2 billion (1.0%) in 2011 to €218.7 billion in credit, issuer and counterparty exposure. In terms of industry sectors, exposure declined above all in chemicals, health and pharmaceuticals (down by €1.3 billion) and retail customers (down by €3.0 billion). At the same time, exposure to the public sector rose by 29.9% or €9.7 billion. This increase essentially stems from issuer risk and can largely be attributed to a change in the calculation method implemented in March 2011.

Breakdown of credit exposure by industry sector[1]

(€ billions)

Industry sector	2011	2010
Banking	44.6	45.2
Public sector	42.1	32.4
Construction	29.6	29.9
Retail customers	20.6	23.6
Food, consumer goods, services	20.2	20.4
Transport	11.1	11.2
Utilities	9.3	9.2
Chemicals, health, pharmaceuticals	9.1	10.4
Mechanical engineering, steel	7.1	7.9
Automotive	5.9	6.8
Other	5.1	4.5
Mineral oil	4.7	5.0
Electrical, ICT	4.4	4.5
Media, print, paper	3.0	3.5
Insurance	1.9	2.0
HVB	**218.7**	**216.5**

1 without Real Estate Restructuring

A slight decline was registered in the banking portfolio in 2011. The strategy of systematically reducing exposure to peripheral EU states was continued during 2011. Cash limits and money market transactions in these markets were further decreased by adjusting the risk strategies during the year. Furthermore, drastic reductions were made to the available lines as loans to the major banking groups came up for renewal during the course of 2011. No defaults were recorded in 2011. We expect the interbank markets to remain volatile in 2012. The restrictive risk policy towards peripheral EU states will be continued. The focus will be on the risk-conscious implementation of the CIB business strategy.

The shipping portfolio was successively reduced starting in the second half of 2011 on account of deteriorating underlying conditions and in line with the risk strategy. There was a sharp rise in exposures classified as non-performing. Difficult underlying conditions with regard to the cyclical nature of the shipping industry are expected to persist in 2012. Consequently, we will only write new business on an extremely selective basis and continue to pare back the existing portfolio.

The German real estate market remained very stable in 2011, assisted by the positive trend in the real economy. The portfolio of existing real estate exposures is still characterised by high portfolio quality, transparency, a low risk profile and good profitability. The focus is on target customers in economically strong core markets within Germany. New business developed well in the field of residential property in particular.

The renewables portfolio (partly allocated to the utilities sector) has been, and still is, negatively affected by reduced state subsidies (including a reduction of feed-in tariffs and additional taxes on electricity from renewable sources). The exposure in this portfolio decreased slightly in 2011, while a further decline is expected in 2012 in line with the 2012 risk strategy and on account of repayments.

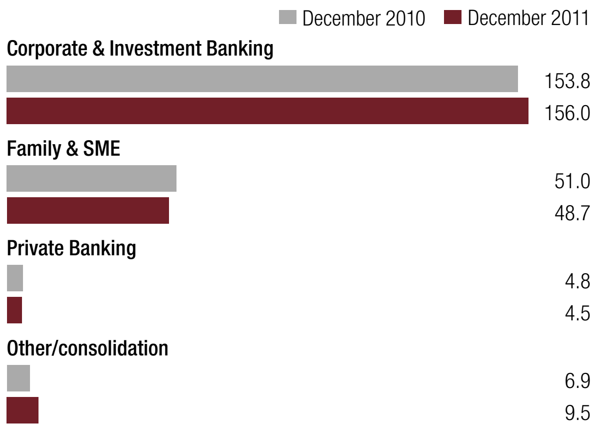
The utilities and mechanical engineering sectors include exposures relating to the completion of an offshore wind farm. HVB has undertaken to finance this offshore wind farm located in the North Sea, around 100 kilometres off the German coast. Risks ensued from delays to the completion of the wind farm in both 2010 and 2011. Furthermore, HVB restructured its commitment to the general contractor commissioned to deliver the wind farm on a turnkey basis during 2011 by way of a restructuring loan.

The divisions were restructured during the first quarter of 2011 as part of the One4C project. This included transferring business customers with revenues of less than €50 million from the Corporate & Investment Banking division to the Family & SME division.

The credit risk exposure in the active risk business, which is the total HVB portfolio excluding the remaining exposures assigned to the former Real Estate Restructuring segment, rose by 1.0% to €218.7 billion in 2011. The exposure in the Family & SME division declined by €2.3 billion (4.5%). This can be attributed to the decline in new business in mass-market operations and with business customers with revenues of less than €50 million.

In light of accelerating economic growth, the Bank will in 2012 exploit expansion opportunities and also carry out further measures aimed at optimising its portfolio. The rise of €2.6 billion (37.7%) in the Other/consolidation segment can essentially be attributed to an increase of exposure in issuer risk arising from new business.

Breakdown of credit risk exposure by division (€ billions)[1]



1 without Real Estate Restructuring and intragroup transactions

Risk Report (Continued)

The proportion of credit, issuer and counterparty risk in rating classes 1 to 4 was raised by €14.8 billion (from 56.8% in 2010 to 63.1%) in 2011 on account of the positive economic development and requirements defined in the risk strategies regarding the granting of new loans and the reduction of existing exposures with worse ratings. The exposure in the rating classes 5 to 8 fell by €12.2 billion, while it remained stable in the rating classes 9 and 10.

Breakdown of credit risk exposure by rating class[1]

	2011		2010	
Rating	**€ billions**	**in %**	**€ billions**	**in %**
Not rated	8.8	4.0	9.2	4.3
Rating classes 1–4	137.9	63.1	123.1	56.8
Rating classes 5–8	64.8	29.6	77.0	35.6
Rating classes 9–10	7.2	3.3	7.2	3.3
HVB	**218.7**	**100.0**	**216.5**	**100.0**

1 without Real Estate Restructuring and intragroup transactions

In terms of credit, issuer and counterparty risk, there was a reduction in the exposure limit and the VaR in the Corporate & Investment Banking division in 2011. The proportion of risk in the Corporate & Investment Banking division declined in both the exposure limit (down by 6.5 percentage points) and the VaR (down by 9.4 percentage points) as a result of measures additionally defined in the risk strategy for 2011 to regulate the granting of new loans and measures aimed at paring back existing loans with low ratings.

Breakdown of expected loss and value-at-risk by division[1] (€ millions)

	EXPECTED LOSS		VALUE-AT-RISK	
Breakdown by division	**2011**	**2010**	**2011**	**2010**
Corporate & Investment Banking	430	709	3,638	2,801
Family & SME	164	188	520	313
Private Banking	8	10	20	24
Other/consolidation	36	53	565	118
HVB	**638**	**960**	**4,743**	**3,256**

1 without Real Estate Restructuring and intragroup transactions

The net releases of provisions for losses on guarantees and indemnities recognised by HVB for 2011 amounted to €741 million. This is included in provisions for losses on loans and receivables in the income statement shown in the section of the Management Report entitled “Business Situation and Trends”.

Year-on-year development of country risk
EaD of eurozone countries, broken down by risk type

The following table shows the EaD of HVB with eurozone countries in the narrow sense. Borrowers/counterparties based in these countries are included.

(€ millions)

	LENDING BUSINESS		COUNTERPARTY RISK		ISSUER RISK IN BANKING BOOK		TOTAL		ISSUER RISK IN TRADING BOOK	OF WHICH SOVEREIGN
EaD	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2011**
Luxembourg	2,511	1,918	17,460	15,604	2,035	2,408	22,006	19,930	602	—
Italy	**2,993**	**1,080**	**5,825**	**7,669**	**4,859**	**2,446**	**13,677**	**11,195**	**6,504**	**4,965**
Ireland	**2,879**	**3,700**	**654**	**427**	**2,395**	**1,039**	**5,928**	**5,166**	**473**	**7**
Netherlands	3,863	4,304	319	317	1,094	1,362	5,276	5,983	861	1
Austria	1,050	1,091	282	1,146	3,216	1,867	4,548	4,104	719	612
France	1,718	2,116	653	755	1,122	849	3,493	3,720	2,058	884
Spain	**1,758**	**1,747**	**52**	**88**	**1,372**	**2,321**	**3,182**	**4,156**	**837**	**121**
Greece	**796**	**1,032**	**46**	**51**	**31**	**259**	**873**	**1,342**	**22**	**28**
Belgium	140	55	25	38	186	93	351	186	48	33
Portugal	**244**	**589**	**20**	**25**	**111**	**117**	**375**	**731**	**273**	**7**
Malta	358	127	2	3	—	—	360	130	1	—
Cyprus	208	368	3	1	—	—	211	369	—	—
Slovakia	133	110	57	40	—	—	190	150	—	—
Finland	100	170	25	14	—	17	125	201	228	—
Slovenia	49	28	46	54	—	—	95	82	8	—
Estonia	10	10	—	—	—	—	10	10	—	—
HVB	**18,810**	**18,445**	**25,469**	**26,232**	**16,421**	**12,778**	**60,700**	**57,455**	**12,634**	**6,658**

Management of eurozone countries

Eurozone countries are not included in classical country risk, as, according to the definition of country risk, the exposure in euros is not relevant for country risk. Consequently, these countries are not included in the following three tables and are shown separately.

Monthly reports are prepared for the at-risk eurozone countries. Detailed developments regarding the exposure in the individual countries and analysis results are shown. At the same time, the reports also encompass risk parameters like CDS spreads and external ratings as indicators of risk content. Banks and sovereigns are under additional, strict observation in the form of the “radar screen for financial institutions/banks”. This involves defining strategies for individual banks or sovereigns at short, regular intervals. These parameters are compulsory for the sales staff.

A restrictive Italy strategy for the Financial Institutions, Banks and Sovereigns portfolio (FIBS) has been implemented and communicated in HVB. This essentially comprises a reduction of cash exposures and restrictions on maturities for new business. Furthermore, new derivative contracts are not written without collateral.

Risk Report (Continued)

The limits for eurozone countries are based on the unsecured portion of the exposure. They take into account the issuer risk in the banking book as well as credit and counterparty risk. The limits currently in place for Greece were suspended at times during the course of the worsening euro crisis.

Year-on-year development of the weaker eurozone countries
At 31 December 2011, HVB had exposure to the PIIGS countries of Portugal, Ireland, Italy, Greece and Spain totalling €24.0 billion. Particularly close attention was paid to Greece, with business activities strictly controlled and curtailed, which enabled the EaD to be reduced by 35% during the course of 2011.

Exposure to UniCredit S.p.A. and its subsidiaries
The Bank had exposure to UniCredit and its subsidiaries throughout 2011 (upstream exposure), which was reduced in the second half of the year. At year-end 2011, HVB Group had upstream exposure of €25.5 billion gross and €16.3 billion net (after collateral). HVB Group has been in contact with the regulatory authorities regarding this exposure. In the process, a strategy for further reducing the upstream exposure in 2012 has been agreed.

The gross exposure (before collateral) comprises a business-driven exposure of €14.2 billion arising from derivatives and other business activities (such as export finance and guarantees) and an exposure of €11.3 billion resulting from securities and money trading activities.

The business-driven exposure of €14.2 billion reflects business activities resulting from the strategic orientation of HVB within UniCredit overall. During the integration of HVB into UniCredit, HVB Group became the centre of competence for markets and investment banking at UniCredit group-wide, enabling it to systematically leverage business opportunities arising from its handling of the UniCredit-wide markets and investment banking business. The majority of the business-driven exposure can be attributed to derivative transactions (pre-settlement and settlement risk of €9.5 billion).

The exposure of €11.3 billion results from the fact that HVB places its excess liquidity. Within the framework of the regulatory requirements HVB received various instruments from UniCredit S.p.A. with a collateral value totalling €9.2 billion to secure this exposure, leaving a net exposure after collateral of only €2.1 billion at year-end 2011. The total net exposure (including business-driven exposure) after collateral amounts to €16.3 billion.

Year-on-year development of exposure to country risk
At 31 December 2011, the exposure of HVB to country risk totalled €47.4 billion, down a slight €66 million (0.1%) compared with 31 December 2010. At the same time, the VaR fell by €15.2 million (32.5%) to €31.6 million during the reporting period.

This development can be attributed primarily to lower originations to eastern Europe, Asia/Pacific, and Central and South America coupled with a simultaneous upgrade in the internal ratings.

The share of loans with investment grade ratings remained unchanged at 94%. This reflects a consistently positive portfolio distribution.

The structure of the exposure by internal rating has improved. The exposure in rating class 1 rose by €947 million and now accounts for 85.4% (2010: 83.3%) of the total. The proportion of exposures in rating classes 5 to 8 declined from 4.1% to 1.8% on account of rating migrations and exposure reductions.

Country risk is diversified in regional terms across 104 countries. The majority of the exposure is in western Europe at 55.4% (2010: 51.5%), followed by North America at 19.1% (2010: 18.1%) and

Asia/Pacific at 12.1% (2010: 13.8%). At 8.8% (2010: 10.4%), Eastern Europe also accounts for a large part of the country risk. Within this region, Hungary is under observation by the internal "radar screen for financial institutions/banks". The exposure totalled €411 million at 31 December 2011. The regional breakdown of the exposure corresponds to the Bank's strategic orientation and reflects the main focus of the Bank's global business activities.

Country risk is restricted by volume limits for each country, broken down in accordance with a defined product structure. The product structure contains limits for credit risk with subvariants in the short-term commercial segment, delivery risk and delivery/performance guarantees, and for counterparty and issuer risk. Country limits are submitted for review on an annual basis at the least. Only countries with a very good rating and membership of the OECD can remain without limits. In addition, HVB employs value-at-risk limits for each region that are utilized promptly in the event of downgrades and concentration risk. There are no countries without limits as part of the value-at-risk limit arrangements.

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

	EXPOSURE		VALUE-AT-RISK	
Rating	**2011**	**2010**	**2011**	**2010**
Rating classes 1–4	46,575	45,558	24.3	21.9
Rating classes 5–8	865	1,947	7.3	25.1
Rating class 9	—	1	—	0.1
Total	**47,440**	**47,506**	**31.6**	**46.8**

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

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

	LENDING BUSINESS		COUNTERPARTY RISK		ISSUER RISK		TOTAL		ISSUER RISK IN TRADING BOOK
Region	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**
Western Europe	6,102	6,908	19,489	16,581	316	968	25,907	24,457	3,653
North America	1,163	1,106	7,269	5,991	626	1,491	9,058	8,588	776
Asia/Pacific	2,236	2,115	3,278	4,044	222	394	5,736	6,553	123
Eastern Europe	2,555	3,015	1,546	1,540	55	391	4,156	4,946	332
of which Hungary	13	17	398	432	42	120	453	569	—
Central and South America	723	673	417	1,041	847	756	1,987	2,470	94
Africa	486	400	110	92	—	—	596	492	18
of which North Africa	238	306	43	41	—	—	281	347	—
HVB	**13,265**	**14,217**	**32,109**	**29,289**	**2,066**	**4,000**	**47,440**	**47,506**	**4,997**

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

Risk Report (Continued)

HVB: top ten countries by exposure[1] across all rating classes (€ millions)

Country	EXPOSURE 2011	EXPOSURE 2010	VALUE-AT-RISK 2011	VALUE-AT-RISK 2010
UK	19,649	17,630	5.3	1.7
USA	7,709	6,915	—	—
Switzerland	4,732	4,857	0.4	0.3
Russian Federation	1,801	2,283	4.4	6.1
Singapore	1,546	2,445	0.1	0.2
Hong Kong	1,451	1,343	0.7	0.6
Turkey	1,155	1,158	6.6	9.3
Cayman Islands, onshore	927	608	1.0	0.8
China	812	628	—	0.1
Canada	772	1,044	—	—
HVB	**40,554**	**38,911**	**18.5**	**19.1**

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

Financial derivatives

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

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

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB at year-end 2011 totalled €124.4 billion (31 December 2010: €93.0 billion).

In accordance with the banking supervision regulations under Basel II (German Banking Act/Solvency Regulation), risk-weighted assets for HVB amounted to €14.2 billion at 31 December 2011 (31 December 2010: €14.8 billion) 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.

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

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2011	2010	2011	2010	2011	2010
Interest rate derivatives	**1,064,471**	**1,240,271**	**1,026,401**	**3,331,143**	**3,222,315**	**101,279**	**64,809**	**100,297**	**63,496**
OTC products									
Forward rate agreements	142,414	3,071	—	145,485	222,751	68	132	33	105
Interest rate swaps	703,781	1,008,106	833,240	2,545,127	2,441,383	91,092	60,071	90,899	57,700
Interest rate options									
– purchased	47,940	120,648	96,484	265,072	237,311	9,852	4,499	103	6
– written	39,297	93,127	95,539	227,963	228,175	202	64	9,193	5,541
Other interest rate derivatives	24,429	1	—	24,430	510	64	43	69	144
Exchange-traded products									
Interest rate futures	47,046	15,201	884	63,131	92,058	—	—	—	—
Interest rate options	59,564	117	254	59,935	127	1	—	—	—
Foreign exchange derivatives	**289,109**	**33,481**	**1,296**	**323,886**	**394,371**	**5,472**	**6,311**	**6,007**	**6,037**
OTC products									
Foreign exchange forwards	198,135	21,486	161	219,782	293,267	4,058	4,562	4,599	4,247
Foreign exchange options									
– purchased	45,172	5,947	609	51,728	50,207	976	1,744	467	—
– written	45,768	6,048	526	52,342	50,865	438	5	941	1,790
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	34	—	—	34	32	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**43,308**	**137,779**	**72,935**	**254,022**	**248,439**	**6,202**	**8,036**	**6,800**	**8,135**
Equity/index derivatives	**63,615**	**55,920**	**3,805**	**123,340**	**144,118**	**5,099**	**9,322**	**6,068**	**11,875**
OTC products									
Equity/index swaps	5,027	5,705	1,324	12,056	19,670	234	281	236	288
Equity/index options									
– purchased	9,892	13,563	297	23,752	25,981	2,581	6,934	4	1
– written	25,872	20,254	2,066	48,192	50,133	55	37	2,847	7,788
Other equity/index derivatives	1,029	1,324	—	2,353	6	192	5	2	1
Exchange-traded products									
Equity/index futures	4,736	443	—	5,179	4,478	—	—	—	—
Equity/index options	17,059	14,631	118	31,808	43,850	2,037	2,065	2,979	3,797
Credit derivatives[1]	**69,578**	**134,491**	**18,846**	**222,915**	**271,561**	**5,384**	**4,103**	**5,434**	**4,515**
Other transactions	**4,073**	**3,883**	**1,213**	**9,169**	**10,152**	**1,161**	**403**	**1,408**	**718**
Total	**1,534,154**	**1,605,825**	**1,124,496**	**4,264,475**	**4,290,956**	**124,597**	**92,984**	**126,014**	**94,776**

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

Risk Report (Continued)

Derivative transactions with a residual maturity of up to three months accounted for a total nominal amount of €658,839 million at 31 December 2011 (thereof credit derivatives: €8,190 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2011	2010	2011	2010
Central governments and central banks	3,562	1,378	1,713	710
Banks	90,834	72,430	95,358	74,996
Financial institutions	26,043	15,486	27,507	17,493
Other companies and private individuals	4,158	3,690	1,436	1,577
Total	**124,597**	**92,984**	**126,014**	**94,776**

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	2011	2010	2011	2010	2011	2010
Banking book	**308**	**564**	**—**	**872**	**1,584**	**73**	**38**	**68**	**55**
Protection buyer									
Credit default swaps	82	364	—	446	1,014	73	37	—	18
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	226	200	—	426	570	—	1	68	37
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Trading book	**69,270**	**133,927**	**18,846**	**222,043**	**269,977**	**5,311**	**4,065**	**5,366**	**4,460**
Protection buyer									
Credit default swaps	29,125	67,222	8,325	104,672	129,794	4,799	2,852	363	1,257
Total return swaps	—	184	—	184	203	—	—	1	—
Credit-linked notes	79	2,039	185	2,303	35	159	24	14	—
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	39,598	64,075	10,330	114,003	139,804	352	1,188	4,928	3,186
Total return swaps	61	—	—	61	62	—	—	1	—
Credit-linked notes	407	407	6	820	79	1	1	59	17
Other	—	—	—	—	—	—	—	—	—
Total	**69,578**	**134,491**	**18,846**	**222,915**	**271,561**	**5,384**	**4,103**	**5,434**	**4,515**

Credit derivatives by reference asset (€ millions)

	NOMINAL AMOUNT					
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	OTHER	TOTAL 2011	TOTAL 2010
Public sector bonds	53,969	61	61	—	54,091	68,120
Corporate bonds	154,985	—	759	—	155,744	199,259
Equities	15	—	—	—	15	2
Other assets	10,578	184	2,303	—	13,065	4,180
Total	**219,547**	**245**	**3,123**	**—**	**222,915**	**271,561**

Single-name credit derivatives made up 67.4% of the total; multi-name credit derivatives, relating to baskets or indices, accounted for a share of 32.6%.

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 and commodity risk, and also includes option risk.

Our market risks are managed mainly in the Corporate & Investment Banking division. In 2011, the focus was on further consolidating risk-bearing transactions and concentrating on customer transactions. The cash equity business for western Europe has been closed. The reduction of the credit correlation portfolio has been initiated with a view to closing this portfolio completely. A new electronic platform used to generate structured equity derivatives at specific customer request has been developed for mass market activities. A reduction in the complexity of commodity activities has been initiated with regard to both the complexity of the products and the number of markets and products covered.

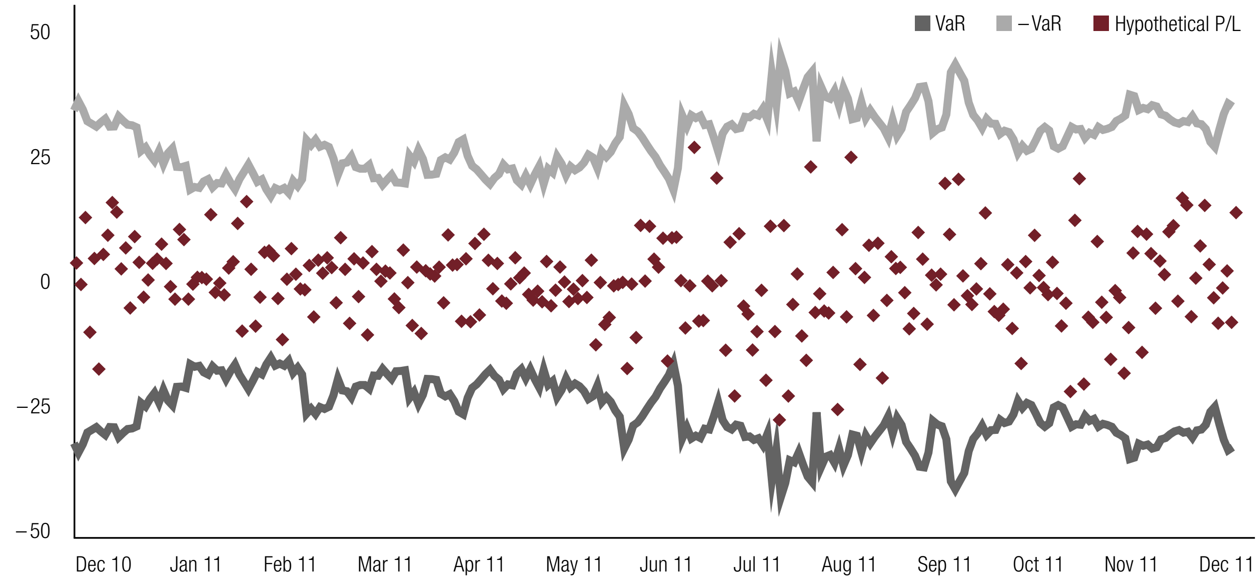
Around half of our market risk is located in the trading book, with the focus in the trading units responsible for interest rate-related trades (Rates) and credit derivative-related trades (Credit). Outside of the trading book, market risk is concentrated in legacy portfolios, bonds and Treasury. These activities are included in the limit system as part of market risk management.

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, the maximum value-at-risk of the last 250 days, like other risk types, is scaled to a confidence level of 99.97% and a holding period of one year, taking portfolio effects into account.

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 2011, there were no back-testing exceptions to report (see chart "Back-testing of new internal model: HVB trading activities in 2011 (€ millions)"). On days with a back-test overshoot, the amount of the hypothetical loss would have been greater than the forecast value-at-risk.

Back-testing of new internal model: HVB trading activities in 2011 (€ millions)



Starting in 2012, we will also perform back-testing based on an adjusted economic P/L in addition to back-testing using the hypothetical P/L.

Alongside management using the value-at-risk approach, the risk positions of a few key units are restricted by an additional bundle of granular limits. These limits relate to sensitivities, stress test results and nominal volumes in various risk classes.

For the purposes of internal risk management, the new market risk metrics defined in the new German Solvency Regulation have been calculated and limited on a weekly basis since July 2011 alongside the value-at-risk.

– Calculation of the potential stressed value-at-risk. The amount calculated for the regulatory report relates to a holding period of ten days and a confidence level of 99%. This is intended to reduce the procyclical nature of the calculated capital requirements for market risk. Notwithstanding this, the stressed value-at-risk is calculated based on a holding period of one day for the purposes of internal risk management and restricted by limits of €135 million.

– For non-securitised credit products: Internal approach used to determine the additional default and migration risk in the net interest positions (IRC). Both the change in ratings (migration) and the potential default on a credit product are taken into account. The calculated amount relates to a holding period of one year and a confidence level of 99.9% for both regulatory and internal reporting. A limit of €600 million was introduced for the IRC risk value.

– For the correlation trading book: Internal approach used to calculate the value change risk (CRM). Both the crisis scenarios required by the supervisory authorities and the internal crisis scenarios must additionally be calculated by the risk system for the correlation trading book on a weekly basis. The calculated amount relates to a holding period of one year and a confidence level of 99.9% for both regulatory and internal reporting. The limit for the CRM risk value is €585 million.

– Standard Approach for (re-)securitisations: The regulatory Standard Approach for the specific interest rate risk is applied to securitised credit products that may not be held in the correlation trading portfolio (illiquid CDOs, re-securitisations and NtD credit derivatives). The market risk totals are used to limit the positions. Separate limits are not defined for the risk disclosed using the Standard Approach.

The new risk metrics have also been used for the purpose of regulatory reporting as of 31 December 2011. The use of these new metrics was approved by BaFin in December 2011. The Bank is currently working through the findings ascertained during the audit.

The following risk amounts were calculated for the regulatory report at the reporting date of 31 December:
– average 10-day value-at-risk of the last 60 trading days: €102 million
– average 10-day stressed value-at-risk of the last 60 trading days: €103 million
– eligible amount for the incremental risk charge (IRC): €591 million
– eligible amount of the comprehensive risk measure (CRM): €363 million.

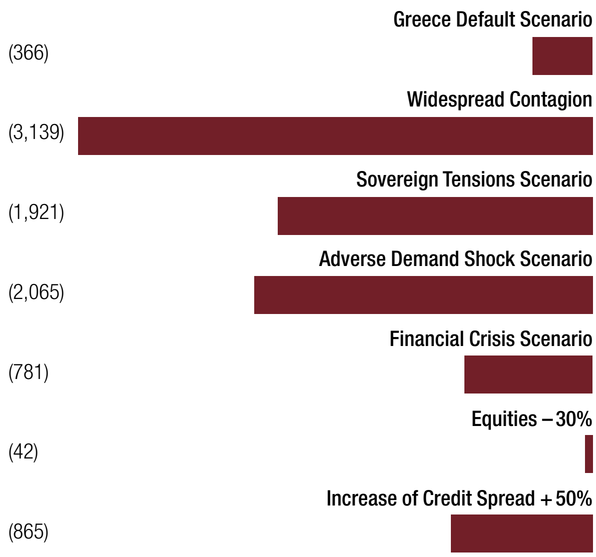
In addition to calculating the value-at-risk, we continually conduct stress tests for HVB to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered for HVB, such as a widening of credit spreads. We also analyse macroeconomic stress scenarios based on real market upheavals (historical stress tests) or current threats (hypothetical stress tests). The set of stress scenarios also includes those applied by UniCredit.

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.

Further hypothetical scenarios are based on the potential market movements in the event of a deepening of the debt crisis in Europe and/or an adverse demand shock in Germany. The expansion of the debt crisis is examined using the scenarios "Sovereign Tensions" and "Widespread Contagion". All are based on the assumption of a default by a euro sovereign with widespread escalation of the crisis to other euro states.

The most significant stress result from this package of stress test scenarios at 29 December 2011, with a potential loss of €3.1 billion (2010: €3.2 billion), results from the "Widespread Contagion" scenario. This scenario is also used in the cross-risk-type stress tests, where it is analysed for ability to bear risk.

HVB stress testing at 29 December 2011 (€ millions)



For 2012, we are endeavouring to determine the market distortions which are especially critical for our portfolio by conducting an inverse stress test.

Risk Report (Continued)

Risk monitoring

The market risk positions in the trading and banking books are monitored using a hierarchical limit system that restricts the potential loss from market risk. This involves restricting the market risk arising from trading positions by setting trading book limits. At the same time, all positions, irrespective of the regulatory or IFRS classification, are limited by what are known as value-at-risk warning levels. Limits and value-at-risk warning levels were introduced during 2011 for all transactions exposed to market risk.

All transactions exposed to market risk in the trading and banking books of HVB are aggregated overnight in a total value-at-risk and set against the risk limits. The Management Board of HVB approves and, if necessary, adjusts the risk limits each year. At the start of 2011, the trading book limit for HVB was set at €80 million – the same as in 2010 – in line with the Bank's risk strategy. The value-at-risk warning level used to limit all market risks was set at €167 million. The increase of €37 million over 2010 (€130 million) is a consequence of the reclassified holdings also being included in 2011 (IAS 39.50B).

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 trading book limits or VaR warning levels are exceeded, an escalation process is triggered immediately and the reduction of the positions in question is monitored. In 2011, 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 trading activities is based on the prompt allocation to counterparty limits and the detailed check of the P/L on the following day. In this context, both the daily turnover and the P/L generated on intraday transactions are determined.

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

Quantification and specification

The table below shows the aggregate market risks of our trading positions in HVB in 2011. The increase in market risk during the course of the year results from the sharp rise in market fluctuations in 2011 as a consequence of the debt crisis. The strong market movements seen during the financial crisis in 2008 already fell out of the observation period of 500 days in 2010.

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

	AVERAGE 2011[1]	31/12/2011	30/9/2011	30/6/2011	31/3/2011	31/12/2010
Interest rate positions (incl. credit spread risks)	25	45	24	15	17	**29**
Foreign exchange derivatives	5	10	2	3	4	**4**
Equity/index positions[2]	9	7	14	8	6	**8**
Diversification effect[3]	(9)	(27)	(4)	—	(5)	**(7)**
HVB	**30**	**35**	**36**	**26**	**22**	**34**

1 arithmetic mean of the four 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

Up to and including 30 September 2011, the breakdown by asset class was carried out for each business unit. The breakdown at 31 December 2011 was carried out using the risk factors employed. The high diversification effect in December 2011 shows the strong netting effect of currency and equity transactions on interest rate risk. Data series from the last 500 days are used for the historical simulation. The correlation between these data series for each risk factor was much lower in the fourth quarter of 2011 than before. This is seen notably in the market movements for November, which caused high potential losses on both the credit spread and the interest rate side, thus driving up the VaR. These potential losses are significantly reduced by our positioning in equities and foreign exchange and consequently have little influence on the aggregate VaR.

Market risk of HVB[1] (value-at-risk, 99% confidence level, one-day holding period) **(€ millions)**

		AVERAGE 2011[2]	31/12/2011	30/9/2011	30/6/2011	31/3/2011	31/12/2010
HVB	Market risk	56	67	67	43	45	60
	VaR warning level	163	167	162	162	162	100

1 this table shows all the market risks reported on a daily basis. See below for more information about market risk
2 arithmetic mean of the four quarter-end figures

Reclassified holdings were also included in the limits as of 2011, during the course of which the overall limit was increased to €100 million. The limit for positions outside the CIB division was increased by €5 milion in the fourth quarter. The increase in market risk notably in the third quarter results from greater market fluctuations due to the sovereign debt crisis.

In addition to the market risks shown in the table above, there are also market risks that are allocated directly to the full Management Board. At year-end 2011, their value-at-risk amounted to €32 million (year-end 2010: €14 million), with a limit of €40 million. This increase was also driven by the greater market fluctuations in the third quarter. Including the risks from this portfolio, the total risk at year-end amounted to €82 million (2010: €125 million).

At year-end, the banking book contained market risks of €61 million with a one-day holding period (31 December 2010: €79 million). This includes all the market risks from the banking book including the market risks of the reclassified portfolios. Taken in isolation, these amounted to €27 million (2010: €54 million). The market risks of the remaining banking book positions show a market risk of €33 million (2010: €40 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 €17.8 million (0.1% of the regulatory capital) in the banking book of HVB (31 December 2010: a decrease of €24.8 million).

Value change in case of a 10% FX appreciation
at 31 December 2011 **(€ millions)**

HVB BANKING BOOK	
Total	(17.8)
USD	(1.2)
GBP	(15.1)
CHF	1.7
JPY	0.4
AUD	(1.4)
HKD	(0.6)
Other	(1.5)

Risk Report (Continued)

A 20% decline in all equity and hedge fund prices results in a decrease in the portfolio value by €33.75 million (0.15% of regulatory capital) in the banking book of HVB (31 December 2010: decrease of €43.9 million).

Value change in case of a 20% decrease in equity prices
at 31 December 2011 (€ millions)

HVB BANKING BOOK	
Total	(33.8)
Equity products	(0.3)
Hedge funds	(33.5)

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 MaRisk rules)
– 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 €359.8 million (1.6% of the regulatory capital) in the banking book of HVB. If the hedge effect of the equity capital model book is taken into account, this scenario results in a value increase of €110.4 million (31 December 2010: €125.0 million).

Value change in case of an interest shock of +100 BPS at 31 December 2011 (€ millions)

	TOTAL	UP TO 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS
HVB banking book – without hedge effect of equity capital model book	(359.8)	57.3	(411.6)	(5.5)
HVB banking book – with hedge effect	110.4	87.9	27.1	(4.7)

Any financial impact resulting from interest-rate changes, FX devaluations and price reductions in the area of equity/index derivatives are reflected in interest income and trading income.

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

In compliance with the Circular issued on 9 November 2011 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 ± 200 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 0.6% (2010: 0.7%), or 3.2%, excluding the model book (2010: 2.1%), of its regulatory equity capital at 31 December 2011, HVB is well below the 20% above which the banking supervisory authorities consider a bank to have increased interest rate risk. Without the valuation effects of the reclassified portfolios, the rate of equity capital utilisation is 0.6% (2010: 0.4%).

In addition, a dynamic simulation of the net interest 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 €88 million decrease in net interest income within the next 12 months (31 December 2010 minus 100 basis points: €175 million).

The economic capital for market risk continues to be based on the maximum of the one-day 99% VaR data series of the last twelve months, scaled to a one-year holding period and a confidence level of 99.97%. The economic capital for the market risk of HVB amounts to €1.1 billion, down by €0.5 billion on the year-ago figure of €1.6 billion. A constant decline in the economic capital was evident throughout the year in the market risk portfolio that is the direct responsibility of the Management Board. Any hedging effect of the model book for equity is not included in the economic capital. Specific risks amounting to €0.7 billion arising from hedge fund positions are covered by an additional cushion. Diversification effects between the units are derived from the income statement. Reclassified holdings in the economic capital are managed in the banking book and the specific risks for these positions are shown under default risk as before.

Market liquidity risk

Market liquidity risk (the risk that the Bank will only be able to liquidate assets on the market 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 risk. An appropriate stress test is 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 carried out to determine the amount of losses that would result from the liquidation of trading and banking book positions of HVB in a market environment with greatly expanded bid-offer spreads. For December 2011, the tests showed a potential loss of €548 million (2010: €587 million).

3 Liquidity risk

Risk management

The banking industry again felt the effects of the European sovereign debt crisis in 2011. Various measures taken by the European Union in particular only partially calmed the markets. It is not yet possible to predict how and to what extent the financial markets will be impacted by the debt crisis in some European states together with risks arising from changes in interest and exchange rates.

HVB put in a solid performance in 2011 in this very demanding market environment, thanks to a good liquidity situation, a solid financing structure and the liquidity management measures it undertook. Based on our forward-looking risk quantification and scenario analyses, we expect our overall liquidity to remain adequate. Nevertheless, it will be necessary to continue monitoring the possible effects of the volatile markets on the funding of HVB.

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, which is part of the short-term liquidity risk

Operational liquidity risk, which is part of the short-term liquidity risk, may arise when a financial institution cannot meet its intraday payment obligations from current incoming and outgoing payment transactions, thus running the risk of becoming technically insolvent. This risk is limited in HVB through continual intraday monitoring and forecasting of the relevant account balances. Furthermore, a minimum volume of unused liquidity must be kept available to cover any additional intraday liquidity required due to unexpected outflows of liquidity (intraday liquidity cushion).

Funding risk

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

Again in 2011, we were able to obtain appropriate funding for our long-term lending business in accordance with our planning.

Risk Report (Continued)

We are able to cope with the effects of the change in the funding spreads to a very large extent by limiting funding risk. In addition, the internal transfer prices for the lending and deposit-taking 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 only be able to liquidate assets on the market 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 optimising the expected cash flows, limiting the cumulative liquidity gap, carrying out stress tests on a regular basis and reducing liquidity risks by implementing an intraday liquidity cushion through which additional liquidity is maintained to cover unexpected cash outflows. 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 complete with the contingency plan and other supplementary provisions must be updated at least once a year. The Liquidity Policy is implemented by the operational business units and is coordinated and monitored for the relevant HVB units by the Finance department in the CFO organisation.

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 cumulative balance of the above-named components is backed with limits for all maturity buckets of up to three months for the relevant units of HVB Group.

Furthermore, stress scenarios based on the liquidity profiles of the units of HVB are simulated at regular intervals. These stress scenarios take into account internal influences (e.g. possible HVB Group-specific incidents), external factors (e.g. disruptions in global financial markets) and a combination of internal and external factors. A time horizon of up to two months is defined for the stress scenarios, during which the available liquidity reserves are expected to exceed the simulated outflows of liquidity. This ensures that countermeasures can be initiated promptly, if required.

In addition to this internal measurement methodology, HVB is subject to the regulatory standards defined in the German Liquidity Regulation for short-term liquidity risk.

Funding risk
To measure funding risk, long-term funding needs are determined using a coordinated process which is based on the expected business development reported and updated as required. The long-term funding need, which is used to set the funding targets and is presented to the 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 buckets through limits and funding targets. Compliance with the limits allocated for short-term liquidity risk is monitored on a daily basis and the long-term funding ratios are monitored monthly. The stress scenarios are also calculated on a weekly basis.

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 ALCO and the management are regularly informed of the current liquidity and funding situation. A contingency plan is in place to allow the impact of potential liquidity risk to be managed. This contingency plan describes and regulates the distribution of responsibilities, internal reporting requirements, decision-making powers and potential counter-measures.

Quantification and specification

Conditions on the money and capital markets in 2011 were dominated by high volatility. Despite the market turmoil, the liquidity situation of HVB remained at an adequate level at all times.

Short-term liquidity risk

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €21.5 billion in HVB for the next banking day at the end of December 2011 (2010: €25.0 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 €18.3 billion at year-end 2011 (2010: €26.8 billion). This change can be attributable primarily to the preference for cash reserves over securities reserves that has become evident on the market as a whole.

Our stress tests showed that the liquidity reserves available at the end of 2011 were sufficient to cover funding requirements resulting from Bank-specific, market-wide and combined scenarios for a period of up to two months.

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB during the year under review. The funds available to HVB exceeded its payment obligations for the following month by an average of €29.9 billion in 2011 (2010: €42.7 billion) and by €26.2 billion at 31 December 2011. This means that we are comfortably above the internally defined trigger.

Funding risk

The funding risk of HVB was again quite low in 2011 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 in terms of volume and maturity within the framework of our limit system at all times. HVB obtained longer-term funding with a volume of €9.3 billion on the capital market during 2011 (2010: €6.8 billion). At the end of December 2011, 101.0% of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

4 Operational risk

Risk management

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

HVB has a Group-wide operational risk organisational structure. The respective divisions of HVB are responsible for identifying, analysing and managing operational risk. The respective operational risk managers in the individual units are responsible for the operational implementation and performance of the process, which specifically includes the collation, analysis, evaluation and quality assurance of the risk data and corresponding action plans complete with ongoing monitoring of key risks. The Operational Risk unit monitors the Group-wide compliance with the operational risk management process and the risk situation of HVB.

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 Compliance unit (LCC) is responsible for managing compliance risk. LCC offers comprehensive service covering all compliance-related issues for every unit at the Bank. Its people advise and train Bank managers and staff with regard to existing laws, rules and regulations. Compliance concentrates on the German Securities Trading Act and accompanying ordinances, rules and regulations, such as stock market regulations. Also important in this context are regulations arising from the German Banking Act and other rules relating to the business activities of HVB, like corruption and antitrust issues. Based on the risk analysis, Compliance devises the monitoring plan, which encompasses not only monitoring the Bank's employee transactions and trading activities but also numerous second controls that examine the effectiveness of the existing controls. In addition, Compliance carries out on-site audits of the branches and individual business units within CIB that examine compliance with all relevant rules and laws and the effectiveness of the existing processes and controls. The results of the controls and reviews, together with the general status of compliance at the Bank, compliance measures and problems, are reported directly to the Management Board and/or Supervisory Board.

The Legal, Corporate Affairs & Documentation unit (LCD) is responsible for managing legal risk. LCD provides advice to all units at the Bank on legal matters. This includes ensuring compliance with the laws that are relevant for the Bank's business activities and constantly tracking and analysing legislative developments and their impact on the Bank. Furthermore, LCD accompanies the introduction and implementation of the relevant legal frameworks for the Bank in close cooperation with the responsible units. The Tax Affairs, Personnel and Compliance unit is responsible for tax law, employment law (excluding legal proceedings) and the fields of law grouped under the term compliance relating to the Bank's tax position. Furthermore, LCD provides advice and support for compliance by HVB Group companies with legal frameworks and the recognised principles of jurisprudence. In this context, LCD has a risk-managing function for legal issues for all units at HVB. This takes place in collaboration with the management and the units at HVB.

Measurement methods

To quantify the eligible amount for the operational risk of HVB, we apply the UniCredit-wide Advanced Measurement Approach (AMA), which is based on the loss distribution approach. This model uses the 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.

Operational risk is calculated using the AMA model aggregated across all AMA subsidiaries and then reallocated to the individual AMA subsidiaries. This allocation was previously performed on the basis of the standard approach for operational risk and more risk-sensitive elements were added in 2011. This new allocation mechanism also includes both standalone calculations at subsidiary level and back-testing elements, which now makes it possible to show the risk profile much better for the AMA subsidiaries.

The economic capital for operational risk is also calculated using the UniCredit-wide AMA model. Only the data of HVB Group are used when representing the specific risk profile of HVB. UniCredit-wide diversification effects are not taken into account, however.

In 2011, the HVB AMA was successfully expanded to include the Vienna branch that was integrated in 2010 for regulatory purposes, after this had already been applied last year when calculating the economic capital.

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. Information about loss events that have occurred and material operational risks and their management is provided in the form of regular reporting to the RC, the Management Board of HVB and the Audit Committee of the Supervisory Board.

Furthermore, our local operational risk managers report regularly to their respective senior management. Appropriate actions are recommended as part of this reporting.

Quantification and specification
The economic capital for operational risk of HVB without taking account of diversification effects between risk types amounted to €2.0 billion at the end of 2011 (2010: €1.6 billion).

The risk rose in response to an increased risk profile for selling risks arising from derivatives and other structured products. Similarly, the introduction of the new allocation mechanism served to increase the risk by €0.03 billion, reflecting the riskier investment banking activities assigned to HVB.

The following were the most important risk management activities undertaken by HVB in the 2011 financial year:

Business continuity management
The focus in the first half of 2011 was on reviewing the appropriateness of business continuity at HVB. The contingency plans and their tests were confirmed as suitable.

In the second half of the year, attention turned to the business impact analysis serving to identify and confirm the critical processes. In addition, suitable tests were carried out to verify the contingency plans.

The Bank's involvement in a simulation by the Bank of Italy, further internal exercises and also real cases (such as major water damage) also showed that the handling of the processes in business continuity and crisis management is operating well. The focus here was on the appropriateness of the business continuity plans, internal and external communication workflows and the activation of a special organisation during an emergency or crisis.

Outsourcing and IT projects
Outsourcing involves the transfer of activities to external service providers. This also involves a transfer of some of the operational risk while contractual risks arising from the outsourcing arrangement

Risk Report (Continued)

remain in the Bank. The operational risk managers and the central Operational Risk function help the project managers and the heads of the retained organisations to prepare and/or update the related risk analysis.

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 GBS, it ensures high quality and comparable risk assessment standards, which involves close cooperation with the operational risk organisation.

HVB has set up a standardised risk assessment process to ensure that the regulatory requirements regarding the outsourcing of business processes are met. In conjunction with relevant functional departments, such as Legal Affairs, Compliance, Audit Management, IT Security and so on, the Outsourcing Tracking Office and the OpRisk Manager responsible for the outsourcing unit analyse all new outsourcing arrangements with regard to their materiality. “Materiality” is identified using a checklist that includes factors like previous loss events, risks arising from ongoing operations, workload, number of customers and processes affected, restart time in the event of the service provider failing and underlying regulatory conditions.

Where an outsourcing arrangement is classified as material, in-depth risk assessments are performed to analyse outsourcing-specific risk (essentially operational risk) and also non-quantifiable risks like reputational risk and strategic risk. The office responsible for each individual outsourcing arrangement (retained organisation – RTO) manages the identified risks using the processes specified at HVB and defines risk-reducing measures. The RTO manages and monitors performance and compliance by the service providers and, where necessary, initiates countermeasures.

The Bank’s IT services are mostly provided by the Group company UniCredit Global Information Services (UGIS). The control mechanism used to manage these services has been constantly improved and modified to reflect the changes caused by the roll-out of the Group-wide EuroSIG IT platform in 2010.

In 2011, HVB set up a number of material outsourcing arrangements in the back office area alongside a number of outsourcing arrangements classified as “not material” in accordance with the MaRisk rules.

GBS is to be strategically realigned in connection with UniCredit’s objective of devising a uniform global business model. With the All4Quality project, UniCredit is seeking to enhance the quality of the various services provided by GBS throughout the corporate group, systematically advancing the measures that have already been implemented to globally pool activities for the GBS units. To achieve this goal, the structures within GBS activities will be better structured and simplified alongside other measures, such as improving the workflows and processes. The structures are being simplified at country level in Italy, Germany and Austria.

The goal in Germany is to consolidate the branches of UniCredit Business Partners S.C.p.A. (UCBP) and UniCredit Global Information Services S.C.p.A. (UGIS) together with various GBS units from HVB, almost all units at HVB Immobilien AG (Immo), domestic and international units of the Financial Markets Services unit (FMS) and HVB Secur GmbH in an independent Group company under German law, UniCredit Global Business Services GmbH (UGBS). This central German service provider will then deliver services for all HVB Group companies.

Various units from the GBS division and HVB Immobilien AG (notably including Purchasing, HR Shared Services and Facility Management) were transferred to UGBS with effect from 1 August 2011. In this context, HVB Secur GmbH also became a subsidiary of UGBS. The FMS unit in Germany and the units in the foreign branches of HVB were transferred to UGBS with effect from 1 October together with various IT assets still retained by HVB.

UGBS is a wholly owned subsidiary of HVB. The further steps originally planned for 2011 – transfer of UGBS to UniCredit Global Information Services S.C.p.A. (UGIS) and subsequent absorption of the offices of UniCredit Business Partners S.C.p.A. (UCBP) and UGIS into UGBS, which will then provide back office and IT services for all HVB subgroup companies as the central German service provider – are still scheduled for implementation in 2012.

Management is convinced that the consolidation at UGBS will help to enhance the quality of the services provided to the customers and contribute significantly to the success of not only the whole of UniCredit but also specifically the group companies involved, HVB and the HVB Group companies.

In its function as the retained organisation responsible and outsourcing tracking office, the Service Management & Governance unit closely followed this process and will continue to manage and monitor it going forward. Particular attention was paid to the identification of risks, the wording of contracts and service level agreements (SLAs), and the setup of management units.

The individual services of the units outsourced at 1 August 2011 and 1 October 2011 are defined in modular SLAs structured by service units, as annexed to the outsourcing agreement. HVB and UGBS will review in detail and revise these SLAs ("transitional issues") where this is necessary and only the basic criteria were specified at 1 October 2011.

In 2011, the processing of the prepaid credit card was outsourced to the UniCredit internal service provider Quercia S.C.p.A. as part of the roll-out of a new credit card product. This company was subsequently absorbed into UGIS within the framework of the consolidations in the GBS division listed above. It is planned to roll out further credit card products with this service provider during 2012. This outsourced activity is managed and monitored by the existing organisational unit that oversees payments and the credit card providers.

As last year, a project team of tax specialists has closely tracked the implementation of the modified regulations regarding the flat tax on capital income. Nevertheless, there were delays in the mailing of tax certificates this year. In addition to the primary goals of realising and implementing the complex legal requirements regarding the flat tax on capital income, the project achieved some success with establishing a sustainable organisation in the first half of 2011. The efficiency and effectiveness of the tax-processing workflows were permanently improved.

EuroSIG core banking system

The EuroSIG core banking system that was rolled out in the summer of 2010 proved its worth in the annual closing and first half of 2011. The temporary workarounds still in place at the turn of the year were successfully absorbed in the first half of 2011 or integrated in the target processes.

This means that the reorganisation of the IT function at HVB commenced in 2005 with the merger to form UniCredit (replacing the old HVB application landscape with the largely uniform UniCredit application landscape) has been largely completed, and the system landscape is being refined by smaller project units. The roll-out of EuroSIG caused not only the application and system landscape to change but also UniCredit's IT operating processes throughout Europe to be harmonised. These requirements need modifications to be made to the internal control system for IT in order to adequately monitor and manage all material IT risks.

Fraud risk in trading

There is no information currently to hand regarding instances of fraud in the Bank's trading activities in the 2011 financial year. Investigations were initiated when suspicions arose. Irrespective of this, HVB launched an analysis and review of the trading processes at the end of May 2011, focussing specifically on the Bank's control mechanisms. This is more thorough than the regulatory checks and compares HVB with leading standards on the market.

The outcome of the analysis project was implementation measures that would enhance the control mechanism. Some of the implementation measures are already known from external and internal audit reports and are hence already being implemented. All relevant activities have been prioritised and will be implemented as part of a dedicated programme.

Outlook

In 2012, we will in particular closely track the action areas identified as part of the risk strategy for operational risk when refining the way we manage operational risk. This will again involve examining the product development and roll-out processes and change processes initiated by projects.

Risk Report (Continued)

Legal risks

Legal risks/arbitration proceedings

HVB and other companies belonging to the HVB subgroup are involved in various legal proceedings. The following is a summary of pending cases against HVB (excluding labour law cases, tax cases and credit recovery actions) which have a value in dispute exceeding €50 million or are of significance for HVB for other reasons.

HVB is required to deal appropriately with various legal and regulatory requirements in relation to issues such as conflict of interest, anti-money-laundering laws, privacy and data-protection rules. Failure to do so may lead to additional litigation and investigations and subject HVB to damage claims, regulatory fines or other penalties. In many cases, there is a substantial uncertainty regarding the outcome of the proceedings and the amount of possible losses. These cases include criminal or administrative proceedings by the relevant authority and claims in which the petitioner has not specifically quantified the amounts in dispute. In all legal cases where it is possible to reliably estimate the amount of possible losses, and the loss is considered likely, appropriate provisions have been set up based on the circumstances and consistent with IAS accounting principles applied by HVB.

Medienfonds lawsuit

Various investors in VIP Medienfonds 4 GmbH & Co. KG brought legal proceedings against HVB. HVB did not sell shares in the Medienfonds fund, but granted loans to all private investors for a part of the amount invested in the fund; HVB assumed specific payment obligations of certain film distributors with respect to the fund.

The investors in the Medienfonds fund initially enjoyed certain tax benefits which were later revoked by the tax authorities. The claimants argue that HVB did not disclose to them such particular tax risks and make HVB, together with other parties, responsible for presumed errors in the prospectus used to market the fund. Additionally some plaintiffs invoke rights under German consumer protection laws. The courts of first and second instance have passed various rulings, several of which were unfavourable for HVB.

On 30 December 2011, Munich Higher Regional Court (Oberlandesgericht) decided on the issue relating to prospectus liability through a specific procedure pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG). The court stated that the prospectus was incorrect concerning the description of tax risks, loss risk and the fund’s forecast. The court further holds HVB liable along with the promoter of Medienfonds for such errors. HVB is currently analysing the ruling and the merits of an appeal to the German Federal Court of Justice (Bundesgerichtshof). However, any final decision in this proceeding will affect only a few pending cases since a general settlement has already been reached with the vast majority of the investors. Besides the civil proceedings, the fiscal courts have not yet published a final decision regarding whether the tax benefits were revoked rightfully. HVB and other German banks involved in said proceedings have proposed a settlement. HVB has set up provisions which are, at present, deemed to be appropriate.

Furthermore, there are a number of separate lawsuits from investors pending regarding other closed-end funds (mainly media funds, but also other asset classes). The changed view of the fiscal authorities regarding tax benefits granted earlier often represents the economic background to the respective litigation. Among other things, the plaintiffs base their claims on alleged inadequate advice and/or on supposed errors in the prospectus. With their claims the investors demand restitution of their equity contribution and offer in return the transfer of the related fund share to the Bank.

Real estate finance/financing of purchases of shares in real estate funds
HVB will not suffer negative legal consequences if customers cancel their property loan agreements under the German Doorstep Transactions Act (Haustürwiderrufsgesetz). According to the law and the opinion on this subject expressed in the German Federal Court of Justice'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 the rates determined in accordance with market customs, even after cancellation of the loan agreement.

Under a well-established body of court decisions, the bank would be required to assume the investment risk because of its failure to notify the customer of his right to cancel the contract only if the customer could prove that he would not have made the investment if he had been aware of this right; in addition, the German Federal Court of Justice 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, HVB assumes that legal risks will not arise from these cases.

Judgements from the German Federal Court of Justice also confirmed the already narrow conditions for a possible obligation on the part of HVB to give information and advice. The German Federal Court of Justice 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 HVB 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 relating to securities
On account of the persistently unstable conditions of the financial markets, the number of complaints from customers invested in securities that have been negatively affected by the financial crisis remains unchanged at a high level. Some customers have taken legal action with respect to losses from securities transactions based on information that was allegedly not suitable for the relevant investor or on investment advice that was allegedly inappropriate with respect to the relevant investment or alleged negative performance of securities of other transactions.

Complaints and lawsuits by German customers whose derivative transactions have suffered losses or currently have a negative market value have also substantially increased. Among other things, the arguments made are that the Bank allegedly did not sufficiently inform the customer with respect to the relevant investment and potential risks related to such transactions. Generally, there has been a trend for investor-friendly judgements with respect to derivative-related lawsuits. Latest rulings confirm this trend but also demonstrate that the characteristics of the relevant product and the individual circumstances of each case are decisive. HVB has set up provisions for those cases which are, at present, deemed to be appropriate.

Risk Report (Continued)

Three class actions were raised in the United States against our American brokerage subsidiary, UniCredit Capital Markets, Inc. (UCCM), along with numerous other defendants. The reason behind these actions is that both Lehman Brothers Holding and Merrill Lynch issued securities. Although UCCM 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.

An additional class action has been filed against several members of an underwriting consortium, including UCCM. This class action is based on mortgage-backed securities issued by Bank of America. HVB is of the opinion that the claim is unfounded and UCCM will defend itself accordingly.

Lawsuit in connection with Primeo-linked notes

HVB 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 HVB is around €27 million. Legal proceedings have been commenced in Germany in connection with the issuance of said Primeo-linked notes, which also named HVB as a defendant. One of the two lawsuits has been terminated due to withdrawal of the action by the plaintiff.

Securitisation – financial guarantee

Another financial institution has filed suit against HVB with regard to a securitisation transaction. The parties dispute the validity of an early termination notice served by HVB on the financial institution in question. HVB believes the claim against it is without merit and is defending itself accordingly.

Insolvency of Landsbanki Islands

In 2008, HVB concluded money market deposit transactions with Iceland-based Landsbanki Islands, among others, which were duly settled. The Winding-up Board of Landsbanki has recently challenged in court the repayment at that time of the money borrowed and sued HVB for payment of a middle double digit million euro sum. HVB is currently reviewing the documents and will defend itself against the claims.

Repotransactions

Two customers belonging to the same group of companies have recently filed claims against HVB with a total amount in dispute of €491.4 million (plus interest). The dispute results from the termination of their repotransactions with HVB. The claimants assert that the compensation paid by HVB to the clients following the clients' default was insufficient. The Bank intends to defend itself against said claims.

Proceedings relating to German tax credits

A client has filed suit against HVB with an amount in dispute of €124 million based on alleged incorrect advice and breach of duty relating to transactions in German equity securities. Such transactions were entered into by the client based on the expectation of receiving dividend withholding tax credits on dividends in relation to German equities which were traded around dividend dates. Pursuant to a tax audit of the client, the tax authorities have demanded repayment from the client, who is primarily liable vis-à-vis the tax authorities, of the withholding tax credit previously granted to the customer plus interest, summing up to the amount in dispute. HVB understands that the customer and his tax advisor are challenging the tax authorities' position. The client in his claim requests HVB to indemnify him against said and potential future payment obligations vis-à-vis the tax authorities with respect to the transactions. The client recently extended his claim asking for the release of collateral pledged to HVB.

The tax authorities served a secondary liability notice upon HVB requesting payment of the tax credits previously granted to the client, including interest, summing up to €124 million on the basis of alleged issuer liability for tax certificates. HVB challenged the notice. There is a risk that HVB could be held liable for damages to the customer in civil proceedings or to the tax authorities on the basis of the liability notice. In addition, HVB could be subject to interest claims in relation to this matter, as well as fines and profit claw backs, and/or criminal penalties. HVB meanwhile has taken certain legal steps under civil law which HVB and its advisors consider appropriate in order to protect its position in the context of the above-mentioned matters.

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 HVB. After settlement of the legal challenges to this move, HVB 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 German Act on the Procedure Regarding the Compensation of Minority Shareholders (Spruchverfahrensgesetz). In a ruling dated 22 February 2012, the Higher Regional Court (Oberlandesgericht) of Hamburg confirmed the fairness of the aformentioned compensation; the ruling is final and binding.

Court proceedings of HVB shareholders

Numerous (former) shareholders of HVB 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 the Bank

Numerous (former) minority shareholders filed suits challenging the resolutions of the Extraordinary Shareholders' Meeting of HVB 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 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 dated 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 (by now already expired) Business Combination Agreement (BCA) entered into by HVB 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 units sold. At the same time, based on a petition filed by some minority shareholders, the court declared that the (by now already expired) 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.

HVB 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 HVB'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 HVB on 5 February 2009.

Risk Report (Continued)

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 HVB 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 HVB 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. Former minority shareholders of HVB appealed against said ruling and raised complaints against the denial of leave to appeal with the German Federal Court of Justice which has been granted by the court. A final decision has not yet been passed.

Special representative

The Annual General Meeting of Shareholders of HVB 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 HVB 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 a special representative.

An Extraordinary Shareholders' Meeting of HVB on 10 November 2008 revoked the resolution dated 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.

In 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 HVB through the sale and transfer of said shares ("Heidel action") referring to a damage claim raised by several hedge funds. In the suit the special representative argues that the shares in Bank Austria were sold to UniCredit S.p.A. at a price significantly below market value. On 10 July 2008, the special representative extended his suit and asserted additional alleged claims for damages amounting to at least €2.92 billion against the defendants named above. The special representative alleges that HVB 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 asserted claims are unfounded.

His dismissal from office prevents the special representative from pursuing his claim for damages; moreover, these proceedings will not terminate automatically – this will not happen until the Supervisory Board of HVB (where suit has been filed against former members of the Bank's Management Board) and the Bank's Management Board have adopted appropriate resolutions. HVB's executive boards have initiated a review of this complex matter with the assistance of external consultants to enable them to adopt appropriate resolutions on the basis of their expert opinion.

Other proceedings

The Polish Financial Supervisory Authority (PFSA) conducted investigations against UniCredit CAIB Securities UK Limited (UniCredit CAIB), a subsidiary of HVB, regarding the publication of a research report forecasting a target price per share of zero for a company. In 2011, the PFSA issued a fine in an amount equivalent to around €125,000 against UniCredit CAIB. UniCredit CAIB has appealed the fine, but the ruling has been upheld.

Tax proceedings
HVB has notified the Munich tax authorities that HVB may have conducted certain proprietary transactions close to dividend dates and claimed related withholding tax credits. In this context, the Supervisory Board of HVB has simultaneously commissioned external advisors to conduct an audit of such matters. This audit is fully supported by UniCredit. Given that HVB has proactively disclosed this matter to the Munich tax authorities, HVB expects that the German Central Federal Tax Authority (Bundeszentralamt für Steuern) and the Munich tax authorities are likely to examine such transactions. Although German tax authorities have recently denied withholding tax credits in certain types of trades undertaken near dividend dates, there is no clear guidance from the German Fiscal Court (Bundesfinanzhof) on the tax treatment of such transactions. At this time, the impact of any review by the Central Federal Tax Authority and Munich tax authorities is unknown. Because the audit commissioned by the Supervisory Board is at a very early stage, it is not possible at this time to predict the outcome, including timing for any findings.

HVB could be subject to substantial tax and interest claims in relation to the securities transactions mentioned above, as well as fines and profit claw backs, and/or criminal penalties. HVB is in communication with its relevant regulators regarding this matter.

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 using a value-at-risk approach. For this purpose, income and cost volatilities are determined at divisional level and, with due consideration given to correlations, a value-at-risk is calculated that represents the possible fluctuations associated with business risk.

Risk monitoring

The economic capital for business risk is calculated and analysed by the Credit Risk Control & Economic Capital unit and reported to the divisions, the CRO and the Audit Committee of the Supervisory Board.

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 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 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 the risk types, increased by €0.3 billion to €0.8 billion in 2011. The economic capital calculated for the business risk of HVB

Risk Report (Continued)

taking account of diversification effects between risk types totalled €0.6 billion at year-end 2011 (year-end 2010: €0.3 billion). The change of a rounded €0.3 billion can for the most part be attributed to an update of the data series and the lower diversification effects.

HVB's CIB division expects its earnings to decline in 2012 on account of the difficult underlying economic conditions. In addition, it is already planned to cut costs in 2012 by eliminating posts, for instance in the Western European Cash Equities unit that was already dissolved in November 2011 and the associated research. These activities will, however, continue to be offered to our customers through a strategic alliance with Kepler Capital. Some of the additional cost savings achieved by making structural changes will be reinvested with a view to improving the quality of the services provided in the core business.

The activities involving wealthy customers of the PB division continue to be dominated by a high level of uncertainty on account of the considerable market volatility. The large losses recorded by the capital markets during the crisis loom large in customers' minds and continue to shape investment patterns. Added to this is the constant stream of bad news regarding sovereign debt and the future of the euro. As a result of this, many customers are hesitant to maintain investment at the current levels. Investments in liquid assets continue to have priority, while investments in fixed-term deposits and short-dated bonds are becoming ever less attractive on account of the extremely low interest rates, meaning in some cases that they no longer cover current inflation.

Low interest rates will continue to depress the development of margins on the deposit-taking side. This applies especially to the traditionally high levels of savings deposits in mass market operations and of demand deposits among SMEs. This side of the business is also expected to see persistent, aggressive competition from competitors, and especially from niche providers and online banks. A slight increase in the willingness to invest is forecast for securities operations over the medium term. The Family & SME division is seeking to benefit disproportionately from this by marketing attractive mandated products. The high-yielding market for structured products is expected to recover primarily in the field of defensive products.

6 Risks arising from our own real estate portfolio

Risk management

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

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

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

UniCredit has set up a Group-wide project called All4Quality that aims to enhance the quality of the diverse services provided by GBS. In Germany, HVB Immobilien AG is involved in the project, among others.

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). HVB Immobilien AG outsourced these activities to UGBS with effect from 1 August 2011 together with other activities of HVB Gesellschaft für Gebäude mbH & Co KG. UGBS is 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 expects that, despite the favourable economic developments forecasted, the basic conditions for the 2012 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 2012 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 risk 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.

The method used to measure our real estate risk will be expanded in 2012. Specific information regarding the property type will be incorporated in the index mapping, ensuring that the information content of the real estate indices is increased. At the same time, the specific risk arising from individual properties will be integrated directly in the measurement method and no longer covered by an additional cushion.

Risk monitoring
The economic capital for risks arising from the real estate portfolio is calculated and analysed by the Credit Risk Control & Economic Capital unit and reported to the divisions, the CRO and the Audit Committee of the Supervisory Board.

As part of the controlling of risk and measures, data have been subject to regular reviews since 2009 by the Credit Risk Control & Economic Capital unit at HVB and the Portfolio Management department at UGBS. This represents an improvement in data quality and also results in greater risk awareness.

It is also planned to continue reducing the non-strategic real estate portfolio during 2012. The situation in the real estate markets will again depend on economic trends in 2012. The impact this will have on the achievement of targets cannot be forecast at present.

Quantification and specification
The Letting and Sales department operated successfully in 2011 and exceeded its letting targets despite the difficult market environment.

The value-at-risk, without taking account of the diversification effects between the risk types, fell by €0.4 million in 2011 to total €34.2 million at year-end. The economic capital for real estate risk at HVB taking into account diversification effects between risk types totals €21.1 million (year-end 2010: €19.8 million). The change of a rounded €1.2 million can for the most part be attributed to an update of the data series and the constant portfolio reduction. The real estate portfolio of HVB is located primarily in Hamburg, which accounts for 66% of the total.

7 Risks arising from our shareholdings/ financial investments

Risk management
We classify potential losses resulting from fluctuations in market prices of our portfolio of listed and unlisted shareholdings, financial investments and corresponding fund shares under this risk type. Furthermore, shares classified as held for trading are included in market risk.

Risk Report (Continued)

The Management Board is responsible for managing our overall portfolio of shareholdings/financial investments. 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 for preparing business strategies, and thus risk strategies, in connection with shareholdings/investments rests with the divisions and competence lines.

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.

The methods used to measure investment risk will be further refined during 2012. Different methods will be applied for listed and non-listed companies, and the specific risk will be integrated directly in the measurement method and no longer covered by an additional cushion.

Risk monitoring
Credit Risk Control & Economic Capital 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 2011, 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. The reduction of the non-strategic portfolio is progressing as planned.

Quantification and specification
The value-at-risk, without taking account of the diversification effects between the risk types, has declined by a rounded €0.1 billion to €0.7 billion. The aggregate total of market values and carrying amounts at year-end was €1.8 billion. The economic capital of HVB taking into account diversification effects between risk types totals €0.4 billion (year-end 2010: €0.5 billion). The calculation methodology continues to include the recent past from the five-year history more than older periods, thus reflecting the current market situation.

8 Reputational risk
Reputational risk is defined as the present or future risk to the earnings or capital situation of the Bank due to a negative perception of the Bank by customers, business partners, shareholders, capital investors, market analysts, other interest groups such as private associations (NGOs), the media and so on, regulatory authorities or employees (together known as stakeholders of the Bank).

Above all the risk arising from a negative perception by the relevant stakeholders can make it harder for HVB to maintain existing business relationships and enter into new ones. Constant access to sources of finance could also suffer.

Thus, for instance, the country risk for Italy could have an impact on the reputation of UniCredit, and hence also HVB. This is being countered by the following measures:
– We have made available to our staff a factsheet called "Facts & Figures about UniCredit/HypoVereinsbank", a comprehensive argumentation aid that helps them to explain the actual situation to our customers and demonstrate how UniCredit and HVB are built on a strong, solid foundation.
– We broach the subject at many customer events, including the UniCredit economics talks during which the corporate CEO, Mr Ghizzoni, and the Board Spokesman of HVB, Dr Weimer, explain the situation/outlook for Italy and UniCredit and dispel any concerns our customers may have.
– Our branding campaign serves to publicly highlight UniCredit and HVB as a bank that takes good care of the real needs of real people. The campaign has helped to greatly increase aided awareness of the Bank.

The findings outlined in our comprehensive annual reputation assessment show an overall improvement on last year.

Reputational risk is multi-dimensional, can theoretically arise in any part of the Bank and reflects the perception of any market participant. A risk to our reputation can be limited by employing effective internal risk management processes.

The general definition of reputational risk is specified by the following criteria:
– Potential risk: Reputational risk arises primarily from the day-to-day business activities (customer-bank relationship) of HVB and its banking operations (such as facility management or the management of consumables like water, energy and waste).
– Event: Reputational risk can be defined as the risk of not meeting the expectations of a defind group of stakeholders.
  Effect: A reputational risk is only deemed to exist when there is a possibility of negative effects on the present or future value of the Bank.

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.

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.

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:
– Management of the potential risk
– Stakeholder management/dialogue
– Period for limiting the damage and restoring the Bank's reputation.

The analysis 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.37,59,65
– 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.

Risk Report (Continued)

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 MaRisk rules, 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.

Instances that could represent a potential reputational risk are decided upon by the Management Board on a case-by-case basis and documented by Corporate Sustainability. Computer-aided documentation is not currently envisaged. We retained this process in 2011; a separate half-yearly report was submitted to the Management Board of HVB in July 2011 in connection with operational risk.

Outlook

In 2012, the Bank will work towards improving the management and control of reputational risk. The Bank will review and revise the risk management and risk control processes in order to achieve further improvements in the complete and timely identification of the significant risks. Improvements will also be implemented in reporting accordingly. Furthermore, the impact of stresses on reputational risk will be analysed. Implementation is scheduled to be completed by the end of 2012. The Operational Risk unit is heading the relevant project.

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 policy decisions that may prove after the event to be disadvantageous in terms of the Bank's long-term goals; in addition, some of them may be difficult to reverse.

Notwithstanding the fact that HVB 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 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 reviews the overall bank strategy of HVB at regular intervals. 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 is described in the Financial Review. The Bank provides customer-oriented products in its key business areas CIB, F&SME and 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.

Germany has the biggest economy in Europe. Together with France, it has taken the leading role in the latest sovereign debt crisis in all attempts to rescue the euro and alleviate the situation on the financial markets in Europe. Nevertheless, factors like political upheavals and the continued euro crisis do contain additional downside risks. The forecasts for eurozone growth in 2012 suggest a mild recession overall, although we do expect Germany to expand by around 1% in 2012. The uncertainty surrounding the development of the global economy has become marked the longer the debt crisis in Europe has worn on, and the risk of a global banking and economic crisis has not been averted. German exports would be badly affected by a slowdown in the global economy, which in turn would have an impact on investment and also employment levels in Germany. This could lead to falling demand for credit. At the same time, the first signs of a looming credit crunch are already evident and banks are increasingly parking their liquid assets with the ECB.

Against this backdrop, HVB views itself as a solid commercial bank with excellent customer relationships, putting it in a good position to continue operating successfully on the German market. However, should the measures aimed at stemming the euro crisis fail to succeed or further turmoil roil the financial markets on account of insolvencies in the financial sector or a default by individual sovereign borrowers (such as Greece), this could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

Risks from the strategic orientation of HVB's business model

HVB 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. 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, 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 could be affected by an associated increase in the market power of its competitors. HVB 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.

Risks from modified competitive conditions in the German financial sector

The German financial services market as HVB'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. In addition, the importance of retail banking activities is increasing rapidly, against the backdrop of the latest developments in the banking market (such as an increase in the significance of deposit-taking operations in response to Basel III), with more and more European and international players seeking to enter the German market. At the same time, uncertainty among customers remains relatively high, which means they are responding more sensitively to changes in sales pitches. The result is intensive competition for customers and market share, and HVB is facing a lasting trade rivalry. It is also possible to observe how the competitive environment is being influenced in some areas of the market by state capital contributions or guarantees for selected market participants.

The possibility cannot be excluded that a further intensification of competitive conditions in the financial sector could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

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. Risks arising from this, such as the haircuts on Greek sovereign bonds that have been under discussion since the middle of 2011, have not had any material effect. Should it prove necessary to take further haircuts on sovereign bonds issued by countries like Italy, Spain or Portugal, however, this could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

The new and planned regulatory environment for banks is complex, and its cumulative effect is currently hard to assess. The legal framework in general will become tighter as a consequence of the sovereign-debt and financial crisis. Under the Basel III rules, for example, the future requirements regarding the definition of equity capital and the core capital ratio will be successively increased by 2019. Furthermore, Basel III calls for the introduction of new ratios for liquidity (Liquidity Coverage Ratio and Net Stable Funding Ratio) from 2015 and a generally applicable debt limit (Leverage Ratio) from 2018. The new capital rules under Basel III (to be implemented by the EU rules Capital Requirement Directive 4 and Capital Requirement Regulation) have, however, been superseded by the resolutions adopted by European governments at the EU summit on 26 and 27 October 2011. Now, European banks are expected to achieve a core Tier 1 ratio of 9% by 30 June 2012. This temporary requirement does, however, draw on the somewhat less stringent definitions of capital and risk-weighted assets under "Basel 2.5". The timetable for the introduction of Basel III is not affected by this.

The rules for systemically important banks worldwide reflect additional requirements regarding equity capital, supervision and possible crisis situations. UniCredit is one of 29 systemically important banks worldwide. Moreover, there will be further changes to legal provisions relating to the trading and settlement of derivatives as a result of the European Market Infrastructure Regulation (EMIR) and to the organisation of securities transactions and investor protection as a result of the Markets in Financial Instruments Directive 2 (MiFID 2).

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.

UniCredit's capital increase commenced in January 2012. This is one of the core measures in the corporate group's multiyear plan aimed at creating a strong capital base with a view in the end to meeting the requirements of the regulatory authorities for capital ratios. The capital increase will raise the core Tier 1 ratio of UniCredit to over 10%, which is a high level by European and other standards.

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. In Europe, bank levies already exist in Germany, Denmark, Austria, Hungary and the UK, being used in part to underpin stabilisation and restructuring funds, but mostly to generate budgetary funds. Also under discussion are taxes on financial transactions, taxes on the conduct of banking operations (finance activities) and taxes on variable elements of compensation paid to bank staff 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 a 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 was charged to HVB for the first time in 2011 in Germany, Austria and the UK. The effects of the other tax initiatives remain to be seen.

Risks from a change in HVB's rating

HVB continues to enjoy a solid rating in the "Single A" range from the external rating agencies Standard & Poor's (S&P), Moody's and Fitch. As the financial and euro crisis has progressed, however, the outlook announced by S&P and Moody's has changed such that the possibility of a downgrade cannot be excluded. This would be based on a change in the parameters used by the rating agencies to rate HVB (especially the rating of UniCredit). Such a downgrade 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. The ongoing financial crisis and the difficult economic situation in Italy have made it more likely that UniCredit S.p.A. will be downgraded. It remains to be seen how the rating agencies will evaluate the capital increase and the business plan unveiled at the same time.

Income Statement of UniCredit Bank AG

For the year ended 31 December 2011

Expenses (€ millions)

			2011	2010
1 Interest payable			4,935	4,982
2 Fees and commissions payable			514	782
3 Net expense from the held-for-trading portfolio			365	—
4 General administrative expense				
a) payroll costs				
aa) wages and salaries	1,402			1,377
ab) social security costs and expenses for				
pensions and other employee benefits	299			224
		1,701		1,601
including: for pensions				
€113 million				(24)
b) other administrative expenses		1,699		1,470
			3,400	3,071
5 Amortisation, depreciation and impairment losses				
on intangible and tangible assets			119	102
6 Other operating expenses			526	634
7 Write-downs and impairments for receivables and				
certain securities as well as additions to provisions				
for losses on guarantees and indemnities			2,289	1,670
8 Write-downs and impairments on participating				
interests, shares in affiliated companies				
and investment securities			—	110
9 Expenses from absorbed losses			21	39
10 Extraordinary expenses			22	22
11 Taxes on income			79	393
12 Other taxes, unless shown under				
“Other operating expenses”			70	3
13 Net income			1,017	1,270
Total expenses			**13,357**	**13,078**

Income

(€ millions)

		2011	2010
1 Interest income from			
a) loans and money market operations	6,317		6,534
b) fixed-income securities and government-inscribed debt	1,840		1,549
		8,157	8,083
2 Current income from			
a) equity securities and other variable-yield securities	580		507
b) participating interests	127		105
c) shares in affiliated companies	295		388
		1,002	1,000
3 Income earned under profit-pooling and profit-and-loss transfer agreements		41	59
4 Fees and commissions receivable		1,887	2,128
5 Net income from the held-for-trading portfolio		—	206
6 Write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities		1,344	1,265
7 Write-ups on participating interests, shares in affiliated companies and investment securities		120	—
8 Other operating income		806	337
9 Net loss		—	—
Total income		13,357	13,078
1 Net income		1,017	1,270
2 Withdrawal from retained earnings			
a) from legal reserve	—		—
b) from the reserve for shares in a controlling or majority interest-holding company	—		—
c) from other retained earnings	10		—
		10	—
3 Transfer to retained earnings			
a) to legal reserve	—		—
b) from the reserve for shares in a controlling or majority interest-holding company	10		—
c) to other retained earnings	—		—
		10	—
4 Profit available for distribution		1,017	1,270

Balance Sheet of UniCredit Bank AG

at 31 December 2011

Assets

(€ millions)

		31/12/2011	31/12/2010
1 Cash and cash balances			
a) cash on hand	477		480
b) balances with central banks	3,603		2,453
including: with Deutsche Bundesbank			
€2,860 million			(1,191)
		4,080	2,933
2 Treasury bills and other bills eligible			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
b) bills of exchange	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
		—	—
3 Loans and receivables with banks			
a) repayable on demand	19,474		17,164
b) other loans and receivables	31,458		41,244
		50,932	58,408
including: mortgage loans			
€— million			(—)
municipal loans			
€348 million			(474)
against pledged securities			
€132 million			(104)
4 Loans and receivables with customers		108,564	108,276
including: mortgage loans			
€44,031 million			(47,903)
municipal loans			
€18,098 million			(13,270)
against pledged securities			
€10 million			(140)
Amount carried forward:		163,576	169,617

Liabilities

(€ millions)

			31/12/2011	31/12/2010
1 Deposits from banks				
a) repayable on demand		13,632		17,541
b) with agreed maturity dates or periods of notice		48,388		37,795
			62,020	55,336
including: registered mortgage bonds in issue				
€719 million				(1,380)
registered public-sector bonds in issue				
€408 million				(439)
bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€1 million				(1)
and registered public-sector bonds				
€— million				(—)
2 Deposits from customers				
a) savings deposits				
aa) with agreed period of notice of three months	13,365			14,523
ab) with agreed period of notice				
of more than three months	203			215
		13,568		14,738
b) registered mortgage bonds in issue		8,168		8,409
c) registered public-sector bonds in issue		3,605		3,876
d) other debts				
da) repayable on demand	51,477			55,268
db) with agreed maturity dates or periods of notice	39,792			36,419
including: bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€5 million				(5)
and registered public-sector bonds				
€18 million				(34)
		91,269		91,687
			116,610	118,710
Amount carried forward:			178,630	174,046

Assets (€ millions)

			31/12/2011	31/12/2010
Amount brought forward:			163,576	169,617
5 Bonds and other				
fixed-income securities				
a) money market paper				
aa) issued by public authorities	3			1,604
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(1,601)
ab) issued by other borrowers	3,260			2,062
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(352)
		3,263		3,666
b) bonds and notes				
ba) issued by public authorities	16,689			14,586
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€16,639 million				(14,037)
bb) issued by other borrowers	34,659			32,573
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€25,663 million				(22,094)
		51,348		47,159
c) own bonds		2,292		—
nominal value €2,277 million				(—)
			56,903	50,825
6 Equity securities and other variable-yield securities			1,227	1,549
6a Held-for-trading portfolio			167,239	150,906
7 Participating interests			1,112	1,262
including: in banks				
€22 million				(100)
in financial service institutions				
€— million				(—)
8 Shares in affiliated companies			2,960	2,737
including: in banks				
€1,148 million				(1,125)
in financial service institutions				
€426 million				(241)
Amount carried forward:			393,017	376,896

Liabilities

(€ millions)

			31/12/2011	31/12/2010
Amount brought forward:			178,630	174,046
3 Debt securities in issue				
a) bonds				
aa) mortgage bonds	17,067			17,647
ab) public-sector bonds	3,484			1,732
ac) other bonds	6,216			7,068
		26,767		26,447
b) other debt securities in issue		—		—
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(—)
			26,767	26,447
3a Held-for-trading portfolio			152,843	140,061
4 Trust liabilities			168	1,969
including: loans taken out on a trust basis				
€168 million				(200)
5 Other liabilities			9,305	10,841
6 Deferred income				
a) from issuing and lending operations		37		50
b) other		389		475
			426	525
6a Deferred tax liabilities			—	—
7 Provisions				
a) provisions for pensions				
and similar commitments		—		—
b) tax provisions		521		723
c) other provisions		3,010		2,588
			3,531	3,311
8 Subordinated liabilities			3,207	3,264
9 Participating certificates outstanding			155	205
including: those due in less than two years				
€155 million				(205)
10 Fund for general banking risks			314	314
thereof: as per Sect. 340e				
€23 million				(23)
Amount carried forward:			375,346	360,983

Assets

(€ millions)

		31/12/2011	31/12/2010
Amount brought forward:		393,017	376,896
9 Trust assets		168	1,969
including: loans granted on a trust basis			
€168 million			(200)
10 Intangible assets			
a) internally generated intellectual property rights			
and similar rights and assets	—		—
b) purchased franchises, intellectual property rights, and similar			
rights and assets, as well as licences to such rights and assets	79		117
c) goodwill	113		132
d) advance payments	19		21
		211	270
11 Property, plant and equipment		238	269
12 Other assets		1,508	1,516
13 Prepaid expenses			
a) from issuing and lending operations	83		74
b) other	65		106
		148	180
14 Deferred tax assets		—	—
15 Excess of plan assets over pension liabilities		426	507
Total assets		**395,716**	**381,607**

Liabilities

(€ millions)

			31/12/2011	31/12/2010
Amount brought forward:			375,346	360,983
11 Shareholders' equity				
a) subscribed capital		2,407		2,407
divided into:				
802,383,672 shares of common				
bearer stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for shares in a controlling				
or majority interest-holding company	10			—
cc) statutory reserve	—			—
cd) other retained earnings	7,145			7,156
		7,155		7,156
d) profit available for distribution		1,017		1,270
			20,370	20,624
Total liabilities and shareholders' equity			**395,716**	**381,607**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		32,051		32,015
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			32,051	32,015
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		31,701		32,724
			31,701	32,724

Notes to the Annual Financial Statements

Legal basis

The annual financial statements of UniCredit Bank AG ("HVB") for the 2011 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (Handelsgesetzbuch – HGB), the German Stock Corporation Act (Aktiengesetz – AktG), the German Pfandbrief Act (Pfandbriefgesetz – PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

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

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

Accounting, valuation and disclosure

1 Consistency

The same accounting and valuation methods have essentially been applied as last year. Changes in accounting and valuation methods as well as disclosure modifications are indicated for the respective items.

2 Cash and cash balances

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

3 Treasury bills and bills of exchange

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

4 Loans and receivables with banks and customers

Loans and receivables with banks and customers (asset items 3 and 4) are always stated at the nominal amount plus any accrued interest. Differences between acquisition cost and nominal amount (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income and taken to the income statement under net interest income in the correct period over the term of the underlying items. Any necessary write-downs are deducted.

Loans and receivables are valued at the lower of cost or market as stipulated in Section 253 (4) 1 HGB. HVB creates specific loan-loss provisions and accruals to the amount of the anticipated loss for all identifiable exposure to acute counterparty default risk. As part of the improvements to the processes and methods used to determine the loan-loss provisions, the threshold below which loans are valued on a collective basis has been raised. In addition, the method used to estimate expected flow-backs has been defined more precisely for this portfolio. Specific loan-loss provisions and accruals are reversed as soon as the default risk has ceased, or used if the receivable is classified as irrecoverable and written off. The discounted amount of expected flow-backs was used when determining the level of write-downs compliant with Section 253 HGB.

Country risk will be covered by specific loan-loss provisions for loans at risk of default; a distinction will no longer be made between the default risk of the borrower (covered by specific loan-loss provisions until now) and the transfer risk from the borrower to the Bank (covered by country risk provisions until now). The existing country risk provision has been reversed and, where necessary, a specific loan-loss provision set up for loans exposed to acute default risk due to transfer risk.

Latent lending risks are covered by global provisions. When assessing domestic latent lending risks, HVB applies the principles of the German tax regulations allowing financial institutions to deduct global provisions. When assessing foreign latent lending risks, HVB similarly applies the principles of the German tax regulations allowing financial institutions to deduct global provisions. The only exception is the calculation of latent lending risks for the Athens branch, where the global provisions are set up on the basis of Greek law (1% of the average volume of loans and receivables with customer).

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

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

5 Bonds and other fixed-income securities

Investment securities and securities held for liquidity purposes (securities treated neither as held for trading purposes nor as investment securities) are shown under bonds and other fixed-income securities (asset item 5) and equity securities and other variable-yield securities (asset item 6).

HVB's total holdings of securities at the reporting date consisted of 38.3% held for trading purposes, 38.0% held for liquidity purposes and 23.7% held as investment securities.

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

We have set up valuation units documented in advance for certain interest-bearing securities and promissory notes held for liquidity purposes (with a carrying amount of €26,649 million) hedged against interest rate risk by equivalent hedging derivatives (notably interest rate swaps). The hedge of the dynamic portfolio within the framework of the valuation unit is of unlimited duration; the hedging period of the individual hedging derivatives is always related to the residual maturity of the respective hedged items in the portfolio. The offset changes in the fair value of the interest-bearing securities amount to a increase of €617 million for these portfolios. There is also a valuation unit that serves to hedge interest rate risks in bonds denominated in US dollars (with a carrying amount of €503 million) using interest rate swaps; the securities involved are funded in foreign currency. The changes in the fair value of the interest-bearing securities are taken to the income statement in full for this valuation unit (decrease of €52 million). At the same time, both the interest rate risk and the foreign currency risk inherent in a bond denominated in US dollars is hedged in a further minor valuation unit (with a carrying amount of €367 million) using a cross-currency swap (micro hedge). The offset change in the value of interest-bearing securities totals a decrease of €61 million for this valuation unit. The requirements of Section 254 HGB regarding valuation units have been met. The effectiveness of the valuation units is demonstrated prospectively using risk management methods relevant for measuring effectiveness (interest rate risk sensitivity analyses based on basis point values). The interest rate risk sensitivities in the hedged items and hedging derivatives largely offset each other at year-end. The changes in value arising from the hedged items and hedges are set against each other and offset within the individual valuation units. Under the net hedge presentation method, no net valuation gain is taken to the income statement; provisions for anticipated losses on pending transactions are set up to cover any net loss on the ineffective portion of the changes in value.

6 Held-for-trading portfolio

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

We have determined the fair value of the financial instruments held for trading purposes in accordance with the valuation hierarchy specified in Section 255 (4) HGB. The fair value is normally defined as the amount at which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the balance sheet date. The market price is used for financial instruments for which there is an active market. Where there is no active market that can be used to determine the market price, the fair value is determined with the aid of generally recognised valuation methods (notably discounted cash flow models and option price models).

Notes to the Annual Financial Statements (Continued)

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

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

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

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

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

HVB employs derivative financial instruments both for trading purposes and to hedge balance sheet items. The vast majority are trading derivatives which are disclosed at their fair value in the held-for-trading portfolio items on the assets side and liabilities side of the balance sheet and taken to the income statement. The hedging derivatives have positive market values of €123,501 million (within asset item 6a) and negative market values of €123,608 million (within liability item 3a).

Derivatives that are not associated with the held-for-trading portfolio continue to be treated in accordance with the principle of the non-recognition of pending transactions. Only cash flows that have started, such as option premiums and accrued upfront payments on unvalued banking book derivatives, are disclosed under other assets (asset item 12), other liabilities (liability item 5) and deferred income or prepaid expenses (asset item 13 and liability item 6). The valuation of hedging derivatives that form part of valuation units that have been set up is included in the provision for anticipated losses on pending transactions to be recognised in the event of an unrealised net valuation unit loss. The interest derivatives employed for asset/liability management of the general interest rate risk associated with receivables and liabilities in the banking book remain unvalued as part of the aggregate interest position within the framework of the recognised valuation convention in the banking book. Please refer to the Risk Report for a discussion of the management of the overall interest rate position. The few remaining standalone derivatives outside the trading book are valued in accordance with the imparity principle. A provision for anticipated losses on pending transactions is set up for unrealised valuation losses; unrealised valuation gains are not recognised.

An analysis of the question of loss-free valuation of interest-bearing transactions in the banking book assuming the net present value method indicated that there was no need to set up a provision for anticipated losses on pending transactions.

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

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

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

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

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

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

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

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

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

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

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

The discount rate for November 2011 published by the Deutsche Bundesbank for a residual maturity of 15 years at 5.14% p. a. (2010: 5.15% p.a.) and a pension trend of 1.70% p. a. (2010: 1.70% p.a.) were applied in the actuarial calculation of the amount payable at 31 December 2011. A figure of 2.00% p. a. (2010: 2.00% p. a.) has been included in the calculation for the anticipated wage and salary increases; a figure of 0–1.50% (2010: 0–1.50%) has been included in the calculation for the career trend. Life expectancies are based on the modified Heubeck 2005 G tables.

Notes to the Annual Financial Statements (Continued)

Whereas the income and expenses arising from the compounding and discounting of provisions for pensions are shown in net interest income, the current service cost accruing during the period and the effects arising from changed assumptions regarding the wage, salary and pension trend and biometric probabilities are disclosed under payroll costs. The same principles apply for the impact on earnings arising from the change in the group of beneficiaries and the change in provisions for pension in connection with company restructuring activities. Similarly, the impact on earnings of the change in the discount rate arising during the course of the 2011 financial year is allocated to payroll costs.

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

12 Employee benefits
Assets serving exclusively to settle pension commitments or similar long-term commitments, and to which all other creditors do not have recourse, are measured at fair value and offset against the underlying commitment. If the offsetting results in an excess of commitments over plan assets, we recognise a provision for pensions and similar commitments (liability item 7) to this amount. If the value of the assets exceeds the commitments, the amount is recognised under excess of plan assets over pension liabilities (asset item 15). The fair value of the assets to be offset are determined using generally accepted calculation methods based on external price sources.

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

13 Plan assets
Income and expenses arising from plan assets and from the compounding and discounting of the corresponding obligations are offset against each other and shown in net interest income.

14 Deferred tax assets and liabilities
Compliant with Section 274 HGB, deferred tax items are determined for temporary differences between the carrying amount of an asset, liability or deferred item shown in the commercial balance sheet and the corresponding amount disclosed for tax reporting purposes as well as for tax loss carryforwards and tax credits. German corporations are normally charged a corporate income tax rate of 15%, irrespective of any dividend distribution. Deferred taxes are measured using the uniform corporate income tax rate of 15.8%, including the solidarity surcharge, and the municipal trade tax dependent upon the applicable municipal trade tax multiplier. At HVB, this results in an overall valuation rate for the domestic portion of deferred taxes of 31.4%. The respective local tax rates are applied analogously for the foreign units. Compliant with Section 274 (1) 2 HGB, the amounts involved have not been recognised on account of an aggregate future reduction in tax. This results mainly from tax valuation provisos regarding general provisions and risk provisions as well as tax loss carryforwards.

15 Foreign currencies
Amounts in foreign currency are translated in accordance with the principles set forth in Section 340h and Section 256a HGB. As a result, assets and liabilities denominated in foreign currency and spot transactions outstanding at the balance sheet date are always converted into euros using the mean spot rate applicable at the balance sheet date. On the other hand, investment securities denominated in foreign currency that are not specifically covered in the same currency are carried at their historical cost. Outstanding forward transactions are translated using the forward rate effective at the balance sheet date.

The foreign currency positions in the portfolio not held for trading that are concluded in each currency are classified as having special cover within the meaning of Section 340h HGB and transferred to the held-for-trading portfolio on a daily basis under a standard system of currency risk management that is applicable across the Bank as a whole. The translation gains on the foreign currency positions managed in the held-for-trading portfolio are recognised at fair value in the income statement in accordance with the valuation methods applicable to the held-for-trading portfolio (Section 340e (3) 1 HGB). Consequently, the entire net income from FX trading is disclosed under net income from the held-for-trading portfolio in the income statement.

Notes to the Balance Sheet

16 Breakdown by maturity of selected asset items

(€ millions)

			2011	2010
A 3 b)	Other loans and receivables with banks			
	with residual maturity of	less than 3 months	19,930	29,378
		at least 3 months but less than 1 year	2,840	4,847
		at least 1 year but less than 5 years	6,312	3,843
		5 years or more	2,376	3,176
A 4)	Loans and receivables with customers			
	with residual maturity of	less than 3 months	9,700	4,437
		at least 3 months but less than 1 year	7,726	7,232
		at least 1 year but less than 5 years	33,250	34,680
		5 years or more	45,465	49,412
		No fixed maturity	12,423	12,515
A 5)	Bonds and other fixed-income securities, amounts due in the following year		11,061	8,557

17 Breakdown by maturity of selected liability items

(€ millions)

			2011	2010
L 1 b)	Deposits from banks			
	with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	28,753	16,780
		at least 3 months but less than 1 year	3,634	4,991
		at least 1 year but less than 5 years	9,492	5,494
		5 years or more	6,509	10,530
	Deposits from customers			
L 2 ab)	Savings deposits with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	23	12
		at least 3 months but less than 1 year	47	24
		at least 1 year but less than 5 years	103	137
		5 years or more	30	42
L 2 b)	Registered mortgage bonds in issue,			
L 2 c)	registered public-sector bonds in issue,			
L 2 db)	other debts with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	24,692	20,812
		at least 3 months but less than 1 year	7,986	6,374
		at least 1 year but less than 5 years	6,924	9,177
		5 years or more	11,963	12,340
	Debt securities in issue			
L 3 a)	Bonds, amounts due in following year		6,743	5,926
L 3 b)	Other debt securities in issue			
	with residual maturity of	less than 3 months	—	—
		at least 3 months but less than 1 year	—	—
		at least 1 year but less than 5 years	—	—
		5 years or more	—	—

Notes to the Balance Sheet (Continued)

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

(€ millions)

	AFFILIATES 2011	AFFILIATES 2010	PARTICIPATING INTERESTS 2011	PARTICIPATING INTERESTS 2010
Loans and receivables with banks	26,269	27,894	470	710
of which: UniCredit S.p.A.	4,548	5,915	—	—
Loans and receivables with customers	3,687	1,849	1,204	2,705
Bonds and other fixed-income securities	10,342	3,591	9,058	9,079
of which: UniCredit S.p.A.	5,634	1,861	—	—
Deposits from banks	9,121	11,156	220	446
of which: UniCredit S.p.A.	2,110	2,417	—	—
Deposits from customers	2,266	2,935	473	450
Debt securities in issue	1,405	2,334	—	—
Subordinated liabilities	1,443	1,408	—	—

Besides the relationships with 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.

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 by HVB.

Furthermore, HVB places excess liquidity efficiently with other UniCredit group companies. The section of the Risk Report entitled “Exposure to UniCredit S.p.A. and its subsidiaries” under “Risk types in detail” in this Annual Report contains further information regarding the exposure to UniCredit and its subsidiaries.

19 Trust business

Trust business assets and liabilities break down as follows:

(€ millions)

	2011	2010
Loans and receivables with banks	—	—
Loans and receivables with customers	168	201
Equity securities and other variable-yield securities	—	1,768
Participating interests	—	—
Trust assets	**168**	**1,969**
Deposits from banks	4	5
Deposits from customers	164	196
Debt securities in issue	—	1,768
Other liabilities	—	—
Trust liabilities	**168**	**1,969**

The significantly lower 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.

20 Foreign-currency assets and liabilities

67.8% of HVB's foreign-currency holdings consist of US dollars, 13.4% of pounds sterling, 7.2% of Japanese yen and 2.9% of Swiss francs. **(€ millions)**

	2011	2010
Cash and cash balances	734	1,241
Treasury bills and other bills eligible for refinancing with central banks	—	—
Loans and receivables with banks	3,439	4,904
Loans and receivables with customers	21,446	22,373
Bonds and other fixed-income securities	2,970	3,202
Equity securities and other variable-yield securities	48	53
Held-for-trading portfolio (assets held for trading purposes)	7,779	17,848
Participating interests	324	336
Shares in affiliated companies	525	331
Trust assets	163	1,963
Intangible assets	1	1
Property, plant and equipment	7	9
Other assets	267	256
Prepaid expenses	7	13
Assets	**37,710**	**52,530**
Deposits from banks	11,112	12,408
Deposits from customers	6,084	9,789
Debt securities in issue	194	1,538
Held-for-trading portfolio (liabilities held for trading purposes)	6,842	15,347
Trust liabilities	163	1,963
Other liabilities	180	202
Deferred income	51	38
Provisions	41	115
Subordinated liabilities	776	724
Liabilities	**25,443**	**42,124**

The amounts shown represent the euro equivalents of all currencies. The Trading department actively monitors the foreign currency position, and differences between assets and liabilities are generally closed by taking out derivatives.

Notes to the Balance Sheet (Continued)

21 Subordinated asset items

The following balance sheet items contain subordinated assets:

(€ millions)

	2011	2010
Loans and receivables with banks	1,286	1,396
Loans and receivables with customers	436	580
Bonds and other fixed-income securities	3,166	3,262
Equity securities and other variable-yield securities	8	8
thereof: own participating certificates in market-smoothing portfolio	—	—
Held-for-trading portfolio	302	510

22 Marketable debt and investments

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

(€ millions)

	TOTAL MARKETABLE SECURITIES 2011	TOTAL MARKETABLE SECURITIES 2010	OF WHICH: LISTED 2011	OF WHICH: LISTED 2010	OF WHICH: UNLISTED 2011	OF WHICH: UNLISTED 2010
Bonds and other fixed-income securities	56,877	50,825	44,884	30,985	11,993	19,840
Equity securities and other						
variable-yield securities	68	75	9	15	59	60
Held-for-trading portfolio	35,307	48,524	19,906	32,785	15,401	15,739
Participating interests	104	104	104	104	—	—
Shares in affiliated companies	288	265	288	265	—	—

Non-current securities contain financial instruments carried at an amount higher than their fair value. The carrying amount of these securities is €22,306 million and the fair value €21,279 million (fair value of marketable securities €22,306 million, of which €22,305 million relates to bonds and other fixed-income securities and €0.3 million to equity securities and other variable-yield securities). Given the development of interest and rating risks, we do not believe that these securities have suffered a permanent loss of value.

The marketable debt and investments, and loans and receivables (including promissory notes), at 31 December 2011 include Greek sovereign bonds with a carrying amount/market value of €8 million and a nominal volume of €21 million.

23 Held-for-trading portfolio

The following table shows the breakdown of assets held for trading purposes (asset item 6a) by financial instrument totalling €167,239 million:

(€ millions)

	2011	2010
Derivative financial instruments (positive market values)	123,501	92,281
Loans and receivables	7,666	9,126
Bonds and other fixed-income securities	31,346	41,043
Equity securities and other variable-yield securities	4,834	8,563
Other assets	—	—
Less risk discount (for entire portfolio of assets held for trading purposes)	(108)	(107)

The assets held for trading purposes at 31 December 2011 include Greek sovereign bonds with a carrying amount/market value of €1 million and a nominal volume of €6 million.

The following table shows the breakdown of liabilities held for trading purposes (liability item 3a) by financial instrument totalling €152,843 million:

(€ millions)

	2011	2010
Derivative financial instruments (negative market values)	123,608	93,174
Liabilities (including delivery obligations arising from short sales of securities)	29,235	46,887

24 Investment funds

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

(€ millions)

	INFORMATION ON SHARES IN INVESTMENT FUNDS COMPLIANT WITH SECTION 286 (26) HGB					
	CARRYING AMOUNT		MARKET PRICE		DIVIDEND PAYMENTS	
FUND TYPE	31/12/2011	31/12/2010	31/12/2011	31/12/2010	2011	2010
Equity funds	55	98	56	98	—	—
Money market funds and near-money market funds	22	33	23	33	—	—
Mixed funds	72	119	72	120	—	—
Index funds	65	173	65	173	—	4
Bond funds	72	141	72	141	1	1
Total investment funds	**286**	**564**	**288**	**565**	**1**	**5**

In addition, the Bank holds all the shares in the "European Office Fonds" property special purpose entity, which is fully consolidated in the Bank's consolidated financial statements in accordance with SIC 12.

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

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

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

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

Notes to the Balance Sheet (Continued)

25 Analysis of non-current assets

(€ millions)

	ACQUISITION/ PRODUCTION COST 1	ADDITIONS DURING FINANCIAL YEAR 2	DISPOSALS DURING FINANCIAL YEAR 3	RECLASSIFICATIONS DURING FINANCIAL YEAR[2] 4
Intangible assets	876	20	19	1
thereof: Goodwill	141	—	—	—
Software	707	20	19	1
Other intangible assets	28	—	—	—
Property, plant and equipment	586	11	12	1
thereof: Land and buildings used by HVB in				
its operations	292	—	—	—
Furniture and office equipment	294	11	12	1
Other non-current assets	21	—	—	—
	ACQUISITION COST			**CHANGES +/–[1]**
Participating interests	1,262			(150)
Shares in affiliated companies	2,737			223
Investment securities	16,908			5,398

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

26 Intangible assets

The disclosed goodwill of €113 million results from the absorption of UniCredit CAIB Securities UK Ltd., London, by HVB in the 2010 financial year. This amount is amortised over a useful life of 7.5 years calculated individually for the company.

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

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

Non-scheduled amortisation is taken on unused software developments. There was no need to take non-scheduled amortisation during 2011.

27 Other assets

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

(€ millions)

	2011	2010
Claims to tax reimbursements	630	422
Claims to dividends	325	298
Variation margin DTB	122	166
Proportion of income from portfolio fees	39	43
Proportion of income from commission/interest not yet received	28	50
Trade debtors	26	39
Fixed assets (works of art)	21	21
Capital investments with life insurers	18	18
Collection paper, such as cheques, matured debentures, interest and dividend coupons	6	151
KG shares intended for re-sale	4	6
Premiums paid on options pending	2	2
Purchase price receivables	1	2

The claims to tax reimbursements consist of claims of €550 million arising from income tax and of €80 million arising from non-income taxes. The claims to dividends include €213.8 million in prorated income from UniCredit Luxembourg.

(€ millions)

WRITE-UPS DURING FINANCIAL YEAR 5	DEPRECIATION/ AMORTISATION ACCUMULATED 6	SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 7	NON-SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 8	NET BOOK VALUE 31/12/2011 9	NET BOOK VALUE 31/12/2010 10
—	667	61	—	211	270
—	28	19	—	113	132
—	613	34	—	96	128
—	26	8	—	2	10
—	348	13	18	238	269
—	120	9	18	172	199
—	228	4	—	66	70
—	—	—	—	21	21
				NET BOOK VALUE 31/12/2011	NET BOOK VALUE 31/12/2010
				1,112	1,262
				2,960	2,737
				22,306	16,908

28 Prepaid expenses

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

(€ millions)

	2011	2010
Discounts on funds borrowed	83	74
Premiums on amounts receivable	—	—

29 Excess of plan assets over pension liabilities

An amount payable of €722 million arising from liabilities due to pension and similar commitments was set against offsetting plan assets with a fair value of €1,148 million. Under the initial application provisions of the BilMoG, use was made of the option to spread the amount allocable to pension provisions equally over a period of 15 years. One-fifteenth of the transitional amount was allocated to the provision for pensions in the 2011 financial year. The omitted transitional allocation in the year under review totalled €288 million. The excess of assets over commitments, taking into account the omitted transitional allocation, is disclosed in the balance sheet as the excess of plan assets over pension liabilities (€426 million). The acquisition cost of the offsetting plan assets totalled €1,068 million. The assets involved are essentially fund shares, investments, and cash and cash equivalents.

(€ millions)

	2011	2010
Amount payable for offset pension and similar commitments	722	639
Fair value of the offsetting plan assets	1,148	1,146
Omitted transitional allocation	288	310
Excess of plan assets over the commitments, including the shortfall	426	507
Acquisition cost of the offsetting plan assets	1,068	1,070

Notes to the Balance Sheet (Continued)

30 Assets assigned or pledged as security for own liabilities

Assets totalling €60,932 million were assigned or pledged as security for the following liabilities:

(€ millions)

	2011	2010
Deposits from banks	39,078	30,745
Deposits from customers	21,854	23,691
Provisions for pensions and similar commitments	—	—

The collateral provided for deposits from banks includes all collateral pledged to the ECB, irrespective of whether this is actually used to borrow funds or not. At 31 December 2011 and 2010, the volume of collateral pledged significantly exceeded the funds borrowed from the ECB.

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

As a seller under repurchase agreements, HVB entered into sales and repurchase transactions for securities with a book value of €50,592 million. These securities continue to be shown under HVB's assets, and the consideration received in return is stated under liabilities. They comprise mainly open-market transactions with the Deutsche Bundesbank and international money market transactions.

At the same time, further assets totalling €16,594 million were pledged as security for securities lending transactions and exchange-traded derivatives.

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

31 Other liabilities

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

(€ millions)

	2011	2010
Amounts owed to SPV	7,135	8,554
Obligations arising from debts assumed	1,312	1,353
Taxes payable	129	120
Other amounts owed to employees	104	121
Banking book valuation reserves	49	52
Variation margin DTB	40	102
Offsetting item for swap transactions	32	17
Amounts yet to be distributed from outplacements, etc.	19	7
Accrued interest on participating certificates outstanding	10	7
Liabilities from allowances paid to and losses absorbed from subsidiaries	7	39
Premiums received on options pending	—	2

The true sale transaction Rosenkavalier 2008 was carried out with a view to using the securities generated as collateral for repurchase agreements with the ECB. The underlying receivables are still recognised by HVB. All tranches are retained by the Bank, meaning that there is no corresponding reduction in risk-weighted assets.

The obligations arising from debts assumed essentially reflect obligations arising from the liquidation of media funds.

32 Deferred income

Discounts on amounts receivable shown at nominal value totalled €19 million. Furthermore, other deferred income includes accrued commissions of €244 million arising from a transaction with the Republic of Italy.

33 Provisions

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

Other provisions include the following items: **(€ millions)**

	2011	2010
Provisions for losses on guarantees and indemnities	665	341
Anticipated losses on pending transactions	672	529
Provisions for uncertain liabilities	1,533	1,658
of which:		
Bonuses on savings plans	20	19
Anniversary bonus payments	45	48
Payments for early retirement, semi-retirement, etc.	5	6
Payments to employees	307	344
Restructuring provisions	140	60
Total other provisions	**3,010**	**2,588**

34 Subordinated liabilities

This item includes accrued interest of €57 million. HVB incurred interest expenses of €193 million in 2011.

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

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

Notes to the Balance Sheet (Continued)

35 Participating certificates outstanding

The following table shows the breakdown of participating certificates outstanding:

ISSUER	WKN	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT € MILLIONS	INTEREST RATE	MATURITY
1 UniCredit Bank AG	788119	2001	Bearer participating certificates	100	6.30	31/12/2011
2 UniCredit Bank AG	HV0CLB	2004	Bearer participating certificates	10	6.90	31/12/2011
3 UniCredit Bank AG	HV0CLC	2004	Bearer participating certificates	8	6.90	31/12/2011
4 UniCredit Bank AG	HV0CLD	2004	Bearer participating certificates	6	6.90	31/12/2011
5 UniCredit Bank AG	HV0CLF	2004	Bearer participating certificates	5	6.90	31/12/2011
6 UniCredit Bank AG	HV0CLG	2004	Bearer participating certificates	5	6.90	31/12/2011
7 UniCredit Bank AG	HV0CLH	2004	Bearer participating certificates	5	6.93	31/12/2011
8 UniCredit Bank AG	HV0CLJ	2004	Bearer participating certificates	5	6.93	31/12/2011
9 UniCredit Bank AG	HV0CLK	2004	Bearer participating certificates	5	6.98	31/12/2011
10 UniCredit Bank AG	HV0CLR	2004	Bearer participating certificates	5	6.93	31/12/2011
11 UniCredit Bank AG	HV0CLE	2004	Bearer participating certificates	1	6.90	31/12/2011

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

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

The interest payments for the 2011 financial year were made in full.

Shareholders’ Equity

36 Analysis of shareholders’ equity shown in the balance sheet

(€ millions)

Subscribed capital		
Balance at 1 January 2011	2,407	
Balance at 31 December 2011		2,407
Additional paid-in capital		
Balance at 1 January 2011	9,791	
Balance at 31 December 2011		9,791
Retained earnings		
Legal reserve		
Balance at 1 January 2011	—	
Balance at 31 December 2011		—
Reserve for shares in a controlling or majority interest-holding company		
Balance at 1 January 2011	—	
Transfer to the reserve for shares in a controlling or majority interest-holding company	10	
Balance at 31 December 2011		10
Other retained earnings		
Balance at 1 January 2011	7,156	
Withdrawal from other retained earnings	(10)	
Balance at 31 December 2011		7,145
Profit available for distribution		
Balance at 1 January 2011	1,270	
Dividend payout of HVB for 2010	(1,270)	
Net profit 2011	1,017	
Balance at 31 December 2011		1,017
Shareholders’ equity at 31 December 2011		20,370

37 Holdings of HVB stock in excess of 5%

(in %)

	2011	2010
UniCredit S.p.A.	100.0	100.0

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

38 Amounts not available for distribution

The measurement at fair value of offsetting plan assets in connection with pension commitments and semi-retirement agreements gives rise to an amount of €80 million.

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

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

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

40 Breakdown of income by region

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

(€ millions)

	2011	2010
Germany	9,972	9,037
Rest of Europe	1,482	2,394
Americas	300	270
Asia	139	113

41 Net interest income

(€ millions)

	2011	2010
Interest income from		
lending and money market transactions	6,317	6,534
fixed-income securities	1,840	1,549
Current income from equity securities and other variable-yield securities,		
participating interests and shares in affiliated companies	1,002	1,000
Income from profit-pooling and profit-and-loss-transfer agreements	41	59
Interest expenses	4,935	4,982
Net interest income	**4,265**	**4,160**

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

(€ millions)

	2011	2010
Expense component of the change in provisions for pensions and similar commitments	47	48
Income from plan assets used to offset pension and similar commitments	11	1
Expenses from plan assets used to offset pension and similar commitments	3	—
Net interest income from pension commitments	**(39)**	**(47)**

The interest expense of €74 million arising from the compounding of provisions is included in net interest income.

42 Services performed for third parties

HVB performed significant services for third parties notably in portfolio, asset and trust-loan management, in the brokerage of insurance, savings and loan contracts and investments funds, in investment and securities commission activities, and in the handling of payments.

43 Net expense from the held-for-trading portfolio

The net expense from the held-for-trading portfolio (net trading income) of €365 million includes the offset income and expenses arising from transactions involving financial instruments held for trading purposes, complete with the full net income from FX operations. The total already includes as an expense the risk discount to be applied to the held-for-trading portfolios measured at fair value. In line with our internal management model, we show the current interest income/expenses and dividend income (interest income/expense from trading operations) associated with the held-for-trading portfolio in net interest income rather than in net trading income.

44 Breakdown of other operating income and expenses

This item primarily includes income from the reversal of provisions other than provisions for lending and securities operations (€632 million) and payroll costs and cost of materials passed on (€66 million).

Other operating expenses include the following:
– compensation and ex gratia payments (€37 million)
– additions to provisions other than provisions for lending and securities operations (€431 million).

45 Expenses from absorbed losses

An expense of €14 million relating to other reporting periods which had been capitalised in the 2010 financial year accrued in the 2011 financial year for losses of UniCredit Leasing GmbH absorbed.

46 Extraordinary income/expenses

The initial application of the new provisions set forth in the BilMoG at 1 January 2010 resulted in 2011 in expenses of €22 million arising from the revaluation of provisions for pensions to be disclosed under extraordinary income/expenses.

47 Taxes on income

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

48 Net profit

HVB generated a net profit of €1,017 million in 2011. We will propose to the Annual General Meeting of Shareholders that a dividend of €1,017 million be paid to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €1.27 per share.

Other Information

49 Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €32,051 million: (€ millions)

	2011	2010
Loan guarantees	12,445	11,889
Guarantees and indemnities	17,017	18,406
Documentary credits	2,589	1,720
Total	**32,051**	**32,015**
thereof: to affiliated companies	13,019	12,905

Irrevocable lending commitments totalling €31,701 million break down as follows: (€ millions)

	2011	2010
Book credits	29,842	30,791
Mortgage and municipal loans	1,146	1,163
Guarantees	711	759
Bills of exchange	2	11
Total	**31,701**	**32,724**
thereof: to affiliated companies	506	277

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

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

Other financial commitments arising from real estate and IT operations total €369 million (2010: €306 million). A large part of the total relates to contracts with subsidiaries (€152 million). The contracts run for standard market periods, and no charges have been put off to future years.

At the balance sheet date, HVB had pledged securities worth €1,795 million as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main.

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

Commitments for uncalled payments on shares not fully paid up amounted to €388 million at year-end 2011, and similar obligations for shares in cooperatives totalled €1 million. HVB was not liable for any defaults on such calls under Section 22 (3) and Section 24 GmbHG.

Under Section 26 GmbHG, we were liable for calls for additional capital of €5 million with regard to CMP Fonds I GmbH and of €57 million with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, at year-end 2011. In addition, under Article 5 (4) of the Articles of Association of Liquiditäts-Konsortialbank GmbH, we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks, Berlin.

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

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

50 Off-balance-sheet transactions

Special purpose entities

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

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

In the case of the Bank's own receivables, the special purpose entities serve among other things to procure liquidity and reduce risk. These do not, however, result in the securitised receivables being taken off the books as they do not involve either synthetic securitisations aimed at reducing risk or securitisation transactions with all risks retained to create ABS paper eligible as collateral with central banks. The securitisation of customer receivables is generally accompanied by an improvement in the customer's liquidity situation and a broadening of the funding base, whereby the Bank generates income from the structuring service and the facilities provided. HVB may face economic disadvantages, in particular, should the facilities provided be drawn down.

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

Depending on the structure, the situation may exist where the majority of the risks and rewards of a given special purpose entity are attributable to HVB. In these cases, the special purpose entity is attributable to HVB for accounting purposes, which entails full consolidation of the special purpose entity in the consolidated financial statements of HVB. The following table shows the financial instruments held at 31 December 2011 by fully consolidated special purpose entities of HVB, all of the shares in one of which HVB acquired during the reporting period: **(€ millions)**

		31/12/2011				
CARRYING AMOUNTS		EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Residential mortgage loans/						
residential mortgage-backed securities (RMBS)		1,414	—	233	—	1,647
Commercial mortgage loans/						
commercial mortgage-backed securities (CMBS)		628	—	—	—	628
Collateralised debt obligations (CDO)		—	—	—	—	—
Collateralised loan obligations (CLO) /						
collateralised bond obligations (CBO)		—	—	—	—	—
Consumer loans		692	—	—	—	692
Credit cards		—	—	—	—	—
Leases		905	—	—	—	905
Other (including hedge fund investments)		796	331	33	228	1,388
Total	**31/12/2011**	**4,435**	**331**	**266**	**228**	**5,260**
	31/12/2010	**4,212**	**970**	**248**	**260**	**5,690**

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

Other Information (Continued)

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

Outsourcing of activities
Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (which was absorbed by the above-mentioned UniCredit Business Integrated Solutions S.C.p.A. with effect from 1 January 2012), a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services.

Furthermore, HVB has transferred certain back office activities to UniCredit Business Partner S.C.p.A. (which was absorbed by the above-mentioned UniCredit Business Integrated Solutions S.C.p.A. with effect from 1 January 2012), a company affiliated with the Bank that provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. The advantage for HVB lies in the generation of synergies.

HVB outsourced further back office activities and service units to a subsidiary of the Bank, UniCredit Global Business Services, GmbH, during the 2011 financial year. The purpose of this further outsourcing measure is to enhance the quality of the diverse services provided by the Global Banking Services division (GBS) and to systematically advance the measures previously initiated to pool GBS activities.

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

HVB has transferred new business involving consumer loans, instant-approval loans and credit cards to a German branch office of UniCredit S.p.A. This office is more specialised in these fields, from which HVB also benefits accordingly. Thus, the transactions brokered by HVB in this regard are no longer recognised on or off the balance sheet.

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

51 Auditor's fees

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

(€ millions)

	2011	2010
Fees for		
Auditing of the financial statements	6	4
Other auditing services	2	3
Tax consulting services	—	—
Other services	8	4

52 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
UniCredit Luxembourg S.A., Luxembourg
3. Financial companies
UniCredit Leasing GmbH, Hamburg
4. Companies with bank-related auxiliary services
HypoVereinsFinance N.V., Amsterdam

1 The company provides a Statement of Responsibility with the same wording for selected subsidiaries in its annual report.

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

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

53 Key capital ratios

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

The modified available capital, consisting of core capital (Tier I) and supplementary capital (Tier II), totalled €22,594 million at year-end. There was no Tier III capital. We have not allocated any unrealised reserves to supplementary capital compliant with Section 10 (2b) 1 No. 6 and 7 KWG.

The liable funds totalling €22,454 million calculated in accordance with Section 10 (2) KWG are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits.

Other Information (Continued)

54 Derivative financial instruments

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

Derivative transactions (€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2011	2010	2011	2010	2011	2010
Interest rate derivatives	**1,064,471**	**1,240,271**	**1,026,401**	**3,331,143**	**3,222,315**	**101,279**	**64,809**	**100,297**	**63,496**
OTC products									
Forward rate agreements	142,414	3,071	—	145,485	222,751	68	132	33	105
Interest rate swaps	703,781	1,008,106	833,240	2,545,127	2,441,383	91,092	60,071	90,899	57,700
Interest rate options									
– purchased	47,940	120,648	96,484	265,072	237,311	9,852	4,499	103	6
– written	39,297	93,127	95,539	227,963	228,175	202	64	9,193	5,541
Other interest rate derivatives	24,429	1	—	24,430	510	64	43	69	144
Exchange-traded products									
Interest rate futures	47,046	15,201	884	63,131	92,058	—	—	—	—
Interest rate options	59,564	117	254	59,935	127	1	—	—	—
Foreign exchange derivatives	**289,109**	**33,481**	**1,296**	**323,886**	**394,371**	**5,472**	**6,311**	**6,007**	**6,037**
OTC products									
Foreign exchange forwards	198,135	21,486	161	219,782	293,267	4,058	4,562	4,599	4,247
Foreign exchange options									
– purchased	45,172	5,947	609	51,728	50,207	976	1,744	467	—
– written	45,768	6,048	526	52,342	50,865	438	5	941	1,790
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	34	—	—	34	32	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**43,308**	**137,779**	**72,935**	**254,022**	**248,439**	**6,202**	**8,036**	**6,800**	**8,135**
Equity/index derivatives	**63,615**	**55,920**	**3,805**	**123,340**	**144,118**	**5,099**	**9,322**	**6,068**	**11,875**
OTC products									
Equity/index swaps	5,027	5,705	1,324	12,056	19,670	234	281	236	288
Equity/index options									
– purchased	9,892	13,563	297	23,752	25,981	2,581	6,934	4	1
– written	25,872	20,254	2,066	48,192	50,133	55	37	2,847	7,788
Other equity/index derivatives	1,029	1,324	—	2,353	6	192	5	2	1
Exchange-traded products									
Equity/index futures	4,736	443	—	5,179	4,478	—	—	—	—
Equity/index options	17,059	14,631	118	31,808	43,850	2,037	2,065	2,979	3,797
Credit derivatives	**69,578**	**134,491**	**18,846**	**222,915**	**271,561**	**5,384**	**4,103**	**5,434**	**4,515**
Other transactions	**4,073**	**3,883**	**1,213**	**9,169**	**10,152**	**1,161**	**403**	**1,408**	**718**
Total	**1,534,154**	**1,605,825**	**1,124,496**	**4,264,475**	**4,290,956**	**124,597**	**92,984**	**126,014**	**94,776**

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

The banking book contains derivatives with positive market values of €0.7 billion and negative market values of €1.0 billion.

55 Employees

The average number of staff employed was as follows:

	2011	2010
Staff (excluding trainees)	15,947	16,314
of whom: full-time	12,283	12,558
part-time	3,664	3,756
Trainees	904	993

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

	WOMEN	MEN	2011	2010
	(EXCLUDING TRAINEES)		TOTAL	
Staff's length of service				
25 years or more	20.0	18.0	19.0	17.7
15 to 25 years	24.1	35.7	30.3	31.3
10 to 15 years	12.9	13.4	13.1	14.3
5 to 10 years	22.9	21.6	22.2	21.4
less than 5 years	20.2	11.3	15.4	15.3

56 Emoluments

(€ millions)

	2011	2010
Members of the Management Board	7	6
Members of the Supervisory Board	1	3
Former members of the Management Board, and retired members of the Management Board and their surviving dependants	2	2

At 31 December 2011, there were pension provisions in the amount of €34 million (2010: €33 million) payable to former members of the Management Board, and retired members of the Management Board of HVB and their surviving dependants as calculated in accordance with actuarial principles using the projected unit credit method, taking into account anticipated future rises in salaries and pensions. Pension commitments for former executives of HVB were transferred to HVB Trust Pensionsfonds AG when it was set up.

Besides the direct remuneration shown in the table, Management Board members have received pension commitments. Seven members of the Management Board (one of whom left the Bank and one of whom joined the Bank during the year) took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2011, which is also granted to the Bank's executives. The Bank will provide/has provided 35% of the fixed salary contributions (2011: €970,863). 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.

Share-based compensation was granted to the members of the Management Board in the reporting period in the form of stock options and performance shares. The stock options granted under the long-term incentive programme grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. In the case of stock options issued during or after 2011, beneficiaries are only entitled to exercise their options in a range between 0% and 150% (depending on the level of target achievement) of the underlying total originally granted if the respective targets have been met after three years. 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. Similarly in the case of performance shares issued during or after 2011, the actual number of shares transferred is in a range between 0% and 150% of the underlying total originally granted (depending on the level of target achievement).

Other Information (Continued)

Details of share-based compensation:

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	Total
Options	
Stock options 2010	—
Stock options 2011	1,844,156[1]
Fair value per option on the grant date (€)	0.6019
Performance shares	
Performance shares 2010	—
Performance shares 2011	826,517[1]
Fair value per option on the grant date (€)	1.7120
Additional information: one member of the Management Board was granted 14,772 performance shares in the 2011 financial year at the end of the vesting period (equivalent to €26,338.48 at the time of granting). These performance shares were already disclosed in the full amount of 29,544 units in the 2007 Annual Report.	

1 long-term incentive: after no long-term incentive plan was set up for the 2010 financial year, this was carried out in 2011 with a performance period of 2011 to 2013.

57 Loans to executive board members

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: Members of the Supervisory Board and Management Board at HVB and their respective immediate family members are considered related parties.

(€ millions)

	2011		2010	
	LOANS, RECEIVABLES AND CONTINGENT LIABILITIES	LIABILITIES	LOANS, RECEIVABLES AND CONTINGENT LIABILITIES	LIABILITIES
Members of the Management Board	1	5	2	5
Members of the Supervisory Board	3	5	4	3

Loans and advances were granted to members of the Management Board and their immediate family members in the form of mortgage loans with interest rates of between 2.5% and 3.96% and falling due in the period from 2013 to 2021.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of cash advances, special credit facilities and mortgage loans with interest rates of between 1.9% and 7% and with no fixed maturity or falling due by 2017.

All banking transactions involving the group of people listed were conducted at customary market terms with the usual collateral.

58 Executive Boards

Supervisory Board

Federico Ghizzoni since 2 March 2011 Chairman since 4 March 2011	**Chairman**
Sergio Ermotti Chairman until 1 March 2011	
Peter König	**Deputy Chairman**
Dr Wolfgang Sprissler	
Aldo Bulgarelli	**Members**
Beate Dura-Kempf	
Klaus Grünewald	
Werner Habich since 16 January 2011	
Dr Lothar Meyer	
Marina Natale	
Klaus-Peter Prinz	
Jutta Streit until 15 January 2011	
Jens-Uwe Wächter	
Dr Susanne Weiss	

Management Board

Peter Buschbeck	**Family & SME division**
Jürgen Danzmayr since 1 July 2011	**Private Banking division**
Lutz Diederichs	**Corporate & Investment Banking division**
Peter Hofbauer	**Chief Financial Officer (CFO)**
Heinz Laber	**Human Resources Management, Global Banking Services**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Board Spokesman**
Andreas Wölfer until 30 June 2011	**Private Banking division**

List of Executives and Outside Directorships[1]

59 Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Sergio Ermotti Former Deputy CEO of UniCredit S.p.A. and Head of Corporate and Investment Banking & Private Banking Strategic Business Area, former member of the Executive Management Committee of UniCredit S.p.A., Collina d'Oro Chairman until 1 March 2011		UniCredit Bank Austria AG, Vienna, until 1 March 2011[2] London Stock Exchange Group Plc, London Bank Pekao, Poland, until 23 February 2011[2] Darwin Airline SA, Lugano (Chairman) Enterra SA, Lugano, until 15 December 2011 Hotel Residence Principe Leopoldo SA, Lugano (Chairman), until 15 December 2011 Leopoldo Hotels & Restaurants SA, Lugano, until 15 December 2011 Tessal SA, Lugano, until 15 December 2011 Fidinam Group Holding SA, Lugano, until 1 March 2011 Kurhaus Cademario SA, Cademario, until 15 December 2011 Immo Heudorf, Silvaplana, until 1 March 2011
Federico Ghizzoni Chief Executive Officer of UniCredit S.p.A., Milan since 2 March 2011 Chairman since 4 March 2011		Bank Pekao SA, Poland (Deputy Chairman), until 30 April 2011[2] JSC ATF Bank, Kazakhstan, until 25 April 2011[2] Public Joint Stock Company Ukrsotsbank, Ukraine (Deputy Chairman), until 7 April 2011[2] UniCredit Banka Slovenija D.D.,Slovenia (Chairman), until 31 March 2011[2] KOC Finansal Hizmetler AS, Turkey (Deputy Chairman), until 31 March 2011[2] Yapi Ve Kredi Bankasi AS, Turkey (Deputy Chairman), until 31 March 2011[2]
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)

1 as of 31 December 2011
2 Group directorship

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Aldo Bulgarelli Attorney and partner in law office NCTM, Verona		ARAG ASSICURAZIONI S.p.A., Verona (President of the Collegio Sindacale) AMMANN Italy S.p.A. (President of the Collegio Sindacale)
Beate Dura-Kempf Employee, UniCredit Bank AG, Litzendorf		
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia IT AG, Karlsruhe	
Werner Habich Employee, UniCredit Bank AG, Mindelheim since 16 January 2011		
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		Pioneer Asset Global Management S.p.A., Italy[2]
Klaus-Peter Prinz Employee, UniCredit Luxembourg S. A., Trier		
Jutta Streit Employee, UniCredit Bank AG, Augsburg until 15 January 2011		
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, Kolbermoor (Chairman) Strenesse AG, Nördlingen, until 11 November 2011 Wacker Chemie AG, Munich	

1 as of 31 December 2011
2 Group directorship

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

60 Management Board

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Peter Buschbeck	Bankhaus Neelmeyer AG, Bremen (Chairman)[2] DAB Bank AG, Munich[2] PlanetHome AG, Unterföhring near Munich (Chairman)[2] UniCredit Direct Services GmbH, Munich (Chairman)[2]	Wealth Management Capital Holding GmbH, Munich[2] UniCredit Global Business Services GmbH, Munich, since 28 July 2011[2]
Jürgen Danzmayr		Schoellerbank AG, Vienna (2nd Deputy Chairman) Wealth Management Capital Holding GmbH, Munich (Chairman), since 1 July 2011[2]
Lutz Diederichs	Deutsche Schiffsbank AG, Bremen/Hamburg, until 9 November 2011	UniCredit Leasing S.p.A, Bologna (Italy)
Peter Hofbauer	HVB Immobilien AG, Munich (Deputy Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Deputy Chairman)	Bank für Tirol und Vorarlberg AG, Innsbruck, until 19 May 2011 Public Joint Stock Company “UKRSOTSBANK”, Kiev, Ukraine, until 12 April 2011 UniCredit Global Business Services GmbH, Munich, since 28 July 2011[2] Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2] Wietersdorfer Industrie-Beteiligungs-GmbH, Klagenfurt Wietersdorfer Rohrbeteiligungs GmbH, Klagenfurt
Heinz Laber	HVB Immobilien AG, Munich (Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Chairman) Internationales Immobilien-Institut GmbH, Munich[2]	BVV Versicherungsverein des Bankgewerbes a.G., Berlin (Chairman) HVB Secur GmbH, Munich (Deputy Chairman), from 1 January to 31 May 2011[2] UniCredit Business Partner Società Consortile per Azioni, Cologno Monzese, Italy UniCredit Global Business Services GmbH, Munich (Chairman), since 28 July 2011[2] UniCredit Global Information Services Società Consortile per Azioni, Milan, Italy, until 16 December 2011
Andrea Umberto Varese	HVB Immobilien AG, Munich[2]	UniCredit Credit Management Bank S.p.A., Verona UniCredit Global Business Services GmbH, Munich, since 28 July 2011[2] UniCredit Luxembourg S.A., Luxembourg (Deputy Chairman), since 8 July 2011[2] Wealth Management Capital Holding GmbH, Munich[2]
Dr Theodor Weimer Board Spokesman	Bayerische Börse AG, Munich DAB Bank AG, Munich (Chairman)[2] ERGO Versicherungsgruppe AG, Düsseldorf	UniCredit Luxembourg S.A., Luxembourg (Chairman)[2]
Andreas Wölfer		Schoellerbank AG, Vienna (Chairman), until 1 June 2011 UniCredit Luxembourg S.A., Luxembourg (Chairman), until 1 June 2011[2] Wealth Management Capital Holding GmbH, Munich, until 1 June 2011[2]

1 as of 31 December 2011
2 Group directorship

61 List of employees and outside directorships

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Dr Birgit Chorianopoulos	AGROB Immobilien AG, Ismaning[2]
Carsten Dieck	Bankhaus Neelmeyer AG, Bremen[2]
Dr Jochen Fischer	Bankhaus Neelmeyer AG, Bremen[2] PlanetHome AG, Unterföhring near Munich[2]
Matthias Glückert	Oechsler AG, Ansbach
Gertraud Helena Grupp-Bolzen	ComputerLinks AG, Munich (Deputy Chairman)
Wolfgang Hamann	Bankhaus Neelmeyer AG, Bremen[2]
Dr Martin Hebertinger	UniCredit Direct Services GmbH, Munich[2]
Christian Klatt	Bankhaus Neelmeyer AG, Bremen[2]
Jörg Pietzner	Bankhaus Neelmeyer AG, Bremen[2]
Dr Christian Reichmayr	UniCredit Direct Services GmbH, Munich[2]
Dr Guido Schacht	AVAG Holding SE, Augsburg
Heike Wagner	WABCO GmbH, Hanover WABCO Holding GmbH, Hanover

1 as of 31 December 2011
2 Group directorship

List of Holdings

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

62 List of Holdings

		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
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	79.5		EUR	172,740	16,791
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	24,112	3,065
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,286,216	213,836
1.1.2 Other consolidated companies						
Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	27	(10,428)
Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	28	(10,405)
Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	27	(1,171)
Active Asset Management GmbH	Grünwald	100.0	100.0	EUR	217	25
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	19,715	1,368
Antus Immobilien- und Projektentwicklungs GmbH	Munich	90.0	90.0	EUR	(16,872)	0
Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	793	[2]
ARRONDA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(46,427)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(39,212)	975
A&T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG[3]	Munich	66.7	66.7	EUR	(37,265)	0
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	6,010	344
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	83	2
Bank Austria ImmobilienService GmbH	Vienna	100.0	100.0	EUR	71	202
B.I. International Limited	George Town	100.0	100.0	EUR	(848)	(98)
BIL Immobilien Fonds GmbH & Co Objekt Perlach KG[3]	Munich	100.0	100.0	EUR	3,322	221
BIL Leasing-Fonds GmbH & Co VELUM KG (share of voting rights: 66.7% total, of which 33.3% held indirectly)	Munich	100.0		EUR	(2)	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	(2)	(3)
Blue Capital Equity GmbH	Hamburg	100.0	100.0	EUR	(1,870)	667
Blue Capital Equity Management GmbH	Hamburg	100.0	100.0	EUR	6,016	2,312
Blue Capital Europa Immobilien GmbH & Co. Achte Objekte Großbritannien KG	Hamburg	100.0	100.0	EUR	1,384	(2,467)
Blue Capital USA Immobilien Verwaltungs GmbH	Hamburg	100.0	100.0	EUR	162	112
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	[2]
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	511	(40)
Cameron Granville Asset Management (SPV-AMC), Inc.	Global City, Taguig	100.0	100.0	PHP	(827,329)	(19,274)
Cameron Granville 2 Asset Management Inc.	Global City, Taguig	100.0	100.0	PHP	(994,583)	(357,166)
Cameron Granville 3 Asset Management Inc.	Global City, Taguig	100.0	100.0	PHP	(1,169,937)	(442,804)
CUMTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG[3]	Munich	100.0	100.0	EUR	(22,880)	975
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG[3]	Munich	100.0	100.0	EUR	(53,477)	975
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG[3]	Munich	100.0	100.0	EUR	(59,493)	975
Enderlein & Co. GmbH	Bielefeld	100.0	100.0	EUR	71	[2]

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
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	316	72
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(1,691)	(140)
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	231	30
Food & more GmbH	Munich	100.0		EUR	177	[1,2]
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	20	[2]
Golf- und Country Club Seddiner See Immobilien GmbH	Munich	100.0	100.0	EUR	(15,507)	0
Grand Central Re Limited	Hamilton	92.5		USD	49,752	3,134
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	998
H & B Immobilien GmbH & Co. Objekte KG[3]	Munich	100.0	100.0	EUR	5	(15)
HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung[3]	Munich	100.0	100.0	EUR	276	123
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	325
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	26	[2]
HVB Alternative Advisors LLC	Wilmington	100.0		USD	7,170	(4,098)
HVB Asia Limited	Singapore	100.0		EUR	11,650	(20)
HVB Asset Leasing Limited	London	100.0	100.0	USD	109	(9)
HVB Asset Management Holding GmbH	Munich	100.0	100.0	EUR	25	[2]
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	268	7
HVB Capital LLC VIII	Wilmington	100.0		EUR	0	0
HVB Capital Partners AG	Munich	100.0		EUR	12,671	[1,3]
HVB Expertise GmbH	Munich	100.0		EUR	1,077	49
HVB Export Leasing GmbH	Munich	100.0		EUR	43	4
HVB Finance London Limited	London	100.0		EUR	953	148
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	27	2
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	55,837
HVB Global Assets Company (GP), LLC	City of Dover	100.0		USD	141	3
HVB Global Assets Company, L.P.[5]	City of Dover	5.0		USD	1,018,840	27,979
HVB Hong Kong Limited	Hong Kong	100.0		USD	4,355	63
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1,4]
HVB International Asset Leasing GmbH	Munich	100.0		EUR	252	(653)
HVB Investments (UK) Limited	George Town	100.0		GBP	200,670	164
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0		EUR	778	(247)
HVB London Investments (AVON) Limited	London	100.0		GBP	2,540	3
HVB London Investments (CAM) Limited	London	100.0		GBP	120	0
HVB Principal Equity GmbH[3]	Munich	100.0		EUR	34	[1,5]
HVB Profil Gesellschaft für Personalmanagement mbH[3]	Munich	100.0		EUR	28	[1,6]
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	100.0	EUR	112	16
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	[2]
HVB Verwa 1 GmbH	Munich	100.0		EUR	41	[1,7]
HVB Verwa 4 GmbH	Munich	100.0		EUR	5,132	[1,8]
HVB Verwa 4.4 GmbH[3]	Munich	100.0	100.0	EUR	5,025	[2]

List of Holdings (Continued)

		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
HVBFF International Greece GmbH[4]	Munich	100.0	100.0	EUR	(442)	35
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	10	(1)
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	39	11
HVBFF Produktionshalle GmbH i.L.	Munich	100.0	100.0	EUR	21	(2)
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	3,505
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	9	(39)
Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	(1,154)
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG[3]	Munich	80.0	80.0	EUR	(850)	275
HypoVereinsFinance N.V.	Amsterdam	100.0		EUR	2,088	743
Internationales Immobilien-Institut GmbH	Munich	94.0		EUR	14,391	5,782
Interra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	51	[2]
Keller Crossing L.P.	Wilmington	100.0	100.0	USD	1,473	245
Kinabalu Financial Products LLP	London	100.0		GBP	911	(38)
Kinabalu Financial Solutions Limited	London	100.0		GBP	3,823	(53)
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	[2]
Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	26	[2]
Life Science I Beteiligungs GmbH	Munich	100.0	100.0	EUR	(1,874)	(242)
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung[3]	Munich	100.0		EUR	16,692	[1,9]
MILLETERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	100.0	EUR	25	[2]
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	6,881	2,809
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	11	(7)
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	7,478	(1,809)
Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG[3]	Munich	100.0	94.0	EUR	26	0
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG[3]	Munich	100.0	94.0	EUR	26	(166)
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	(18,878)	64
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG[3]	Munich	100.0	100.0	EUR	(44,083)	0
PlanetHome AG	Unterföhring	100.0		EUR	28,970	2,607
PlanetHome GmbH	Mannheim	100.0	100.0	EUR	1,117	557
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	12,032
"Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	30	4
Redstone Mortgages Limited	London	100.0		GBP	(21,262)	15,184
RHOTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]
Roncasa Immobilien-Verwaltungs GmbH	Munich	90.0	90.0	EUR	(40,970)	975
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	(161)
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	3,628
Selfoss Beteiligungsgesellschaft mbH[3]	Grünwald	100.0	100.0	EUR	13	[2]
Simon Verwaltungs-Aktiengesellschaft i.L.[4]	Munich	<100.0		EUR	3,129	(2)
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	(36,648)	976
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	Munich	100.0	100.0	EUR	249	[2]
Status Vermögensverwaltung GmbH[3]	Schwerin	100.0		EUR	2,029	[1,10]

		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
Structured Invest Société Anonyme	Luxembourg-Kirchberg	100.0		EUR	8,312	1,886
Structured Lease GmbH	Hamburg	100.0	100.0	EUR	750	[2]
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(6,986)	(16)
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,449)	(34)
TERRENO Grundstücksverwaltung GmbH & Co.						
Entwicklungs- und Finanzierungsvermittlungs-KG[3]	Munich	75.0	75.0	EUR	(268,579)	0
Terronda Development B.V.	Amsterdam	100.0	100.0	EUR	(388)	(17)
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	11,080	3,564
Transterra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]
TRICASA Grundbesitz Gesellschaft mbH & Co.						
1. Vermietungs KG[3]	Munich	100.0	100.0	EUR	4,297	867
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	17,187	16,246
Trinitrade Vermögensverwaltungs-Gesellschaft						
mit beschränkter Haftung	Munich	100.0		EUR	1,322	4
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,147	[1.11]
UniCredit CAIB Securities UK Ltd.	London	100.0		GBP	451	3
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	320,883	(3,804)
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	1,614	406
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	858	[1.12]
UniCredit Global Business Services GmbH	Munich	100.0		EUR	1,718	144
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	505	466
UniCredit Leasing GmbH	Hamburg	100.0		EUR	162,026	[1.13]
UniCredit London Investments Limited	London	100.0		EUR	3	0
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	341,195	2,931
US Property Investments Inc.	Dallas	100.0		USD	636	(33)
Verba Verwaltungsgesellschaft mbH	Munich	100.0		EUR	699	(2)
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	[1.14]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
VuWB Investments Inc.	Atlanta	100.0	100.0	USD	1,454	1,154
Wealth Capital Investments, Inc.	Wilmington	100.0	100.0	USD	1,932	1,286
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,475	[1.15]
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	903	391
WealthCap Initiatoren GmbH	Hamburg	100.0	100.0	EUR	2,499	965
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	[2]
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	47	23
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	1,607	1,338
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	[2]
WealthCap Stiftungstreuhand GmbH	Hamburg	100.0	100.0	EUR	33	3
1.2 Non-consolidated subsidiaries						
of HVB Group[6]						
Other non-consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH	Grünwald	100.0	100.0	EUR	25	[2]
AGRUND Grundstücks-GmbH	Munich	90.0	90.0			
Alexandersson Real Estate I B.V.	Apeldoorn	100.0	100.0			
"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	258	231
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.8			
Apir Verwaltungsgesellschaft mbH & Co.						
Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(18,286)	982
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
Argentum Media GmbH & Co. KG	Munich	100.0				
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	66.7	66.7			
Bavaria Servicos de Representacao Comercial Ltda.	Sao Paulo	100.0				

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
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			
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	Hamburg	100.0	100.0			
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]
BV Grundstücksentwicklungs-GmbH & Co. Schloßberg-Projektentwicklungs-KG	Munich	100.0	100.0	EUR	38	349
BWF Beteiligungsgesellschaft Wirtschaftsförderung mbH	Hamburg	100.0				
CL Dritte Car Leasing GmbH & Co. KG	Hamburg	100.0	100.0			
CL Dritte Car Leasing Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0			
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.8	EUR	26	[2]
Euro-Bond Blue Capital Management GmbH i.L.	Bad Soden	100.0	100.0			
Euro-Bond Blue Capital Verwaltungs GmbH i.L.	Bad Soden	100.0	100.0			
Ferra Immobilien- und Projektentwicklungs GmbH & Co. Projekt Großenhainer Straße KG	Munich	100.0	100.0	EUR	(12,383)	750
FGB Grund und Boden GmbH & Co. KG	Munich	94.0	94.0	EUR	(4,002)	0
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Großkugel Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(3,354)	[2]
H.F.S. Immobilienfonds Deutschland 19 GmbH & Co. KG	Munich	100.0	100.0	EUR	(1,392)	(1,354)
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	(49,147)	(44)
Hotel Seddiner See GmbH	Munich	100.0	100.0			
HVB Beteiligungsgesellschaft mbH	Munich	100.0		EUR	157	(219)
HVB Life Science GmbH	Munich	100.0				
HVB London Trading Ltd.	London	100.0				
HVB Mortgage Capital Corp.	Wilmington	100.0	100.0			
HVB Services South Africa (Proprietary) Limited	Johannesburg	100.0				
HVB Verwa 3 GmbH	Munich	100.0		EUR	767	[1.16]
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]

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
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HVB Verwa 7 GmbH	Munich	100.0		EUR	22	[1.17]
HVB Verwa 8 GmbH	Munich	100.0		EUR	25	[1.18]
HVBFF Baumanagement GmbH	Munich	100.0	100.0	EUR	50	[2]
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]
KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße I KG	Munich	100.0	100.0	EUR	96	5,438
KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße II KG	Munich	100.0	100.0	EUR	(1,286)	1,999
KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße III KG	Munich	100.0	100.0	EUR	(3,479)	(1)
KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße KG	Munich	100.0	100.0	EUR	114	19,914
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			
Life Verwaltungs Erste GmbH	Munich	100.0	100.0			
Life Verwaltungs Zweite GmbH	Grünwald	100.0	100.0			
Motion Picture Production GmbH	Grünwald	51.2	51.2			
Mutnegra Beteiligungs- und Verwaltungs-GmbH	Munich	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 Ostragehege KG	Munich	100.0	94.0			
Othmarschen Park Hamburg Wohn- und Gewerbepark GmbH	Munich	100.0	100.0	EUR	104	[2]
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	(6,667)	4,455
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0			
Rotus Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Rotus Immobilien-Verwaltungs GmbH & Co. Objekt Eggenfeldener Straße KG i.L.	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	EUR	31	743
STARS Geschäftsführungs- und Verwaltungs-GmbH	Munich	100.0				
STARS GmbH & Co. KGaA	Munich	100.0				
TERRENO Grundstücksverwaltung GmbH	Munich	75.0	75.0			
TERRENO Grundstücksverwaltung GmbH & Co. Objektgesellschaft Grillparzerstraße KG	Munich	75.0		EUR	(3,777)	4,875
Tishman Speyer Berlin Friedrichstraße KG i.L. (share of voting rights: 96.6% total, of which 7.1% held indirectly)	Berlin	97.1	5.9			
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(26,783)	933
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
Vintners London Investments (Nile) Limited	George Town	100.0	100.0			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WCREM Canadian Investments Inc.	Toronto	100.0	100.0	CAD	548	284
WCREM Canadian Management Inc.	Toronto	100.0	100.0			
Wealth Capital Management, Inc.	Wilmington	100.0	100.0	USD	961	376
WealthCap Europa Immobilien						
Fünfte Objekte Österreich Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Europa Immobilien						
Siebte Objekte Österreich Komplementär GmbH	Munich	100.0	100.0			
WealthCap Flugzeug Portfolio 25 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Geothermie 1 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 34 GmbH & Co. KG						
(share of voting rights: 75.0%)	Munich	50.0	50.0			
WealthCap Immobilienfonds Deutschland 35 GmbH & Co. KG						
(share of voting rights: 75.0%)	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 Real Estate Komplementär GmbH	Munich	100.0	100.0			
WealthCap Real Estate Sekundär GmbH	Munich	100.0	100.0			
2 Joint ventures[6]						
Minor joint ventures						
Other companies						
Heizkraftwerk Cottbus Verwaltungs GmbH	Munich	33.3		EUR	119	213
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.3		EUR	103	767
N665UA Offshore GP, LLC	Wilmington	33.3	33.3			
N665UA Offshore OP, L.P.						
(share of voting rights: 0%)	Wilmington	33.2	33.2	EUR	(1,089)	1,812
Wertweiser GmbH	Munich	50.0	50.0			
3 Associated companies						
3.1 Associated companies valued at equity						
Other companies						
Adler Funding LLC	Dover	32.8		USD	1,000	0
Comtrade Group B.V.	Amsterdam	21.1	21.1	EUR	13,571	706
Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S.	Istanbul	20.0	20.0	TRL	137,173	58,439
3.2 Minor associated companies[6]						
Other companies						
BIL Leasing GmbH & Co Hotel Ulm KG	Munich	29.0	29.0	EUR	(898)	419
BioM Venture Capital GmbH & Co. Fonds KG						
(share of voting rights: 20.4%)	Planegg/Martinsried	23.5		EUR	2,148	(10)
CMP Fonds I GmbH (share of voting rights: 25.0%)	Berlin	32.7		EUR	38,950	66,819
DFA Deggendorfer Freihafen Ansiedlungs-GmbH	Deggendorf	50.0	50.0			
DFA Deggendorfer Freihafen Ansiedlungs-GmbH & Co.						
Grundstücks-KG	Deggendorf	50.0	50.0			
InfrAm One Corporation	City of Lewes	37.5	37.5	USD	2,595	(2,114)
LNC Investments Holdings Inc. (share of voting rights: 40.0%)	Global City, Taguig	98.5	98.5	PHP	(352)	(504)

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
LNC (SPV-AMC) Corp.	Global City, Taguig	40.0	40.0	PHP	650,466	8,419
LNC3 Asset Management Inc.	Global City, Taguig	40.0	40.0	PHP	(610,319)	(71,810)
MOC Verwaltungs GmbH	Munich	23.0	23.0			
MOC Verwaltungs GmbH & Co. Immobilien KG[7]	Munich	23.0	23.0	EUR	(16)	(221)
SK BV Grundstücksentwicklung GmbH & Co. KG	Cologne	25.0	25.0			
SK BV Grundstücksentwicklung Verwaltung GmbH i.L.	Cologne	50.0	50.0			
US Retail Income Fund VII L.P.	Wilmington	26.3	26.3	USD	14,610	348
US Retail Income Fund VIII-D L.P.	Wilmington	50.0	50.0	USD	(271)	1,586
4 Holdings in excess of 20%						
without significant influence[6]						
Other companies						
BayBG Bayerische Beteiligungsgesellschaft mbH	Munich	22.5		EUR	161,095	8,866
Bayerischer BankenFonds GbR	Munich	25.6				
BC European Capital VII-12 L.P. (share of voting rights: 0%)	St. Peter Port	34.1		EUR	35,101	15,224
B.I.I. Creditanstalt International Ltd. (share of voting rights: 0%)	George Town	40.2				
Deutsche Structured Finance & Leasing GmbH & Co.						
Mira KG i.L. (share of voting rights: 39.8% total,						
of which 4.0% held indirectly)	Frankfurt am Main	39.9	4.0	EUR	(692)	1,913
Doughty Hanson & Co. Technology Limited Partnership						
Number 3 (share of voting rights: 0%)	London	22.3		USD	19,919	(4,023)
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	0	2,309
Felicitas GmbH i.L.	Munich	20.8		EUR	1,635	54
Fondo Nord Ovest (share of voting rights: 0%)	Turin	26.7		EUR	15,654	(990)
GermanIncubator Erste Beteiligungs GmbH						
(share of voting rights: 9.9%)	Munich	39.6		EUR	2,004	(88)
HVB Trust Pensionsfonds AG (share of voting rights: 0%)[8]	Munich	100.0	100.0	EUR	3,588	88
IPE Euro Wagon L.P. (share of voting rights: 0%)	St. Helier	37.5	37.5	EUR	31,499	7,726
Lauro Ventidue S.p.A. (share of voting rights: 0%)	Milan	24.2	24.2	EUR	164,783	(92)
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	3,763	2,396
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S.						
(share of voting rights: 0%)	Luxembourg	38.3	38.3	EUR	20,015	0
Rolo Impresa Fondo Comune di Investimento Mobiliare Chiuso						
(share of voting rights: 0%)	Milan	73.1		EUR	42,483	(10,456)
Sentient Global Resources Fund I, L.P.						
(share of voting rights: 0%)	George Town	24.4		USD	133,042	149,338
WCG-NSL Holding LLC (share of voting rights: 0%)	Wilmington	22.1	22.1			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL OF HVB 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	27.6
Bürgschaftsbank Sachsen-Anhalt GmbH	Magdeburg	8.9	8.4
Bürgschaftsbank Schleswig-Holstein GmbH	Kiel	5.4	3.9
Bürgschaftsbank Thüringen GmbH	Erfurt	8.7	12.9
Bürgschaftsgemeinschaft Hamburg GmbH	Hamburg	10.5	10.9
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	68.8
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	29.0
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	EUR	40
Arabella Finance Ltd.	Dublin	0	EUR	<1
Bandon Leasing Ltd.	Dublin	0	USD	<1
Black Forest Funding LLC	Delaware	0	USD	10
Cosima Purchase No. 13 Ltd.	St. Helier	0	EUR	<1
Cosima Purchase No. 14 Ltd.	Dublin	0	EUR	<1
Cosima Purchase No. 15 Ltd.	Dublin	0	EUR	<1
Cosima Purchase No. 6 S.A. – Compartment 3	Luxembourg	0	EUR	0
Elektra Purchase No. 17 S.A. – Compartment 2	Luxembourg	0	EUR	0
Elektra Purchase No. 23 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 24 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 27 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 28 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 50 Ltd.	Dublin	0	EUR	<1
European-Office-Fonds	Munich	0	EUR	0
GELDILUX-TS-2007 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2010 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2011 S.A.	Luxembourg	0	EUR	31
GELDILUX-PP-2011 S.A.	Luxembourg	0	EUR	31
Grand Central Funding Corporation	New York	0	USD	1
HVB Funding Trust	Wilmington	0	USD	0
HVB Funding Trust III	Wilmington	0	USD	0
Ocean Breeze Energy GmbH & Co. KG	Munich	0	EUR	27
Ocean Breeze Finance S.A. – Compartment 1	Luxembourg	0	EUR	0
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Royston Leasing Ltd.	Grand Cayman	0	USD	1
Salome Funding Plc	Dublin	0	EUR	38
SKB VTMK International Issuer Ltd. – Series 2011-1	Dublin	0	EUR	0
The Trans Value Trust Company Ltd.	Tokyo	0	JPY	0

List of Holdings (Continued)

Exchanges rates for 1 euro at 31 December 2011
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

Canada	1 euro =	1.3215	CAD
China	1 euro =	8.1588	CNY
Japan	1 euro =	100.2	JPY
Philippines	1 euro =	56.754	PHP
Turkey	1 euro =	2.4432	TRY
UK	1 euro =	0.8353	GBP
USA	1 euro =	1.2939	USD

Notes and comments to the list of holdings

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

1 HVB has concluded profit and loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Bankhaus Neelmeyer AG, Bremen	(2,724)
1.2	Food & more GmbH, Munich	182
1.3	HVB Capital Partners AG, Munich	1,064
1.4	HVB Immobilien AG, Munich	(4,202)
1.5	HVB Principal Equity GmbH, Munich	558
1.6	HVB Profil Gesellschaft für Personal-management mbH, Munich	433
1.7	HVB Verwa 1 GmbH, Munich	(1)
1.8	HVB Verwa 4 GmbH, Munich	1,212
1.9	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	1,337
1.10	Status Vermögensverwaltung GmbH, Schwerin	0
1.11	UniCredit Beteiligungs GmbH, Munich	4,971
1.12	UniCredit Direct Services GmbH, Munich	650
1.13	UniCredit Leasing GmbH, Hamburg	7,883
1.14	Verwaltungsgesellschaft Katharinenhof mbH, Munich	739
1.15	Wealth Management Capital Holding GmbH, Munich	8,183
1.16	HVB Verwa 3 GmbH, Munich	(2)
1.17	HVB Verwa 7 GmbH, Munich	(2)
1.18	HVB Verwa 8 GmbH, Munich	(2)

2 Profit and loss transfer to shareholders and partners.

3 Compliant with Sections 264b and 264 (3), German Commercial Code, the company is exempt from the obligation to make annual financial statements public in accordance with the provisions applicable to corporations.

4 Figures of the 2010 annual accounts are indicated for this consolidated company.

5 Subsidiary since HVB 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, German Commercial Code. This information is omitted for companies compliant with Section 285 No. 11a, German Commercial Code, 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 HVB.

Mortgage Banking

63 Coverage

(€ millions)

	2011	2010
A. Mortgage bonds		
Standard coverage		
1. Loans and receivables with banks		
Mortgage loans	—	—
2. Loans and receivables with customers		
Mortgage loans	26,505	29,306
Other eligible cover[1]		
1. Other lending to banks	—	—
2. Bonds and other fixed-income securities	3,544	2,743
3. Equalisation claims on government authorities	—	—
Subtotal	**30,049**	**32,049**
Total mortgage bonds requiring cover	25,431	26,833
Excess coverage	**4,618**	**5,216**
B. Public-sector bonds		
Standard coverage		
1. Loans and receivables with banks	553	679
Mortgage loans	—	—
Municipal loans	553	679
2. Loans and receivables with customers	7,872	8,024
including:		
Mortgage loans	42	45
Municipal loans	7,830	7,979
3. Bonds and other fixed-income securities	367	657
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**8,792**	**9,360**
Total public-sector bonds requiring cover	7,375	5,948
Excess coverage	**1,417**	**3,412**

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

64 Mortgage bonds outstanding and covering assets used

(€ millions)

	NOMINAL 2011	NOMINAL 2010	PRESENT VALUE 2011	PRESENT VALUE 2010	RISK PRESENT VALUE 2011	RISK PRESENT VALUE 2010
1. Mortgage bonds						
Covering assets[1]	30,049	32,049	32,503	34,219	33,567	35,307
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	25,431	26,833	27,545	28,750	28,741	29,929
Excess coverage	**4,618**	**5,216**	**4,958**	**5,469**	**4,826**	**5,378**
2. Public-sector bonds						
Covering assets[2]	8,792	9,360	9,632	9,977	9,202	9,583
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	7,375	5,948	8,129	6,487	7,747	6,154
Excess coverage	**1,417**	**3,412**	**1,503**	**3,490**	**1,455**	**3,429**

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

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

(€ millions)

	COVERING ASSETS 2011	COVERING ASSETS 2010	MORTGAGE BONDS 2011	MORTGAGE BONDS 2010
1. Mortgage bonds[1]				
less than 1 year	5,466	11,605	5,678	4,948
at least 1 year but less than 5 years	15,924	13,391	13,193	14,180
thereof: at least 1 year but less than 2 years[3]	4,849	3,882	4,039	5,675
at least 2 years but less than 3 years[3]	3,766	3,598	2,607	2,986
at least 3 years but less than 4 years[3]	4,265	2,816	3,888	2,608
at least 4 years but less than 5 years[3]	3,044	3,095	2,659	2,911
at least 5 years but less than 10 years	7,547	6,147	4,075	5,120
10 years or more	1,112	906	2,485	2,585
	30,049	**32,049**	**25,431**	**26,833**
2. Public-sector bonds[2]				
less than 1 year	1,365	3,594	699	659
at least 1 year but less than 5 years	4,019	2,777	4,062	2,317
thereof: at least 1 year but less than 2 years[3]	1,200	794	1,535	695
at least 2 years but less than 3 years[3]	1,177	672	527	455
at least 3 years but less than 4 years[3]	811	769	550	608
at least 4 years but less than 5 years[3]	831	542	1,450	559
at least 5 years but less than 10 years	2,387	2,158	1,316	1,649
10 years or more	1,021	831	1,298	1,323
	8,792	**9,360**	**7,375**	**5,948**

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

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

(€ millions)

	2011	2010
Mortgage covering assets		
up to and including €300,000	14,088	16,531
over €300,000 up to and including €5,000,000	7,315	8,312
more than €5,000,000	5,102	4,463
	26,505	**29,306**

Mortgage Banking (Continued)

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

(€ millions)

	MORTGAGE COVERING ASSETS			
	RESIDENTIAL PROPERTY		COMMERCIAL PROPERTY	
	2011	2010	2011	2010
1. Germany				
Apartments	5,249	6,111	—	—
Single-family houses	6,122	7,085	—	—
Multi-family houses	6,768	7,115	—	—
Office buildings	—	—	3,457	3,589
Commercial buildings	—	—	2,590	2,871
Industrial buildings	—	—	502	606
Other commercially used buildings	—	—	644	726
Buildings under construction	553	679	500	440
Building sites	19	26	90	47
	18,711	**21,016**	**7,783**	**8,279**
2. France/Monaco				
Single-family houses	2	2	—	—
Multi-family houses	—	—	—	—
	2	**2**	**—**	**—**
3. Italy/San Marino				
Single-family houses	1	1	—	—
	1	**1**	**—**	**—**
4. Luxembourg				
Office buildings	—	—	3	3
	—	**—**	**3**	**3**
5. Austria				
Office buildings	—	—	5	5
	—	**—**	**5**	**5**
6. Spain				
Single-family houses	—	—	—	—
	—	**—**	**—**	**—**
	18,714	**21,019**	**7,791**	**8,287**

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

(€ millions)

	COVERING ASSETS	
	2011	2010
1. Germany		
Central government	17	7
Regional authorities	2,894	2,953
Public-sector authorities	4,292	4,436
Other	1,356	1,610
	8,559	**9,006**
2. Greece		
Central government	—	113
Other	—	—
	—	**113**
3. Austria		
Central government	200	200
	200	**200**
4. Spain		
Public-sector authorities	33	41
	33	**41**
	8,792	**9,360**

Mortgage Banking (Continued)

69 Payments in arrears

Payments in arrears on mortgages and public-sector loans and receivables due between 1 October 2010 and 30 September 2011 break down as follows:

(€ millions)

	COVERING ASSETS	
	2011	2010
1. Payments in arrears on mortgages		
Germany	1	4
	1	**4**
2. Payments in arrears on public-sector loans and receivables		
Germany		
Regional authorities[1]	—	—
Other[1]	—	—
	—	**—**

1 officially guaranteed loans and receivables

70 Foreclosures and sequestrations

		OF WHICH:	
		COMMERCIAL PROPERTY 2011	RESIDENTIAL PROPERTY 2011
1. Foreclosures and sequestrations			
	NUMBER OF PROCEEDINGS		
a) Pending at 31 December 2011			
Foreclosure proceedings	455	94	361
Sequestration proceedings	20	7	13
Foreclosure and sequestration proceedings	345	68	277
	820	**169**	**651**
(comparative figures from 2010	951	274	677)
b) Foreclosures finalised in 2011	**207**	**79**	**128**
(comparative figures from 2010	61	28	33)
2. Properties auctioned or repossessed			
The Pfandbrief bank did not have to repossess any properties during the year			
under review to prevent losses on mortgage loans.			

71 Interest in arrears

Interest in arrears on mortgage-covering assets due between 1 October 2010 and 30 September 2011 break down as follows: (€ millions)

	2011	2010
Commercial property	—	—
Residential property	—	—

The present annual financial statements were prepared on 15 March 2012.

UniCredit Bank AG
The Management Board

Buschbeck Danzmayr Diederichs Hofbauer

Laber Varese Dr Weimer

Declaration by the Management Board

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

Munich, 15 March 2012

UniCredit Bank AG
The Management Board

Buschbeck Danzmayr Diederichs Hofbauer

Laber Varese Dr Weimer

Auditor’s Report

We have issued the following unqualified auditor´s report:

“Auditor´s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of UniCredit Bank AG, Munich, for the business year from 1 January to 31 December 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 15 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski	Pfeiffer
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial Calendar

Important Dates 2012[1]

Publication of the 2011 annual results	28 March 2012
Interim Report at 31 March 2012	10 May 2012
Half-yearly Financial Report at 30 June 2012	3 August 2012
Interim Report at 30 September 2012	14 November 2012

1 dates planned

Contacts
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faxing +49 (0)89 378-25699
You can call up important company announcements as soon as they have been published by visiting our website at www.hvb.de

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