Meeting real needs with concrete solutions.

2011 Annual Report

Every day, life presents new challenges and opportunities. Every day, we each have a new story to tell that involves tangible needs and requires clear answers.

In this year's annual report, we illustrate our way of banking with stories of the people, businesses and institutions who use our customised solutions. You will read stories about how we worked together to promote sports in schools and how we gave a boost to long-established industrial firms by enabling them to update their machinery. You will also learn about how we have supported the development of new computer systems and have provided broad support to the green economy.

These stories were built on entrepreneurship, courageous innovation, respect for tradition, and our strong bonds with local communities.

We strongly believe that being a bank today means making a concrete difference, day in and day out, for those who have chosen to do business with us. It means facing challenges together and creating a world of new opportunities.

These are true stories – snapshots of ordinary life that shape the mosaic of our daily work. At UniCredit, we are creating a world of relationships where our stakeholders can best meet the changing needs of our times.

2011 Annual Report

UniCredit Bank AG Profile

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

Financial Highlights

Key performance indicators

	31/12/2011	31/12/2010
Net operating profit	€1,935m	€2,493m
Cost-income ratio (based on operating income)	62.1%	52.3%
Profit before tax	€1,615m	€1,882m
Consolidated profit	€971m	€1,728m
Return on equity before tax[1]	7.2%	8.5%
Return on equity after tax[1]	4.3%	8.0%
Earnings per share	€1.16	€2.12

Balance sheet figures

	31/12/2011	31/12/2010
Total assets	€385.5bn	€371.9bn
Shareholders' equity	€23.3bn	€23.7bn
Leverage ratio[2]	16.5x	15.7x

Key capital ratios compliant with Basel II

	31/12/2011	31/12/2010
Core capital without hybrid capital (core Tier 1 capital)	€19.9bn	€19.8bn
Core capital (Tier 1 capital)	€20.6bn	€20.6bn
Risk-weighted assets (including equivalents for market risk and operational risk)	€127.4bn	€124.5bn
Core capital ratio without hybrid capital (core Tier 1 ratio)[3]	15.6%	15.9%
Core capital ratio (Tier 1 ratio)[3]	16.2%	16.6%

	31/12/2011	31/12/2010
Employees (in FTEs)	19,442	19,146
Branch offices	934	927

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

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Moody's	A2	P–1	review	C–	15/2/2012	Aaa**	Aa1**	13/6/2008/ 17/6/2008
S & P	A	A–1	negative	—	10/2/2012	AAA	—	9/3/2010
Fitch Ratings	A+	F1+	stable	a–*	21/12/2011	AAA	AAA	6/2/2012/ 8/2/2012

* as of 20 July 2011 Fitch uses the Viability Rating, thus replacing the previous Individual Rating
** on review for possible downgrade (23 November 2011)

Financing the excitement of UEFA EURO 2012™.

Bank Pekao participated in acquisition of financing of three UEFA EURO 2012™ stadiums: Stadion Narodowy in Warsaw, the Poznań Stadium and Stadium in Gdańsk. From an architectural standpoint, the Stadium in Gdańsk is considered the most impressive construction of UEFA EURO 2012™. This year for UEFA EURO 2012™ Bank Pekao has also financed other infrastructures, such as highways, regional airports and public transportation. As the official slogan states "simple emotions are sometimes not enough", Bank Pekao has really become part of EURO UEFA 2012™ as a National Sponsor.
This is another way to be close to local communities and a concrete sign of trust in the future of the country.

Stadium in Gdańsk

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Creating initiatives that meet real needs.

Together for the Region is an initiative designed to build tighter bonds with regions and communities, particularly with locally based non-profit organizations. For example, in Nuremberg, UniCredit created a new debit card, “My Town – My Bank – My Card.” Part of card proceeds are donated to “Lebenshilfe Nürnberg”, a charitable organization that helps the disabled. The same model has been adopted by more than 50 UniCredit subsidiaries in Germany. Parallel to the donation, the Bank’s local staff has created a corporate volunteer programme, with employees participating in activities that range from providing volunteer companion services to offering professional training. The project received positive local press attention, demonstrating how simple, concrete actions can serve real needs. This is the practical demonstration of how the Group is giving concrete answers to facilitate full integration of persons with disabilities.

Strategy and Results

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Letter from the Supervisory Board Chairman

Ladies and Gentlemen

In 2011, global economic growth was subdued and even lost momentum in the second half of the year, despite a measure of recovery in the United States towards the end of the year that had only limited impact on GDP and employment rates.

The eurozone was overshadowed by the worsening of the sovereign debt crisis and the corresponding negative growth in several economies, in particular Greece. However, Germany, the home market of UniCredit Bank AG (HVB), performed extremely well on the back of a significant export drive, even if the country’s economy did slow down towards the end of the year. European capital markets were extremely volatile throughout the year in the context of the fiscal crisis and of credit downgrades in both the public and private sectors.

The banking sector continued to face regulatory pressure and increased public scrutiny. The Basel III regulatory standard will tighten up the legal framework for banks and introduce stronger requirements for both liquidity and leverage. Despite a difficult sectorial environment, HVB performed quite well during 2011. All divisions delivered favourable results, in particular Corporate & Investment Banking (CIB). HVB has consolidated its commercial and financial performance and is one of Germany’s most competitive banks. Our Bank’s strong market position reflects its diversified business model as well as its solid liquidity base and financing structure.

HVB is and will remain a core part of UniCredit, one of Europe's leading banking networks that is both a major player in some of Europe's wealthiest regions and a leading foreign bank in many central and eastern European countries.

While fully integrated, HVB has a strong regional identity reflected in the HypoVereinsbank brand. It benefits from the pooling of expertise, in particular also from the outsourcing of back office functions to group-wide service providers such as UniCredit Global Business Services (UGBS).

UniCredit successfully completed a capital increase of €7.5 billion in early 2012, thus meeting higher capital requirements and consolidating its position as one of Europe's most stable banks. HVB continues to have an excellent capital base by both national and international standards.

In 2011, the HVB Supervisory Board focused both on the operating environment and on internal topics such as streamlining risk management and regulating upstream exposure. It also dealt with the implementation of the cross-border project All4Quality, which will optimise the exchange of expertise and the integration of back office functions across the group (for further information see the "Report of the Supervisory Board").

In closing, allow me to point out that both HVB's Management Board and its employees have performed extremely well under challenging conditions. I would like to thank them for their excellent work. Germany remains one of UniCredit's key markets and we are firmly committed to a strong presence in Europe's leading economy. Beyond this, HVB's operating efficiency and low refinancing costs are a positive factor for the group.

Early indicators for 2012 show mixed signals. On the one hand, the global economy gives evidence of stabilising. On the other hand, sovereign debt and fiscal pressures in the eurozone are likely to curb growth and induce an uncertain operating environment for the financial sector. Beyond this, regulatory pressures on banks are likely to intensify. Despite these issues, I am very optimistic that HVB will continue to be both successful and cost-efficient.

Sincerely

Federico Ghizzoni

Letter from the Management Board Spokesman

Dear Customers, Investors and Partners
Ladies and Gentlemen

At the end of my letter to you last year, I took a largely positive line regarding future developments in our domestic market of Germany, while expressing clear concern about the general trend in the eurozone and its impact on the banking industry. And so it came to pass, with 2011 again proving a difficult year. Our results reflect these contrary developments, even if we did perform well last year and fared better than many of our competitors.

The global economy expanded quickly in the first half of the year only to lose momentum again later on. The effects of the debt crisis cast a long shadow over the eurozone, while high debt levels in some countries and potential contagion to other countries had a major impact on the confidence of market participants. This strongly affected capital markets; by the end of December, benchmark indexes like the DAX30 and EuroStoxx50 were down on their previous year-end mark.

Germany, the domestic market of UniCredit Bank AG (HVB), remained a bulwark of stability, enjoying strong growth overall, good capacity utilisation levels and falling unemployment. All market players benefited from this, including ourselves. But even the German economy was not left unscathed by the global slowdown towards the end of the year, with gross domestic product falling slightly in the last quarter.

The regulatory environment represents a further factor of uncertainty for our industry. In short, we all benefit from a stable financial system: the banks, our customers, governments and the public at large. This is the point of tightening the capital and liquidity requirements under Basel III. For this reason, I welcome the new set of rules relating above all to core Tier 1 capital.

Of course this is made all the easier for me by the excellent capital base at HVB. Our core Tier 1 ratio of 15.6% makes us one of the most stable banks not only in Germany but anywhere in Europe. Furthermore, we enjoyed an adequate liquidity structure and solid financing base at all times in the 2011 financial year. And HVB's leverage ratio (ratio of total assets to shareholders' equity shown in the balance sheet) is also rock solid at 16.5x. Moreover, our parent company, UniCredit, completed a very successful €7.5 billion capital increase at the start of 2012, at an early date taking it well beyond the core capital ratios demanded by the EU bank supervisors.

With regard to the new regulations, it must be the case that the rules are fair; individual countries and financial institutions must not be put at a disadvantage. Last year, I made no bones of the fact that, as far as I'm concerned, HVB has been hit harder than most by the bank levy. It cannot be right that a bank with our balance sheet and risk positions is required to make the second-biggest contribution to the German crisis fund. There is clearly a need for legislators to act in this area.

Our results for 2011 are further evidence of the resilience of our business model. Due to the difficult capital market environment predominantly in the second half of the year, our pre-tax profit of €1.6 billion failed to quite match the very good figure of €1.9 billion reported in 2010. The results for 2011 again underscore our profitability and solidity as well as the strength of our customer business.

We were once again able to reduce our loan-loss provisions after we had already more than halved such provisions year-on-year to €632 million in 2010. The beneficial lending environment allowed us to report loan-loss provisions at a very low level of just €266 million in 2011.

Our strict cost management programme also has a long-term horizon. The increase of five percent or €178 million in operating costs in 2011 was caused among other things by the bank levies outside of Germany that we had to pay for the first time in Austria and the UK. Without these items and adjusted for consolidation and currency effects, the cost increase was moderate, at around two percent (please refer to the Financial Review for further information about the annual results).

As in previous years, our Corporate & Investment Banking division (CIB), which was formed in 2009 when the former Corporates & Commercial Real Estate Financing and Markets & Investment Banking divisions were merged, made a major contribution to our commercial success. Sadly, though, we were unable to escape the difficult capital market environment I mentioned earlier; the sharp decline in market activities in the second half of the year left clear traces in our net trading income, which fell sharply accordingly. This also shaped the division's pre-tax profit (€1,226 million compared with €1,384 million in 2010).

The Family & SME division (F&SME) performed well, recording higher operating income in 2011. The division generated a pre-tax profit of €147 million, comfortably beating the year-ago figure of €114 million. As part of our One for Clients project, business customers with annual revenues of up to €50 million have been served by F&SME since the start of 2011. Also allocated to this division are retail customers with free assets of less than €500,000.

The Private Banking division generated a pre-tax profit that almost matched the year-ago level (€72 million compared with €82 million) on the back of similar operating income. We aim to gain more market share here by more closely linking activities with our corporate banking operations and also implementing innovative product features like a new fee-based advisory model.

All in all, it is evident that our success is built on a consistent orientation towards our customers, effective risk management and the commitment of our workforce. Our capital markets activities focus on key customers with cross-selling potential and on core regions. An efficient risk management programme has allowed us to significantly reduce loan-loss provisions in recent years. We hold a portfolio that is less risk-exposed than most by international standards.

But success, as we all know, has many fathers. This includes our membership of UniCredit, one of the leading banking networks in Europe, and enables us to offer our customers access to cross-border markets together with innovative finance and product solutions, especially in the countries of central and eastern Europe where UniCredit enjoys a leading market position.

Further advantages stemming from the international UniCredit network are found in IT integration; the EuroSIG project to roll out a standard software platform was successfully implemented at HVB in 2010. And synergies are generated by the group-wide pooling of back office functions. Within the framework of the All4Quality project, a number of functions – including purchasing, facility management and IT operating – were transferred to the new service provider UniCredit Global Business Services during the reporting period (see also the chapter entitled Global Banking Services).

Towards the end of 2011, the UniCredit Board adopted a multi-year plan for the period from 2011 to 2015, calling among other things for cost optimisation. This will include the elimination of around 6,000 FTEs across the corporate group, of which around a thousand positions are in Germany. We are making every effort to ensure that this downsizing exercise is carried out in as socially responsible a manner as possible and in close cooperation with the employee representatives. For us, the assertion that a company's most important asset is its workforce is no empty words; it is a call to action. We are leveraging all the instruments of workforce planning – fluctuation, part-time working, partial retirement and so on – in an attempt to align the necessary efficiency enhancements with the interests of our employees.

In this context, I would like to recognise the very constructive collaboration with the Group Works Council, despite whatever differences have arisen in individual instances, and emphasise that we at HVB expressly stand by our corporate social responsibility. This is reflected in part by our Healthy Company project, which aims to promote the wellbeing of our staff and a beneficial work-life balance (see also the chapter entitled Human Resources).

Our social responsibility is not something we only discharge towards our employees. Rather, we consider ourselves under obligation to society as a whole and to the environment. We fund a number of charitable projects, primarily in the individual communities in which we live; furthermore, we are committed to climate protection (see also the chapter entitled Corporate Sustainability).

Our landmark projects include an ec card programme known as "Wir für die Region". In more than 50 cities, some of the proceeds from the roll-out of design cards are donated to various social institutions. The city of Nuremberg is a good

example, where our branch supports Lebenshilfe Nürnberg, a local charity dedicated to caring for disabled people. Our employees work on a voluntary basis in the institutions we support; we assist them by granting special leave within the framework of our Corporate Volunteering Programme. I'm delighted that the Nuremberg project is spotlighted in this Annual Report as part of the topical focus on "Meeting real needs with concrete solutions". The sample projects that you will find at the start of each section underline the all-round commitment of UniCredit in many different countries.

And finally, as always there is the question of how things will look going forward. Mixed signals have been sent out in 2012 to date. The prospects for the global economy remain unclear for the rest of the year. For one thing, some parts of the world have seemingly recovered from the financial crisis; this is notably the case in the United States. At the same time, individual eurozone countries will see the level of their debt go on rising, coupled with negative growth rates.

The banking industry is likely to be overshadowed by uncertainty surrounding the creditworthiness of individual countries together with the restructuring of sovereign debt. Our domestic market of Germany is set to remain a bulwark of stability; however, it would be inappropriate to imagine that the growth seen last year will act as the yardstick going forward. Furthermore, German financial institutions will be affected by lower margins and greater regulatory requirements at least as badly as banks in other countries.

At the same time, our strengths, our outstanding capital base, our business model and our cost efficiency give me confidence: we are well equipped to meet the challenges of an uncertain future.

People often ask me about our business philosophy. I am reminded of the thoughts of long-serving Bosch CEO Hans L. Merkle who said that success lies in the courage to go to the extremes and in the perseverance to occupy the middle ground. I generally take this to mean that we need to constantly urge ourselves on to reach new horizons and defend the advantage we have gained – while rejecting action for action's sake. Acquisitions and new lines of business by all means, but not at any price or at any risk; the solidity of the Bank always has top priority.

With all this in mind, I would like to wish all of us and you – our customers, our investors and our business partners – a successful 2012 and that touch of good fortune that even the boldest of us needs.

Best regards

Dr Theodor Weimer

Munich, 27 March 2012

Summary of Results

Corporate & Investment Banking division (CIB)
- This division comprises three global product lines – Markets, Financing & Advisory, and Global Transaction Banking – that act as providers of innovative, specialised products
- 2011: pre-tax profit down year-on-year due to difficult capital market environment
- Net write-downs of loans reduced again

Family & SME division (F&SME)
- New Family & SME division (F&SME) serves business customers with annual revenues of up to €50 million and retail customers with assets of up to €500,000
- 2011: profit before tax up almost 30% year-on-year
- Net write-downs of loans reduced by more than 60%

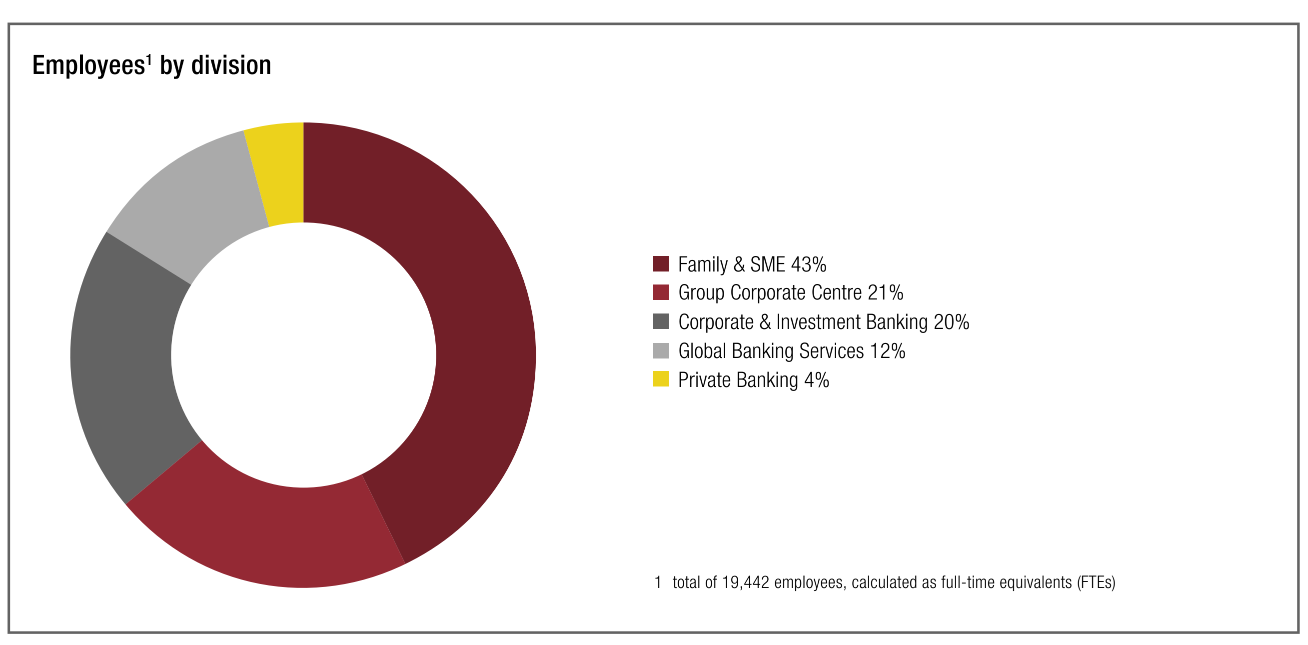
Private Banking division (PB)
- Demand-compliant relationship management for wealthy customers complete with personal advice
- 2011: profit before tax below year-ago level due to higher expenses for provisions
- Operating profit and net write-downs of loans at around the 2010 level

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

Divisional highlights (€ millions)

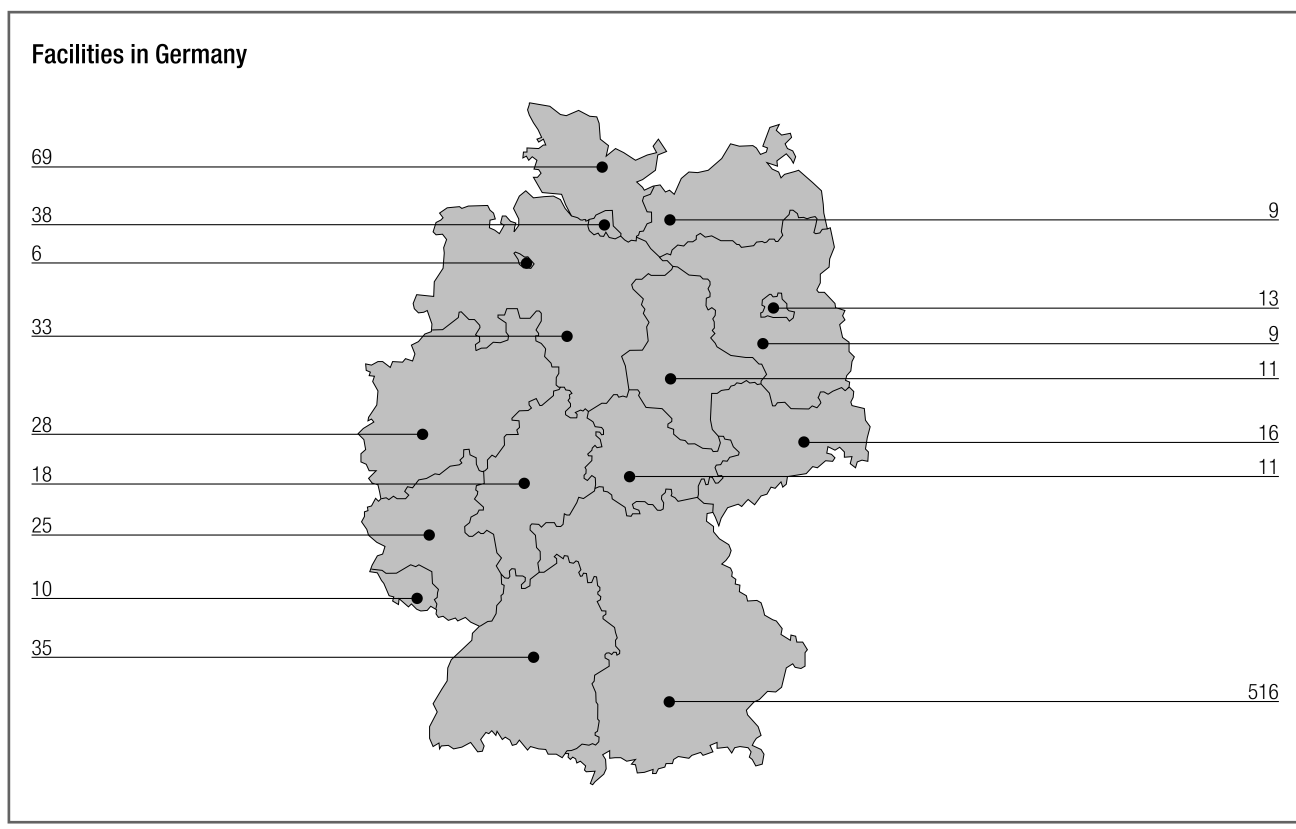
	CORPORATE & INVESTMENT BANKING	FAMILY & SME	PRIVATE BANKING	OTHER/ CONSOLIDATION
OPERATING INCOME				
2011	3,359	1,829	262	362
2010	3,893	1,756	265	644
Operating costs				
2011	(1,561)	(1,603)	(160)	(287)
2010	(1,526)	(1,553)	(162)	(192)
Net write-downs of loans and provisions for guarantees and commitments				
2011	(316)	(30)	(1)	81
2010	(503)	(82)	(2)	(45)
NET OPERATING PROFIT				
2011	1,482	196	101	156
2010	1,864	121	101	407
PROFIT BEFORE TAX				
2011	1,226	147	72	170
2010	1,384	114	82	302

Employees[1] by division



1 total of 19,442 employees, calculated as full-time equivalents (FTEs)

Facilities in Germany



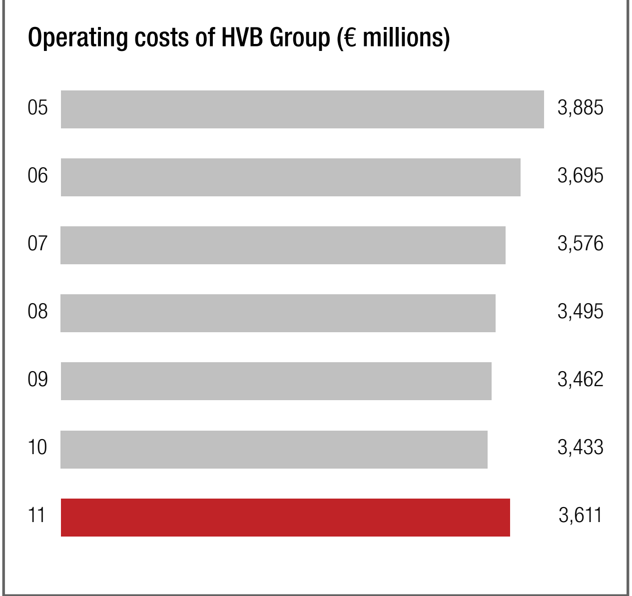
Global Banking Services

Central hubs tap synergies and increase customer focus

Global Banking Services (GBS) combines interdisciplinary functions and services that are critical to ensuring business success for UniCredit Bank AG (HVB). The departments subsumed under GBS include Organisation, Insurance, Data Protection, Workout Services, Security and Service Management & Governance, which oversees relations with the back office and IT functions outsourced to UniCredit. In addition, the UniCredit Global Business Services subsidiary (UGBS) comprises the units Facility Management, HR Service Centre, Purchasing and Operations for Markets & Treasury Products.

Further streamlining of organisational functions by the Country Chairman model

Centrally consolidating the organisational units set up along divisional lines to date has helped to simplify the organisation, standardise quality and processes, and transfer best practice simply across the divisions. These standardisation efforts have enhanced the quality of in-house service provided for the sales units without changing the resources used.



"Mindset 440" cost optimisation project aimed at reducing operating costs

HVB has succeeded in continuing to improve its cost base by further streamlining its internal workflows and continually improving its processes. However, operating costs increased to €3,611 million (2010: €3,433 million) due to regulatory requirements such as the bank levy. In light of an earnings environment that is expected to remain difficult, HVB joined with UniCredit at the end of the year to launch the "Mindset 440" cost optimisation project with a view to maintaining the lower cost base in the coming years.

Central management of insurance cover

In its function as a central internal service provider, GBS ensures that the required insurance cover is in place. It does so in close cooperation with a service provider that ensures access to national and international insurance markets.

Identified banking risks that are insurable and worth insuring are transferred to insurance cover in a defined process involving the individual divisions, the offices concerned and the Operational Risk department. Appropriate, economically efficient insurance cover helps to reduce some of the banking risk (see also the Risk Report in this Annual Report).

New responsibility for data protection

The Data Protection unit previously managed by Legal & Compliance was re-allocated to the GBS division under the Management Board during 2011. In incorporating the Data Protection unit, GBS is being strengthened by another interdisciplinary function which is crucial to the success of HVB.

This reorganisation satisfies the regulatory requirement for a direct reporting line between the Data Protection Officer and the Management Board. The move also raises the profile of data protection in HVB Group, positioning it as a quality yardstick for customers and employees alike throughout the corporate group.

Sophisticated workout services

Workout services are required on the lending side if financial or legal difficulties arise in the customer relationship.

The classic workout function is called for whenever all of the restructuring measures have failed in a debtor/creditor relationship. The aim is to obtain as much of the amounts receivable from the borrower as possible by realising the collateral provided and, if necessary, initiating foreclosures and sequestrations. At the same time, it is important to work with the administrator and other creditors to find a solution that is acceptable for the company and the employees.

The Special Advisory department is responsible for all legally sensitive topics arising in the customer relationship, including lending products and activities involving derivatives and investment funds. The department's mission is to clarify different opinions and interpretations of contractual and legal positions. With a high recovery rate, this unit helps greatly to minimise risks and defaults for the Bank.

Integrated security organisation provides greater protection for banking operations

An integrated security organisation as implemented by HVB in 2011 is the key to the long-term development of security precautions. This organisation enables us to centrally manage all security-related issues, such as physical security, IT and branch security, business continuity and crisis management, more quickly and effectively.

In online banking for instance, we implemented internal precautions that largely succeeded in preventing phishing attacks on our customers. Both the rate of thwarted attacks and the level of damage were well below the industry average in 2011.

Services pooled by All4Quality

As part of the group-wide reorientation of the GBS business model, further activities were outsourced to the newly established service provider UniCredit Global Business Services (UGBS) in two stages on 1 August and 1 October 2011 as part of the All4Quality project. Among other things, the outsourced activities encompass Purchasing, the HR Shared Service Centre and Facility Management, back office functions from the Financial Markets Services unit in Germany and abroad, and IT Operating still run at the New York and Singapore branches. The management of these services was integrated into existing structures in the Service Management & Governance unit.

All4Quality is an important part of the GBS transformation programme that aims to turn GBS into the best-in-class service provider for external and internal customers. Particular attention is being paid to continually improving quality and gearing processes and services more specifically to customer needs. In addition to setting up the new service company UGBS within the framework of All4Quality, the transformation programme calls for other developments including:

– process optimisations in the Operations unit
– greater investment in information technology in order to obtain process improvements and innovative new products
– improved area management and enhancements in the field of procurement.

Service Management & Governance safeguards standardised management of back office services

We continued to refine our standardised business and operating model in the year under review and took over the management of the activities outsourced within the framework of All4Quality in addition to back office, banking support and IT services.

The Service Management & Governance unit oversees the internal and external back office and IT service providers in line with cost, quality and risk targets, thus ensuring the Bank's ability to function properly. It acts as an interface serving to implement the sales units' requirements and, as the centre of competence for outsourcing, monitors compliance with all legal and regulatory requirements arising particularly from Section 25a of the German Banking Act and the relevant regulations defined in the Minimum Requirements for Risk Management (MaRisk). The responsibility of the centre of competence as a tracking office begins in the run-up to planning and implementing any outsourcing project.

Back office service providers

The customer-account-partner back office services (core banking) and real estate loan servicing were outsourced to UniCredit Business Partner (UCBP), which belongs to UniCredit, in 2009. The projected cost cuts were again achieved in 2011 without losing any of the consistently high standard of quality. Further services outsourced to UGBS in the area of account reconciliation were integrated into the management processes.

Global Banking Services (Continued)

IT services
The IT services for the Bank are mainly provided by the group company UniCredit Global Information Services (UGIS). To steer these IT services, the control structure has been constantly improved and adapted to cater for the changes caused by the roll-out in 2010 of EuroSIG, the group-wide IT platform.

Outsourcing of securities settlement
CACEIS Bank Deutschland has carried out the back office activities for HVB's cash securities activities since 1 January 2008. The settlement of derivatives (OTC derivatives, listed derivatives, FX/MM, repo & lending etc.) and structured loans has been outsourced to UGBS, which is overseen by a new unit set up by the Bank.

Payment services
Betriebs-Center für Banken has handled all payment services to a high standard since 2007. An innovative new credit card product (prepaid credit card) was introduced on UniCredit's own platform in May 2011. Further credit card products are now being prepared on this platform building on the experience gained.

Banking support services
The Banking Support unit manages the purchasing and facility management services outsourced to UGBS, forms and print management, and mobility management for all the divisions of HVB and defined UniCredit units. It carries out financial accounting and is the centre of competence and the process owner for the Bank's correspondent bank accounts.

The HR administrative tasks outsourced to UGBS (HR Shared Service Centre) are managed by a new organisational unit in line with cost and quality criteria.

Facility management
GBS manages the group's own real estate centrally. Within HVB this is carried out by the Bank's GRE unit, HVB Immobilien AG and, since 1 August 2011, by UGBS engaged by HVB Immobilien AG on the basis of an operating contract.

In the course of concluding the operating contract, the relevant units (i.e. the large majority of the employees) of HVB Immobilien AG were transferred to UGBS with effect from 1 August 2011. At the same time, the real estate unit GRE was set up for corporate governance reasons. This unit is responsible for ensuring strategic decision-making and for exercising owner interests for the group's own real estate.

The units named above manage real estate required for operations – such as administrative buildings – group-owned branches and real estate not used by the Bank. HVB purchased the latter from customers (in foreclosure sales, from open-ended real estate funds) or from other market players.

The GEMINI concept regarding the headquarters buildings in Munich and Hamburg was launched for the portfolio used by the Bank in 2010 and 2011. The facility plans in Hamburg and Munich call for an enhancement of the area used, renovation as well as sale and vacation of cleared buildings including the relocation of the units affected.

Generally, the strategy for changes in floor space and meeting the need for space of the Bank's units: use of the Bank's own real estate portfolio has precedence over renting third-party property.

Reducing the portfolio of properties not used by the Bank is a key issue. In this context, various portfolio management measures (e.g. cancellation of rental guarantee obligations, tenant management, renovations) are being implemented to achieve the maximum value for the Bank by selling properties.

Outlook: continuation of strict productivity management and cost optimisation
Increasing the service quality for customers and optimising internal workflows are the focal points of our strategy for 2012. The reorientation of various back office functions in the context of the service provider UGBS creates a clear framework for realising further advances in productivity.

In view of the eurozone financial crisis and its impact on the earnings potential of banking operations, GBS will continue to prioritise measures to reduce operating costs. Furthermore, the division is aiming to generate as many synergies as possible and to increase operating efficiency by streamlining organisational functions and standardising workflows.

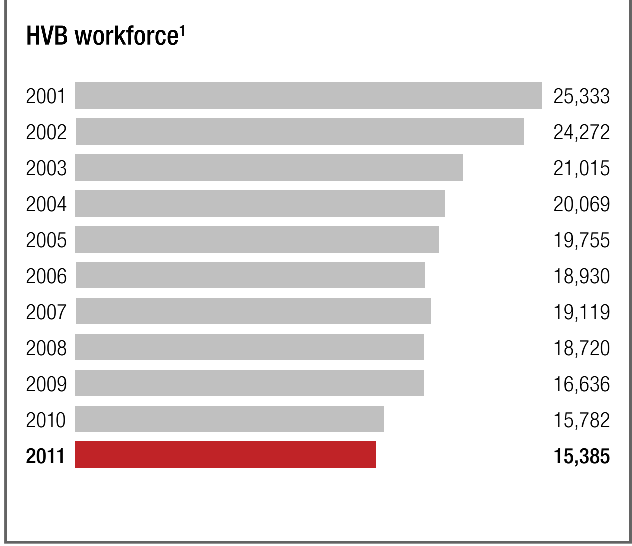
Human Resources

Mastered a challenging year

The German economy continued to expand into the fourth quarter of 2011, and unemployment fell over the course of the year. However, the employment situation in the banking sector remained tense, subdued by the financial crisis. The Frax Index used by Handelsblatt to record the number of vacant positions in the banking and finance sector had almost returned to pre-financial crisis levels by the end of 2011, although it did fluctuate massively during the course of the year.

UniCredit Bank AG (HVB) had already adopted an efficiency-enhancement programme before the financial crisis which called for the elimination of a total of 2,500 positions at HVB Group. This programme was already successfully completed in 2010.

In light of the persistently difficult outlook for the banking sector, we decided to further optimise our cost structures as part of our strategic 2011-2015 multi-year plan. In addition to efficiency enhancements in the area of cost of materials, another adjustment of our staffing levels is planned. This will involve the elimination of around a thousand positions by 2015, mainly in administrative and back office units but including some 350 positions in the Corporate & Investment Banking division. At the same time, we have created new positions in the Compliance, Risk Management, Finance and Internal Audit units to meet stricter regulatory requirements, opening up opportunities for internal transfers in many cases. A large part of this efficiency enhancement can also be achieved by exploiting natural staff turnover.



1 calculated as full-time equivalents (FTEs)

HVB Group's workforce (measured in FTEs) increased slightly to 19,442 (2010: 19,146) whereas the FTEs at HVB decreased from 15,782 in 2010 to 15,385 in 2011. Services such as purchasing and facility management were outsourced to the newly established service provider UniCredit Global Business Services as part of the All4Quality project; these measures will reduce the FTEs of HVB Group (see also the section entitled "Global Business Services"). The adjusted employee turnover rate at HVB amounted to 4.3% in 2011, much lower than in previous years.

High priority for flexible working time and performance-related pay

For many years we have leveraged the potential for making working time more flexible:

– At 23.1%, the proportion of part-time workers at HVB was slightly higher than in 2010.
– 53 employees took advantage of the partial-retirement scheme in the year under review.

In terms of flexible working time as well as areas like remuneration and internal transfers, our HR managers enjoyed a trustful relationship with the employee representatives. This applies particularly to the Central Works Council and the Speakers' Committee for Senior Executives. Together with the employee representatives, it was possible to find an amicable solution even for controversial issues. We would like to express our gratitude at this point to all those involved in this process.

We continued to apply our cost management measures in 2011. The payroll costs for HVB Group amounted to €1,819 million (2010: €1,756 million). This increase is, however, attributable in part to the first-time consolidation of several subsidiaries. The regulatory requirements for the remuneration systems of larger financial institutions were specified and tightened at the end of 2010 based on the regulatory requirements governing the remuneration of financial institutions (Instituts-Vergütungsverordnung). We have modified our remuneration schemes to reflect the new regulations and at the same time introduced longer retention periods for variable remuneration and much higher proportions of stocks for senior executives in order to strengthen the long-term incentives.

Human Resources (Continued)

New impetus for corporate culture development and health-promotion measures

At HVB, we like to think of ourselves as a working family, a community of employees cooperating with one another. As a member of UniCredit, one of the leading banks in Europe, HVB puts great faith in cross-divisional and cross-company networks and multinational organisation teams.

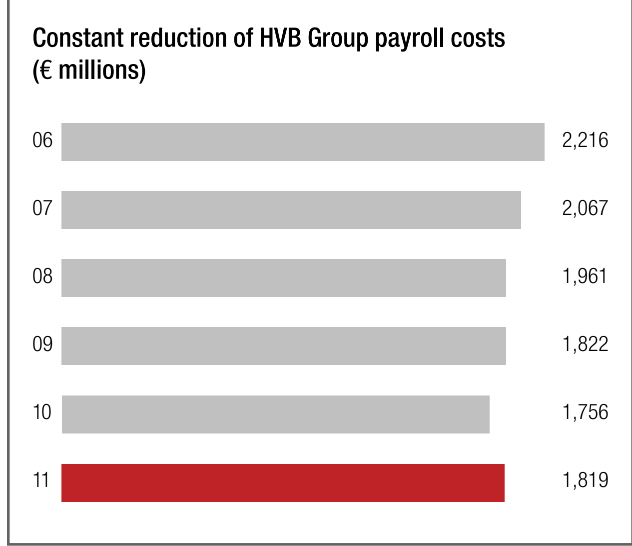
The Country Chairman's Leadership Club which was set up in 2009 makes an important contribution in this regard. This is a programme to optimise leadership behaviour and promote networking between the managers at our Bank. Around 200 executives attended the Leadership Day to discuss values and leadership cultures.

Our self-image as a working family also encompasses promoting a healthy work-life balance. The not-for-profit Hertie Foundation has certified HVB under its Work and Family Audit for the fourth time.

Our employees continue to make use of the extended period of parental leave and also receive allowances for child care. In the year under review, the share of male employees claiming parental leave increased. Our Family Service provides advice on issues concerning child care and caring for elderly dependants. Employees also have the opportunity to take a sabbatical – a period of unpaid leave lasting between 12 and 24 months.

Promoting the health of our employees is also an important issue for us. In 2010, HVB's Healthy Company project was launched with a view to creating an awareness of work-related medical conditions and devising solutions. The five-year project consists of various components: a touring exhibition on the issue of burn-out and depression; a stress resource test and stress workshops; and a management survey. Various activities were held during 2011, including a leadership workshop on topics such as stress prevention and causes of the burn-out syndrome as well as many presentations at works meetings and executive events.

In its Corporate Health Award, EuPD Research gave HVB's health management programme its highest, "excellent" rating. Potential for improvement was identified in the areas of strategy and networking.



Our Bank's Health Forum serves to promote networks; all the health-relevant departments and companies of our Bank are involved, including the social services, the company medical service, the health and safety team, the works council, the Speakers' Committee, HVB Club, the company health scheme and Food&More. The Forum is the platform for a number of offerings: health events and workshops on stress management, back pain and preventive medicine. Prospective management executives are also suitably sensitised to these issues and, where necessary, offered advice. Over the past year, some 9,000 employees made use of the preventive measures and advisory services offered by the Health Forum. In addition, the stress resources test was called up over 8,000 times on the intranet.

Our sports and leisure club, known as HVB Club, has around 8,000 members, 4,500 of whom are in Munich and 3,500 in regional branches including Hamburg, Regensburg and Nuremberg. The Club provides a range of facilities in the field of sport, wellness/fitness, and arts and culture.

Strengthening commitment and values

The active involvement and support of all employees is crucial to HVB's success. UniCredit's annual People Survey, which was carried out in October 2011, serves as an indicator of the status of the corporate culture and the satisfaction of employees with the working conditions and management. The results for HVB have improved considerably in many areas, although there is still room for enhancement in areas such as leadership and motivation. These will be addressed as part of an action plan.

Our employees are called upon to meet high ethical standards. The Integrity Charter, which summarises the values of UniCredit to which all employees are bound across the entire corporate group, was drawn up with this in mind. Once again, the UniCredit Day was held in 2011, highlighting examples of exemplary conduct as role models and the corporate values of UniCredit.

At HVB, we also aim to promote our employees' commitment to the public good. We do so mainly through our Corporate Volunteering Programme, which helps employees to perform voluntary work and unpaid activities by granting them special leave and making parallel donations (see also the Corporate Sustainability section).

Our Gift Matching programme – employee donations are topped up by the Bank – support social concerns. In 2011, over 1,500 employees donated about €140,000. The UniCredit Foundation increased these donations by 100% and distributed them to selected non-profit organisations.

Sophisticated education and development prospects

For many years and regardless of the economic situation, HVB has been investing in the training and development of talented junior staff. Apprentices made up 6.3% of the workforce in the year under review. In addition to dual-track vocational training, we offer university graduates challenging development prospects under our trainee programme; we roughly matched the proportion of 1% for new graduates in the workforce achieved in 2010.

Our Talent Centre is responsible for recruiting, developing and overseeing promising junior staff. HVB has a comprehensive talent management programme aimed at developing talented specialists and managers in various phases of their career. Our recruiting measures include a target university concept: graduates from international universities are specifically targeted through seminars and presentations at job fairs and informed about career prospects at HVB. Furthermore, the Talent Centre offers an international internship programme with personal mentoring for advanced students. We now also use social media to establish contact with young target groups. For instance, we are represented on Facebook by the HVB First Contact fan page. In addition, the Hypo-Bank Stiftungsfonds promotes junior academic staff in banking management.

We run sophisticated continuing education and development programmes to support our employees across different skill levels and age groups. This applies particularly to young people:

- Our JUMP! junior management programme aimed at young professionals offers a wide range of events, networking and mentoring offerings to participants.
- In addition, HVB fosters contact with its apprentices through the First Steps project. In 2011, the top management invited all 850 apprentices from the 2008–2010 intake to a discussion event which focused on issues such as improving the quality of training.
- UniCredit's UniQuest programme serves to further the careers of talented junior staff by giving them the chance to prepare for demanding tasks within UniCredit by participating in international projects.
- We promote the mobility of our people both within HVB and throughout the corporate group. Thus, the Young Bankers Go Europe programme gives apprentices the chance to work at other UniCredit companies for a set period of time.
- The JuniorTalents programme targets young employees with a specialist career path in order to further their personal and methodical expertise and to specifically promote them in their specific career.

Human Resources (Continued)

The UniFuture leadership development programme is designed for managers who demonstrate the potential to join UniCredit's leadership team. Added to this are processes serving to appraise potential and performance, like the Executive Development Plan and the Talent Management Review. Moreover, there is also a wide range of development instruments for managers in each of HVB's divisions. The spectrum of instruments includes change management and leadership skills training.

The annual performance review is the focal point of our staff development strategy. Employees discuss their personal performance and future prospects with their supervisors, with the outcome forming the basis for any continuing professional development activities to be undertaken. The Global Job Model was introduced in the year under review. This is a grading of all positions (banding) which is valid throughout the corporate group. The model makes it easier to compare individual positions and also increases the mobility of employees. From 2012, the banding will serve to identify those individuals targeted by the HR development programmes and specifically highlight their development opportunities.

Benefiting from diversity and exploiting potential

Diversity – which is synonymous with respecting and promoting variety – is one of the fundamental values of UniCredit. Promoting gender diversity is one of the top priorities for both UniCredit and HVB. This means intensively promoting the specific potential of talented women and integrating them into management. There is still need for action especially at HVB in this regard. We have set ourselves the ambitious goal of filling 20% of the top 100 and the top 400 management positions with women by 2012. The progress made will be discussed each quarter at the meetings of the Management Board.

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

– At least one woman must always be nominated in the selection procedure when management positions are being filled. In addition, we are endeavouring to reach a rate of at least 40% of female trainees.
– The UniCredit Women's International Network (UWIN) fosters the professional development of women in positions of leadership through workshops, seminars and forums where participants can exchange views. Around 100 managers now belong to the network.
– The Bank continued its mentoring programme in 2011; female managers (mentees) were given guidance by mentors from the top management and supported through a tailored range of seminars. Furthermore, regular meetings and round tables took place with the top management.
– With 13 other companies, HVB belongs to the initial signatories of the Münchner Memorandum für Frauen in Führung, the Munich memorandum for women in management, which aims to increase the number of women in management positions.

In 2009, HVB became the first bank in Germany to set up a Women's Council. This committee comprises 30 top-class female entrepreneurs and managers (see also the list of members in the chapter "Women's Council" in this Annual Report). The goals of the Women's Council include promoting female managers and generating ideas for the Management Board of HVB. The council's members act as mentors for female managers in their career. Furthermore, the council organised an internal competition of ideas "2020 – 10 Minutes for the Bank" in order to mobilise the expertise of employees.

Outlook: enhancing efficiency and boosting performance

In 2012, we will continue to implement the measures we have initiated to optimise cost. On the one hand, our goals are to further reduce payroll costs, and on the other to increase operational efficiency by transferring personnel and pooling related tasks. In the process, we aim to fulfil regulatory requirements by acquiring highly skilled specialists for departments such as Compliance and Internal Audit. The Recruiting Task Force set up in July 2011 will take on this challenging task.

Our other priorities include implementing and expanding the Global Job Model. In doing so, we will promote the mobility of our employees both within HVB and throughout the corporate group. In addition, we will roll out a global performance management tool which will replace the previous evaluation instrument, the annual performance review. Furthermore, we intend to support the social commitment of our employees by projects such as the "rest cent" initiative. Employees donate the cent amounts of their net salaries; the proceeds will go to projects for children and young people.

Corporate Sustainability

Retaining credibility in a challenging environment
2011 was a year enveloped in deep mistrust towards the financial industry. Banks are expected to carry out their role as mediators in the economic system with integrity and calculate the social and ecological consequences of their commercial activities.

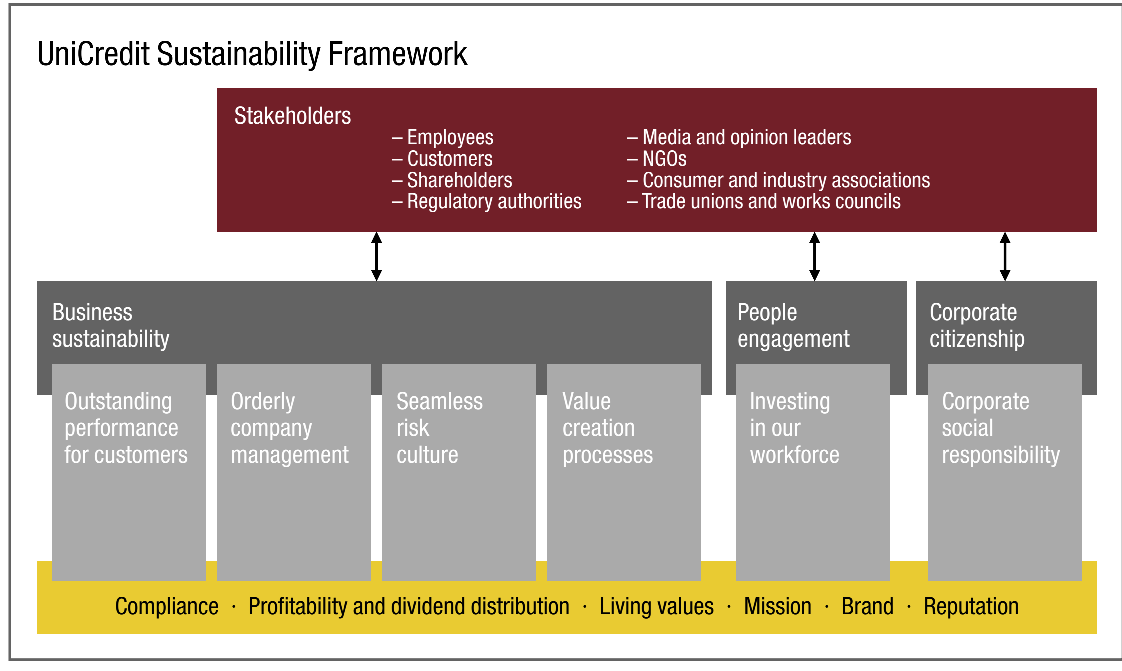
UniCredit Bank AG (HVB) can depend upon a good reputation that it has built up with the aid of its consistent, multi-award-winning sustainability management. Many years ago, we integrated the principles of corporate sustainability in our business strategy and made long-term value creation a corporate objective. This is driven by the conviction that companies can only be successful in the long run if they operate responsibly and take account of the justified expectations of their stakeholders in their core business.

Within the financial world, HVB plays a leading role in terms of sustainable business operation thanks to its consistent strategic orientation. Alongside our strong core capital ratio and high level of customer satisfaction we have enjoyed for years, this is also affirmed by numerous awards and good rating results: the sustainability rating agency oekom research AG has given HVB its "Prime" designation for ten years in a row. HVB's parent company, UniCredit, is listed in the DJSI and FTSE4Good, the leading international sustainability indexes.

Industry leader in sustainability rating
Rating agency oekom research AG is one of the world's leading assessment bodies for sustainability. Its corporate ratings evaluate the performance of companies from over 45 industries and more than 50 countries. In February 2012, oekom published the industry report for the financial sector and analysed the sustainability performance of 73 international commercial banks. The assessment criteria included customer and product responsibility, ecological and social standards, and the treatment of employees. HVB was again awarded first place in the rating of commercial banks, which makes it the industry leader in the area of sustainability.

UniCredit's Sustainability Framework
Our understanding of responsible company management is wide-ranging and based on UniCredit's Sustainability Framework.

Alongside a good reputation, our long-term success is built upon a firm foundation of various programmes to ensure compliance with the statutory and regulatory provisions and a values-based corporate culture. The Integrity Charter, which is applicable throughout the corporate group, acts as the yardstick for the behaviour of all employees across every hierarchical level. We communicate the values it encompasses – fairness, transparency, respect, reciprocity, freedom and trust – to our staff during workshops.



Corporate Sustainability (Continued)

Our identity as a bank is summarised in the Mission Statement of UniCredit. It expresses the high expectations which we aim to achieve and defines sustainability as part of our core business.

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.

The Corporate Sustainability department has organisational responsibility for sustainability management at HVB. We use key performance indicators (KPIs) to track our ecological and social performance and a raft of measures to improve the results. More detailed information will be included in our 2011 Sustainability Profile to be published in July 2012 (please refer to the Financial Calendar in this report for ordering information).

Stakeholder expectations to guide our activities

We have been identifying the expectations of our stakeholders as part of a comprehensive reputation assessment since 2009. Again in 2011, we joined forces with UniCredit to systematically survey our employees, the Works Council, customers from all the divisions, opinion leaders from business, the media, politics and society, and representatives of environmental and human rights organisations. The objective is to gain an impression of our reputation and the factors determining our reputation. The survey showed that we are judged, among other things, by our activity in the fields of transparency and governance, sustainability-oriented products and corporate citizenship. We used this as the basis for drawing up action plans to be executed in conjunction with the divisions.

Transparency and governance: basis for a good reputation

Besides the applicable legislation, HVB also complies with principles that it has set for itself. Our Code of Conduct and our Compliance Guidelines define clear rules for dealing with conflicts of interest, prevention of corruption and money laundering, and correct behaviour towards competitors. Any employee who believes the principles have been violated can raise the matter with an ombudsman in full confidentiality.

We employ a comprehensive risk management system to manage and monitor economic risks. In our lending activities, there is a requirement that no business be conducted that self-evidently damages the Bank's reputation. Among other things, decisions are based on the ecological and social standards of the World Bank and the Equator Principles, a banking industry initiative for which HVB was a founding member. Special industry sector policies additionally help our employees with decision-making in sensitive areas like the armaments and defence industry and exclude certain transactions.

Personal responsibility is a fundamental principle at HVB. Every employee is expected to play their part in burnishing the Bank's reputation and avoiding risks. It is not always possible to deal with potential reputational risk using the existing rules. This may be the case with the movement of goods, the handling of documentary transactions involving customers in politically instable countries or services for customer from sensitive sectors. In such instances, employees can turn to our Corporate Sustainability department, which will analyse the transaction and forward the case to the Reputational Risk Council (RRC) together with its assessment. This committee, comprising the Chief Risk Officer and the sales executive of the unit in question, decides upon the transaction in line with the risk it entails. It consults corporate management where there is a specific need to do so. In 2011, the RRC decided upon 177 transactions involving a potential reputational risk.

Climate protection driven by responsibility and commercial interest

For HVB, climate protection is an ethical obligation and a line of business at the same time. As a result of this, we contribute to ecologically sustainable development at different levels: through energy-efficient banking operations, as a member of various industry initiatives, through sustainable financial products and services like the financing of renewable energy, and by sensitising our customers to climate protection.

We manage climate and resource protection within the Bank by means of an in-house environmental management system, which has been successfully recertified since 2006. HVB obtains its electricity solely from renewable sources, and we offset heating energy with deactivated carbon certificates, with a view to running all our buildings in a way that is climate neutral. With the opening of a new branch in Lübeck, we started low-resource operation of a green building during 2011. We are looking to convert our tower and future corporate headquarters in Munich's Arabellapark to the same basis in the coming years.

In 2010, HVB already met the climate goal defined by UniCredit of reducing in-house carbon emissions by 30 percent throughout the corporate group by 2020. We have implemented 80 percent of our next project of making our entire banking operations climate neutral. An important role in this is played by our internal guidelines for procurement, the organisation of events and the climate-neutral mailing of letters and packages. And we are making business travel by train climate neutral by means of an appropriate agreement with Deutsche Bahn. HVB won the Green Fleet Award in 2011 for converting its vehicle fleet to small, fuel-efficient vehicles. A cooperation project with South Pole Carbon Asset Management, a prestigious developer of climate protection projects, gives our employees the chance to calculate and offset their private carbon footprint on the intranet.

HVB is involved in numerous initiatives relating to climate protection as a social objective. As an active member of the Association for Environmental Management and Sustainability in Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e. V. – VfU), we were actively involved in drawing up the biodiversity principles for the financial sector published in 2011, which are indirectly related to climate protection activities. We cooperate with other German financial service providers and the German Federal Ministry of Education and Research in the Finanzforum: Klimawandel. At a regional level, we have joined with representatives of business, science, politics and society in the Munich for Climate Protection Alliance. Through UniCredit, we participate in the Carbon Disclosure Project, which aims to publicise the climate risks of large companies. UniCredit is also one of the initial signatories of the Declaration on Climate Change of the United Nations Environment Programme Finance Initiative (UNEP-FI) published in 2007. Under this, we have undertaken to reduce our carbon footprint and report on the results at regular intervals.

HVB achieves the greatest impact in terms of sparing the climate and resources with its product portfolio. We provide our customers with one of the broadest offerings of sustainable investments in Germany. It covers all investment needs and volumes by means of individual or standardised mandates in asset management and investment funds or pension products, among other things. Furthermore, we offer various investment products enabling our customers to participate in the European Union's emissions trading scheme that employs a market approach to limit emissions of greenhouse gases.

We also help our retail, business and corporate customers to identify energy-saving potential in their business premises or business activities. We assist them with the planning of appropriate measures and finance for direct implementation or with the aid of public subsidy programmes. In this activity, we cooperate with experienced partners like the internet platform co2-online and KfW Mittelstandsbank. With the Green Building study we published in 2011, we provide our customers with a coherent introduction to energy-optimised construction.

Corporate Sustainability (Continued)

CSR as a part of corporate strategy

HVB has formulated its long-standing commitment to society in a corporate citizenship strategy. The full range of our activities in the social sphere are shown in relation to our core business, with the divisions and workforce alike integrated in the concept. Also covered are instruments like our Gift Matching and Employee Volunteering programmes. More than 1,500 HVB employees took part in our annual Gift Matching campaign in the autumn of 2011, together donating more than €140,000 for charitable organisations. Our request for donations for victims of the drought in eastern Africa yielded a total of around €80,000; the charitable UniCredit Foundation added an amount equal to the donations made by the staff. HVB supported the voluntary work carried out by its employees in 2011 by granting a total of 305 days of special leave and making donations totalling €97,450 for the social establishments in which they serve as volunteers.

HVB continues to promote donations and beacon projects in the fields of social welfare, financial education, the environment and culture. The measures we fund are geared towards young people, the socially disadvantaged and institutions with a multiplier effect. They generally have unique features and create value for our customers as well. The reputation of our not-for-profit partners is an important factor for us. When implementing charitable projects, we cooperate closely with the UniCredit Foundation, which operates primarily in the social sector.

Beacon project "Integration through football"

Together with the UniCredit Foundation, HVB has been funding buntkicktgut since 2009. This multi-award-winning project runs a street football league in Munich with over 1,000 young people, mainly with migrant backgrounds. While playing street football, they learn how to resolve conflicts amicably and to respect rules. HVB and the UniCredit Foundation are supporting the integration project with an annual donation of €95,000, helping it to set up a new age group for its league and run an annual international street football tournament on Munich's Königsplatz for some 500 players.

HVB has decided to expand its successful work with young people with migrant backgrounds to create a beacon project known as "Integration through football". The idea is to spread the concept of street football throughout Germany by means of events and communication campaigns. To do this, we are developing a social media platform in 2012 that provides ways for street footballers in German-speaking countries to get involved.

Social responsibility with a clear commitment to the community

HVB discharges its corporate social responsibility especially in the communities in which it lives: by running projects like the annual UniCredit Festival Night with around 18,000 visitors – a free event at the start of the Munich Opera Festival – and being an active member of numerous organisations and initiatives like the Munich-based BenE – Bildung für nachhaltige Entwicklung e.V. association promoting education for sustainable development, the Münchner Forum Nachhaltigkeit promoting sustainability and the München für Klimaschutz-Club promoting climate protection.

In 2011, we started to pool the activities at our various locations in an umbrella programme known as “Wir für die Region”. The objective is to burnish our reputation in the area and to encourage our employees to identify with the Bank. The programme is based on a project launched by employees in our Nuremberg branch, linking the sale of special design ec cards with donations and employee volunteering. In Nuremberg, two euros from the proceeds on every card sold goes to Lebenshilfe, a local city-wide charity, where HVB employees can also do voluntary work with the handicapped during their spare time. In 2011, 352 HVB employees in Nuremberg from across all divisions did a total of more than a thousand hours of voluntary work for Lebenshilfe. Nearly 60 further HVB branches now collaborate with social organisations in their community along the same lines.

Some 84 branches participated in our annual Christmas package project last year, helping to make dreams of more than 3,500 socially disadvantaged children come true.

Outlook: focus on business sustainability

As a responsible bank, we aim to operate sustainably again in 2012. Our reputation management is a key element in our efforts to realise this objective. The focus here is on creating awareness and implementing special measures. Moving forward, we intend to put more emphasis on the concept of business sustainability – integrating sustainability in the business model. In terms of climate protection, we aim to provide industry in general, and our corporate customers in particularly, with competent advice as they turn from fossil to renewable fuels. By financing energy-efficient future technologies, we are also tapping important business potential. We will make our responsibility towards our customers more visible and portray the resources we are deploying to support them. We will strengthen the dialogue with our stakeholders during 2012, notably with the relevant NGOs and consumer protection organisations.

We aim to extend our social commitment in the communities during 2012. Newly devised programmes enable our employees to act as mentors to disadvantaged young people or donate the cent amount in their monthly net salary to a charitable organisation. We are expanding our activities in the field of financial education by running our financial workshops throughout Germany and maintaining our new financial education portal www.euro.de.

New financial education portal on the internet

At the start of 2012, we rolled out a financial education portal known as euro.de. The site is intended to impart basic knowledge about various parts of the financial world to young people and interested adults alike. The educational work this performs represents an important part of our commitment to society at large. The move aims to meet the needs of our customers for factual information and create confidence.

The portal answers the most important questions that visitors have about their own financial position in a way that is readily comprehensible. Users can pick up relevant specialist information in the sections on paying, investing, saving, loans and property. The financial world section provides them with insights into things like business policy correlations and the stock exchange. Clicking on an interactive financial world map takes users on a journey through the fascinating world of finance. HVB similarly conveys fundamental financial knowledge on topics like investment, pensions and property finance to customers and non-customers alike at regional level. The free workshops are intended to improve general understanding of financial issues among the public at large.

Helping homeowners save energy. And money.

Heating homes is a major factor of energy consumption. Making heating efficiency is essential to energy saving. The Federal Republic of Germany has made it compulsory for all homeowners to provide buyers and tenants with energy passes, which are valid for 10 years and forecast energy costs. The passes provide homeowners access to specialized financial products. Thanks to the *"HVB Energieausweis service"*, customers are provided with the opportunity to secure public financing and modernize their heating reduction costs. This shows how UniCredit provides customers concrete solutions to real challenges.

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Financial Review

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 of 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.

HVB Group performed well in the particularly difficult capital market environment in the second half of 2011, even if it could not repeat the pleasing earnings growth seen in the first half of 2011. All in all, we generated a good profit before tax of €1.6 billion in HVB Group for the whole of 2011, falling slightly short of the figure reported last year by €267 million or 14.2%. Alongside a sharp decline in net trading income (down €569 million year-on-year), the profit before tax was also weighed down by additions to provisions for risks and charges of €251 million (2010: €442 million) and restructuring costs of €108 million (2010: €37 million). Despite the significant increase to €640 million in income tax for the period, the consolidated profit after tax still amounted to almost a billion euros (2010: €1.7 billion).

At €1,935 million, the net operating profit was down by €558 million on last year's figure. This sharp decline can be attributed notably to the weak net trading profit as well as expenses totalling €168 million for the bank levies[1] charged for the first time in Germany, Austria and the UK in 2011. In this context, we benefited from lower net write-downs of loans and provisions for guarantees and commitments in a persistently favourable credit environment which, at €266 million in the 2011 financial year, were significantly below the €632 million recorded one year ago. Within operating income of €5,812 million, we were unable to repeat last year's figure (€6,558 million) in the difficult market environment but at €4,223 million in net interest including dividends (down by €25 million or 0.6% compared with last year) and at €1,308 million in net fees and commissions (down €4 million or 0.3% compared with last year) we almost equalled last year's level. Despite the turmoil on the capital markets and credit value adjustments totalling €485 million, net trading income delivered a positive contribution of €190 million to operating income, even if this figure was well below the good year-ago total of €759 million (down €569 million). At the same time, net other income/expenses fell by €148 million to €91 million, notably on account of the expense of €101 million for the German bank levy that was included for the first time in 2011. Operating costs were up by 5.2% to €3,611 million, partly on account of the expenses for the bank levies in Austria and the UK. Due to the steep decline in operating income, the cost-income ratio increased to 62.1% (2010: 52.3%), although this is still a good level by both national and international standards.

All the operating divisions contributed to the good profit before tax of HVB Group. In recording a profit before tax of €1,226 million, the Corporate & Investment Banking division (CIB) failed to match its year-ago total by €158 million. At the same time, the Family & SME division (F&SME) performed very well, improving its profit before tax to €147 million thanks to higher earnings from its operating activities and lower net write-downs of loans and provisions for guarantees and commitments. Moreover, the Private Banking division (PB) achieved a profit before tax of €72 million with its contribution to the operating profit remaining stable.

HVB Group continues to have an excellent capital base. The core Tier 1 ratio in accordance with Basel II (ratio of hard core capital excluding hybrid capital instruments to the total amount of credit risks and equivalent risk-weighted assets for market risk and operational risk) amounted to 15.6% (15.9% at year-end 2010), even after the regulatory requirements concerning the determination of market risk introduced and expanded for the first time through the Capital Requirements Directive 3 (CRD3). Hence the core Tier 1 ratio is still at an excellent level by both national and international standards despite the around €17 billion increase in equivalent risk-weighted assets for market risk due to the CRD 3. The shareholders' equity shown in the balance sheet totalled €23.3 billion at year-end 2011. With total assets up by 3.7% compared with year-end 2010 to €385.5 billion, the leverage ratio (calculated as the ratio of total assets to shareholders' equity shown in the balance sheet) amounted to 16.5x at year-end 2011 after 15.7x at the end of December 2010.

1 in the 2011 financial year, the income statement of HVB Group contains expenses totalling €168 million for bank levies for the first time. The expenses of €101 million for the German bank levy are carried under net other expenses/income, while the expenses of €48 million for our Austrian activities and of €19 million for our operations in the UK are shown under other administrative expenses

Financial Review (Continued)

HVB Group enjoyed an adequate liquidity base and a solid financing structure at all times during the 2011 financial year. The funding risk remained low on account of the diversification in our products, markets and investor groups, meaning that adequate funding of our lending operations was ensured at all times. Our Pfandbriefs continued to represent an important source of funding thanks to their very good credit rating and liquidity.

With our diversified business model, high capital base, solid funding foundation and 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 Group is in a unique position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers.

We would like to expressly thank our employees at this point. Their willingness to embrace change and at the same time to help secure our commercial success forms the basis for our good performance. We also thank the employee representatives for their constructive cooperation in spite of the difficult issues. This gives all of us the confidence we need to master the challenges of the future.

Operating performance of HVB Group

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

Net interest

At €4,073 million, net interest almost matched last year's figure in the 2011 financial year (down €27 million or 0.7%).

It was basically very difficult to achieve adequate interest margins in the lending business on account of the low interest rates in the year under review, although we were able to benefit from a rise in interest margins in deposit-taking operations. Moreover, the lower net interest from the investment banking activities of the Corporate & Investment Banking division was partially compensated by special effects generated in the Multinational Corporates unit.

Dividends and other income from equity investments

There was a slight increase of €2 million, to €150 million, in income generated from dividends and other income from equity investments, which is mainly due to higher dividends paid by private equity funds.

Net fees and commissions

At €1,308 million, net fees and commissions were almost at last year's level (down 0.3% compared to 2010). This figure contains an increase in fee and commission income from lending operations (up €61 million to €464 million) and contributions to earnings from other service operations (up €21 million to €18 million), while there was a slight decline in fee and commission income from management, brokerage and consultancy services, particularly on account of investors' restraint in connection with the difficult financial market environment (down €83 million to €649 million) and income from payment services was slightly down (down €3 million to €177 million).

Net trading income

In spite of the difficult market conditions in the second half of 2011, HVB Group generated net trading income of €190 million for the whole year. Net trading income was depressed notably by credit value adjustments totalling €485 million (2010: €169 million) made necessary by the market changes in the credit spreads. By contrast, the Rates and FX (interest- and currency-related products) and Equities (equity and index products, certificates) units as well as credit-related operations generated positive contributions to profits.

Net trading income was, however, €569 million down on last year's strong figure of €759 million. This decline was due to the exceptionally difficult market conditions in the Rates & FX units and in credit market-related operations, particularly in the second half of 2011, as well as the credit value adjustments. In addition, lower other net trading income compared with last year contributed to the decline as the profit generated in the previous year from the buy-back of hybrid capital did not recur in 2011. In contrast there was a slight year-on-year increase in the profit posted by the Equities unit in an environment of high market volatility.

Net other expenses/income

Net other expenses/income declined by €148 million to €91 million in the year under review compared with last year, primarily on account of the expenses for the bank levy of €101 million imposed for the first time in Germany in 2011.

Operating costs

Operating costs rose by €178 million, or 5.2%, to €3,611 million in the year under review compared with last year. In the process, payroll costs rose by 3.6% to €1,819 million partly on account of an increase in expenses for pensions and other administrative expenses by 9.2%, to €1,593 million, while amortisation, depreciation and impairment losses on intangible and tangible assets fell by 8.7% to €199 million. The increase of €134 million in other operating costs can be attributed in part to the bank levy for Austria (€48 million) and the UK (€19 million) included for the first time in 2011. There was also a rise in IT expenses to ensure that we are equipped for the continual increase in statutory and regulatory requirements.

Overall, the expenses of companies included in the scope of consolidation for the first time have also resulted in an increase in total operating costs. Adjusted for currency and consolidation effects and for the expenses for the bank levy, total operating costs rose by only 2.3%.

Operating profit (before net write-downs of loans and provisions for guarantees and commitments)

Operating profit declined by 29.6%, or €924 million, to €2,201 million in the year under review, partly as a result of the charges contained in this figure from the expenses for the bank levies to be paid in Germany, Austria and the UK (whole of 2011: €168 million) as well as the fall in net trading income. The cost-income ratio (ratio of operating expenses to operating income) amounted to 62.1% for 2011 after 52.3% in the previous year and is thus still at a very good level despite the decline in operating income.

Net write-downs of loans and provisions for guarantees and commitments and net operating profit

In the year under review, net write-downs of loans and provisions for guarantees and commitments had significantly improved in a much healthier lending environment than last year and at €266 million were significantly lower than the provisioning requirements of the same period last year (€632 million). Within this amount, additions of €1,625 million are largely offset by releases and recoveries from write-offs of loans and receivables of €1,359 million. The largest individual item in the additions relates to a loan exposure totalling €297 million in connection with the construction of an offshore wind farm.

All the divisions were able to benefit from the favourable development overall in net write-downs of loans and provisions for guarantees and commitments, particularly the CIB division (decline of €187 million compared with last year) and F&SME division (decline of €52 million compared with last year) and the other/consolidation segment which posts a net reversal of €81 million (2010: net addition of €45 million). In spite of the positive development of net write-downs of loans and provisions for guarantees and commitments, the net operating profit fell by €558 million, or 22.4%, to €1,935 million as a result of the charges relating to bank levies.

Provisions for risks and charges

In the 2011 financial year, additions to provisions for risks and charges totalled €251 million after €442 million last year. The largest part of the additions to provisions related to various litigation risks in the year under review, which are described in the Risk Report of the Management's Discussion and Analysis under the operational risk section. The largest individual item included last year resulted from an obligation in connection with the completion of an offshore wind farm.

Restructuring costs

In the year under review, we set up provisions of €108 million for restructuring costs partly in connection with staff cutbacks. This figure also includes restructuring costs relating to changes in the strategic orientation of the CIB division, notably the abandonment of the cash-equities operations for Western Europe and equity research as well as a cost optimisation programme in the divisions' central Corporate Center functions and selected competence lines.

Net income from investments

In 2011, net income from investments amounted to €39 million after a loss of €132 million in the previous year. In the reporting period, net income from investments mainly results from gains of €147 million on disposal which were largely generated with available-for-sale financial instruments (€112 million). This figure also includes a gain totalling €45 million generated in the second quarter of 2011 from the partial sale of our shareholdings in UniCredit Global Information Services and UniCredit Business Partners to UniCredit S.p.A.

Financial Review (Continued)

At the same time, expenses for write-downs and value adjustments totalling €108 million relate to available-for-sale financial assets of €74 million and investment properties of €34 million. Last year's figure primarily consisted of valuation expenses for investment properties.

Profit before tax, income tax for the period and consolidated profit

In the 2011 financial year, HVB Group generated a good profit before tax of €1,615 million in spite of the difficult market conditions in the second half of the year, down on the year-ago figure by 14.2% or €267 million.

Income tax amounted to €640 million in the year under review. In 2010, value adjustments of deferred tax assets had had a favourable effect on the tax loss carryforwards of HVB Group within the previous year's income tax of €154 million.

After deducting income tax (€640 million) and impairment on goodwill (€4 million), HVB Group generated a consolidated profit of €971 million at year-end 2011 (2010: €1,728 million).

Appropriation of net income

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €1,017 million. We will propose to the Annual General Meeting of Shareholders 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 after €1.58 last year. Last year, the profit disclosed in the annual financial statements of UniCredit Bank AG totalled €1,270 million. This was paid to UniCredit in accordance with the resolution passed by the Annual General Meeting of Shareholders on 18 May 2011.

Segment results by division

The divisions contributed the following amounts to the good profit before tax of €1,615 million of HVB Group:

Corporate & Investment Banking	€1,226 million
Family & SME	€147 million
Private Banking	€72 million
Other/consolidation	€170 million

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

We have described the change in tasks of the segments compared with last year, in particular the reclassification of customers between the CIB and F&SME divisions due to the implementation of the One for Clients programme (One4C) in Note 27 "Notes to segment reporting by division". The quarterly figures for the previous periods have been adjusted accordingly.

Financial situation

Total assets

The total assets of HVB Group amounted to €385.5 billion at year-end 2011, representing an increase of €13.6 billion, or 3.7%, compared with the end of 2010.

On the assets side, there was an increase of €15.7 billion, to €149.1 billion (up 11.7%), compared with year-end 2010 particularly in the financial assets held for trading, due primarily to a €30.5 billion increase to €119.0 billion in the positive fair values from derivative financial instruments, reflecting the significant change in market conditions. This increase was generated mainly with interest swaps and is essentially due to the change in the yield curves applied for

valuation. By contrast, the fixed-income securities, equity instruments and other assets held for trading contained within the balance sheet item assets held for trading purposes fell by a total of €14.8 billion. Loans and receivables with customers fell by €2.8 billion, to €136.6 billion, compared with year-end 2010. This decline is attributable to lower volumes of mortgage loans, the reduction of reclassified securities, the decrease in impaired assets and lower other loans and receivables. There was a €2.1 billion decline in loans and receivables with banks to €44.3 billion as a result of the significant decline in repurchase agreements and the lower holdings of reclassified securities while bonds increased. Hedging derivatives rose year-on-year by €1.1 billion to €5.3 billion.

On the liabilities side, the financial liabilities held for trading rose by €13.7 billion, to €140.8 billion, compared with year-end 2010. In the process, the negative fair values from derivative financial instruments rose as a result of market conditions by €30.0 billion in line with the items on the assets side while repurchase agreements fell by €10.3 billion. In addition, debt securities decreased by €6.0 billion, to €42.7 billion, on account of issues due and deposits from customers by €1.1 billion, to €107.4 billion. Within deposits from customers, there was a decrease particularly in other liabilities due to a decline in time deposits, savings deposits and repurchase agreements (reverse repos). Deposits from banks rose by €6.0 billion, to €57.9 billion, primarily as a result of a substantial increase in volumes of reverse repos while time deposits declined. As a result of the transfer of liabilities under the sale of parts of the private banking business of UniCredit Luxembourg S.A. to DZ Privatbank S.A. at the beginning of the year, there was a decline of €0.6 billion in the balance sheet item “Liabilities of disposal groups held for sale”.

At €23.3 billion, shareholders’ equity had declined by €352 million, or 1.5%, compared with year-end 2010. Alongside lower other reserves (down €96 million), this can be attributed to the profit of 2010 available for distribution (€1,270 million) disbursed in the second quarter of 2011 that could not be fully offset by the consolidated profit of €1,017 million generated in the 2011 financial year.

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

The total risk-weighted assets, including market risk and operational risk, amounted to €127.4 billion at 31 December 2011 (31 December 2010: €124.5 billion). The total risk-weighted assets of HVB Group increased by €2.9 billion compared with year-end 2010. This rise is attributable to the decline of €19.4 billion in risk-weighted assets for credit risk while there was an increase of €20.1 billion in risk-weighted assets for market risk and of €2.2 billion for operational risk. The risk-weighted assets for credit risks of HVB Group determined on the basis of Basel II (German Banking Act/Solvency Regulation – KWG/SolvV) by applying partial use amounted to €92.4 billion at 31 December 2011 (including counterparty default risk in the trading book). At 31 December 2010, these risk-weighted assets amounted to €111.8 billion.

The reduction of €19.4 billion in risk-weighted assets for credit risk is chiefly attributable to a significant decline of €6.9 billion in risk-weighted assets at UniCredit Luxembourg S.A. (notably on account of changing the method applied from the standard approach to partial use) and a decline of €12.4 billion in credit risk-weighted assets in the banking book of UniCredit Bank AG.

The risk-weighted asset equivalents for operational risk rose by €2.2 billion mainly in the first quarter of 2011. We refer to the description in the Risk Report (operational risk section) for an explanation of the measurement methods for operational risk.

The significant increase of €20.1 billion in risk-weighted assets for market risk is predominantly due to the regulatory requirements introduced or expanded on 31 December 2011 within the framework of the “CRD3” regarding the determination of market risk.

Financial Review (Continued)

The total lending volume of all the current securitisation transactions of HVB Group serving to reduce risk-weighted assets amounted to €5.1 billion at 31 December 2011 compliant with Basel II (31 December 2010: €12.0 billion). We have therefore reduced our risk-weighted assets by €2.2 billion gross and have optimised our capital allocation by doing so. The decline compared with year-end 2010 is mainly due to the expiry of the Provide A 2005 securitisation transaction. Moreover, the Building Comfort 2008 and Provide A 2006 transactions are no longer providing any relief.

At 31 December 2011, the core capital of HVB Group compliant with the German Banking Act totalled €20.6 billion (year-end 2010: €20.6 billion) and the equity capital €23.4 billion (31 December 2010: €23.7 billion). The core Tier 1 ratio (ratio of core capital excluding hybrid capital instruments to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) amounted to 15.6% at 31 December 2011 (31 December 2010: 15.9%). Under Basel II, the core capital ratio (Tier 1 ratio; including market risk and operational risk) fell to 16.2% (31 December 2010: 16.6%). The equity funds ratio was 18.4% at the end of December 2011 (31 December 2010: 19.1%).

A bank's liquidity is evaluated using the liquidity ratio defined in the German Banking Act/German Liquidity Regulation (KWG/LiqV). 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 1.17 at the end of September 2011 and 1.41 at year-end 2010.

Corporate acquisitions and sales

On 13 May 2011 we sold all but a small residual stock of our shares in UniCredit Global Information Services (UGIS) to UniCredit S.p.A. Upon the sale of our shares (previous shareholding of 24.7%), UGIS, which was consolidated at equity, was deconsolidated.

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

Corporate structure

Legal corporate structure

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

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.

Organisation of management and control and internal management

The Management Board of HVB is the management body of HVB Group. It is directly responsible for managing the Bank. It develops the strategic orientation of the company and is responsible for its implementation. The Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning and strategic development, the course of business and the state of HVB Group, including the risk situation

as well as compliance issues. Matters reserved for the Management Board and the respective segment responsibilities 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 consolidated financial statements under Note 90, "Members of the Supervisory Board", and Note 91, "Members of the Management Board".

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

Main products, sales markets, competitive position and facilities

HVB 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 Group has a well-developed network of branches in Germany via which it serves its customers. Because of its past, the Bank is particularly strong in Bavaria as well as in Hamburg and the surroundings.

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

HVB Group 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.

Financial Review (Continued)

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 Group 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 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 Group 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 Group 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 Group has succeeded in expanding its position among the leading private-banking players in Germany.

HVB Group is part of an international banking group which offers its financial services on the European market in particular. This 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 Group by region is shown in Note 88 "Offices" in the notes to the consolidated financial statements.

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

Management's Discussion and Analysis and the rest of the Annual Report include statements, expectations and forecasts concerning the future. These statements are based on plans and estimates that are supported by information available to us at the present time. We assume no obligation to update these statements in the light of new information or future events. Known or unknown risks and uncertainties may be entailed in forward-looking statements, and the actual results and developments may thus differ significantly from

Financial Review (Continued)

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 impact of the haircut

applied to Greek sovereign bonds. Generally, the situation on the financial markets will remain very unstable in spite of 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 Group

In the assumptions of its detailed planning for the 2012 financial year, HVB Group presumes that operating income will improve slightly in a persistently difficult environment compared with the year under review. This increase will be driven primarily by improved net trading income, which was depressed in 2011 by credit value adjustments, while net interest is expected to decline. There will be a slight decrease in operating costs over last year as a result of our strict cost management. The net write-downs of loans and provisions for guarantees and commitments, which were at a very low level on account of the favourable credit environment in 2011, are expected to normalise in the 2012 financial year and thus increase to what is still a moderate level compared with the previous year. All in all, we expect the profit before tax to improve slightly compared with the good figure recorded in 2011 to return to a good level.

The expectations concerning the performance of HVB Group for the 2013 financial year are derived from the multi-year plan. Provided that the underlying economic conditions develop favourably both in Germany and worldwide and there is no sharp economic downturn, we assume that HVB Group will develop favourably and operating income will rise, particularly due to net trading income while operating costs decline slightly.

The trends in results of HVB Group in 2012 and 2013 are as follows for the individual operating divisions:

HVB Group's performance in the 2012 financial year will again crucially depend on the operating performance of the Corporate & Investment Banking division, in particular the earnings and the net write-downs of loans and provisions for guarantees and commitments. For 2012, we expect slightly higher operating income and a stable development of operating costs. For 2013 we proceed on the assumption that the performance of the division's operations will be favourable. At the same time, there will be a significant increase in operating income and a slight decline in operating costs.

In the Family & SME division, we expect a moderate rise in operating costs in the 2012 financial year which should be more than offset by a stronger increase in operating income. The Private Banking division will also succeed in improving its operating income in 2012 while operating costs will be kept at the previous year's level. We believe that both divisions will perform well on the operating side also in 2013.

Financial Review (Continued)

It remains unclear whether the financial markets will continue to be affected in view of the unresolved debt crisis in some European countries in particular and by risks arising from changes in interest and exchange rates. Consequently, our performance also in the 2012 and 2013 financial years will depend on the further development of the financial markets and real economy as well as on other imponderables that still exist. In this environment, HVB Group will continually adapt its business strategy to reflect changes in market conditions and carefully review the management stimulus derived from this on a regular basis. With its strategic orientation and excellent capital resources, HVB Group is in a good overall position to effectively exploit the opportunities that may arise from the new operating environment, the further volatility that can still be expected on the financial markets and an expanding real economy.

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

HVB Group 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 Group operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Moreover, Germany is one of the few countries worldwide that continues to have a financial rating of AAA. Hence, HVB Group, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers. With its well-balanced business model focusing on sustainability and its excellent capital base, HVB Group stands for reliability, stability and safety. This results in the opportunities and risks described below:

– The bolstering of Corporate & Investment Bwanking 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 fluctuating margins in fair values in difficult market situations.
– The Family & SME division is an essential part of HVB Group'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 Group 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 Group.
- HVB Group 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 crisis 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 Group 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 Group 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 Group has opportunities of winning highly qualified employees and managers as an attractive employer. Both the size of UniCredit and the strategic positioning of HVB Group have a beneficial impact on the recruitment of managers and employees. Supporting female managers at junior level is an explicit part of the strategy.

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

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

Risk Report

HVB Group as a risk-taking entity

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 Group. 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 Group

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 Group 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 the HVB Group 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) unless previously taken by the head of Strategic Risk Management
– 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 and sets guidelines for HVB Group.

The committee pursues the following key goals:
– establishment of uniform asset/liability management methods for HVB Group
– optimum utilisation of 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 Group 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 Group, 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 both HVB Group and 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 Group 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 Group. 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 Group'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 Group (HVB, UniCredit Luxembourg, DAB, Bankhaus Neelmeyer and UC Leasing). 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 HVB Group's return targets.

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

The requested audits at the subsidiaries are carried out on the basis of service agreements or special audit assignments. The following variants exist:
- Support for the subsidiary's Audit Management department in specific areas such as IT, HR and risk management or for economic considerations on behalf of and as discussed with the local management, mainly by assuming parts of the Audit Management function.
- Complete assumption of the Audit Management function under the terms of an outsourcing agreement.

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

The Management Board determines the extent and orientation of the ICS and RMS specifically geared to the Bank under its own responsibility, taking measures 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 and consolidated 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.

Risk Report (Continued)

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 and consolidated financial statements, the Supervisory Board is responsible for approving the annual financial statements and adopting the consolidated 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 meeting devoted to the annual financial statements, the independent auditor reports on the material findings of the audit of the annual and consolidated 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 and consolidated 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 and consolidated financial statements the Management Report and Management's Discussion and Analysis, and whether it approves the annual and consolidated 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 Group" 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). In addition, the auditors were mandated to audit the Bank's consolidated financial statements and Management's Discussion and Analysis prepared in accordance with International Financial Reporting Standards (IFRS). 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, and prepares the consolidated financial statements. Moreover, it is in charge of management reporting in accordance with IFRS and preparing external reporting in the annual reports of both HVB and HVB Group. 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** 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. Moreover, CFC prepares and validates the segment report prepared in accordance with IFRS that is published externally.

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 Controlling 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 compliant with

Risk Report (Continued)

IFRS 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 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 pursuant to the German Commercial Code and portfolio allowances pursuant to IFRS accounting rules 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.

Risk Report (Continued)

Continuous updates of the ICS and RMS

The new EuroSIG IT platform was introduced in 2010 and used to prepare the 2010 annual and consolidated 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, consolidated and interim 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.

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.

Consolidated financial statements in accordance with IFRS

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

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

The figures for the consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system marketed by Tagetik Software S.R.L. This is used across the entire corporate group and networked across all Group companies. After the figures have been entered in or transferred to this system by the Group companies, the system is closed for further entries in line with the phases of the consolidation process. These data may be changed only in exceptional cases, as agreed with the subsidiary concerned together with the local independent auditors.

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

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

Risk types and risk measurement

Relevant risk types

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

Among other things, we ensure that the HVB Group 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 Group's business units and the correlations across the risk types.

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

The cushion represents an additional component of the internal capital through which possible modelling risks are included in the assessment of economic capital adequacy as well as cyclical fluctuations in the aggregate economic capital. 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 Group.

Risk Report (Continued)

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 Group 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 Group 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 – 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).

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

Risk Report (Continued)

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 Group 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%) increase in the available financial resources. 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 Group 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.

Internal capital after portfolio effects (confidence level 99.97%)

	2011[1]		2010	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Market risk	1,278	9.7	1,714	15.1
Default risk	5,436	41.3	4,029	35.6
Business risk	734	5.6	477	4.2
Operational risk	1,262	9.6	995	8.8
Risks arising from our own real estate portfolio	329	2.5	363	3.2
Risks arising from our shareholdings/financial investments	739	5.6	784	7.0
Aggregated economic capital	**9,778**	**74.3**	**8,362**	**73.9**
Cushion[2]	3,314	25.2	2,835	25.1
Economic capital of small legal entities[3]	62	0.5	115	1.0
Internal capital of HVB Group	**13,154**	**100**	**11,312**	**100.0**
Available financial resources of HVB Group	**22,675**		**22,786**	
Risk-bearing capacity of HVB Group, in %	**172.4**		**201.4**	

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

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

	2011[2]		2010	
Broken down by division	**€ millions**	**in %**	**€ millions**	**in %**
Corporate & Investment Banking	7,136	72.5	6,957	82.1
Family & SME	1,053	10.7	486	5.7
Private Banking	216	2.2	178	2.1
Other/consolidation	1,434	14.6	856	10.1
Economic capital of HVB Group	**9,839**	**100.0**	**8,477**	**100.0**

1 sum of aggregate economic capital and economic capital from small legal entities
2 figures at 31 December 2011 taking into account the refinements in methodology

Risk Report (Continued)

Risk strategy
For 2011, the Management Board approved a risk strategy for HVB Group based on the business strategy together with all relevant risk types and the internal capital. A major element of this risk strategy is maintaining HVB Group's risk-bearing capacity. HVB Group'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 Group 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 Group, 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 Group 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.

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. No limits need to be set for countries with a very good rating and that are members of the OECD. Volume limits are set for each country in the annual budget rounds. In addition, VaR limits are in place for each region at HVB Group level. They take effect in the event of risk concentrations or a significant deterioration of individual country ratings in the region. An HVB Group-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.

Risk Report (Continued)

To calculate the expected loss, the exposure at default (EaD) is estimated in the same way as stipulated by Basel II. For credit risk and country risk, this amount is equal to the line utilisation at the reporting date plus portions of the unused, externally committed credit lines.

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 Group 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 1–7 are set aside for performing loans and classes 8–10 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.

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 Group. Issuer risk is calculated for the banking book, including the reclassified portfolios. The internal default risk model is an internally devised model that fundamentally offers the advantage of methodology and parameters perfectly matching our portfolio. The IT platform used in connection with the internal default risk model makes it possible to determine the credit value-at-risk and regulatory capital requirements under Basel II in a manner consistent with the input parameters 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

Risk Report (Continued)

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 Group, 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 Group 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 Group 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 Group 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.

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.

Risk Report (Continued)

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 €1.0 billion (0.24%) in 2011 to €236.1 billion in credit, issuer and counterparty exposure.

In terms of industry sectors, exposure declined above all in banking and insurance (down by €2.7 billion) and retail customers (down by €2.2 billion). At the same time, exposure to the public sector rose by 29.7% (up by €9.8 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	50.0	52.7
Public sector	42.8	33.0
Construction	30.1	30.3
Retail customers	23.1	25.3
Food, consumer goods, services	21.3	21.4
Transport	11.8	11.8
Utilities	9.7	9.7
Other	9.7	9.5
Chemicals, health, pharmaceuticals	9.3	10.6
Mechanical engineering, steel	7.7	8.4
Automotive	6.4	7.2
Mineral oil	4.7	5.0
Electrical, ICT	4.5	4.6
Media, print, paper	3.1	3.6
Insurance	1.9	2.0
HVB Group	**236.1**	**235.1**

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.

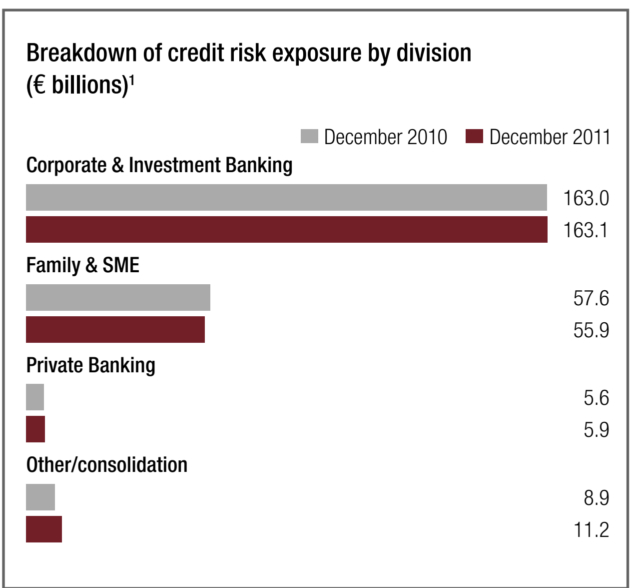
The utilities and mechanical engineering sectors include exposures relating to the completion of an offshore wind farm. HVB Group has undertaken to finance this offshore wind farm located in the North Sea, around 100 kilometres off the German coast. Risks ensued from delays to the completion of the wind 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 Group portfolio excluding the remaining exposures assigned to the former Real Estate Restructuring segment, rose by 0.4% to €236.1 billion in 2011. The exposure in the Family & SME division declined by €1.7 billion (3.0%). 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 €2.3 billion (25.8%) in the Other/consolidation segment can essentially be attributed to an increase of exposure in issuer risk arising from new business.

The proportion of credit, issuer and counterparty risk in rating classes 1 to 4 was raised by €13 billion (from 57.1% in 2010 to 62.4%) 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 €10.7 billion, while it remained stable in the rating classes 9 and 10, up just €0.1 billion.



1 without Real Estate Restructuring and intragroup transactions

Risk Report (Continued)

Breakdown of credit risk exposure by rating class[1]

Rating	2011		2010	
	€ billions	in %	€ billions	in %
Not rated	11.4	4.8	12.8	5.4
Rating classes 1–4	147.2	62.4	134.2	57.1
Rating classes 5–8	70.1	29.7	80.8	34.4
Rating classes 9–10	7.4	3.1	7.3	3.1
HVB Group	**236.1**	**100.0**	**235.1**	**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 4.3 percentage points) and the VaR (down by 9.6 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)

Breakdown by division	EXPECTED LOSS		VALUE-AT-RISK	
	2011	2010	2011	2010
Corporate & Investment Banking	611	848	4,498	3,756
Family & SME	188	209	613	364
Private Banking	10	11	39	24
Other/consolidation	69	79	740	225
HVB Group	**878**	**1,147**	**5,890**	**4,369**

1 without Real Estate Restructuring and intragroup transactions

The net write-downs of loans and provisions for guarantees and commitments recognised in the income statement by HVB Group for 2011 amounted to €266 million. More details on net write-downs of loans and provisions for guarantees and commitments can be found in Notes 38, 51, 52 and 53 in this Annual Report.

EaD of eurozone countries, broken down by risk type

The following table shows the EaD of HVB Group 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	2,638	3,457	995	943	326	747	3,959	5,147	602	—
Italy	**3,029**	**1,356**	**5,825**	**9,327**	**7,057**	**2,446**	**15,911**	**13,129**	**6,522**	**4,983**
Ireland	**2,099**	**3,438**	**654**	**532**	**2,470**	**1,039**	**5,223**	**5,009**	**89**	**17**
Netherlands	3,871	4,322	321	501	1,302	1,362	5,494	6,185	861	—
Austria	1,148	1,390	409	1,458	3,572	1,867	5,129	4,715	719	619
France	1,719	2,117	653	1,032	1,459	850	3,831	3,999	2,058	884
Spain	**1,811**	**1,805**	**52**	**192**	**1,450**	**2,321**	**3,313**	**4,318**	**837**	**—**
Greece	**796**	**1,032**	**46**	**57**	**35**	**259**	**877**	**1,348**	**22**	**28**
Belgium	151	68	25	58	210	93	386	219	48	33
Portugal	**244**	**589**	**20**	**27**	**112**	**117**	**376**	**733**	**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	24	15	17	140	211	228	—
Slovenia	50	28	46	69	10	—	106	97	8	—
Estonia	10	10	—	—	—	—	10	10	—	—
HVB Group	**18,365**	**20,387**	**9,133**	**14,264**	**18,018**	**11,118**	**45,516**	**45,769**	**12,268**	**6,572**

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 Group. This essentially comprises a reduction of cash exposures and restrictions on maturities for new business. Furthermore, new derivative contracts are not written without collateral.

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.

Risk Report (Continued)

Year-on-year development of the weaker eurozone countries
At 31 December 2011, HVB Group had exposure to the PIIGS countries of Portugal, Ireland, Italy, Greece and Spain totalling €26.5 billion. This is down by €1.3 billion from the year-ago total. 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 with other UniCredit companies. 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 Group to country risk totalled €51.1 billion, up a slight €534 million (1.1%) compared with 31 December 2010. At the same time, the VaR fell by €15.1 million (29.7%) to €35.7 million during the reporting period.

This development can be attributed primarily to lower originations to eastern Europe and to 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 €1.3 billion and now accounts for 84.8% (2010: 83.0%) 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% (2010: 51%), followed by North America at 17.9% (2010: 17.2%) and Asia/Pacific at 12.7% (2010: 17.2%). At 9.2% (2010: 10.6%), 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 €440 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 Group 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	50,178	48,520	28.2	24.9
Rating classes 5–8	936	2,059	7.5	25.8
Rating class 9	—	1	—	0.1
HVB Group	**51,114**	**50,580**	**35.7**	**50.8**

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	7,728	8,103	19,552	16,724	789	982	28,069	25,809	3,653
North America	1,214	1,232	7,269	5,991	686	1,491	9,169	8,714	776
Asia/Pacific	2,485	2,358	3,730	4,485	272	394	6,487	7,237	123
Eastern Europe	3,092	3,407	1,555	1,540	81	391	4,728	5,338	332
of which Hungary	20	17	419	432	55	120	495	569	—
Central and									
South America	729	690	425	1,542	850	756	2,004	2,988	94
Africa	547	402	110	92	—	—	657	494	18
of which North Africa	297	307	43	41	—	—	340	348	—
HVB Group	**15,795**	**16,192**	**32,641**	**30,374**	**2,678**	**4,014**	**51,114**	**50,580**	**4,996**

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

Risk Report (Continued)

HVB Group: 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	20,199	17,941	5.5	1.8
USA	7,819	6,957	—	—
Switzerland	5,726	5,574	0.5	0.4
Russian Federation	1,933	2,537	4.7	7.1
Hong Kong	1,882	1,750	1.0	0.8
Singapore	1,547	2,445	0.1	0.2
Turkey	1,479	1,224	8.8	9.5
Cayman Islands, onshore	930	609	1.0	0.8
Denmark	888	1,125	—	—
China	865	678	—	0.1
HVB Group	**43,268**	**40,840**	**21.6**	**20.7**

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

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB Group at year-end 2011 totalled €124.2 billion (31 December 2010: €92.8 billion).

In accordance with the banking supervision regulations under Basel II (German Banking Act/Solvency Regulation), risk-weighted assets for HVB Group amounted to €14.2 billion at 31 December 2011 (31 December 2010: €14.9 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 Group:

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	**1,060,063**	**1,240,973**	**1,025,512**	**3,326,548**	**3,222,556**	**101,262**	**64,696**	**100,046**	**63,319**
OTC products									
Forward rate agreements	142,414	3,071	—	145,485	222,751	68	132	33	105
Interest rate swaps	699,422	1,008,831	832,351	2,540,604	2,441,673	91,068	59,960	90,657	57,526
Interest rate options									
– purchased	47,940	120,648	96,484	265,072	237,311	9,860	4,498	103	6
– written	39,248	93,104	95,539	227,891	228,126	201	63	9,184	5,538
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	**283,120**	**33,475**	**1,296**	**317,891**	**391,000**	**5,284**	**6,234**	**6,012**	**6,031**
OTC products									
Foreign exchange forwards	192,146	21,480	161	213,787	289,896	3,868	4,486	4,605	4,242
Foreign exchange options									
– purchased	45,172	5,947	609	51,728	50,207	977	1,743	467	—
– written	45,768	6,048	526	52,342	50,865	439	5	940	1,789
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**	**6,207**	**8,034**	**6,794**	**8,131**
Equity/index derivatives	**63,615**	**55,920**	**3,805**	**123,340**	**144,118**	**5,104**	**9,321**	**6,064**	**11,868**
OTC products									
Equity/index swaps	5,027	5,705	1,324	12,056	19,670	235	281	236	288
Equity/index options									
– purchased	9,892	13,563	297	23,752	25,981	2,582	6,933	4	1
– written	25,872	20,254	2,066	48,192	50,133	56	37	2,845	7,783
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	2,039	2,065	2,977	3,795
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**	**1,407**	**718**
HVB Group	**1,523,757**	**1,606,521**	**1,123,607**	**4,253,885**	**4,287,826**	**124,402**	**92,791**	**125,757**	**94,582**

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 €649,670 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	3,564	1,378	1,712	724
Banks	90,633	72,245	95,154	74,848
Financial institutions	26,045	15,479	27,457	17,433
Other companies and private individuals	4,160	3,689	1,434	1,577
HVB Group	**124,402**	**92,791**	**125,757**	**94,582**

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

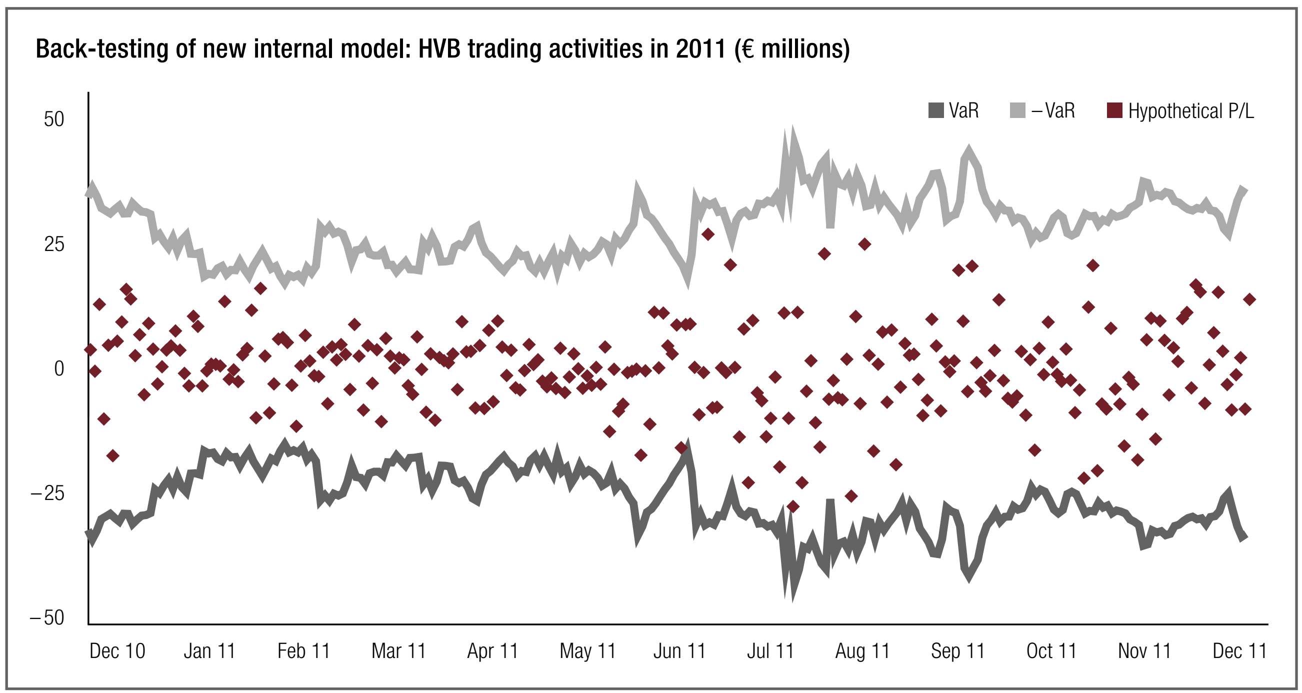
Around half of our market risk is located in the trading book, with the focus in the trading units responsible for interest rate-related trades (Rates) and credit derivative-related trades (Credit). Outside of the trading book, market risk is concentrated in legacy portfolios, bonds and Treasury. These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

Risk Report (Continued)



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.

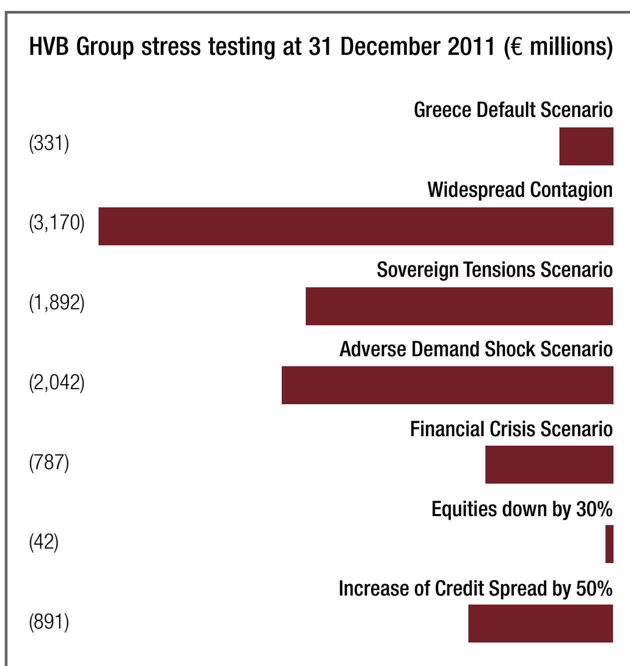
The following risk amounts were calculated for the regulatory report for the reporting at the date of 31 December:
– average 10-day value-at-risk of the last 60 trading days: €102 million
– average 10-day stressed value-at-risk of the last 60 trading days: €103 million
– eligible amount for the incremental 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 Group to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered for HVB Group, such as a widening of credit spreads. We also analyse macroeconomic stress scenarios based on real market upheavals (historical stress tests) or current threats (hypothetical stress tests). The set of stress scenarios also includes those applied by UniCredit.

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 €3.17 billion (2010: €3.3 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.



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 Group 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 Group 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 €173 million. The increase of €30 million over 2010 (€143 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 Group 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 Group (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)	(8)
HVB Group	**30**	**35**	**36**	**26**	**22**	**33**

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 Group[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 Group	Market risk	61	74	74	47	48	62
	VaR warning level	173	173	173	173	173	143

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 €173 million. 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 €92 million (2010: €125 million).

At year-end, the banking book contained market risks of €70 million with a one-day holding period (31 December 2010: €83 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 €41 million (2010: €45 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% depreciation of all foreign currencies (FX sensitivity) results in a decrease in the portfolio value by €4 million (0.02% of the regulatory capital) in the banking book of HVB Group (31 December 2010: a decrease of €20.42 million with an appreciation of foreign currency positions).

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

HVB GROUP BANKING BOOK	
Total	(4.18)
USD	(28.23)
GBP	16.06
CHF	(7.19)
JPY	11.53
CAD	0.59
HKD	2.56

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 Group (31 December 2010: decrease of €44.19 million).

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

HVB GROUP BANKING BOOK	
Total	(33.75)
Equity products	(0.26)
Hedge funds	(33.49)

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 €368.51 million (1.59% of the regulatory capital) in the banking book of HVB Group. If the hedge effect of the equity capital model book is taken into account, this scenario results in a value increase of €101.71 million (31 December 2010: €131.41 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 Group banking book – without hedge effect of equity capital model book	(368.51)	43.69	(407.94)	(4.26)
HVB Group banking book – with hedge effect	101.71	74.36	30.78	(3.43)

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 Group 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 0.57% (2010: 0.64%), or 3.05%, excluding the model book (2010: 2.03%), of its regulatory equity capital at 31 December 2011, HVB Group 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 0.60% (2010: 0.43%).

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 Group amounts to €1.9 billion at December 2011, down by €0.5 billion on the year-ago figure of €2.4 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 only at a discount) is managed by the people responsible for the various portfolios as they perform their defined market-related tasks. Reference should essentially be made to the measurement and monitoring instruments listed for market 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 trade and banking book positions 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 Group 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 Group.

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 Group 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 Group 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.

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”.

Risk Report (Continued)

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 Group 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 Group are simulated at regular intervals. These stress scenarios take into account internal influences (e.g. possible HVB Group-specific incidents), external factors (e.g. disruptions in global financial markets) and a combination of internal and external factors. 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 and its domestic subsidiaries engaged in banking activities are 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 countermeasures.

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 Group 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 €23.7 billion in HVB Group for the next banking day at the end of December 2011 (2010: €28.3 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 €20.6 billion at year-end 2011 (2010: €29.2 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.

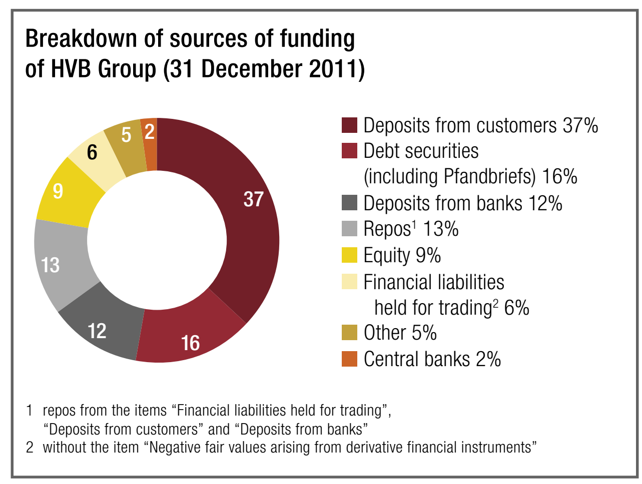
Our stress tests showed that the liquidity reserves available at the end of 2011 were sufficient to cover funding requirements resulting from Bank-specific, market-wide and combined scenarios for a period of up to two months.

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB Group 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 Group 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 Group obtained longer-term funding with a volume of €10.5 billion on the capital market during 2011 (2010: €7.3 billion). At the end of December 2011, 98.3% 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.

Breakdown of sources of funding of HVB Group (31 December 2011)



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

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.

Risk Report (Continued)

HVB Group has a Group-wide operational risk organisational structure. The respective divisions of HVB or each subsidiary of HVB Group 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 Group.

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 and their subsidiaries. This takes place in collaboration with the management and the units at HVB and the appropriate departments in the respective HVB Group companies, where present.

Measurement methods

To quantify the eligible amount for the operational risk of HVB and our major subsidiaries, we apply the UniCredit-wide Advanced Measurement Approach (AMA), which is based on the loss distribution approach. This model uses 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 our own data are used when representing the specific risk profile of HVB Group. 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 Group without taking account of diversification effects between risk types amounted to €2.3 billion at the end of 2011 (2010: €1.9 billion).

The risk rose in response to an increased risk profile for selling risks arising from derivatives and other structured products.

On the other hand, the introduction of the new allocation mechanism had no impact on the HVB Group result, as this only affected the reallocation to the subsidiaries.

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.

Risk Report (Continued)

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 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.

Risk Report (Continued)

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 adquately 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.

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.

Risk Report (Continued)

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 judgments 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.

Three class actions were raised in the Unites 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

Risk Report (Continued)

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.

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 Report (Continued)

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 €1.0 billion in 2011. The economic capital calculated for the business risk of HVB Group taking account of diversification effects between risk types totalled €0.7 billion at year-end 2011 (year-end 2010: €0.5 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. This includes the portfolio of the property ownership companies of HVB and its special-purpose companies and shareholding companies as well as the portfolios of HVB Group subsidiaries. Real estate collateral is discussed under default risk.

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. 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 Group 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 portfolio of non-strategic real estate and properties held by HVB Immobilien AG was reduced by approximately 6% in 2011 through disposals.

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

Risk Report (Continued)

The value-at-risk, without taking account of the diversification effects between the risk types, fell by €0.1 billion in 2011 to total €0.6 billion at year-end. The economic capital for real estate risk at HVB Group taking into account diversification effects between risk types totals €0.3 billion (year-end 2010: €0.4 billion). The change of a rounded €0.1 billion 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 Group is located primarily in Bavaria, which accounts for 48% 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. Subsidiaries included in the consolidated financial statements of HVB Group, whose risks are already separately identified and recorded as part of the other risk types, are excluded. Furthermore, shares classified as held for trading are included in market risk.

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

Measurement methods

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

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 €0.1 billion to €1.2 billion. The aggregate total of market values and carrying amounts, without small legal units, at year-end was €2.3 billion. The economic capital of HVB Group taking into account diversification effects between risk

types totals €0.7 billion (year-end 2010: €0.8 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. At year-end, the economic capital for the small legal units of HVB Group totalled €0.06 billion (year-end 2010: €0.12 billion). We do not consider it necessary to measure the risk of these units broken down by risk type on account of the low risk content. The decline of €0.1 billion can be attributed to a lower number of legal units in the portfolio to be included.

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 Group 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 Group 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 defined 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 Report (Continued)

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.
– A significant but acceptable reputational risk was identified
  → submission to the Group Committee responsible at UniCredit (Group Transactional Credit Committee or Group Market Risk Committee) to obtain a non-binding opinion.
– An unacceptable reputational risk was identified
  → the transaction is therefore rejected.

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

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

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

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

Measurement methods

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

Risk monitoring

The Management Board reviews the overall bank strategy of HVB Group 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 Group 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 Group.

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 slow-down 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 Group 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 Group.

Risks from the strategic orientation of HVB Group's business model

HVB Group is responsible for the regional management of the German market and is also the centre of competence for the markets and investment banking operations of the whole of UniCredit. This gives rise to a balanced and solid business model built upon several pillars. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise.

Risk Report (Continued)

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 Group could be affected by an associated increase in the market power of its competitors. HVB Group does, however, have a well-functioning and recognised business model, which proved its worth in the crisis, a strong capital base and adequate liquid funds that will enable it to actively exploit suitable opportunities quickly and flexibly.

Risks from modified competitive conditions in the German financial sector

The German financial services market as HVB Group's core market can readily be described as difficult for retail and corporate banking operations on account of the German banking system's three-pillar structure and strong competition. Overcapacity and market players which have different profitability requirements still exist on the retail side of the German market despite some mergers and acquisitions. 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 Group 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 Group.

Uncertainty about macroeconomic developments and risks from more stringent regulatory requirements

The macroeconomic developments in the European Union, and especially the discussions surrounding the deleveraging of heavily indebted countries and countries that have already been forced to utilise the EU's bail-out mechanism, form part of the daily economic analysis performed by HVB Group. 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 Group.

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 Group 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 Group's rating

HVB Group 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 Group (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 Group. 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.

Celebrating with three million young Europeans.

Bank Austria is one of the main sponsors of the *Donauinselfest*, or Danube Island Festival, one of the largest open-air events in Europe. The 29th annual celebration of *Donauinselfest* will take place from 22 to 24 June, 2012 in Vienna. Each year, this free public festival attracts as many as three million young people from all over Europe. To appreciate the scale of this event, last year's festival featured 18 "festival islands" and 11 stages spread across 4.5 km and involved more than 2000 artists. The bank's significant sponsorship of *Donauinselfest* underscores Bank Austria's strong support for the social and cultural development of young people from across Europe.

Donauinselfest, Vienna, Danube Island

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Consolidated Income Statement

for the year ended 31 December 2011

Income/Expenses	NOTES	2011 € millions	2010 € millions	CHANGE € millions	CHANGE in %
Interest income		8,823	8,700	+ 123	+ 1.4
Interest expense		(4,750)	(4,600)	(150)	+ 3.3
Net interest	32	4,073	4,100	(27)	(0.7)
Dividends and other income from equity investments	33	150	148	+ 2	+ 1.4
Net fees and commissions	34	1,308	1,312	(4)	(0.3)
Net trading income	35	190	759	(569)	(75.0)
Net other expenses/income	36	91	239	(148)	(61.9)
OPERATING INCOME		**5,812**	**6,558**	**(746)**	**(11.4)**
Payroll costs		(1,819)	(1,756)	(63)	+ 3.6
Other administrative expenses		(1,593)	(1,459)	(134)	+ 9.2
Amortisation, depreciation and impairment losses on intangible and tangible assets		(199)	(218)	+ 19	(8.7)
Operating costs	37	**(3,611)**	**(3,433)**	**(178)**	**+ 5.2**
OPERATING PROFIT		**2,201**	**3,125**	**(924)**	**(29.6)**
Net write-downs of loans and provisions for guarantees and commitments	38	(266)	(632)	+ 366	(57.9)
NET OPERATING PROFIT		**1,935**	**2,493**	**(558)**	**(22.4)**
Provisions for risks and charges	39	(251)	(442)	+ 191	(43.2)
Restructuring costs	40	(108)	(37)	(71)	>+ 100.0
Net income from investments	41	39	(132)	+ 171	
PROFIT BEFORE TAX		**1,615**	**1,882**	**(267)**	**(14.2)**
Income tax for the period	42	(640)	(154)	(486)	>+ 100.0
PROFIT AFTER TAX		**975**	**1,728**	**(753)**	**(43.6)**
Impairment on goodwill		(4)	—	(4)	
CONSOLIDATED PROFIT		**971**	**1,728**	**(757)**	**(43.8)**
attributable to shareholder of UniCredit Bank AG		931	1,703	(772)	(45.3)
attributable to minorities		40	25	+ 15	+ 60.0

Earnings per share

(in €)

	Notes	2011	2010
Earnings per share (undiluted and diluted)	44	1.16	2.12

Consolidated statement of total comprehensive income for the year ended 31 December 2011

(€ millions)

	2011	2010
Consolidated profit recognised in the income statement	**971**	**1,728**
Income and expenses recognised in other comprehensive income		
Changes from foreign currency translation and other changes	28	45
Changes from companies accounted for using the equity method	—	—
Actuarial profit on defined benefit plans (pension commitments)	(12)	50
Assets held for sale	—	—
Change in valuation of financial instruments (AfS reserve)	(34)	51
Unrealised gains/(losses)	(35)	84
Gains/(losses) reclassified to the income statement	1	(33)
Change in valuation of financial instruments (hedge reserve)	(46)	(111)
Unrealised gains/(losses)	(46)	23
Gains/(losses) reclassified to the income statement	—	(134)
Taxes on income and expenses recognised in equity	60	54
Total income and expenses recognised in equity under other comprehensive income	**(4)**	**89**
Total comprehensive income	**967**	**1,817**
of which:		
attributable to shareholder of UniCredit Bank AG	908	1,739
attributable to minorities	59	78

Consolidated Balance Sheet

at 31 December 2011

Assets

	NOTES	2011 € millions	2010 € millions	CHANGE € millions	in %
Cash and cash balances	45	4,267	3,065	+ 1,202	+ 39.2
Financial assets held for trading	46	149,056	133,389	+ 15,667	+ 11.7
Financial assets at fair value through profit or loss	47	28,045	26,631	+ 1,414	+ 5.3
Available-for-sale financial assets	48	5,476	5,915	(439)	(7.4)
Shares in associates accounted for using the equity method					
and joint ventures accounted for using the equity method	49	49	94	(45)	(47.9)
Held-to-maturity investments	50	2,463	2,600	(137)	(5.3)
Loans and receivables with banks	51	44,277	46,332	(2,055)	(4.4)
Loans and receivables with customers	52	136,561	139,351	(2,790)	(2.0)
Hedging derivatives	54	5,288	4,205	+ 1,083	+ 25.8
Hedge adjustment of hedged items					
in the fair value hedge portfolio		160	100	+ 60	+ 60.0
Property, plant and equipment	55	2,906	3,053	(147)	(4.8)
Investment properties	56	1,678	1,879	(201)	(10.7)
Intangible assets	57	565	608	(43)	(7.1)
of which: goodwill		418	424	(6)	(1.4)
Tax assets		3,362	3,257	+ 105	+ 3.2
Current tax assets		551	406	+ 145	+ 35.7
Deferred tax assets		2,811	2,851	(40)	(1.4)
Non-current assets or disposal groups held for sale	58	131	28	+ 103	>+ 100.0
Other assets	59	1,230	1,402	(172)	(12.3)
Total assets		**385,514**	**371,909**	**+ 13,605**	**+ 3.7**

Liabilities

	NOTES	2011 € millions	2010 € millions	CHANGE € millions	in %
Deposits from banks	61	57,858	51,887	+ 5,971	+ 11.5
Deposits from customers	62	107,442	108,494	(1,052)	(1.0)
Debt securities in issue	63	42,667	48,676	(6,009)	(12.3)
Financial liabilities held for trading	64	140,775	127,096	+ 13,679	+ 10.8
Hedging derivatives	65	2,324	2,091	+ 233	+ 11.1
Hedge adjustment of hedged items					
in the fair value hedge portfolio	66	2,417	1,471	+ 946	+ 64.3
Tax liabilities		2,296	2,203	+ 93	+ 4.2
Current tax liabilities		555	840	(285)	(33.9)
Deferred tax liabilities		1,741	1,363	+ 378	+ 27.7
Liabilities of disposal groups held for sale	67	—	598	(598)	(100.0)
Other liabilities	68	4,304	3,822	+ 482	+ 12.6
Provisions	69	2,113	1,901	+ 212	+ 11.2
Shareholders' equity	70	23,318	23,670	(352)	(1.5)
Shareholders' equity attributable to					
shareholder of UniCredit Bank AG		22,492	22,866	(374)	(1.6)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		9,389	9,485	(96)	(1.0)
Change in valuation of financial instruments		(112)	(87)	(25)	(28.7)
AfS reserve		(134)	(141)	+ 7	+ 5.0
Hedge reserve		22	54	(32)	(59.3)
Consolidated profit		1,017	1,270	(253)	(19.9)
Minority interest		826	804	+ 22	+ 2.7
Total shareholders' equity and liabilities		**385,514**	**371,909**	**+ 13,605**	**+ 3.7**

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €1,017 million. 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.

Statement of Changes in Consolidated Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES	
			TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2010	**2,407**	**9,791**	**9,034**	**(223)**
Recognised income and expenses				
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Income and expenses recognised in equity				
Change in valuation of financial instruments not affecting income	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	34	34
Reserve arising from foreign currency translation and other changes	—	—	23	—
Total income and expenses recognised				
in equity under other comprehensive income	**—**	**—**	**57**	**34**
Total income and expenses recognised	**—**	**—**	**57**	**34**
Other changes recognised in equity				
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	433	—
Changes in group of consolidated companies	—	—	(39)	—
Total other changes in equity	**—**	**—**	**394**	**—**
Shareholders' equity at 31/12/2010	**2,407**	**9,791**	**9,485**	**(189)**
Shareholders' equity at 1/1/2011	**2,407**	**9,791**	**9,485**	**(189)**
Recognised income and expenses				
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Income and expenses recognised in equity				
Change in valuation of financial instruments not affecting income	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(8)	(8)
Reserve arising from foreign currency translation and other changes	—	—	10	—
Total income and expenses recognised				
in equity under other comprehensive income	**—**	**—**	**2**	**(8)**
Total income and expenses recognised	**—**	**—**	**2**	**(8)**
Other changes recognised in equity				
Dividend payouts	—	—	—	—
Transfers to consolidated profit	—	—	(86)	—
Changes in group of consolidated companies	—	—	(12)	—
Total other changes in equity	**—**	**—**	**(98)**	**—**
Shareholders' equity at 31/12/2011	**2,407**	**9,791**	**9,389**	**(197)**

1 UniCredit Bank AG (HVB)

2 The Annual General Meeting of Shareholders of 21 May 2010 resolved to distribute the 2009 consolidated profit in the amount of €1,633 million as a dividend to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €2.03 per share of common stock and per share of preferred stock, an advanced dividend of €0.064 per share of preferred stock and a retroactive payment on the advance share of profits of €0.064 per share of preferred stock for 2008.
The Annual General Meeting of Shareholders of 18 May 2011 resolved to distribute the 2010 consolidated profit in the amount of €1,270 million as a dividend to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €1.58 per share of common stock

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[2]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDER OF HVB[1]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
(190)	**195**	**1,633**	**22,870**	**768**	**23,638**
—	**—**	**1,703**	**1,703**	**25**	**1,728**
86	11	—	97	1	98
(31)	(92)	—	(123)	—	(123)
—	—	—	34	—	34
7	(2)	—	28	52	80
62	**(83)**	**—**	**36**	**53**	**89**
62	**(83)**	**1,703**	**1,739**	**78**	**1,817**
—	—	(1,633)	(1,633)	(44)	(1,677)
—	—	(433)	—	—	—
(13)	(58)	—	(110)	2	(108)
(13)	**(58)**	**(2,066)**	**(1,743)**	**(42)**	**(1,785)**
(141)	**54**	**1,270**	**22,866**	**804**	**23,670**
(141)	**54**	**1,270**	**22,866**	**804**	**23,670**
—	**—**	**931**	**931**	**40**	**971**
18	—	—	18	(3)	15
(7)	(32)	—	(39)	—	(39)
—	—	—	(8)	—	(8)
(4)	—	—	6	22	28
7	**(32)**	**—**	**(23)**	**19**	**(4)**
7	**(32)**	**931**	**908**	**59**	**967**
—	—	(1,270)	(1,270)	(39)	(1,309)
—	—	86	—	—	—
—	—	—	(12)	2	(10)
—	**—**	**(1,184)**	**(1,282)**	**(37)**	**(1,319)**
(134)	**22**	**1,017**	**22,492**	**826**	**23,318**

Consolidated Cash Flow Statement

for the year ended 31 December 2011

(€ millions)

	2011	2010
Consolidated profit	**971**	**1,728**
Write-downs, provisions for losses on, and write-ups of,		
loans and receivables and additions to provisions for losses on guarantees and indemnities	436	692
Write-downs and depreciation less write-ups on non-current assets	327	586
Change in other non-cash positions	(483)	(1,219)
Profit from the sale of investments, property, plant and equipment	(113)	(41)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(4,117)	(4,434)
Subtotal	**(2,979)**	**(2,688)**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	13,643	14,668
Loans and receivables with banks	384	6,976
Loans and receivables with customers	2,061	5,425
Other assets from operating activities	135	741
Deposits from banks	5,924	(4,259)
Deposits from customers	(965)	11,852
Debt securities in issue	(3,355)	(11,151)
Other liabilities from operating activities	(16,613)	(18,674)
Taxes on income paid	(560)	(276)
Interest received	9,026	9,682
Interest paid	(4,900)	(4,834)
Dividends received	639	615
Cash flows from operating activities	**2,440**	**8,077**
Proceeds from the sale of investments	3,753	1,993
Proceeds from the sale of property, plant and equipment	70	167
Payments for the acquisition of investments	(2,939)	(3,320)
Payments for the acquisition of property, plant and equipment	(176)	(854)
Effects of the change in the group of companies included in consolidation	50	(5,942)
Cash flows from investing activities	**758**	**(7,956)**
Change in additional paid-in capital	—	—
Dividend payments	(1,270)	(1,633)
Other financing activities, net (subordinated and hybrid capital)	(699)	(1,768)
Other financing activities, net	(27)	(55)
Cash flows from financing activities	**(1,996)**	**(3,456)**

(€ millions)

	2011	2010
Cash and cash equivalents at end of previous period	3,065	6,400
Net cash provided/used by operating activities	2,440	8,077
Net cash provided/used by investing activities	758	(7,956)
Net cash provided/used by financing activities	(1,996)	(3,456)
Effects of exchange rate changes	—	—
Cash and cash equivalents at end of period	4,267	3,065

Notes to the Consolidated Financial Statements

for the period from 1 January to 31 December 2011

Consolidated financial statements in accordance with IFRS
UniCredit Bank AG (HVB), with its registered office and principal place of business in Kardinal-Faulhaber-Straße 1, Munich, Germany, is an affiliated company of UniCredit S.p.A., Rome, Italy (ultimate parent company).

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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to EU Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 together with further regulations regarding the adoption of certain IFRS within the framework of the EU endorsement in conjunction with Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS-VO Regulation. The present consolidated financial statements were prepared by the Management Board on 15 March 2012. Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC), respectively. All the standards and interpretations subject to obligatory application in the EU for the 2011 financial year have been applied. Section 315a HGB also contains national regulations to be applied alongside the IFRS by capital-market-oriented companies.

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

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

Compliant with Section 264b HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:
– A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Grünwald
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Grünwald
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Grünwald
– BIL Immobilien Fonds GmbH & Co. Objekt Perlach KG, Munich
– BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
– Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
– H & B Immobilien GmbH & Co. Objekte KG, Munich
– HAWA Grundstücks GmbH & Co. oHG Hotelverwaltung, Munich
– HAWA Grundstücks GmbH & Co. oHG Immobilienverwaltung, Munich
– HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
– HVZ GmbH & Co. Objekt KG, Munich

– Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
– HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
– Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. oHG Saarland, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
– SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich
– Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
– TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich
– TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich.

Compliant with Section 264 (3) HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:
– Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH, Munich
– BV Grundstücksentwicklungs-GmbH, Munich
– CUMTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– HVB Immobilien AG, Munich
– HVB Principal Equity GmbH, Munich
– HVB Profil Gesellschaft für Personalmanagement mbH, Munich
– HVB Projekt GmbH, Munich
– HVB Tecta GmbH, Munich
– HVB Verwa 4.4 GmbH, Munich
– Interra Gesellschaft für Immobilienverwaltung mbH, Munich
– MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich
– MILLETERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– NF Objekt FFM GmbH, Munich
– NF Objekt München GmbH, Munich
– NF Objekte Berlin GmbH, Munich
– Orestos Immobilien-Verwaltungs GmbH, Munich
– RHOTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– Selfoss Beteiligungsgesellschaft mbH, Grünwald
– Spree Galerie Hotelbetriebsgesellschaft mbH, Munich
– Status Vermögensverwaltung GmbH, Schwerin
– Transterra Gesellschaft für Immobilienverwaltung mbH, Munich
– UniCredit Direct Services GmbH, Munich
– Verwaltungsgesellschaft Katharinenhof m.b.H., Munich.

Accounting and Valuation

1 Uniform Group accounting policies

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

2 Consistency

In accordance with the IFRS Framework together with IAS 1 and IAS 8, we apply the accounting and disclosure principles consistently from one period to the next. Where significant accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted retroactively. Where retroactive adjustment is not possible in exceptional circumstances, the amounts involved are adjusted against retained earnings. Where we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively.

In order to ensure accounting treatment that is standard across the whole of UniCredit, we modified the method used to determine the discount rate for pension obligations during the reporting period. The change of calculation method described in greater detail in the accounting and valuation methods in Note 24 yields a greater level of detail and hence a more accurate presentation. The effects resulting from the change of method – including the effects on other comprehensive income – are disclosed in Note 69 as part of the explanatory notes to the balance sheet; the change had no effect on the income statement during the reporting period.

We have made minor adjustments to the structure of our income statement during the reporting period. The aggregate item “Net non-interest income” within operating income is no longer shown. Whereas the item “Net interest” previously included in “Net interest income” is now shown separately as “Net interest”, the item “Dividends and other income from equity investments” previously included in the aggregate item “Net interest” is now shown separately under “Operating profit”. Furthermore, we have added a new aggregate item “Net operating profit”, which reflects the balance of the aggregate item “Operating profit” and the income statement item “Net write-downs of loans and provisions for guarantees and commitments”. No changes have been made to the composition of the individual income statement items. In addition, we have added the item “Impairment on goodwill” to the income statement, as such amounts accrued for the first time in the third quarter of 2011.

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

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

Apart from this, the accounting, valuation and disclosure principles applied in 2011 are the same as those applied in the consolidated financial statements for 2010, with the exception of the new IFRS rules to be applied as described in Note 3 below.

3 Initial adoption of new IFRS accounting rules

The main new IFRS regulation subject to mandatory adoption for the first time in the 2011 financial year is the revised IAS 24 “Related Party Disclosures” (revised).

Among other things, IAS 24 R amends the definition of related parties to make clear that the subsidiaries of associates and joint ventures are also to be treated as related parties.

This fundamentally gives rise to an expansion of the group of entities regarded as related parties by HVB Group.

The other minor changes to a few of the IFRS standards (Annual Improvements Project 2010 "Improvements to IFRSs"; IAS 32 "Classification of Rights Issues") and new or amended interpretations (IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"; amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement" in connection with IAS 19 "Employee Benefits") that were applicable for the first time in the 2011 financial year had little or no effect on the consolidated financial statements.

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

As permitted, we have decided against the early voluntary adoption of the standards and interpretations adopted or revised by the IASB, which only become the subject of mandatory adoption for the 2012 financial year or thereafter. The Bank will apply these in the financial year in which the standards in question become applicable for the first time.

The EU has adopted the following into European law:
- Amendments to IFRS 7 "Financial Instruments: Disclosures – Transfers of Financial Assets". The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 July 2011.

For HVB Group, this will give rise to new, additional disclosures in the notes to the consolidated financial statements regarding transfers of financial assets (such as securitisation transactions).

The EU has not yet adopted the following into European law:
- IFRS 9 "Financial Instruments". The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 January 2015.
- IFRS 10 "Consolidated Financial Statements"
  IFRS 11 "Joint Arrangements"
  IFRS 12 "Disclosures of Interests in Other Entities"
  IAS 27 "Separate Financial Statements" (revised)
  IAS 28 "Investments in Associates and Joint Ventures (revised)"
  The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 January 2013.
- IFRS 13 "Fair Value Measurement". The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 January 2013.
- Amendment to IAS 1 "Presentation of Financial Statements – Other Comprehensive Income". The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 July 2012.
- Amendments to IAS 12 "Deferred Tax: Recovery of Underlying Assets". The amendments are subject to obligatory adoption for reporting periods beginning on or after 1 January 2012.
- Amendments to IAS 19 "Employee Benefits". The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 January 2013.
- Amendments to IAS 32/IFRS 7 "Offsetting Financial Assets and Financial Liabilities". The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 January 2013 (IFRS 7) and 1 January 2014 (IAS 32).

The new IFRS 9, only part of which has so far been published by the IASB and which has not yet been transformed into European law by the EU and for which the date of introduction has been put back to 1 January 2015, will have a significant impact on the presentation and measurement of financial instruments. The effects are still being analysed. The future new consolidation rules (IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 28) and IFRS 13 "Fair Value Measurement" are highly relevant and their effects are also being analysed at present. At the same time, however, we do not expect the remaining standards and interpretations to be applied in the future to have any significant effects on the consolidated financial statements.

Accounting and Valuation (Continued)

5 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 169 (2010: 146) subsidiaries. The group of consolidated companies also includes 33 (2010: 43) companies and fund assets which SIC 12 requires to be consolidated as special purpose entities.

The group of companies included in consolidation has been defined taking into account materiality criteria. In addition, smaller companies that are below the materiality thresholds have also been consolidated on account of the rules defined by the supervisory authorities that regulate UniCredit. In order to avoid coordination and reconciliation problems, we have decided to gradually expand the group of companies included in consolidation. The fully consolidated subsidiaries prepared their annual financial statements for the period ending 31 December 2011.

The following companies have different year-end dates:

– Arabella Finance Ltd., Dublin — 30 September
– Kinabalu Financial Products LLP, London — 30 November
– Kinabalu Financial Solutions Limited, London — 30 November
– Salome Funding Plc., Dublin — 31 March.

When the consolidated financial statements are being prepared, interim financial statements are prepared at the corporate year-end date for all these companies.

No financial statements at 31 December 2011 were available for the associated companies valued using the equity method when the consolidated financial statements were prepared. The following financial statements were used for valuation using the equity method:

– Adler Funding LLC, Dover — 30 September 2011
– Comtrade Group B.V., Amsterdam — 31 December 2010
– Martur Sünger ve Koltuk Tisisleri Ticaret ve Sanayi A.S., Istanbul — 30 June 2011.

There were no significant events at these companies between the date when the above financial statements were prepared and 31 December 2011 that could have an impact on the assets, liabilities, financial position, and profit or loss.

The group of consolidated companies does not include any companies for which the proportionate consolidation method is applied.

In 2011, the following companies and special purpose entities, among others, were newly added to the group of companies included in consolidation at HVB Group:

– Antus Immobilien- und Projektentwicklungs GmbH, Munich
– BIL Immobilien Fonds GmbH & Co Objekt Perlach KG, Munich
– BV Grundstücksentwicklungs-Gmbh & Co. Verwaltungs-KG, Munich
– Simon Verwaltungs-Aktiengesellschaft i.L., Munich
– Spree Galerie Hotelbetriebsgesellschaft mbH, Munich
– Transterra Gesellschaft für Immobilienverwaltung mbH, Munich
– VuWB Investments Inc., Atlanta
– Wealth Capital Investments, Inc., Wilmington.

The following companies included in the group of companies included in consolidation by HVB Group are consolidated using the equity method:

– Adler Funding LLC, Dover
– Comtrade Group B.V., Amsterdam
– Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S., Istanbul.

In 2011, the following companies and special purpose entities left the group of companies included in consolidation of HVB Group due to absorption, sale or liquidation, among others:
– Bavaria Universal Funding Corporation, Delaware
– Central European Confectionery Holdings B.V. i. L., Amsterdam
– Elektra Purchase No. 1 Limited, St. Helier, Jersey
– Elektra Purchase No. 18 Limited, Dublin
– Elektra Purchase No. 26 Limited, Dublin
– GELDILUX–TS–2008 S.A., Luxembourg
– HVB Capital Asia Limited, Hong Kong
– Merrill Lynch Series PT-3364, New York
– Merrill Lynch Series PT-3951, St. Antonio
– Merrill Lynch Series PT-3989, Boston
– Merrill Lynch Series PT-4140, Boston
– Merrill Lynch Series PT-4155, Sacramento
– Merrill Lynch Series PT-4163, Clearwater
– Morgan Stanley Series 2006-1654, Dallas
– Morgan Stanley Series 2006-1678, Chicago
– Morgan Stanley Series 2008-2933, New York
– Morgan Stanley Series 2008-2934, Washington
– Morgan Stanley Series 2008-2935, Chicago
– Sofimmocentrale S.A., Brussels
– SRQ FinanzPartner AG, Berlin.

We sold all but ten of our shares in UGIS to UniCredit S.p.A. on 13 May 2011. Upon the sale of our shares (previous shareholding of 24.7%), UGIS, which was consolidated at equity, was deconsolidated. UGIS was renamed UniCredit Business Integrated Solutions S.C.p.A. (UBIS) with effect from 1 January 2012.

In total, we have 144 affiliated and associated companies, and joint ventures in HVB Group that were neither fully consolidated nor fully accounted for using the equity method as they do not have a material impact for the Group.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these minor non-consolidated affiliated companies makes up around 0.53% of the consolidated profit of HVB Group, while such companies provide around 0.02% of consolidated assets. Our interests in these companies are carried as available-for-sale financial assets.

	2011	2010
Total subsidiaries	**294**	**313**
Consolidated companies	169	146
Non-consolidated companies	125	167
Joint ventures	**5**	**6**
of which:		
accounted for using the equity method	—	—
Associated companies	**17**	**9**
of which:		
accounted for using the equity method	3	1

Accounting and Valuation (Continued)

6 Principles of consolidation

Consolidation is performed by offsetting the purchase price of a subsidiary company against the value of the interest held in the completely remeasured shareholders' equity at the time of acquisition, provided the transactions involved are not internal to UniCredit. This amount represents the difference between the assets and liabilities of the acquired company measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under shares in associates valued at equity and joint ventures valued at equity. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are normally the divisions. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment at least once a year at cash-generating unit level. This involves comparing the carrying amount of the cash-generating unit with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell. Since the value in use far exceeds the carrying amount for the cash-generating units to which goodwill is allocated, the values in use have been used as the recoverable amount. When the values in use are calculated, the divisional (5-year) plans are employed and used to discount the division-specific cost of capital rates. A rate of 11% (2010: 11%) was applied for the Corporate & Investment Banking division and of 9% (2010: 9%) for the Family & SME division. No growth factor has been assumed for the government perpetuity.

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

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

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

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

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

7 Financial instruments

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

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

Among other things, the balance sheet disclosures and earnings contributions of the financial instruments must be shown separately, broken down by the IAS 39 valuation categories. In the present consolidated financial statements, we have included these changes in the explanatory notes to the balance sheet and the income statement. The information required by IFRS 7 regarding risks in connection with financial instruments is also provided in the Risk Report within Management's Discussion and Analysis. Compliant with IFRS 7.36 (a), the maximum credit exposure is the same as the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees and lending commitments, the nominal amount disclosed in Note 80 for the guarantee/amount of the lending commitments not yet utilised.

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

The regulations set forth in IAS 39 regarding reclassifications have been observed. Purchases and sales of financial assets (with the exception of loans and receivables) are normally recognised at the trade date. The reclassifications carried out in previous years are disclosed in Note 74, "Application of reclassification rules defined in IAS 39.50 et seq.".

Financial assets and liabilities at fair value through profit or loss

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

– Financial assets and liabilities held for trading.

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

With the exception of the effect on results arising from the translation of monetary available-for-sale financial assets denominated in foreign currency, gains or losses on available-for-sale financial assets are recognised in net income from investments in the income statement (see Note 41).

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

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

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

The risk of a counterparty defaulting on derivatives is covered by counterparty valuation adjustments (CVAs).

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

In addition to the method described above for the valuation or determination of fair values, the fair values in the hierarchy compliant with IFRS 7.27 A are shown in Note 76 for further information. A three-level, fair value hierarchy is listed for every class of financial asset and financial liability carried at fair value in the balance sheet. Note 76 similarly contains a detailed description of this hierarchy, which is only used for the purpose of disclosure in the notes.

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

Viewed overall, the fair value of a financial guarantee is zero when the contract is concluded because the value of the premium received will normally match the value of the guarantee obligation in standard market contracts. The guarantee premium is recognised on a pro-rata basis. The existence of an impairment is checked during the subsequent measurement.

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Furthermore, cross-currency interest rate swaps (CCIRS) have been used in the refinancing of loans denominated in foreign currency for economic reasons. The CCIRS exchange longer dated fixed-interest positions denominated in euros for variable-yield positions denominated in foreign currency. This serves to hedge the hedged item involved against interest rate risk as part of the fair value hedge portfolio and against exchange rate-related changes in fair value as part of micro fair value hedges.

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

Accounting and Valuation (Continued)

The cash flow hedge that is no longer used was employed to hedge the risk arising from volatile cash flows resulting from a recognised asset, recognised liability or planned transaction to be taken to the income statement. We had employed derivatives in cash flow hedge accounting to hedge future streams of interest payments. In this context, payments arising from variable-interest assets and liabilities were swapped for fixed payments primarily using interest rate swaps. Hedging instruments were measured at fair value. The valuation result was divided into an effective and an ineffective portion. The effective portion of the hedging instruments was recognised in a separate item within shareholders' equity (hedge reserve) without affecting reported profit or loss. The ineffective portion of the hedging derivatives was recognised directly in profit and loss. The hedged item was recognised at amortised cost.

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

8 Assets held for trading purposes

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

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

9 Financial assets at fair value through profit or loss

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

10 Available-for-sale financial assets

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

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

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

Provided they are not significant, both shares in non-consolidated subsidiaries and joint ventures and associates accounted for using the equity method are subsumed in available-for-sale financial assets. Listed companies are always carried at fair value. Where the fair value cannot be determined reliably for non-listed companies, they are valued at cost.

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

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

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

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

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

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

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

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

In the case of loans and receivables, objective evidence of an impairment exists when a default has occurred in accordance with the definition of a default given in Basel II and/or the German Solvency Regulation (Solvabilitätsverordnung – SolvV). This is the case when either the borrower is at least 90 days in arrears or HVB believes that the debtor is unable to meet the payment obligations in full without steps to realise collateral being undertaken. In this context, an event of default notably includes the period of 90 days in arrears, an application for or opening of insolvency proceedings, the expectation of liquidity problems as a result of the credit-monitoring process or the need to undertake restructuring or collateral realisation steps such as terminating loans, putting loans on a non-accrual basis or enforcing realisation of collateral by HVB. An impairment is the difference between the carrying amount and the present value of the anticipated future cash flows. The future cash flows are determined taking into account past events (objective evidence). The anticipated future cash flows may comprise the repayment and/or interest payments still expected and the income from the realisation of collateral. The impairment is the difference between the present value of the anticipated future cash flows and the carrying amount. A specific loan-loss provision is recognised for the impairment determined in this way.

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

Accounting and Valuation (Continued)

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

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

Specific loan-loss allowances are also determined on a collective basis for individual cases where the amounts involved are not significant. These allowances are recognised and disclosed within specific loan-loss allowances at HVB Group. When improving the processes and methods used to determine allowances for loans that are not individually significant, we more closely defined the methods used to estimate expected flow-backs and raised the threshold below which loans are assessed on a collective basis. The effects of these modifications were not significant and have been taken to the income statement in the reporting period.

Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made individually to cover all identifiable default risks arising from lending operations (loans, receivables and financial guarantees), with the amount of the expense being estimated. Specific loan-loss allowances are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified as uncollectable and written off. The amount is written off if the receivable in question is due, any available collateral has been realised and further attempts to collect the receivable have failed. Acute country-specific transfer risks are included in this process.

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

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

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

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

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

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

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

15 Property, plant and equipment

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

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

Impairments are taken in accordance with IAS 36 on property, plant and equipment whose value is impaired. Should the reasons for the impairment no longer apply, a subsequent write-up is taken to the income statement; the amount of this subsequent write-up must not increase the value of the property, plant and equipment to a level in excess of the amortised acquisition or production cost.

Depreciation, impairments and write-ups on items of property, plant and equipment are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

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

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

16 Lease operations

Under IAS 17, a lease is an agreement under which the lessor transfers the right to use an asset to the lessee for an agreed period against payment.

Lease agreements are divided into finance leases and operating leases. A lease is classified as an operating lease if the lessor retains substantially all the risks and rewards incident to ownership of the asset. By contrast, a finance lease transfers substantially all the risks and rewards incident to ownership of the asset to the lessee. Title may or may not eventually be transferred.

Accounting and Valuation (Continued)

HVB Group nevertheless treats agreements concluded without the legal form of a lease as leases provided compliance with the agreement depends on the use of a given asset and the agreement transfers a right to use the asset.

HVB Group leases both movable assets and real estate.

HVB Group as lessor

Operating leases

The assets leased to the lessee under an operating lease are considered held by the lessor, who should continue to account for them. The leased assets are carried under property, plant and equipment, investment properties or intangible assets in the consolidated balance sheet and valued in accordance with the relevant methods. The lease proceeds are recognised on a straight-line basis over the lease term and disclosed under other operating income. The conditional lease payments received under operating leases are recognised as income in the reporting period in which they accrue.

Finance leases

Where assets are transferred under a finance lease, the lessor is required to derecognise the leased asset in its balance sheet and recognise a receivable from the lessee. The receivable is carried at the amount of the net investment in the lease when the lease agreement was concluded. The lease payments received are divided into a finance charge recognised in the income statement and a redemption payment. The interest income is recognised over the period of the lease in such a way that it essentially reflects a constant periodic return on the net investment in the lease; the redemption payment represents a repayment of the principal that reduces the amount of the receivable outstanding. Conditional lease payments received under finance leases are recognised as income in the period in which they accrue.

HVB Group as lessee

Operating leases

The lease payments made by the lessee under operating leases are recognised as expense on a straight-line basis over the lease term and carried under other operating expenses or operating costs to the extent that they represent lease expenses. The lease term commences as soon as the lessee controls the physical use of the leased asset. Conditional lease payments made under operating leases are recognised as expense in the period in which they accrue. The lessee does not capitalise the leased assets involved.

Finance leases

In the case of finance leases, the lessee recognises the leased assets under property, plant and equipment, investment properties or intangible assets in the balance sheet as well as a liability on the liabilities side. The asset and the corresponding liability are each initially recognised at the fair value of the leased asset at the inception of the lease or, if lower, the present value of the minimum lease payments. The internal rate of return underlying the lease is used to calculate the present value of the minimum lease payments. The lease payments under finance leases are divided into a finance charge and redemption payment. The redemption payment reduces the outstanding liability while the finance charge is treated as interest expense. Conditional lease payments made under finance leases are recognised as expense in the period in which they accrue.

Please refer to Note 73 for more information.

17 Investment property

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

Where investment properties additionally suffer an impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

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

18 Intangible assets

The main items included in intangible assets are goodwill arising from the acquisition of fully consolidated subsidiaries and software. An intangible asset shall only be recognised if it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Goodwill has an indefinite useful life. Consequently, it is only tested for impairment compliant with IAS 36 and not amortised (impairment only approach). The value of goodwill is tested annually and where there is an indication of impairment. Impairments are taken where necessary. It is not permitted to write up in subsequent periods any impairment losses recognised on goodwill.

Software has a limited useful life and is valued at amortised cost. Amortisation is taken over an expected useful life of three to five years. Other intangible assets are also recognised at amortised acquisition or production cost less cumulative amortisation, as they have a limited useful life. Amortisation is taken on a straight-line basis over an expected useful life of up to ten years.

Where intangible assets additionally suffer impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Impairment losses on goodwill are shown in a separate item in the income statement. Amortisation, impairments and write-ups on software and other intangible assets are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

19 Non-current assets or disposal groups held for sale

Under IFRS 5, non-current assets or disposal groups held for sale are carried upon reclassification at the lower of the carrying amount or fair value less costs to sell at the balance sheet date. Upon subsequent measurement following reclassification, the non-current assets or disposal groups held for sale are, if necessary, written down to a lower fair value less costs to sell if this has fallen at subsequent reporting dates. Should the fair value increase, the total may be written up to an amount that is no more than the amortised cost.

Accounting and Valuation (Continued)

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

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

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

22 Hedge adjustment of hedged items in the fair value hedge portfolio
Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see Note 66). The hedge adjustments have been recognised on a gross basis in the balance sheet for subsidiaries for which asset and liability holdings can be hedged separately.

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

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

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

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

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

IFRS do not specify an explicit method for calculating the discount rate for pension commitments. The discount rate is to be determined on the basis of the yields recorded on the market at the reporting date for top-rated, fixed-income corporate bonds and with maturities and currencies that match the commitments to be measured.

We modified the method we use to determine the discount rate for pension commitments during the reporting period (see also Note 2). Differences between the methods arise notably in the selection of the underlying data and the calculation of the yield curve.

Up until now, the discount rate was determined on the basis of a yield curve supplied with yield premiums for notional government bonds. The starting point in this approach is formed by the current yield curve for hypothetical zero coupon bonds without default risk followed by the application of a premium that reflects the yield spread between top-rated corporate bonds and the notional German government bonds. The portfolio of bonds underlying the iBoxx € Corporates AA Index was used to determine this yield spread.

The discount rate is now calculated on the basis of the yield curve for AA-rated corporate bonds determined using individual bond data. This involves using a numerical compensation technique to translate individual bond data (such as the individual bond yields) into a yield curve which forms the foundation for determining the discount rate. Thus, the discount rate is calculated on the basis of a selection of currently several hundred European corporate bonds with AA ratings.

The change of calculation basis used to determine the interest rate resulted in different discount rates during the reporting period. The modified interest rate arising from the change of method and the resulting effects are quantified in Note 69.

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

25 Foreign currency translation

The consolidated financial statements are prepared in euros, which is the reporting currency of the corporate group. Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for monetary items not denominated in the respective functional currency (generally the local currency in each case) and cash transactions not completed at the valuation date to be translated into euros using current market rates. In the case of monetary assets available for sale, the effect arising from foreign currency translation is recognised as net currency income in net trading income. In other words, the monetary assets available for sale are treated in the same way as if they were recognised at amortised cost in the foreign currency. Non-monetary items carried at fair value are similarly translated into euros using current market prices at the valuation date. Non-monetary items carried at cost are translated using the historic rate applicable at the time of acquisition.

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

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

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

26 Income tax for the period

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

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

Segment Reporting

27 Notes to segment reporting by division

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

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

Changes in segment allocation

The following changes were made to the segment assignments in the 2011 financial year:

– The final phase of our One for Clients programme (One4C) was implemented at the start of 2011. This involved the transfer of small and medium-sized companies with revenues of up to €50 million from the Corporate & Investment Banking division to the Retail division, which was renamed Family & SME to coincide with the expansion of the customer base. In the second quarter of 2010, retail customers with free assets of at least €500,000 had already been moved from the Retail division to the Private Banking division and customers with assets of less than €500,000 transferred from the Private Banking division to what at that time was the Retail division.
– The autonomous "Leasing" product unit, which was previously allocated to the Corporate & Investment Banking division, was transferred to Family & SME.
– In order to ensure that the performance of the Private Banking division in 2011 can be compared with previous periods, the contribution to profits generated by the parts of the private banking business of UniCredit Luxembourg S.A. sold at year-end 2010, were assigned to the Other/consolidation segment together with the resulting gain on disposal and the associated restructuring costs.
– The income and expenses of a subsidiary that were previously shown in the Corporate & Investment Banking division are now included in the Other/consolidation segment.
– There were further minor reorganisations, especially in operating costs.

The previous year's figures and those of the previous quarters have been adjusted accordingly to reflect the changes in segment allocations described above.

Method of segment reporting

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

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

The income statement items of net fees and commissions, net trading profit and net other expenses/income shown in the segments are based almost exclusively on transactions involving external customers. Net interest is assigned to the segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses. For this reason, a separate presentation broken down by external/internal revenues (operating income) has not been included. The equity capital allocation used to calculate the return on investment on companies assigned to several divisions is based on a uniform core capital allocation for each division. Pursuant to Basel II, this involves allocating 6.7% of core capital from risk-weighted assets to the divisions. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest. The percentage used to assess the equity capital allocated to the companies assigned to several divisions (HVB, UniCredit Luxembourg S.A.) equals the 6-year average of the 5-year euro swap rate plus a premium in the amount of the 6-year average of the 5-year UniCredit S.p.A. spread. This rate is set for one year in advance as part of each budgeting process. The percentage changed from 4.09% in 2010 to 4.08% for the 2011 financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

The income of €6 million (2010: €6 million) from investments in associated companies relates to the following companies accounted for using the equity method which are assigned to the Other/consolidation segment: Adler Funding LLC, Comtrade Group B.V., Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S. and UGIS. The amount involved is disclosed under net interest in the income statement. The carrying amount of these companies accounted for using the equity method is €49 million (2010: €94 million). UGIS, which was accounted for using the equity method in 2010, was sold on 13 May 2011 and has consequently left the group of companies included in consolidation.

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

Components of the segments of HVB Group

Corporate & Investment Banking division

The Corporate & Investment Banking division (CIB) serves around 49,400 corporate customers through its domestic and international distribution network. The business model focuses on differentiated customer groups and the customer relationship as the key variable for the allocation of resources, while the structure meets the requirements in a hard-fought market that is in the process of re-regulation.

CIB's commercial success is built on close cooperation and the interlinking of sales and customer care with product units together with practical collaboration with other UniCredit countries and divisions. The three global product lines – Markets, Financing & Advisory and Global Transaction Banking – form part of the integrated CIB value chain. They assist the customer with strategic, transaction-oriented activities, solutions and products. In light of changing markets and rising market risk, we aim to accompany the customer and cover issues like restructuring, growth and internationalisation alongside all corporate customer needs from their bank. Among other things, this includes the very latest intelligence about specific sectors and markets that also satisfy the growing expectations of a financing partner.

CIB serves corporate customers with annual revenues in excess of €50 million. Our customer segmentation criteria and distribution channel definitions are based on different 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.

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

Global Transaction Banking (GTB) pools our competencies in cash management and e-banking, Euro-clearing for banks, foreign trade financing and supply chain finance.

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

The net income from several subsidiaries and participating interests is included in the division's results. Among others, these include UniCredit Luxembourg S.A. which handles the settlement, administration and securitisation of national and international loans for the group on a cross-divisional basis and is responsible for interest management as the funding unit for the corporate group on the money market.

Segment Reporting (Continued)

At the start of 2012, we adjusted the business model to reflect the new underlying conditions resulting from the modified market environment. The main focus is on customer-related activities, an expansion of the integrated value chain at F&A to include capital markets solutions (reallocation of capital markets units from Markets), transactions with low absorption of risk-weighted assets and optimised liquidity management. In addition, some employees have been reassigned to strengthen the core business and pare back non-profitable units.

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

All in all, this programme is designed to consistently align the Bank with a sustainable customer business model. This will enable us to provide even closer and more targeted relationship management for our customers and combine regional proximity with international competence as a cornerstone of UniCredit.

In our **mass market activities**, we continued to prioritise the expansion of our lending business. This included carrying out various sales initiatives for consumer loans involving attractive new customer products and boosting our sales incentives. In addition, we increased the credit approval rate for new customers to an average of 43% (up 23% since the start of 2011). The approval rate for existing customers remains at the target level of an average of 80%. In order to increase the ability of the sales force to provide competent advice on consumer loans, 350 sales managers and 600 sales staff received training with the support of specialists from UniCredit Household Financing (UCFin). This enabled the new business volume to be increased by 18% year-on-year. Furthermore, we paid particular attention to increasing product penetration in our customer portfolio. Our cross-selling activities are built around our high quality, all-round, demand-oriented advice that puts the focus on the needs of our customers in their specific life situations. Priority was given to boosting cross-selling to new customers. To achieve this, an innovative new customer-retention programme called "Onboarding" aimed at expanding the customer relationship was successfully implemented.

Besides earnings and customer satisfaction, the focus in the **affluent customers** segment in 2011 was on the topic of growth, which is set to take on a key role in the coming years. Numerous campaigns led to a increase of 12% in the volume of new real estate financing business we conducted as well as a strong inflow of fresh money. Furthermore, we bucked the market trend by achieving encouraging progress in terms of customer satisfaction. The volatility of the market gave us the opportunity to inform and advise our customers in greater depth; this included the rollout in 300 branches throughout Germany of an innovative event concept educating customers in protection techniques for their money.

Our advisory centred primarily on well-structured securities portfolios, including our HVB VermögensDepot Privat offering. This instrument meets the needs of our customers particularly well as it combines our Bank's know-how in the field of asset allocation with the transparency of exchange-traded funds (ETFs) and is also subject to regular performance measurement. This portfolio management approach proved its worth in the second half of the year in particular, when the markets were roiled by huge turmoil, as reflected in a performance that is far superior to similar products marketed by our competitors.

Further progress was made in 2011 on moving the bancassurance business model away from specialist sales towards support from generalists. In particular, there has been a significant change in the product mix to concentrate more on insurance policies paid by installment rather than one-off premiums. This move has broadened the basis for policies concluded, which has served to increase earnings generated by this division from insurance activities by 10%.

The strategic decision taken in the 2010 financial year to rapidly expand our offerings in the field of inheritance advice was implemented in 2011. Since the start of the year, certified inheritance experts have been deployed in every major branch across Germany. The strong focus on the Bank's advisory is already yielding good results, not only in the relevant product unit but also in the placement of fee-attracting planning mandates. It has also already been possible to note a positive contribution to achieving the targeted growth by acquiring new resources.

We manage our **real estate financing activities** across all target groups. We have continued to provide our mass-market, affluent and business customers with plenty of capital to finance property investments. Besides obtaining loans from us directly, our customers could use the full product range of the market from our 40 partner banks. Again in 2011, we managed to significantly increase the volume of new business compared with the previous year. This was assisted by our positioning as a provider of all-round property services offering multi-award-winning advice. We reinforced our new business activities with an innovative sales campaign.

Our operations involving **SMEs** in 2011 were driven mainly by our support for their capital spending, with the focus primarily on solutions involving development loans and leasing arrangements.

Alongside significant demand for investment in machinery, operating equipment and infrastructure in general, we supplied finance for initiatives undertaken by our **corporate customers** with regard to energy efficiency and local energy supply. Subsidised funds are provided by both international development institutions (such as the European Investment Bank) and domestic development banks (such as KfW). In this context, specific regional features were reflected by arranging individual, customer-oriented financing packages.

All in all, new business involving promotional loans grew by over 10% compared with 2010.

Leasing activities represented a further focal point of investment financing. Our **UniCredit Leasing GmbH** subsidiary facilitated a wide range of funding arrangements throughout Germany, helping new business to increase by more than 20% overall.

The focus was also on lending activities in our operations involving **business customers**. During the course of three sales initiatives, proactively approaching more than 25,000 customers helped to produce a significant increase of over 9% in new deals concluded (such as real estate loans and development loans).

Within SMEs, the offerings for the special target groups of **farmers, healthcare professionals, consultants, insolvency administrators and public-sector customers** have been constantly refined. An expansion in the number of specialist advisors, the adjustments made to the sales organisation in 2011 and the use of financing and payment solutions geared specifically to the target groups are worthy of particular note. Sector-specific information and events round out the competencies and services of HVB for these target groups.

In connection with the changeover of domestic and international payments to the Single Euro Payments Area (SEPA), HVB has been able to demonstrate the efficiency of its SEPA-compatible payments system. At the same time, customers have been offered intelligent payment solutions that facilitate planning and further settlement services. All in all, the transaction volumes involving both business and corporate customers have risen considerably.

Private Banking division

The Private Banking division (formerly known as Wealth Management) has set itself the goal of optimally meeting the specific expectations of wealthy customers with regard to a bank and the services it offers. The division serves customers with an aggregate investment volume of €37.4 billion. Private Banking is divided into three subdivisions:

Segment Reporting (Continued)

HVB Private Banking (PB)
This unit serves some 44,000 HVB customers with assets under management of €23 billion. Our 500 or so employees offer individual, personal advice at 46 locations throughout Germany. The Private Banking division offers all-round, bespoke advice to customers and customer groups with liquid assets of more than €0.5 million; the Family Office serves family groups with complex assets of more than €30 million.

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

Wealth Management Capital Holding (WMC)
WMC structures and issues sophisticated investment products that are tailored exclusively and perfectly to the Private Banking customer group. It is one of the biggest initiators of closed-ended funds in Germany. Around 145,000 customers are served by some 250 employees in this unit.

UniCredit Luxembourg S.A.
UniCredit Luxembourg S.A. gives customers of HVB Group access to the financial centre of Luxembourg. Together with HVB's Private Banking division, UniCredit Luxembourg S.A. has devised solutions that enable its customers to benefit from the advantageous underlying conditions offered by Luxembourg as a financial centre. The Private Banking unit based in Luxembourg provides specialised portfolio solutions for about 2,500 customers with an investment volume of €10 billion and employs 26 people. Since the Private Banking unit was sold to DZ Privatbank on 31 December 2010, UniCredit Luxembourg S.A. has focused its private banking activities in Luxembourg on serving high net worth and ultra high net worth segments/customers and offering specialist services for the corporate group in areas like the asset management of life insurance policies.

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

Global Banking Services activities encompass purchasing, organisation, logistics and facility management, cost management and back-office functions for credit, accounts, foreign exchange, money market and derivatives. Payments, securities settlement, IT application development and IT operation have been outsourced.

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

The Group Corporate Centre also includes the Real Estate Restructuring customer portfolio (RER) and the Special Credit Portfolio (SCP).

28 Income statement broken down by division

(€ millions)

	CORPORATE & INVESTMENT BANKING	FAMILY & SME	PRIVATE BANKING	OTHER/ CONSOLIDATION	HVB GROUP
OPERATING INCOME					
2011	3,359	1,829	262	362	5,812
2010	3,893	1,756	265	644	6,558
Operating costs					
2011	(1,561)	(1,603)	(160)	(287)	(3,611)
2010	(1,526)	(1,553)	(162)	(192)	(3,433)
Net write-downs of loans					
and provisions for guarantees					
and commitments					
2011	(316)	(30)	(1)	81	(266)
2010	(503)	(82)	(2)	(45)	(632)
NET OPERATING PROFIT					
2011	1,482	196	101	156	1,935
2010	1,864	121	101	407	2,493
Restructuring costs					
2011	(64)	(15)	(3)	(26)	(108)
2010	3	—	(18)	(22)	(37)
Net income from					
investments and other items[1]					
2011	(192)	(34)	(26)	40	(212)
2010	(483)	(7)	(1)	(83)	(574)
PROFIT BEFORE TAX					
2011	1,226	147	72	170	1,615
2010	1,384	114	82	302	1,882

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

Segment Reporting (Continued)

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

INCOME/EXPENSES	2011	2010	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Net interest income	2,442	2,544	550	587	686	619
Dividends and other income from equity investments	131	111	13	33	25	60
Net fees and commissions	597	553	131	157	142	167
Net trading income	170	646	(490)	(117)	271	506
Net other expenses/income	19	39	3	9	4	3
OPERATING INCOME	**3,359**	**3,893**	**207**	**669**	**1,128**	**1,355**
Payroll costs	(582)	(586)	(111)	(155)	(158)	(158)
Other administrative expenses	(964)	(918)	(263)	(232)	(239)	(230)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(15)	(22)	(4)	(4)	(3)	(4)
Operating costs	**(1,561)**	**(1,526)**	**(378)**	**(391)**	**(400)**	**(392)**
OPERATING PROFIT/(LOSS)	**1,798**	**2,367**	**(171)**	**278**	**728**	**963**
Net write-downs of loans and provisions for guarantees and commitments	(316)	(503)	(227)	(97)	97	(89)
NET OPERATING PROFIT/(LOSS)	**1,482**	**1,864**	**(398)**	**181**	**825**	**874**
Restructuring costs	(64)	3	(64)	—	—	—
Net income from investments and other items[1]	(192)	(483)	(18)	(79)	(97)	2
PROFIT/(LOSS) BEFORE TAX	**1,226**	**1,384**	**(480)**	**102**	**728**	**876**
Cost-income ratio in %	46.5	39.2	182.6	58.4	35.5	28.9

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

Development of the Corporate & Investment Banking division

The Corporate & Investment Banking division generated operating income of €3,359 million in the 2011 financial year, which is a decline of €534 million, or 13.7%. With operating costs rising a slight €35 million, or 2.3%, year-on-year to €1,561 million, the operating profit amounts to €1,798 million, which is €569 million down on last year's figure of €2,367 million.

The €102 million decline in net interest can be attributed to the investment banking activities of the division which could only be partly offset by special effects in the Multinational Corporates unit and higher margins in deposit-taking activities. Dividends and other income from equity investments rose by €20 million on the back of dividend payments from private equity funds. Net fees and commissions were up by a total of €44 million on account of lower expenses in connection with own securitisation transactions and higher income from structured financing.

Net trading income was heavily affected by the turmoil on the capital markets in the second half of 2011. Furthermore, it was necessary to take credit value adjustments totalling €485 million (2010: €169 million) to the income statement on account of market changes in the credit spread. Nevertheless, the division reported positive net trading income of €170 million in the reporting period, although this was €476 million down on last year's figure. In particular, the Rates and FX (interest- and currency-related products) and Equities (equity and index products) units contributed to the result in the reporting period. Positive contributions to profits were also generated by lending and capital-market-related operations during the reporting period.

The cost-income ratio rose by 7.3 percentage points over 2010 during the reporting period to 46.5%, due primarily to the decline in operating income.

Net write-downs of loans and provisions for guarantees and commitments declined to €316 million on account of the beneficial lending environment overall during the reporting period. A total of €503 million was required last year. As part of the reorientation of the division, €64 million was allocated to restructuring provisions. In addition, there were net expenses of €192 million (2010: €483 million) on the non-operating side resulting mainly from provisions for risks and charges relating to litigation risks. Last year, this item primarily contained provisions for risks and charges arising from an obligation in connection with the completion of an offshore wind farm.

All in all, the division generated a decent profit before tax of €1,226 million in the reporting period, which is down by 158 million on the year-ago total of €1,384 million, despite the difficult market conditions particularly in the second half of the year.

Income statement of the Family & SME division (€ millions)

INCOME/EXPENSES	2011	2010	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Net interest income	1,241	1,169	314	317	306	304
Dividends and other income from equity investments	4	5	—	—	4	—
Net fees and commissions	552	571	124	138	135	155
Net trading income	(5)	14	(5)	(2)	1	1
Net other expenses/income	37	(3)	5	19	8	5
OPERATING INCOME	**1,829**	**1,756**	**438**	**472**	**454**	**465**
Payroll costs	(609)	(583)	(156)	(152)	(151)	(150)
Other administrative expenses	(976)	(952)	(246)	(243)	(244)	(243)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(18)	(18)	(5)	(4)	(5)	(4)
Operating costs	**(1,603)**	**(1,553)**	**(407)**	**(399)**	**(400)**	**(397)**
OPERATING PROFIT	**226**	**203**	**31**	**73**	**54**	**68**
Net write-downs of loans and provisions for guarantees and commitments	(30)	(82)	8	(18)	4	(24)
NET OPERATING PROFIT	**196**	**121**	**39**	**55**	**58**	**44**
Restructuring costs	(15)	—	(15)	—	—	—
Net income from investments and other items[1]	(34)	(7)	(22)	—	(11)	(1)
PROFIT BEFORE TAX	**147**	**114**	**2**	**55**	**47**	**43**
Cost-income ratio in %	87.6	88.4	92.9	84.5	88.1	85.4

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

Development of the Family & SME division

The operating income of the Family & SME division (F&SME) rose by 4.2% to €1,829 million in the 2011 financial year, driven primarily by net interest and net other expenses/income. Net interest increased by 6.2%, with higher interest margins in deposit-taking operations serving to more than offset the declining volumes in lending operations. Net fees and commissions declined by 3.3%, to €552 million, on account of the difficult market environment. Despite this, there was a significant increase in the sale of closed-ended funds (up 14%) and a slight rise in the products brokered for our cooperation partners ERGO and Wüstenrot.

Operating costs increased by 3.2%, to €1,603 million, compared with the equivalent period last year. Payroll costs rose mainly on account of the initial consolidation of UniCredit Direct Services at 31 December 2010. The 2.5% increase in other administrative expenses can be attributed primarily to building costs and expenses relating to the new media campaign. The cost-income ratio improved slightly, by around 0.8 percentage points to 87.6%, on the back of the good earnings performance. The net operating profit totalled €196 million (2010: €121 million) partly as a result of the strong 63.4% decline in net write-downs of loans and provisions for guarantees and commitments to €30 million. The division's non-operating income was depressed mainly by provisions and charges relating to litigation risks amounting to €33 million in the reporting period. Besides this, there were restructuring costs of €15 million. Nevertheless, the division generated a pleasing profit before tax of €147 million in the 2011 financial year, which significantly exceeds the year-ago figure of €114 million by almost 30%.

Segment Reporting (Continued)

Income statement of the Private Banking division (€ millions)

INCOME/EXPENSES	2011	2010	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Net interest income	108	97	26	31	27	24
Dividends and other income from equity investments	4	9	1	—	2	1
Net fees and commissions	149	158	33	33	40	43
Net trading income	—	—	—	—	—	—
Net other expenses/income	1	1	1	—	—	—
OPERATING INCOME	**262**	**265**	**61**	**64**	**69**	**68**
Payroll costs	(75)	(72)	(19)	(20)	(18)	(18)
Other administrative expenses	(83)	(88)	(22)	(20)	(21)	(20)
Amortisation, depreciation and impairment						
losses on intangible and tangible assets	(2)	(2)	(1)	—	(1)	—
Operating costs	**(160)**	**(162)**	**(42)**	**(40)**	**(40)**	**(38)**
OPERATING PROFIT	**102**	**103**	**19**	**24**	**29**	**30**
Net write-downs of loans and provisions						
for guarantees and commitments	(1)	(2)	1	1	(3)	—
NET OPERATING PROFIT	**101**	**101**	**20**	**25**	**26**	**30**
Restructuring costs	(3)	(18)	—	(3)	—	—
Net income from investments and other items[1]	(26)	(1)	(25)	(1)	(1)	1
PROFIT/(LOSS) BEFORE TAX	**72**	**82**	**(5)**	**21**	**25**	**31**
Cost-income ratio in %	61.1	61.1	68.9	62.5	58.0	55.9

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

Development of the Private Banking division

The Private Banking division is being shown in the reporting period without the contributions to profits provided by the private banking activities of UniCredit Luxembourg S.A. that were partially sold at year-end 2010. The year-ago figures have been adjusted accordingly. With a profit before tax of €72 million, the division was unable to match last year's figure of €82 million primarily as a result of higher net additions to provisions for risks and charges.

At €262 million in the 2011 financial year, operating income is at the same level as last year (2010: €265 million). At the same time, net interest improved by €11 million year-on-year, or 11.3%, to €108 million, primarily as a result of higher interest margins in the deposit-taking business. The €149 million recorded for net fees and commissions failed to match the year-ago total essentially on account of falling demand for long-term bonds in the first half of 2011 and the much more difficult market environment in the second half of 2011 (2010: €158 million). At the same time, dividends and similar income from equity investments declined by a total of €5 million to €4 million.

Strict cost management helped to slightly reduce total operating costs to €160 million compared with last year (2010: €162 million). Thanks to the favourable development on the cost side, the cost-income ratio in the reporting period, at 61.1%, remained at last year's level despite the lower operating income. At €102 million, the operating profit also remained almost the same as last year (2010: €103 million).

The non-operating income of the division was depressed particularly by provisions of €25 million for litigation risks. In addition, restructuring costs of €3 million accrued. In the previous year, the profit was particularly impacted by the restructuring costs required in connection with the sale of parts of the private banking activities of UniCredit Luxembourg S.A. (€18 million).

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

INCOME/EXPENSES	2011	2010	Q4 2011	Q3 2011	Q2 2011	Q1 2011
OPERATING INCOME	**362**	**644**	**124**	**44**	**72**	**122**
Operating costs	**(287)**	**(192)**	**(91)**	**(80)**	**(55)**	**(61)**
OPERATING PROFIT/(LOSS)	**75**	**452**	**33**	**(36)**	**17**	**61**
Net write-downs of loans and provisions						
for guarantees and commitments	81	(45)	30	—	65	(14)
NET OPERATING PROFIT/(LOSS)	**156**	**407**	**63**	**(36)**	**82**	**47**
Restructuring costs	(26)	(22)	4	(30)	—	—
Net income from investments and other items[1]	40	(83)	38	(39)	43	(2)
PROFIT/(LOSS) BEFORE TAX	**170**	**302**	**105**	**(105)**	**125**	**45**

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

Development of the Other/consolidation segment

The operating income of this segment decreased by €282 million during the reporting period, to €362 million, compared with last year. This sharp decline is mainly due to the expenses for the bank levy that was charged for the first time in Germany in 2011 (€101 million) as well as the gains contained in the operating income last year in connection with the buy-back of hybrid capital which did not arise again in 2011 (€101 million).

Operating costs rose by a total of €95 million, attributable primarily to the bank levies in Austria and the UK totalling €67 million that have been included for the first time. This results in an operating profit of €75 million posted by this segment (2010: €452 million).

Within net write-downs of loans and provisions for guarantees and commitments, there was a net reversal of provisions of €81 million in the 2011 financial year, compared with net additions of €45 million required in the previous year. Net income from investments and other items amounting to €40 million also includes the gain of €45 million on the sale of some of our interest in UniCredit Global Information S.C.p.A. (UGIS) and UniCredit Business Partners S.C.p.A (UCBP). The loss in this item reported last year (€83 million) is primarily a result of higher impairments taken on investment properties.

In the 2011 financial year, the profit before tax amounted to €170 million (2010: €302 million) and was depressed particularly by the bank levies totalling €168 million charged for the first time in Germany, Austria and the UK.

Segment Reporting (Continued)

29 Balance sheet figures, broken down by division

(€ millions)

	CORPORATE & INVESTMENT BANKING	FAMILY & SME	PRIVATE BANKING	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables with banks					
2011	42,549	735	8	985	**44,277**
2010	46,075	736	26	(505)	**46,332**
Loans and receivables with customers					
2011	86,183	46,203	5,020	(845)	**136,561**
2010	84,167	49,819	4,647	718	**139,351**
Goodwill					
2011	405	13	—	—	**418**
2010	419	5	—	—	**424**
Deposits from banks					
2011	48,688	7,136	261	1,773	**57,858**
2010	44,706	5,100	226	1,855	**51,887**
Deposits from customers					
2011	46,706	46,624	7,472	6,640	**107,442**
2010	51,857	41,976	8,011	6,650	**108,494**
Debt securities in issue					
2011	2,319	722	85	39,541	**42,667**
2010	7,439	193	139	40,905	**48,676**
Risk-weighted assets compliant with Basel II (including equivalents for market risk and operational risk)					
2011	101,369	18,194	1,736	6,136	**127,435**
2010	98,639	18,250	1,664	5,919	**124,472**

1 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in Notes 58 and 67

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

	2011	2010
Corporate & Investment Banking	3,799	3,441
Family & SME	8,424	8,344
Private Banking	772	810
Global Banking Services	2,312	1,685
Group Corporate Centre	4,135	4,866
Total	**19,442**	**19,146**

1 in full-time equivalents

31 Segment reporting by region

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

Income statement, broken down by region (€ millions)

	GERMANY	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP
TOTAL REVENUES						
2011	5,389	902	140	68	(687)	5,812
2010	5,133	1,822	162	33	(592)	6,558
OPERATING PROFIT/(LOSS)						
2011	1,861	490	61	(5)	(206)	2,201
2010	2,064	1,178	81	24	(222)	3,125

Total assets, broken down by region (€ millions)

	2011	2010
Germany	316,570	305,009
Rest of Europe	132,219	129,932
Americas	10,105	12,041
Asia	4,485	5,310
Consolidation	(77,865)	(80,383)
Total	**385,514**	**371,909**

Employees, broken down by region[1]

	2011	2010
Germany	17,473	17,119
Rest of Europe	1,530	1,590
Africa	3	3
Americas	217	218
Asia	219	216
Total	**19,442**	**19,146**

1 in full-time equivalents

Notes to the Income Statement

32 Net interest

(€ millions)

	2011	2010
Interest income from	**8,823**	**8,700**
lending and money market transactions	6,001	5,996
other interest income	2,822	2,704
Interest expense from	**(4,750)**	**(4,600)**
deposits	(1,654)	(1,273)
debt securities in issue and other interest expenses	(3,096)	(3,327)
Total	**4,073**	**4,100**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €6,560 million (2010: €6,517 million) and €3,956 million (2010: €3,994 million), respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well. Net interest includes interest income of €167 million from non-performing loans and receivables (2010: €156 million).

Net interest attributable to related parties

The following table shows the net interest attributable to related parties:

(€ millions)

	2011	2010
Non-consolidated affiliated companies	289	153
of which: UniCredit S.p.A.	179	42
Joint ventures	—	—
Associated companies	6	6
Other participating interests	—	—
Total	**295**	**159**

Besides the amounts attributable to UniCredit S.p.A., the net interest of €289 million from non-consolidated affiliated companies includes interest income of €111 million attributable to sister companies and interest expense of €1 million attributable to subsidiaries.

33 Dividends and other income from equity investments

(€ millions)

	2011	2010
Dividends and other similar income	144	142
Companies accounted for using the equity method	6	6
Total	**150**	**148**

34 Net fees and commissions

(€ millions)

	2011	2010
Management, brokerage and consultancy services	649	732
Collection and payment services	177	180
Lending operations	464	403
Other service operations	18	(3)
Total	**1,308**	**1,312**

This item comprises the balance of fee and commission income of €1,832 million (2010: €2,154 million) and fee and commission expense of €524 million (2010: €842 million).

Net fees and commissions from related parties

The following table shows the net fees and commissions attributable to related parties:

(€ millions)

	2011	2010
Non-consolidated affiliated companies	63	8
of which: UniCredit S.p.A.	(16)	(66)
Joint ventures	—	—
Associated companies	64	5
Other participating interests	—	—
Total	**127**	**13**

Besides the amounts attributable to UniCredit S.p.A., the net fees and commissions of €63 million from non-consolidated affiliated companies include €79 million from sister companies.

35 Net trading income

(€ millions)

	2011	2010
Net gains on financial assets held for trading[1]	46	654
Effects arising from hedge accounting	101	54
Changes in fair value of hedged items	(1,004)	(403)
Changes in fair value of hedging derivatives	1,105	457
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	25	(62)
Other net trading income	18	113
Total	**190**	**759**

1 including dividends from financial assets held for trading
2 also including the valuation results of derivatives concluded to hedge financial assets through fair value at profit or loss (effect in 2011: minus €303 million; 2010: minus €200 million)

Credit value adjustments of €485 million (2010: €169 million) served to depress the net gains on financial assets during the reporting period.

Other net trading income (€113 million) almost exclusively reflects positive effects from the partial buy-back of hybrid capital.

The effects arising from hedge accounting include the hedge results of the fair value hedge portfolio and the individual micro fair value hedges as a net aggregate total. The hedge results from hedged items include a positive effect of €183 million arising from exchange rate changes that is offset by a corresponding negative in the hedge result from hedging derivatives.

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

36 Net other expenses/income

(€ millions)

	2011	2010
Other income	350	373
Other expenses	(259)	(134)
Total	**91**	**239**

Net other expenses/income totalled €91 million in 2011 (2010: €239 million).

Notes to the Income Statement (Continued)

Other income includes rental income of €165 million (2010: €194 million) from investment properties and mixed usage buildings. Other expenses include current operating expenses (including repairs and maintenance) directly allocable to investment properties and current expenses from mixed usage buildings of €46 million (2010: €51 million).

Furthermore, other expenses include expenses of €101 million for the German bank levy for the first time in the 2011 financial year. This was the main factor behind the year-on-year decline in net other expenses/income.

At the same time, there were gains of €14 million (2010: €18 million) on the sale of unimpaired receivables.

Net other expenses/income attributable to related parties

The following table shows the net other expenses/income attributable to related parties: (€ milions)

	2011	2010
Non-consolidated affiliated companies	70	53
of which: UniCredit S.p.A.	14	10
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**70**	**53**

Besides the amounts attributable to UniCredit S.p.A., the net other expenses/income of €70 million attributable to non-consolidated affiliated companies include €56 million attributable to sister companies.

37 Operating costs

(€ milions)

	2011	2010
Payroll costs	**(1,819)**	**(1,756)**
Wages and salaries	(1,496)	(1,473)
Social security costs	(214)	(215)
Pension and other employee benefit costs	(109)	(68)
Other administrative expenses	**(1,593)**	**(1,459)**
Amortisation, depreciation and impairment losses	**(199)**	**(218)**
on property, plant and equipment	(127)	(132)
on software and other intangible assets, excluding goodwill	(72)	(86)
Total	**(3,611)**	**(3,433)**

Operating costs of related parties

The following table shows the operating costs of related parties included in the total operating costs shown in the income statement: (€ milions)

	2011	2010
Non-consolidated affiliated companies	(586)	(544)
of which: UniCredit S.p.A.	12	20
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(586)**	**(544)**

Besides the amounts attributable to UniCredit S.p.A., the operating costs of €586 million attributable to non-consolidated affiliated companies include €598 million attributable to sister companies.

The amounts attributable to the parent company essentially reflect reimbursements of costs for seconded staff.

In 2010, the Bank modified its compensation schemes to reflect the new supervisory regulation governing variable compensation (Instituts-Vergütungs-verordnung).

The Total Incentive Opportunity Programmes were introduced in 2010 to govern variable compensation payable to selected staff. The programmes consist of two elements: a Bonus Opportunity Plan (cash payment and stocks granted) for all beneficiaries of the programme and an additional Performance Stock Options Plan for selected senior managers.

Employees whose duties have a significant impact on the Bank's overall risk and employees with a promised bonus in excess of €100,000 are beneficiaries of the Total Incentive Opportunity Program for 2011. Under the Bonus Opportunity Plan, the bonus promised for the respective reporting period is split into a cash component and a stock component (share-based compensation in the sense of IFRS 2). The cash component is disbursed in tranches over a period of two years. Accordingly, this group of employees received 20% to 40% of the bonus in 2011 with the commitment in cash, and a further 20% to 25% will be disbursed after year-end 2012. At the beginning of 2012, the beneficiaries receive a commitment for the remaining 40% to 50% of the total bonus to allocate shares in UniCredit S.p.A. as part of the bonus for 2011, half of which will be transferred to the beneficiaries after year-end 2013 and year-end 2014 respectively. After these dates, these shares are frozen for a further period of one year. The delayed payment after year-end 2012/13 and the allocation of shares after year-end 2013 and 2014 to the beneficiaries is based on the level of target achievement in the individual agreed targets in 2011. This is subject to the proviso that they continue to work for UniCredit up to the date of payment or transfer and that, as part of malus arrangement, it is ensure that a loss has not been recorded at the UniCredit corporate level or at the level of the individual beneficiary, or a significant reduction in the results achieved.

The stock component granted as part of the bonus for 2011 is subject to the proviso that the Annual General Meeting of UniCredit S.p.A. formally approves the relevant volume of shares in April 2012. The fair value of the granted shares is calculated using the average stockmarket price of UniCredit S.p.A. shares in the month prior to the Annual General Meeting that adopts a resolution regarding the granting. 13.8 million UniCredit S.p.A. shares (before possible adjustment due to adjustments in the equity of UniCredit S.p.A.) were granted in the reporting period as the component of the bonus granted for 2010, with a fair value of €1.736 for the shares to be transferred in 2013 and €1.702 for the shares to be transferred in 2014. The aggregate fair value of the stocks granted totals €24 million.

Under the second component, the Performance Stock Option Plan, stock options on UniCredit S.p.A. shares are granted to the eligible senior managers in line with the relative performance of the UniCredit S.p.A. share compared with a defined peer group in 2012 to 2015 (total shareholder return – TSR). In addition, the granting of stock options is subject to the condition that UniCredit meets or exceeds its budgeted targets for the period from 2012 to 2015. The Annual General Meeting of UniCredit S.p.A. will set the precise conditions (strike price, etc.) in April 2012.

The promised bonuses are recognised in the income statement on a pro rata basis over the respective vesting period.

Bonuses for the 2011 financial year falling due for disbursement in 2012 are recognised in full as expense. Where cash payments are made at a later date, such payments are subject to the condition that the eligible employees remain employed by UniCredit or partly subject to further performance targets. Accordingly, the vesting period for the promised bonus consists of several financial years (target achievement plus waiting period) and is to be deferred over this period compliant with IAS 19.68. Thus, deferred cash payments under the bonus promised for 2011 are recognised as expense in the respective period (from the 2011 financial year to the end of the financial year in which the waiting period for the tranche in question ends) on a pro rata basis.

HVB reimburses the accrued expenses to UniCredit once the conditions for granting shares have been met. In the 2011 financial year, prorated expenses of €24 million accrued for the stock component arising from the bonuses promised for 2010 and 2011 in the form of share-based compensation compliant with IFRS 2. The provision set up to cover this expense totalled €33 million.

Notes to the Income Statement (Continued)

In addition to this, UniCredit has two different share-based schemes that are similarly accounted for in accordance with IFRS 2: the long-term incentive programme and the employee share ownership plan, both of which are described below.

Long-term incentive programme
A long-term incentive programme including share-based remuneration transactions featuring compensation in UniCredit shares, has been set up for executives and junior managers of all UniCredit companies selected using defined criteria. Within this umbrella programme, individual schemes were set up in previous years (with the exception of 2009 and 2010) and 2011, the key elements of which included the granting of stock options starting in 2011 in the form of performance stock options and performance shares.

UniCredit undertakes the commitment to employees of HVB; in return, HVB reimburses to UniCredit the expenses accruing for the stock options and performance shares actually transferred to the beneficiaries after the vesting period has expired and the conditions attached to the commitment have been checked. The fair value of the instrument at the time granting is recognised as the expense for the stock options and performance shares transferred.

The following statements relate to all HVB Group executives covered by the long-term incentive programme. The information provided in Note 85 in this regard showing the emoluments paid to members of the Management Board merely relates to the stock options and performance shares granted to members of the Management Board.

The stock options 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. With regard to the new stock options granted during the reporting period, the strike price is the average price of the UniCredit share in the month prior to the approval of the long-term incentive programme by the UniCredit Board. 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. The options may only be exercised during a fixed period which starts after the vesting period expires. If the beneficiary has already left UniCredit by that date, the stock options are normally forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis or in full in certain exceptional circumstances, such as disability, retirement or an employer leaving UniCredit.

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

The following information regarding numbers of shares and exercise prices for stock options represent the status at the time of granting. No adjustments have been made on account of capital increases or capital consolidations.

Information about stock options (assuming a target achievement of 150%)

	2011
Total (shares)	15,561,623
Strike price (€)	1.8070
Market price of UniCredit share at grant date (€)	1.7676
Expected volatility	36.7%
Expected dividend yield	1.4%
Risk-free interest rate included in option price model	3.5%
Conditional grant date	22/3/2011
Exercise date should criteria be met (start of exercise period)	Expected March 2014
End of exercise period	31/12/2020
Fair value per option at grant date (€)	0.6019

The stock options granted in 2008 become exercisable in 2012. At the time of granting, the commitment was subject to the condition that the beneficiaries continued to work for UniCredit. All other stock options granted in previous years are already exercisable.

Analysis of outstanding stock options

	2011			2010		
	TOTAL	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY	TOTAL	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY
Outstanding at start of period	**15,990,892**	**4.75**	**August 2018**	**17,586,931**	**4.77**	**August 2018**
Additions						
Newly granted options	15,561,623	1.81	December 2020	—	—	—
Releases						
Forfeited stock options	2,981,203	3.76	August 2019	1,596,039	4.98	August 2018
Exercised stock options	—	—	—	—	—	—
Expired stock options	—	—	—	—	—	—
Total at end of period	**28,571,312**	**3.25**	**October 2019**	**15,990,892**	**4.75**	**August 2018**
Exercisable options at end of period	4,071,296	6.03	September 2018	3,131,100	5.37	June 2019

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

Notes to the Income Statement (Continued)

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. As an alternative to the transfer of shares, the UniCredit Board may also decide to disburse in cash the market value of the shares at the time of transfer. The shares may be transferred on a pro rata basis or in full in certain exceptional cases, such as disability, retirement or an employer leaving UniCredit. 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).

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

Information regarding performance shares (assuming target achievement of 150%)

	2011
Total (shares)	7,878,111
Market price of UniCredit share at grant date (€)	1.7676
Conditional grant date	22/3/2011
Exercise date should criteria be met (start of exercise period)	Expected March 2014
Fair value per performance share on grant date (€)	1.7120

Analysis of outstanding performance shares

	2011		2010	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**4,290,505**	**November 2011**	**5,302,700**	**July 2011**
Additions				
Increase in portfolio arising from capital increase				
from company funds[1]	—	—	247,277	July 2011
Newly granted performance shares	7,878,111	December 2013	—	—
Releases				
Forfeited performance shares	812,781	March 2013	403,441	September 2011
Transferred performance shares	44,882	December 2010	186,424	December 2009
Expired performance shares	639,194	December 2010	669,607	December 2009
Total at end of period	**10,671,759**	**May 2013**	**4,290,505**	**November 2011**

1 effects arising from the consolidation of UCI shares at a ratio of 10 to 1 in December 2011 are not yet included

A review is currently ongoing to ascertain whether the performance targets to which the commitment for the performance shares granted in 2008 was linked have been met. The performance shares were granted to the beneficiaries in 2008 subject to two conditions: first, the beneficiary must continue to work at UniCredit; and second, the specified targets agreed for the period from 2009 to 2011 at UniCredit level must have been met.

The fair value at the grant date is recorded as an expense for performance shares in the period that it is decisive for fulfilling the respective criteria.

The income from forfeited instruments and the prorated expenses arising from the granted instruments totalled a net amount of €6.9 million (2010: €2.7 million) at HVB Group for both programmes (stock options and performance shares) in 2011, which is recognised under payroll costs.

The relevant provision totalled €15 million at year-end 2011 (2010: €11 million).

Employee share ownership plan

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

Between January 2011 and December 2011, people participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). The plan offers the following advantages compared with buying the shares directly on the market:

– One free share (known as a discount share) for every 20 investment shares purchased under the plan (this represents a discount of 5%). The discount shares were allocated in January 2012.
– One additional free share (known as a matching share) for every 5 investment and discount shares purchased under the plan (this represents a discount of 21%). The matching shares will be allocated in January 2015 until when they are granted as "rights to matching shares".

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

The sale of all free shares (discount and matching shares or the right to such shares) is not permitted for a lock-up period of three years, meaning until January 2015. The rights to matching shares generally expire when employees sell investment shares or they cease to be employed by a UniCredit company before the lock-up period ends. In this case, however, the discount shares are retained in every instance. It is intended to operate the plan on an annual basis.

Similar programmes had already been set up in previous years.

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

(€ millions)

	2011	2010
Additions	**(1,624)**	**(1,594)**
Allowances for losses on loans and receivables	(1,537)	(1,485)
Allowances for losses on guarantees and indemnities	(87)	(109)
Releases	**1,188**	**914**
Allowances for losses on loans and receivables	1,115	882
Allowances for losses on guarantees and indemnities	73	32
Recoveries from write-offs of loans and receivables	**171**	**60**
Gains on the disposal of impaired loans and receivables	**(1)**	**(12)**
Total	**(266)**	**(632)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €14 million in the year under review (2010: €18 million). The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €238 million (2010: net expense of €537 million).

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

The following table shows the net write-downs of loans and provisions for guarantees and commitments attributable to related parties:

(€ millions)

	2011	2010
Non-consolidated affiliated companies	—	—
Joint ventures	—	—
Associated companies	(1)	9
Other participating interests	(3)	97
Total	**(4)**	**106**

Notes to the Income Statement (Continued)

39 Provisions for risks and charges

Provisions for risks and charges amounted to €251 million in 2011, which can be attributed primarily to the creation of provisions for various litigation risks.

In 2010, provisions for risks and charges amounted to €442 million. The biggest single item was a provision €425 million for anticipated losses arising from an obligation to complete an offshore wind farm. This item also included provisions for risks and charges relating to litigation risks. A net reversal of provisions relating to property (mainly for rental guarantees and pre-emptive rights) had an offsetting effect in 2010, attributable primarily to provisions for risks and charges in connection with property (for rental guarantees among other things) and for litigation risks.

40 Restructuring costs

HVB Group recorded restructuring costs of €108 million in 2011, resulting primarily from the announced elimination of positions. Among other things, this includes restructuring costs relating to changes in the strategic orientation of the CIB division, such as the discontinuation of the cash equity business for western Europe and the equity research activities.

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

41 Net income from investments

(€ millions)

	2011	2010
Available-for-sale financial assets	38	10
Shares in affiliated companies	20	—
Companies accounted for using the equity method	(7)	—
Held-to-maturity investments	(4)	—
Land and buildings	15	—
Investment properties[1]	(23)	(169)
Other	—	27
Total	**39**	**(132)**

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

Net income from investments breaks down as follows:

(€ millions)

	2011	2010
Gains on the disposal of	**147**	**86**
available-for-sale financial assets	112	59
shares in affiliated companies	20	—
companies accounted for using the equity method	(7)	—
held-to-maturity investments	(4)	—
land and buildings	15	—
investment properties	11	—
other	—	27
Write-downs and value adjustments on	**(108)**	**(218)**
available-for-sale financial assets	(74)	(49)
shares in affiliated companies	—	—
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
investment properties[1]	(34)	(169)
Total	**39**	**(132)**

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

The gain of €26.7 million (2010: €8.3 million) arising from the translation of monetary available-for-sale financial instruments denominated in foreign currency is recognised as part of the net FX income in net trading income.

HVB Group recorded net income from investments of €39 million in the 2011 financial year. The total includes a gain of €45 million on the sale to UniCredit S.p.A. of part of our holding in UGIS, which was previously consolidated using the equity method, and in the non-consolidated UniCredit Business Partners S.C.p.A. (UCBP) during the reporting period. These transactions were conducted as part of All4Quality, a UniCredit-wide project aimed at improving the quality of internal services. The net gains (gains on disposal less write-downs and valuation adjustments) arising from available-for-sale financial instruments in the reporting period contained a net loss of €5 million from private equity funds and direct and co-investments. This consists of gains of disposal of €39 million and valuation expenses of €44 million.

The net loss of €132 million on investments recorded in 2010 was mainly attributable to write-downs and valuation adjustments of €169 million on investment properties. The sale of parts of the private banking activities of UniCredit Luxembourg S.A. generated a gain on disposal of €27 million, which was shown under Other. Furthermore, the net loss of €12 million on available-for-sale financial instruments in 2010 arose from private equity funds and direct and co-investments.

42 Income tax for the period

(€ millions)

	2011	2010
Current taxes	(169)	(469)
Deferred taxes	(471)	315
Total	**(640)**	**(154)**

The current tax expense for 2011 includes tax expenses of €10 million for previous years (2010: €14 million).

The deferred tax expense in 2011 comprises net expense of €85 million from value adjustments on deferred tax assets arising from tax losses carried forward and net expense of €386 million relating the origination and utilisation of tax losses and the origination, reversal and value adjustments of deferred taxes arising from temporary differences.

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

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

	2011	2010
Profit before tax	1,615	1,882
Applicable tax rate	31.4%	31.4%
Computed income taxes	(507)	(591)
Tax effects		
arising from previous years and changes in tax rates	(4)	(21)
arising from foreign income	+ 61	+ 44
arising from non-taxable income	+ 78	+ 115
arising from different tax laws	(25)	(55)
arising from non-deductible expenses	(148)	(77)
arising from value adjustments and the non-recognition of deferred taxes	(95)	+ 432
arising from other differences	—	(1)
Recognised income taxes	**(640)**	**(154)**

The impairment losses of €4 million taken on goodwill that reduced the consolidated profit do not have any impact on tax expense.

Notes to the Income Statement (Continued)

For purposes of the tax reconciliation an applicable tax rate of 31.4% has been assumed. This comprises the current rate of corporate income tax in Germany of 15.0%, the solidarity surcharge of 5.5% of corporate income tax and an average trade tax rate of 15.6%. This reflects the fact that the consolidated profit is dominated by profits generated in Germany, meaning that it is subject to German corporate income tax and trade tax. The reconciliation for 2010 has been adjusted accordingly and the applicable tax rate raised from 15.8% to 31.4%.

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

The item tax effects arising from different tax laws comprises primarily the trade tax modifications applicable to domestic companies, weighted using the respective local trade tax rate.

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

(€ millions)

	2011	2010
Deferred tax liabilities		
Loans and receivables with banks and customers, incl. provisions for losses on loans and receivables	74	62
Financial assets/liabilities held for trading	175	100
Investments	273	155
Property, plant and equipment/intangible assets	35	65
Other assets/other liabilities/hedging derivatives	732	639
Deposits from banks/customers	111	77
Non-current assets or disposal groups held for sale	5	—
Other	336	265
Recognised deferred tax liabilities	**1,741**	**1,363**
Deferred tax assets		
Financial assets/liabilities held for trading	436	390
Investments	150	85
Property, plant and equipment/intangible assets	142	142
Provisions	346	408
Other assets/other liabilities/hedging derivatives	838	699
Loans and receivables with banks and customers, incl. provisions for losses on loans and receivables	257	317
Losses carried forward/tax credits	641	807
Other	1	3
Recognised deferred tax assets	**2,811**	**2,851**

Deferred taxes are normally measured at local tax rates of the respective tax jurisdiction. German cooperations use the uniform corporate income tax rate that is not dependent on any dividend distribution of 15.8%, including the solidarity surcharge, and the municipal trade tax rate dependent on the applicable municipal trade tax multiplier. This resulted in an overall valuation rate for deferred taxes of 31.4% for HVB in Germany as last year. The local applicable tax rates are applied analogously for companies with other legal forms and foreign units. Changes in tax rates have been taken into account, provided they had already been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets of €85 million (2010: €43 million) were credited to the AfS reserve of HVB Group and deferred tax assets of €13 million (2010: €27 million) were offset against the hedge reserve. The deferred taxes are mainly included in the items "Investments" and "Other assets/other liabilities/ hedging derivatives" mentioned above. On account of the option set forth in IAS 19.93A, deferred tax assets of €89 million (2010: €86 million) were directly credited to shareholders' equity and are included in "Provisions". In each case, the deferred tax items offset directly against reserves are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for unused tax losses of HVB Group of €4,500 million (2010: €4,138 million), most of which do not expire, unused tax credits of €2 million (2010: €60 million) and deductible temporary differences of €1,611 million (2010: €1,578 million).

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

43 Impairment on goodwill

Impairments of €4 million were taken on goodwill during the reporting period in connection with the sale by DAB Bank AG of part of its majority shareholding in SRQ FinanzPartner AG.

44 Earnings per share

	2011	2010
Consolidated profit attributable to shareholder (€ millions)	931	1,703
Average number of shares	802,383,672	802,383,672
Earnings per share (€)	1.16	2.12

Notes to the Consolidated Balance Sheet

45 Cash and cash balances

(€ millions)

	2011	2010
Cash on hand	488	491
Deposits central banks	3,779	2,574
Total	**4,267**	**3,065**

46 Financial assets held for trading

(€ millions)

	2011	2010
Balance-sheet assets		
Fixed-income securities	17,444	26,952
Equity instruments	3,578	6,422
Other financial assets held for trading	9,081	11,529
Positive fair value from derivative financial instruments	**118,953**	**88,486**
Total	**149,056**	**133,389**

The financial assets held for trading include €228 million (2010: €392 million) in subordinated assets. The financial assets held for trading included Greek government bonds with a carrying amount/market value of €1 million and a nominal amount of €6 million at 31 December 2011.

Financial assets held for trading of related entities

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

(€ millions)

	2011	2010
Non-consolidated affiliated companies	19,003	16,765
of which: UniCredit S.p.A.	13,244	9,993
Joint ventures	—	—
Associated companies	211	—
Other participating interests	—	31
Total	**19,214**	**16,796**

Besides the amounts attributable to UniCredit S.p.A., the financial assets held for trading of €19,003 million attributable to non-consolidated affiliated companies include financial assets of €5,753 million attributable to sister companies (mostly derivative transactions involving UniCredit Bank Austria AG) and €6 million attributable to subsidiaries.

47 Financial assets at fair value through profit or loss

(€ millions)

	2011	2010
Fixed-income securities	26,103	24,555
Equity instruments	—	—
Investment certificates	2	1
Promissory notes	1,940	2,075
Other financial assets at fair value through profit or loss	—	—
Total	**28,045**	**26,631**

87% of the promissory notes was issued by the federal states and regional authorities in the Federal Republic of Germany. The portfolio also includes a promissory note issued by the Republic of Austria.

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

The financial assets at fair value through profit or loss include €308 million (2010: €297 million) in subordinated assets and Greek government bonds with a carrying amount/market value of €8 million and a nominal amount of €21 million.

48 Available-for-sale financial assets

(€ millions)

	2011	2010
Fixed-income securities	3,727	3,974
Equity instruments	648	778
Other available-for-sale financial assets	299	448
Impaired assets	802	715
Total	**5,476**	**5,915**

Available-for-sale financial assets at 31 December 2011 included €1,402 million (31 December 2010: €1,416 million) valued at cost. Within this total, equity instruments with a carrying amount of €14 million were sold during the reporting period, yielding a gain of €24 million.

Available-for-sale financial assets at 31 December 2011 contained a total of €802 million (31 December 2010: €715 million) in impaired assets. Impairments of €94 million (31 December 2010: €61 million) were taken to the income statement during the reporting period.

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

The available-for-sale financial assets included €227 million (2010: €493 million) in subordinated assets at 31 December 2011.

Available-for-sale financial instruments included Greek government bonds with a carrying amount/market value of €2 million and a nominal amount of €6 million at 31 December 2011. We recognised an impairment of €3 million on these bonds in the reporting period (2010: €1 million).

Notes to the Consolidated Balance Sheet (Continued)

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

(€ millions)

	2011	2010
Associated companies accounted for using the equity method	49	94
of which: goodwill	35	—
Joint ventures accounted for using the equity method	—	—
Total	**49**	**94**

Change in portfolio of shares in associated companies

(€ millions)

2010	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**88**
Additions	**6**
Purchases	—
Write-ups	—
Changes from currency translation	—
Other additions[1]	6
Disposals	**—**
Sales	—
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[1]	—
Carrying amounts at 31 December	**94**
2011	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**94**
Additions	**55**
Purchases	—
Write-ups	—
Changes from currency translation	—
Other additions[1]	55
Disposals	**(100)**
Sales	—
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[1]	(100)
Carrying amounts at 31 December	**49**

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

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

(€ millions)

	2011	2010
Property, plant and equipment	270	241
Intangible assets	22	601
Other assets	130	262
Total assets	**422**	**1,104**

(€ millions)

	2011	2010
Deposits from banks	132	194
Other liabilities	226	531
Equity	64	379
Total liabilities	**422**	**1,104**

(€ millions)

	2011	2010
Net interest income	(7)	2
Net other expenses/income	76	1,412
Operating costs	(54)	(1,377)
Profit before tax	**15**	**37**
Income tax	(4)	(14)
Consolidated profit	**11**	**23**

There were no changes in value at companies accounted for using the equity method arising from other comprehensive income or other equity items. The unrecognised prorated loss of companies accounted for using the equity method amounted to €0.3 million. The unrecognised prorated cumulative losses totalled €1.0 million.

50 Held-to-maturity investments

(€ millions)

	2011	2010
Fixed-income securities	2,463	2,596
Impaired assets	—	4
Total	**2,463**	**2,600**

Held-to-maturity investments include no impaired assets (2010: €4 million). No impairments were taken to the income statement during the year under review. None of the non-impaired debt instruments are financial instruments past due.

The held-to-maturity investments include €11 million (2010: €15 million) in subordinated assets.

Held-to-maturity investments do not include any Greek government bonds.

Notes to the Consolidated Balance Sheet (Continued)

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

	2011	2010
Balance at 1 January	**2,600**	**2,679**
Additions		
Purchases	—	—
Write-ups	—	—
Other additions	—	19
Disposals		
Sales	—	—
Redemptions at maturity	(137)	(98)
Write-downs	—	—
Other disposals	—	—
Balance at 31 December	**2,463**	**2,600**

Held-to-maturity investments of related entities

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

	2011	2010
Non-consolidated affiliated companies	2,108	2,105
of which: UniCredit S.p.A.	2,108	2,105
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**2,108**	**2,105**

This item relates exclusively to a security issued by UniCredit.

51 Loans and receivables with banks

(€ millions)

	2011	2010
Current accounts and demand deposits	17,412	16,222
Repos[1]	5,738	12,343
Reclassified securities	3,154	4,983
Other loans to banks	17,973	12,784
Total	**44,277**	**46,332**

1 repurchase agreements

The loans and receivables with banks included €651 million (2010: €784 million) in subordinated assets at 31 December 2011.

Loans and receivables with related entities

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

	2011	2010
Non-consolidated affiliated companies	15,206	11,006
of which: UniCredit S.p.A.	8,116	6,402
Joint ventures	—	—
Associated companies	112	—
Other participating interests	100	182
Total	**15,418**	**11,188**

Besides the loans and receivables with UniCredit S.p.A., the loans and receivables of €15,206 million with non-consolidated affiliated banks include loans and receivables of €7,090 million with sister companies (mainly UniCredit Bank Austria AG and UniCredit Bank Ireland plc.).

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

(€ millions)

	2011	2010
Properly serviced loans and receivables		
Carrying amount before allowances	44,239	46,206
Portfolio allowances[1]	9	19
Carrying amount	**44,230**	**46,187**
Properly serviced loans and receivables past due		
Carrying amount before allowances	—	—
Portfolio allowances[1]	—	—
Carrying amount	**—**	**—**
Non-performing loans and receivables		
Carrying amount before allowances	203	296
Specific allowances	156	151
Carrying amount	**47**	**145**

1 including provisions for country risks

(€ millions)

	2011	2010
Loans and receivables broken down by rating class		
Not rated	2,750	7,848
Rating class 1 – 4	40,471	35,969
Rating class 5 – 8	1,025	2,422
Rating class 9 – 10	31	93
Collateral broken down by rating class		
Not rated	—	2
Rating class 1 – 4	13,711	11,785
Rating class 5 – 8	542	670
Rating class 9 – 10	18	21

52 Loans and receivables with customers

(€ millions)

	2011	2010
Current accounts	10,228	8,923
Repos[1]	5,728	484
Mortgage loans	46,097	50,062
Finance leases	1,982	2,600
Reclassified securities	4,737	6,068
Non-performing loans and receivables	4,216	5,095
Other loans and receivables	63,573	66,119
Total	**136,561**	**139,351**

1 repurchase agreements

Other loans and receivables largely comprise miscellaneous other loans, installment loans, term deposits and refinanced special credit facilities.

The loans and receivables with customers include €1,753 million (2010: €2,006 million) in subordinated assets.

Loans and receivables with customers did not include any Greek government bonds at 31 December 2011.

Notes to the Consolidated Balance Sheet (Continued)

Loans and receivables with related entities

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

(€ millions)

	2011	2010
Non-consolidated affiliated companies	210	656
Joint ventures	—	—
Associated companies	86	10
Other participating interests	600	891
Total	**896**	**1,557**

The loans and receivables of €210 million with non-consolidated affiliated companies include loans and receivables of €132 million with sister companies and €78 million with subsidiaries.

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

(€ millions)

	2011	2010
Properly serviced loans and receivables		
Carrying amount before allowances	130,053	130,496
Portfolio allowances[1]	382	579
Carrying amount	**129,671**	**129,917**
Properly serviced loans and receivables past due		
Carrying amount before allowances	2,684	4,364
Portfolio allowances[1]	10	25
Carrying amount	**2,674**	**4,339**
Non-performing loans and receivables		
Carrying amount before allowances	8,402	9,380
Specific allowances[1]	4,186	4,285
Carrying amount	**4,216**	**5,095**

1 including provisions for country risks

The non-performing loans and receivables are essentially the loans and receivables in rating classes 8-, 9 and 10. These include receivables totalling €265 million that are no longer assigned to rating classes 8-, 9 and 10 due to improved credit standings, but which have been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2011	2010
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1 – 30 days	2,413	3,852
31 – 60 days	226	363
61 – 90 days	35	124

(€ millions)

	2011	2010
Value of collateral broken down by period past due		
1 – 30 days	913	1,421
31 – 60 days	89	37
61 – 90 days	17	21

(€ millions)

	2011	2010
Loans and receivables broken down by rating class		
Not rated	14,620	9,254
Rating class 1 – 4	60,092	59,721
Rating class 5 – 8	58,161	65,787
Rating class 9 – 10	3,688	4,589
Collateral broken down by rating class		
Not rated	1,927	2,154
Rating class 1 – 4	22,473	22,774
Rating class 5 – 8	29,370	31,263
Rating class 9 – 10	1,706	2,151

Amounts receivable from customers under lease agreements (receivables from finance leases)

The amounts receivable from customers under lease agreements (receivables from finance leases) are described in more detail in Note 73.

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

Analysis of loans and receivables

(€ millions)

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

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2011	**4,436**	**623**	**5,059**
Changes affecting income			
Gross additions[1]	1,528	9	1,537
Releases	(887)	(228)	(1,115)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(833)	—	(833)
Effects of currency translation and other changes not affecting income	98	(3)	95
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2011	**4,342**	**401**	**4,743**

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

Notes to the Consolidated Balance Sheet (Continued)

Breakdown of allowances for receivables (€ millions)

	LOANS AND RECEIVABLES WITH BANKS 2011	LOANS AND RECEIVABLES WITH BANKS 2010	LOANS AND RECEIVABLES WITH CUSTOMERS 2011	LOANS AND RECEIVABLES WITH CUSTOMERS 2010
Properly serviced loans and receivables				
Carrying amount before allowances	44,239	46,206	132,737	134,860
Portfolio allowance	9	19	392	604
Carrying amount	**44,230**	**46,187**	**132,345**	**134,256**
Loans and receivables with allowances				
Carrying amount before allowances	203	296	8,402	9,380
Specific allowances	156	151	4,186	4,285
Carrying amount	**47**	**145**	**4,216**	**5,095**

54 Hedging derivatives

(€ millions)

	2011	2010
Micro fair value hedge	8	3
Fair value hedge portfolio[1]	5,280	4,202
Total	**5,288**	**4,205**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

55 Property, plant and equipment

(€ millions)

	2011	2010
Land and buildings	845	1,028
Plant and office equipment	349	302
Other property	1,712	1,723
Total[1]	**2,906**	**3,053**

1 including leased assets of €568 million (2010: €668 million). More information about leases is contained in Note 73

Other property refers essentially to assets under construction of Ocean Breeze Energy GmbH & Co. KG, Munich. This item also includes the grants of €42 million (2010: €34 million) provided by the European Union that are classified as government grants in accordance with IAS 20. Compliant with IAS 20.24, these grants have been deducted from the acquisition and production cost of the other property on the assets side of the balance sheet. The cash funds were granted on condition that specific expenses could be demonstrated by Ocean Breeze Energy GmbH & Co. KG. The company has provided the necessary evidence.

Development of property, plant and equipment (€ millions)

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

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERN-ALLY USED PROPERTY, PLANT AND EQUIPMENT[1]	OTHER PROPERTY	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2011	**2,411**	**952**	**3,363**	**1,728**	**5,091**
Write-downs and write-ups from previous years	(1,383)	(650)	(2,033)	(5)	(2,038)
Carrying amounts at 1 January 2011	**1,028**	**302**	**1,330**	**1,723**	**3,053**
Additions					
Acquisition/production costs[2]	7	105	112	(8)	104
Write-ups	3	—	3	1	4
Changes from currency translation	—	—	—	1	1
Other additions[3]	12	13	25	—	25
Disposals					
Sales	(6)	(12)	(18)	—	(18)
Amortisation and write-downs	(48)	(55)	(103)	(5)	(108)
Impairments	—	—	—	—	—
Changes from currency translation	—	—	—	—	—
Non-current assets					
or disposal groups held for sale	(118)	(1)	(119)	—	(119)
Other disposals[3]	(33)	(3)	(36)	—	(36)
Carrying amounts at 31 December 2011	**845**	**349**	**1,194**	**1,712**	**2,906**
Write-downs and write-ups					
from previous years plus year under review	1,189	702	1,891	9	1,900
Acquisition costs at 31 December 2011	**2,034**	**1,051**	**3,085**	**1,721**	**4,806**

1 including leased assets. More information about leases is contained in Note 73
2 including government grants of €42 million (2010: €34 million) deducted from other assets on the assets side of the balance sheet
3 also including changes in the group of companies included in consolidation. No companies were acquired during the reporting period

Notes to the Consolidated Balance Sheet (Continued)

56 Investment properties

The fair value of investment properties at HVB Group, which are measured at amortised cost, totalled €1,678 million (2010: €1,879 million). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. In the case of developed land, current market rents, operating costs and property yields are applied in the gross-rental method. Where necessary, property-specific considerations are also taken into account when determining the value. These property-specific factors include vacancy rates, deviations between current contractual rents and current market rents, the condition of the buildings' technical systems and so on. In the case of undeveloped land, figures for sales of nearby land that have been completed are normally taken as the basis; where these are not available, the standard land value is employed as a benchmark, with adjustments made for the individual location, size and layout of the land, among other factors.
The net carrying amount of the leased assets arising from finance leases included in investment properties amounted to €128 million for land and buildings at the reporting date.
No investment properties measured at fair value were held in 2011.

Investment properties (€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2010	**2,270**
Write-downs and write-ups from previous years	(363)
Carrying amounts at 1 January 2010	**1,907**
Additions	
Purchases	156
Write-ups	4
Changes from currency translation	—
Other additions[1]	39
Disposals	
Sales	(10)
Amortisation and write-downs	(41)
Impairments	(173)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(3)
Other disposals[1]	—
Carrying amounts at 31 December 2010	**1,879**
Write-downs and write-ups from previous years plus year under review	595
Acquisition costs at 31 December 2010	**2,474**
	INVESTMENT PROPERTIES MEASURED AT COSTS
Acquisition costs at 1 January 2011	**2,474**
Write-downs and write-ups from previous years	(595)
Carrying amounts at 1 January 2011	**1,879**
Additions	
Purchases	3
Write-ups	7
Changes from currency translation	1
Other additions[1]	76
Disposals	
Sales	(191)
Amortisation and write-downs	(40)
Impairments	(41)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(12)
Other disposals[1]	(4)
Carrying amounts at 31 December 2011	**1,678**
Write-downs and write-ups from previous years plus year under review	820
Acquisition costs at 31 December 2011	**2,498**

1 also including changes in the group of companies included in consolidation. No companies were acquired during the reporting period

57 Intangible assets

(€ millions)

	2011	2010
Goodwill	**418**	**424**
Other intangible assets		
Internally generated intangible assets	98	123
Other intangible assets	49	61
Total	**565**	**608**

Development of intangible assets

(€ millions)

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

1 also including changes in the group of companies included in consolidation. No companies were acquired during the reporting period

Notes to the Consolidated Balance Sheet (Continued)

Development of intangible assets (€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2011	**1,084**	**450**	**427**
Write-downs and write-ups from previous years	(660)	(327)	(366)
Carrying amounts at 1 January 2011	**424**	**123**	**61**
Additions			
Purchases/internally generated	—	18	18
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	—	1
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(43)	(30)
Impairments	(4)	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	(2)	—	(1)
Carrying amounts at 31 December 2011	**418**	**98**	**49**
Write-downs and write-ups from previous years plus year under review	660	360	389
Acquisition costs at 31 December 2011	**1,078**	**458**	**438**

1 also including changes in the group of companies included in consolidation. No companies were acquired during the reporting period

HVB no longer generates any software internally. Software is provided to HVB by the UniCredit-wide service provider UGIS, which was previously accounted for using the equity method before being sold to UniCredit S.p.A. in 2011.

58 Non-current assets or disposal groups held for sale

The Bank intends to sell several properties in central locations at its facilities in Munich and Hamburg classified as property, plant and equipment as part of a programme to optimise office usage and costs in Bank-owned real estate.

Several investment properties have also been designated as held for sale in connection with the disposal of non-strategic real estate.

The sale of parts of the private banking activities of UniCredit Luxembourg S.A. to DZ Privatbank S.A. agreed in 2010 was completed with effect from 31 December 2010. The transfer of assets (customer receivables) took place at the beginning of January 2011.

(€ millions)

ASSETS	2011	2010
Loans and receivables with customers	—	25
Property, plant and equipment	119	—
Investment properties	12	3
Total	**131**	**28**

59 Other assets
Other assets include prepaid expenses of €67 million (2010: €80 million).

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

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

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

The Provide-A 2005-1 and Geldilux-TS-2008 transactions expired or were terminated during 2011. The SFA-1-2008, SFA-2-2008, Provide-A 2006-1, Building Comfort 2008 and EuroConnect Issuer LC 2007-1 transactions are no longer recognised so as to reduce risk-weighted assets.

At 31 December 2011, the total volume of lending in HVB Group's full set of existing securitisation programmes put in place to reduce risk-weighted assets amounted to €5.1 billion (2010: €12 billion), serving to deduct a gross amount of €2.2 billion (2010: €4.4 billion) from risk-weighted assets compliant with Basel II or a net amount of €1.4 billion (2010: €2.4 billion), taking account of the retained tranches. Here, a risk weighting of 1,250% is assumed for the items deductible from capital.

With the Geldilux-TS-2007 true sale transaction that has been carried out, the underlying receivables with a carrying amount of €2.1 billion (2010: €2.1 billion) is still recognised in full in the balance sheet. Compliant with SIC 12, the special purpose entity set up for this purpose – Geldilux-TS-2007 S.A. is fully consolidated.

The Rosenkavalier 2008 true sale transaction makes it possible to use the securities generated as collateral for repurchase agreements with the ECB. HVB Group continues to recognise the underlying receivables and the special purpose entity set up for this purpose as fully consolidated compliant with SIC 12. The volume of lending involved totalled €7.1 billion at 31 December 2011 (2010: €8.6 billion). The Bank has retained all the tranches, meaning that there is no reduction in risk-weighted assets.

HVB Group continued its securitisation activities in 2011. In order to exploit attractive funding conditions, two further securitisations (Geldilux-TS-2011 and Geldilux-PP-2011) were concluded to go with the existing Geldilux-TS-2010 with a view to raising funds. The special purpose entity set up for this purpose is fully consolidated compliant with SIC 12 and the underlying receivables with a carrying amount of €2.2 billion are still recognised in the balance sheet in full. This has not resulted in a reduction of risk-weighted assets.

Notes to the Consolidated Balance Sheet (Continued)

Current securitisation transactions serving to reduce risk-weighted assets:

The figures shown in the table are carrying amounts at the reporting date of 31 December 2011.

ISSUER	TRANSACTION NAME	LEGAL TRANSACTION MATURITY TRANSACTION CALL DATE	TYPE OF ASSET SECURITISED	TOTAL VOLUME OF LENDING BASEL II € millions	REDUCTION IN RISK-WEIGHTED ASSETS COMPLIANT WITH BASEL II[1] € millions
UniCredit Bank AG	Promise-XXS 2006-1	12/5/2024 12/8/2012	Corporate loans	1,050	381
Total for 2006				**1,050**	**381**
UniCredit Luxembourg S. A.	GELDILUX-TS-2007	8/9/2012 8/4/2012	Euroloans	2,096	1,141
UniCredit Bank AG	EuroConnect Issuer SME 2007-1	15/11/2030 15/2/2015	Corporate loans	940	334
Total for 2007				**3,036**	**1,475**
UniCredit Bank AG	EuroConnect Issuer SME 2008-1	17/4/2033 17/4/2014	Corporate loans	1,056	355
Total for 2008				**1,056**	**355**
Total				**5,142**	**2,211**

1 does not include any retained risks

61 Deposits from banks

(€ millions)

	2011	2010
Deposits from central banks	**5,507**	**4,396**
Deposits from banks	**52,351**	**47,491**
Current accounts and demand deposits	10,356	12,815
Reverse repos[1]	21,619	8,071
Term deposits	9,995	16,192
Other liabilities	10,381	10,413
Total	**57,858**	**51,887**

1 repurchase agreements

Amounts owed to related entities

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

(€ millions)

	2011	2010
Non-consolidated affiliated companies	5,894	7,506
of which: UniCredit S.p.A.	2,101	2,768
Joint ventures	—	—
Associated companies	116	—
Other participating interests	67	73
Total	**6,077**	**7,579**

Besides the deposits from UniCredit S.p.A., the deposits of €5,894 million from non-consolidated affiliated companies include deposits of €3,793 million from sister companies; the largest single item relates to UniCredit Bank Austria AG.

62 Deposits from customers

(€ millions)

	2011	2010
Current accounts and demand deposits	52,881	47,893
Savings deposits	13,797	14,893
Reverse repos[1]	8,989	10,010
Term deposits	22,916	26,091
Other liabilities	8,859	9,607
Total	**107,442**	**108,494**

1 repurchase agreements

Amounts owed to related entities

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

(€ millions)

	2011	2010
Non-consolidated affiliated companies	304	1,061
Joint ventures	1	—
Associated companies	39	16
Other participating interests	290	154
Total	**634**	**1,231**

The deposits of €304 million from non-consolidated affiliated companies include deposits of €22 million from subsidiaries and €282 million from sister companies.

63 Debt securities in issue

(€ millions)

	2011	2010
Bonds	42,174	46,142
Other securities	493	2,534
Total	**42,667**	**48,676**

Debt securities in issue, payable to related entities

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

(€ millions)

	2011	2010
Non-consolidated affiliated companies	783	1,591
of which: UniCredit S.p.A.	515	930
Joint ventures	—	—
Associated companies	221	—
Other participating interests	—	—
Total	**1,004**	**1,591**

Besides the debt securities attributable to UniCredit S.p.A., the debt securities in issue of €783 million attributable to non-consolidated affiliated companies include debt securities of €268 million attributable to sister companies.

64 Financial liabilities held for trading

(€ millions)

	2011	2010
Negative fair values arising from derivative financial instruments	121,015	91,019
Other financial liabilities held for trading	19,760	36,077
Total	**140,775**	**127,096**

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

Notes to the Consolidated Balance Sheet (Continued)

The cumulative valuation effects of the financial liabilities held for trading in the portfolio at 31 December 2011, which result from including the own credit spread, total €302 million (2010: €115 million). Valuation income of €187 million (2010: €15 million) arising from own credit spread changes accrued for these holdings in the year under review.

65 Hedging derivatives

(€ millions)

	2011	2010
Micro fair value hedge	1	16
Fair value hedge portfolio[1]	2,323	2,075
Total	**2,324**	**2,091**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

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

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €2,417 million (2010: €1,471 million). The fair value of the netted fair value hedge portfolio derivatives represents an economic comparable amount. The hedge adjustments are recognised separately in the balance sheet (for hedged lending and deposit-taking activities) for some subsidiaries for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €160 million (2010: €100 million).

67 Liabilities of disposal groups held for sale

The liabilities disclosed in 2010 related to the sale of part of the private banking activities of UniCredit Luxembourg S.A., which has been successfully concluded.

(€ millions)

LIABILITIES	2011	2010
Deposits from customers	—	597
Financial liabilities held for trading	—	1
Total	**—**	**598**

68 Other liabilities

This item totalling €4,304 million essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

69 Provisions

(€ millions)

	2011	2010
Provisions for pensions and similar commitments	47	51
Allowances for losses on guarantees and commitments	201	283
Restructuring provisions	156	87
Actuarial provisions	35	35
Other provisions	1,674	1,445
Total	**2,113**	**1,901**

Provisions for pensions and similar commitments

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

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

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

Defined benefit plans

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

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

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

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

	31/12/2011/ 1/1/2012	31/12/2010/ 1/1/2011
Interest rate	5.25	5.00
Expected return on plan assets	5.25	5.00
Rate of increase in pension commitments	1.70	1.70
Rate of increase in future compensation and vested rights	2.00	2.00
Rate of increase over career	0 – 1.5	0 – 1.5

The funding status developed as follows: **(€ millions)**

	2011	2010	2009	2008	2007
Funded pension commitments:					
Present value of funded pension commitments	2,875	2,937	2,861	2,751	2,305
Fair value of plan assets	(3,109)	(3,153)	(3,066)	(3,010)	(2,321)
Reduction due to asset ceiling compliant with IAS 19.58B	85	51	69	104	2
Capitalised excess cover of plan assets	154	171	139	174	37
Recognised pension provisions	**5**	**6**	**3**	**19**	**23**
Unfunded pension commitments:					
Present value of unfunded pension commitments	42	45	47	85	82
Total recognised pension provisions	**47**	**51**	**50**	**104**	**105**

On account of the change of method used to determine the discount rate in the reporting period, a discount rate of 5.25% was applied when discounting the pension obligations. Applying the new method used to determine the discount rate gives rise to a total that is 50 basis points higher than under the old calculation method (see also Note 2 and Note 24).

Notes to the Consolidated Balance Sheet (Continued)

The following table shows the impact of the change of method on the funding status at 31 December 2011: (€ milions)

	TOTAL BEFORE CHANGE OF METHOD	EFFECT OF CHANGE OF METHOD	TOTAL AFTER CHANGE OF METHOD
Funded pension commitments:			
Present value of funded pension commitments	3,081	(206)	2,875
Fair value of plan assets	(3,109)	—	(3,109)
Reduction due to asset ceiling compliant with IAS 19.58B	23	62	85
Capitalised excess cover of plan assets	10	144	154
Recognised pension provisions	**5**	—	**5**
Unfunded pension commitments:			
Present value of unfunded pension commitments	43	(1)	42
Total recognised pension provisions	**48**	**(1)**	**47**

The higher discount rate causes the total obligation to be discounted more heavily, thus leading to a lower present value for the pension obligations. Netting the lower present value of the funded pension obligations with fair value of the plan assets results in a higher excess of plan assets over plan liabilities compared with the situation prior to the change of method, which is allocated to the amount of the reduction due to the asset ceiling and the capitalised excess cover of plan assets. The total pension provisions shown in the balance sheet have declined slightly as a result.

It is not necessary to adjust the 2010 figures as both methods resulted in the same discount rate in the previous reporting periods; deviations arise for the first time in the current reporting period. This is due to the fact that the method used to determine the discount rate more accurately reflects the current market situation than the old method on account of the larger underlying bond portfolio.

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

	2011	2010	2009	2008	2007
Experience adjustments to plan liabilities	(27)	(32)	(55)	(18)	(27)
Experience adjustments to plan assets	(89)	30	(15)	(102)	(58)

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

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

	2011	2010
Present value of the pension claims vested in the year under review	(36)	(33)
Interest expense	(113)	(117)
Expected income from plan assets	119	122
Losses from changes to plans	1	—
Total	**(29)**	**(28)**

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

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

	2011	2010
Balance at 1 January	**2.937**	**2.861**
Present value of the pension claims vested in the year under review	47	43
Interest expense	144	147
Contributions from plan participants	2	4
Actuarial gains/(losses)	(124)	5
Payments affecting liquidity	(131)	(129)
Changes in consolidated group	—	3
Changes arising from foreign currency translation	2	2
Other changes	(2)	1
Balance at 31 December	**2,875**	**2,937**

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

	2011	2010
Balance at 1 January	**45**	**47**
Present value of the pension claims vested in the year under review	1	1
Interest expense	2	2
Contributions from plan participants	—	—
Actuarial gains/(losses)	(1)	—
Payments affecting liquidity	(3)	(3)
Changes in consolidated group	—	—
Changes arising from foreign currency translation	—	—
Other changes	(2)	(2)
Balance at 31 December	**42**	**45**

The change of method used to determine the discount rate had an impact on the development of the present value of the pension obligations during the course of the year. As shown in the analysis above, the present value of the funded pension obligations falls by €206 million, from €3,081 million to €2,875 million, at 31 December 2011 on account of the change of method; the present value of the unfunded pension obligations declines by €1 million, from €43 million to €42 million.

The changeover effect arising from the altered amount of the underlying discount rate yielded actuarial gains in the reporting period. In the case of the funded pension obligations, the change of method results in an actuarial gain of €124 million being recorded on account of an increase in the interest rate from 5.00% to 5.25% (new method) instead of an actuarial loss of €82 million on account of a reduction of the interest rate from 5.00% to 4.75% (old method). In the case of the unfunded pension obligations, applying the interest rate based on the old calculation method gives rise to actuarial insignificant gains/losses, while applying the new method leads to an actuarial gain of €1 million. The net effect of €207 million resulting from the change of method during the reporting period is recognised directly in equity (other comprehensive income) and carried under retained earnings. The income statement was not affected in the reporting period.

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

Notes to the Consolidated Balance Sheet (Continued)

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

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

	2011	2010
Equities	28	13
Fixed-income securities	84	90
Property	86	85
Other assets	77	84
Investment funds	2,834	2,881
Plan assets	**3,109**	**3,153**

The fixed-income securities include own bonds of €5 million (2010: €0 million). The plan assets also include real estate used by the Bank with a fair value of €7 million (2010: €5 million). Furthermore, term and overnight deposits of €69 million (2010: €79 million) deposited with HVB are shown under other assets. The investment funds include own financial instruments with a fair value of €446 million (2010: €390 million), of which €367 million (2010: €363 million) relates to promissory loans and fixed-income securities and €79 million (2010: €27 million) to Pfandbriefs.

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

	2011	2010
Balance at 1 January	**3,153**	**3,066**
Expected income from plan assets	155	158
Actuarial gains/(losses)	(104)	30
Allocations to plan assets	35	24
Employee contributions	—	—
Disbursements to beneficiaries	(132)	(129)
Additional allocations in the form of benefits not taken	—	—
Changes in exchange rates	2	2
Changes in consolidated group	—	2
Balance at 31 December	**3,109**	**3,153**

With regard to the plan assets, the item actuarial gains shows the difference between the expected income from plan assets and the income from plan assets actually realised. The balance of expected income and actuarial gains from plan assets gives the actual income from plan assets of €51 million.

The cumulative actuarial losses recognised in shareholders' equity compliant with IAS 19.93A totalled €286 million in 2011 (2010: €274 million) before deferred taxes and minority interests. Compliant with IAS 19.93C, the total also includes adjustments caused by changes in the limit defined in IAS 19.58B in that changes to the fair value of plan assets that are subject to a cap due to the limit set in IAS 19.58B are not included in the income from plan assets.

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

HVB Group is planning to make contributions totalling €29 million to defined benefit plans in 2012.

Defined contribution plans

HVB Group companies make contributions for commitments made by independent pension organisations. The pension obligations funded through retirement benefit corporations with matching cover are recognised as defined contribution plans. The cost of defined contribution plans and for the retirement benefit corporation totalled €80 million in 2011 (2010: €41 million).

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

	ALLOWANCES FOR LOSSES ON FINANCIAL GUARANTEES	RESTRUCTURING PROVISIONS	ACTUARIAL PROVISIONS	OTHER PROVISIONS
Balance at 1 January 2011	**283**	**87**	**35**	**1,445**
Changes in consolidated group	—	—	—	—
Changes arising from foreign currency translation	—	—	—	—
Transfers to provisions	87	93	—	590
Reversals	(73)	—	—	(251)
Reclassifications	—	(7)	—	23
Amounts used	(96)	(17)	—	(133)
Non-current assets or disposal groups held for sale	—	—	—	—
Balance at 31 December 2011	**201**	**156**	**35**	**1,674**

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

Transfers were made to restructuring provisions in 2011 in connection with the strategic reorientation of the CIB division, notably including the discontinuation of the cash equity activities for western Europe and the equity research business. At the same time, we set up restructuring provisions as part of a cost-optimisation programme in the central corporate centre functions of the divisions and selected competence lines, among other things. For the most part, this relates to provisions for severance payments, most of which are expected to be used in 2012 and 2013, although both programmes will be completed by 2015.

The amounts utilised in 2011 result from restructuring programmes initiated in previous years, and notably from the provisions set up in 2010 with regard to the sale of parts of the private banking activities of UniCredit Luxembourg S.A.

The actuarial provisions relate to commitments arising from reinsurance policies written by our Grand Central Re Ltd. subsidiary.

Other provisions include provisions for litigation fees, damage payments, anticipated losses including rental guarantees and provisions for long-term liabilities to employees such as service anniversary awards, early retirement or partial retirement. Other provisions also include a provision arising from the obligation to complete an offshore wind farm. HVB Group has undertaken to fund this offshore wind farm located in the North Sea, around 100 kilometres off the German coast. In particular, delays to the completion of the wind farm led to a provision totalling €413 million at 31 December 2011 being set up in 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. Allowances for losses on loans and receivables were set up in this context, with the total amount reaching €297 million at 31 December 2011. This means that, at year-end 2011, HVB had total provisions of €710 million (2010: €425 million) for the obligation to complete the offshore wind farm, of which €413 million is attributable to other provisions and €297 million to allowances for losses on loans and receivables.

The amount of the respective provisions reflects the best estimate of the amount required to settle the obligation at the reporting date. Nevertheless, the amounts involved are subject to uncertainties in the estimates made. Besides the assumptions regarding periods, the cost estimates are validated regularly for rental guarantees in particular.

Other provisions also include the parts of the bonus that are disbursed on a deferred basis with the waiting period exceeding one year. Accordingly, the bonus payments for the 2010 financial year to be disbursed as of 2012 are recorded here together with the parts of the bonus payments for 2011 to be disbursed as of 2013. The bonus provisions included here have been taken to the income statement in both the reporting period and the previous financial years. It is considered highly probable that the bonus will be disbursed. For details of the bonus plan, please refer to Note 37.

Notes to the Consolidated Balance Sheet (Continued)

Besides this, the provisions for the Retention Awards Programme are also included in this item. In addition to the bonus for the present financial year, selected employees in investment banking received a retention award in previous years, which is disbursed later (after two years), provided that these employees are still working for HVB Group at that time. The award granted to the eligible employees attracts interest of 4.2% over the waiting period. No further provisions were set aside for the Retention Awards Programme in 2011. The Retention Award Programme from 2008 was disbursed in 2011.

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

70 Shareholders' equity

Breakdown of shareholders' equity

Subscribed capital

At 31 December 2011, the subscribed capital of HVB totalled €2,407 million (2010: €2,407 million) and consisted of 802,383,672 shares of common bearer (no par shares) (2010: 802,383,672 no par shares).

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share. The shares are fully paid in.

Additional paid-in capital

The additional paid-in capital results from premiums generated on the issuance of shares; the total at 31 December 2011 amounted to €9,791 million (2010: €9,791 million).

Retained earnings

The retained earnings at 31 December 2011 consisted exclusively of other retained earnings of €9,389 million (2010: €9,485 million).

Change in valuation of financial instruments

The reserves arising from changes in the valuation of financial instruments recognised in equity totalled minus €112 million (2010: minus €87 million) at 31 December 2011. The €25 million decline year-on-year can be attributed to the €32 million decrease in the hedge reserve to €22 million, while the AfS reserve rose by €7 million to minus €134 million. This results primarily from positive fair value fluctuations notably in our shareholdings and fixed-income securities classified as available for sale. This was offset by the effect arising from the sale of available-for-sale financial assets.

71 Subordinated capital

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

	2011	2010
Subordinated liabilities	2,496	2,628
Participating certificates outstanding	155	205
Hybrid capital instruments	804	1,299
Total	**3,455**	**4,132**

Pursuant to Section 10 (4 and 5a) and as of 31 December 2011 Section 64m (1) KWG and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities and hybrid capital instruments) was carried as core capital and supplementary capital in 2011.

No participating certificates outstanding were included in the supplementary capital as of 31 December 2011, as the participating certificates fall due for repayment in less than two years.

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

	2011	2010
Deposits from customers	181	234
Deposits from banks	538	538
Debt securities in issue	2,736	3,360
Total	**3,455**	**4,132**

We have incurred interest expenses of €210 million in connection with this subordinated capital. Subordinated capital includes proportionate interest of €89 million.

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

There were subordinated liabilities of €787 million payable to related entities in 2011.

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

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

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

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

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

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

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

Hybrid capital instruments
At 31 December 2011, HVB Group had hybrid core capital of €779 million (eligible amount compliant with the German Banking Act) to bolster its capital base.

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

These instruments differ from supplementary capital in that they are subject to more stringent conditions in terms of maturity. The terms of issue for capital contributions from silent partners envisage a minimum term of 30 years, while an unlimited term has been agreed with the investors for preferred shares. In addition, hybrid capital instruments are not repaid until after supplementary capital has been repaid (subordinated liabilities) in the event of bankruptcy.

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

Both the German Federal Banking Supervisory Authority and the Basel Committee on Banking Supervision have expressly confirmed the recognition of hybrid capital for banking supervisory purposes. The eligibility of hybrid core capital under Section 64m KWG is continued by the version of the German Banking Act applicable from 31 December 2010.

Notes to the Cash Flow Statement

72 Notes to the items in the cash flow statement

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

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

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

Gains of €79 million were realised on the sale of shares in fully consolidated companies in the 2011 financial year, of which €79 million was in cash.

The following table shows the assets and liabilities of the companies sold. There were no acquisitions in 2011. (€ milions)

	2011		2010	
	ACQUIRED	SOLD	ACQUIRED	SOLD
Assets				
Cash and cash balances	—	—	—	—
Financial assets held for trading	—	—	17,807	—
Financial assets at fair value through profit or loss	—	—	2	—
Available-for-sale financial assets	—	—	82	—
Shares in associated companies accounted for using the equity method				
and joint ventures accounted for using the equity method	—	—	—	—
Held-to-maturity investments	—	—	—	—
Loans and receivables with banks	—	7	9,943	—
Loans and receivables with customers	—	2	26	—
Hedging derivatives	—	—	1,663	—
Property, plant and equipment	—	75	—	—
Investment properties	—	—	—	—
Intangible assets	—	2	—	—
of which: goodwill	—	—	—	—
Tax assets	—	—	59	—
Non-current assets or disposal groups held for sale	—	—	—	—
Other assets	—	—	20	—
Liabilities				
Deposits from banks	—	3	5,758	—
Deposits from customers	—	33	152	—
Debt securities in issue	—	—	—	—
Financial liabilities held for trading	—	—	15,843	—
Hedging derivatives	—	—	1,829	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Tax liabilities	—	—	54	—
Liabilities of disposal groups held for sale		—	—	
Other liabilities	—	4	21	—
Provisions	—	—	1	—

There were no disposals in 2010.

Other Information

73 Information regarding lease operations

HVB Group as lessor

Operating leases

HVB Group acts as a lessor under operating leases. At present, the relevant lease agreements notably encompass real estate (land and buildings) and movable assets such as plant and office equipment, aircraft, motor vehicles and industrial machinery. The lease agreements for real estate are based on customary market terms and contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have generally not been agreed. The lease agreements for movable assets have generally been concluded with lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the breakdown of the minimum lease payments to be received on non-cancellable operating leases: (€ millions)

	2011
Remaining maturity:	
up to 12 months	39
from 1 year to 5 years	267
from 5 years and over	252
Total	**558**

As in 2010, the operating agreements do not contain any conditional lease payments at present.

Finance leases

HVB Group leases mobile assets as a lessor under finance leases. This notably includes plant and office equipment, aircraft, motor vehicles and industrial machinery. As a general rule, the lease agreements stipulate lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the reconciliation from the future minimum lease payments to the gross and net investment in the lease and to the present value of the future minimum lease payments at the reporting date. The amounts receivable from lease operations (finance leases) consist of the following: (€ millions)

	2011	2010
Future minimum lease payments	2,228	2,926
+ Unguaranteed residual value	—	—
= Gross investment	**2,228**	**2,926**
– Unrealised finance income	(216)	(273)
= Net investment	**2,012**	**2,653**
– Present value of unguaranteed residual value	—	—
= Present value of future minimum lease payments	**2,012**	**2,653**

The future minimum lease payments reflect the total lease payments to be made by the lessee under the lease agreement plus the guaranteed residual value.

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

For the lessor, the gross investment in the lease is the aggregate of the minimum lease payments under a finance lease and any unguaranteed residual value accruing to the lessor.

Unrealised finance income is the difference between the lessor’s gross investment in the lease and its present value (net investment). It corresponds to the internal implicit in the lease between the reporting date and the end of the lease.

The present value of the minimum lease payments is calculated as the net investment in the lease less the present value of the unguaranteed residual value.

Other Information (Continued)

The following table shows the remaining maturity of the gross investment in the leases and the present value of the minimum lease payments: (€ millions)

	GROSS INVESTMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2011	2010	2011	2010
Remaining maturity:				
up to 12 months	709	1,263	618	1,148
from 1 year to 5 years	1,275	1,518	1,162	1,376
from 5 years and over	244	145	232	129
Total	**2,228**	**2,926**	**2,012**	**2,653**

The cumulative write-downs on uncollectable outstanding minimum lease payments in amounts receivable from customers under finance leases amounted to €2 million at the end of the reporting period (2010: €4 million).

As in 2010, the finance lease agreements do not contain any conditional lease payments at present.

HVB Group as lessee

Operating leases

HVB Group acts as lessee under operating leases. The current obligations relate primarily to rental and lease agreements for real estate (land and buildings) and movable assets, mainly comprising plant, office equipment and motor vehicles. The lease agreements for real estate generally contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have been agreed in some cases. The lease agreements for movable assets have been concluded at customary market terms for lease periods of between three and nine years.

In the reporting period, the commitments arising from operating leases under lease and sublease agreements resulted in minimum lease payments of €149 million being recognised as expense in the income statement.

The following table shows the cumulative minimum lease payments arising from non-cancellable operating leases to be expected in future financial years: (€ millions)

	2011
Remaining maturity:	
up to 12 months	146
from 1 year to 5 years	219
from 5 years and over	180
Total	**545**

The agreements regarding the outsourcing of ICT processes to the UniCredit-wide service provider UGIS (see Note 5) include the charged transfer of rights to use assets in the form of operating leases. The full service contracts concluded annually in this regard consist for the most part of rent payments for the provision of hardware and software that are included in the minimum lease payments of €50 million for the reporting period and €57 million for the following financial year mentioned above.

HVB Group has concluded sublease agreements for real estate at customary market terms, some of which include rent adjustment clauses and extension options. Payments of €28 million (2010: €28 million) received from subleases were recognised as income in the income statement during the reporting period.

The aggregate future minimum lease payments arising from non-cancellable subleases expected to be received in the subsequent financial years amount to €126 million.

As last year, the operating leases do not contain any conditional rent payments.

Finance leases

The finance leases entered into by HVB Group as lessee relate to real estate (land and buildings). The lease agreements generally contain an option to purchase price adjustment clauses.

The following table shows the reconciliation from the aggregate future minimum lease payments at the reporting date to their present value. This gives rise to the amounts payable to customers from lease operations (finance leases): **(€ millions)**

	2011	2010
Future minimum lease payments	361	406
– Finance charge (interest included in minimum lease payments)	(88)	(97)
= Present value of future minimum lease payments	**273**	**309**

The difference between the future minimum lease payments and their present value represents unamortised interest expense.

The following table shows the remaining maturity of the future minimum lease payments and their present value at the reporting date: **(€ millions)**

	FUTURE MINIMUM LEASE PAYMENTS		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2011	2010	2011	2010
Remaining maturity:				
up to 12 months	47	44	47	44
from 1 year to 5 years	72	104	65	96
from 5 years and over	242	258	161	169
Total	**361**	**406**	**273**	**309**

The aggregate future minimum lease payments arising from non-cancellable subleases that are expected to be received in the subsequent financial years amounts to €29 million.

Conditional rent payments of €15 million (2010: €17 million) arising from finance leases were recognised as expense in the income statement in the reporting period.

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

No further assets held for trading have been reclassified as loans and receivables in 2011. The intention to trade no longer exists for the assets reclassified in 2008 and 2009 since the markets in these financial instruments had become illiquid as a result of the extraordinary circumstances created by the financial crisis (2008/09) through to the time of reclassification. Given the high quality of the assets concerned, HVB intends to retain the assets for a longer period. HVB has not reclassified any assets from the available-for-sale portfolio.

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

RECLASSIFIED ASSET-BACKED SECURITIES AND OTHER DEBT SECURITIES	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1]	FAIR VALUE OF ALL RECLASSIFIED ASSETS	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS
Reclassified in 2008			
Balance at 31/12/2008	13.7	11.8	14.6
Balance at 31/12/2009	9.0	8.0	9.7
Balance at 31/12/2010	6.5	5.9	7.0
Balance at 31/12/2011	4.7	4.0	5.0
Reclassified in 2009			
Balance at 31/12/2009	7.3	7.4	7.4
Balance at 31/12/2010	4.6	4.5	4.6
Balance at 31/12/2011	3.2	3.2	3.3
Balance of reclassified assets at 31/12/2011	**7.9**	**7.2**	**8.3**

1 before accrued interest

Other Information (Continued)

The fair value of the financial instruments reclassified as loans and receivables with banks and customers amounts to a total of €7.2 billion at 31 December 2011. If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (including realised disposals) would have given rise to a net gain of €96 million in net trading income in the 2011 financial year. A net gain of €416 million would have arisen in net trading income in 2010 and of €1,159 million in 2009, while a net loss of €1,792 million would have accrued in net trading income from the reclassified holdings in 2008. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification.

We took write-downs of €3 million on the reclassified assets in 2011 (2010: €8 million, 2009: €80 million, 2008: €63 million). The fair value at the date when the reclassification takes effect represents the new acquisition cost, which in some cases is considerably less than the nominal value. Accordingly, this difference (discount) is to be amortised over the remaining term of the reclassified financial assets. This together with the reclassified securities that had matured or been partially repaid gives rise to an effect of €100 million (2010: €160 million, 2009: €208 million, 2008: €127 million), which is recognised in net interest income. The effective interest rates for the reclassified securities are in a range from 0.77% to 16.04%.

A gain of €14 million (2010: €19 million, 2009: €83 million) on reclassified securities that had been sold was recognised in the income statement in 2011.

In 2011, the reclassifications carried out in 2008 and 2009 resulted in a profit before tax that was €15 million higher. Between the date when the reclassifications took effect and the reporting date, the cumulative net impact on the income statement from the reclassifications already carried out totalled €678 million before tax (2011: plus €15 million, 2010: minus €245 million, 2009: minus €948 million, 2008: plus €1,856 million).

75 Notes to selected structured products

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

ABS portfolio

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

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:

- residential mortgage-backed securities (RMBS) relating to mortgage loans in the private sector (residential mortgage loans)
- commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans)
- collateralised loan obligations (CLO) relating to commercial bank loans
- collateralised bond obligations (CBO) relating to securities portfolios.

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

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

CARRYING AMOUNTS		31/12/2011				31/12/2010
		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Positions retained from own securitisations		**225**	**97**	**—**	**322**	**469**
Positions in third-party ABS transactions		**3,371**	**1,425**	**33**	**4,829**	**5,139**
Residential mortgage-backed securities (RMBS)		1,656	483	—	2,139	2,320
thereof:						
US subprime		2	—	—	2	—
US Alt-A		2	—	—	2	6
Commercial mortgage-backed securities (CMBS)		684	309	—	993	1,018
Collateralised debt obligations (CDO)		53	92	—	145	242
thereof:						
US subprime		—	—	—	—	7
US Alt-A		—	—	—	—	4
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		704	401	29	1,134	913
Consumer loans		120	60	4	184	271
Credit cards		—	—	—	—	3
Leases		151	61	—	212	263
Others		3	19	—	22	109
Total	**31/12/2011**	**3,596**	**1,522**	**33**	**5,151**	
	31/12/2010	**4,133**	**1,461**	**14**	**5,608**	
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2011**	**27**	**37**	**17**	**81**	
	31/12/2010	**15**	**237**	**44**	**296**	

1 the amounts shown in the table represent the carrying amount (fair value)

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

Other Information (Continued)

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

CARRYING AMOUNTS		31/12/2011				
		EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**322**	**—**	**—**	**—**	**322**
Positions in third-party ABS transactions		**3,923**	**671**	**31**	**204**	**4,829**
Residential mortgage-backed securities (RMBS)		1,954	4	26	155	2,139
thereof:						
US subprime		—	2	—	—	2
US Alt-A		—	2	—	—	2
Commercial mortgage-backed securities (CMBS)		824	166	3	—	993
Collateralised debt obligations (CDO)		39	103	2	1	145
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		809	277	—	48	1,134
Consumer loans		85	99	—	—	184
Credit cards		—	—	—	—	—
Leases		191	21	—	—	212
Others		21	1	—	—	22
Total	**31/12/2011**	**4,245**	**671**	**31**	**204**	**5,151**
	31/12/2010	**4,851**	**452**	**62**	**243**	**5,608**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2011**	**29**	**52**	**—**	**—**	**81**
	31/12/2010	**10**	**286**	**—**	**—**	**296**

1 the amounts shown in the table represent the carrying amount (fair value)

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

CARRYING AMOUNTS		31/12/2011			
		LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**234**	**88**	**—**	**322**
Positions in third-party ABS transactions		**492**	**2,668**	**1,669**	**4,829**
Residential mortgage-backed securities (RMBS)		163	829	1,147	2,139
thereof:					
US subprime		—	1	1	2
US Alt-A		—	2	—	2
Commercial mortgage-backed securities (CMBS)		138	715	140	993
Collateralised debt obligations (CDO)		10	36	99	145
thereof:					
US subprime		—	—	—	—
US Alt-A		—	—	—	—
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		87	808	239	1,134
Consumer loans		41	104	39	184
Credit cards		—	—	—	—
Leases		49	162	1	212
Others		4	14	4	22
Total	**31/12/2011**	**726**	**2,756**	**1,669**	**5,151**
	31/12/2010	**571**	**3,658**	**1,379**	**5,608**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2011**	**—**	**67**	**14**	**81**
	31/12/2010	**—**	**71**	**225**	**296**

1 the amounts shown in the table represent the carrying amount (fair value)

Other Information (Continued)

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

		31/12/2011					
CARRYING AMOUNTS		HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**76**	**—**	**—**	**—**	**246**	**322**
Positions in third-party ABS transactions		**488**	**72**	**3,876**	**96**	**297**	**4,829**
Residential mortgage-backed securities (RMBS)		81	30	1,947	1	80	2,139
thereof:							
US subprime		—	—	—	2	—	2
US Alt-A		—	—	2	—	—	2
Commercial mortgage-backed securities (CMBS)		94	7	857	—	35	993
Collateralised debt obligations (CDO)		15	17	91	20	2	145
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	—	—	—	—
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		272	12	678	61	111	1,134
Consumer loans		—	—	173	11	—	184
Credit cards		—	—	—	—	—	—
Leases		26	—	115	2	69	212
Others		—	6	15	1	—	22
Total	**31/12/2011**	**564**	**72**	**3,876**	**96**	**543**	**5,151**
	31/12/2010	**566**	**96**	**4,204**	**42**	**700**	**5,608**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2011**	**81**	**—**	**—**	**—**	**—**	**81**
	31/12/2010	**296**	**—**	**—**	**—**	**—**	**296**

1 the amounts shown in the table represent the carrying amount (fair value)

Fully consolidated commercial paper conduits and other consolidated special purpose vehicles
Alongside the directly held portfolios of own and external ABS transactions, further structured products are held through commercial paper conduits (SPVs that issue short-term commercial paper to refinance their assets) and other fully consolidated special purpose vehicles that are managed by HVB. Essentially, these involve credit receivables of third parties that are securitised by HVB using the services of the commercial paper conduits. Positions in hedge funds and customer receivables held by fully consolidated special purpose entities are also shown. An amount of €191 million out of the total €1,388 million disclosed under “Other” relates to investments under which HVB passes on all the risks and rewards to customers.

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

(€ millions)

CARRYING AMOUNTS		31/12/2011 SENIOR	MEZZANINE	JUNIOR	TOTAL	31/12/2010 TOTAL
Residential mortgage loans/ residential mortgage-backed securities (RMBS)		—	1,243	404[1]	1,647	1,722
Commercial mortgage loans/ commercial mortgage-backed securities (CMBS)		628	—	—	628	992
Collateralised debt obligations (CDO)		—	—	—	—	3
Collateralised loan obligations (CLO)/ collateralised bond obligations (CBO)		—	—	—	—	95
Consumer loans		582	110	—	692	599
Credit cards		—	—	—	—	—
Leases		905	—	—	905	553
Other (including hedge fund investments)		656	414	318[2]	1,388	1,726
Total	**31/12/2011**	**2,771**	**1,767**	**722**	**5,260**	
	31/12/2010	**2,031**	**2,831**	**828**	**5,690**	

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

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

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

(€ millions)

CARRYING AMOUNTS		31/12/2011 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**

Other Information (Continued)

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

CARRYING AMOUNTS		31/12/2011 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Residential mortgage loans/					
residential mortgage-backed securities (RMBS)		404	—	1,243	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)		1,382	6	—	1,388
Total	**31/12/2011**	**3,383**	**634**	**1,243**	**5,260**
	31/12/2010	**2,974**	**91**	**2,625**	**5,690**

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

CARRYING AMOUNTS		31/12/2011 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Residential mortgage loans/							
residential mortgage-backed securities (RMBS)		—	—	1,647	—	—	**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)		318	—	1,070	—	—	**1,388**
Total	**31/12/2011**	**318**	**—**	**4,942**	**—**	**—**	**5,260**
	31/12/2010	**409**	**321**	**4,536**	**75**	**349**	**5,690**

76 Fair value hierarchy

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

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

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

Financial assets and liabilities of €10.7 billion (2010: €1,368 million) have been transferred between Level 1 and Level 2. Almost all of this total relates to fixed-income securities issued by reliable borrowers for which the fair value is calculated using valuation models based on valuation parameters that can be observed on an active market as the fair value can no longer be observed on an active market. At the same time, financial assets and liabilities of €768 million (2010: €1,494 million) migrated between Level 2 and Level 1. For the most part, this involves fixed-income securities for which a fair value can now be observed on an active market. The other securities concerned are equities.

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

If the value of a financial instrument is based on non-observable input parameters, the value of these parameters may be selected from a range of possible appropriate alternatives at the balance sheet date. Appropriate values are determined for these non-observable parameters and applied for valuation purposes, when the annual financial statements are prepared, reflecting the predominant market conditions of the Group. In addition, individual parameters that cannot be incorporated separately as standalone valuation parameters are taken into account by applying a model reserve.

The impact of changing possible appropriate alternative parameter values on the fair value (after adjustments) is shown in the sensitivity analysis presented below. For portfolios at fair value through profit or loss, the positive change in fair values at 31 December 2011 resulting from the use of possible appropriate alternatives would be €143 million (2010: €186 million), and the negative change would be €80 million (2010: €67 million).

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

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

More conservative and more aggressive values for correlations between the fair value of the credit derivative (CDS) and the respective underlying and implicit correlations were applied for credit derivatives than was the case as part of the fair value calculation. Furthermore, rating-dependent shifts were assumed for illiquid CDS. The same approach is applied when measuring the issuer risk associated with securities.

In terms of these debt instruments, varying plausible repayment scenarios and associated developments in debtor-specific ratios were assumed as value drivers for debt instruments as part of the sensitivity analyses that would lead to modified cash flows from the instruments.

Other Information (Continued)

The following tables show the assignment of the financial assets and financial liabilities shown in the balance sheet to the respective levels of the fair value hierarchy:

(€ millions)

	31/12/2010		
	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET[1] (LEVEL 3)
Financial assets recognised in the			
balance sheet at fair value			
Financial assets held for trading	28,220	101,456	3,713
thereof: derivatives	2,562	83,491	2,433
Financial assets at fair value through profit or loss	15,856	10,099	676
Available-for-sale financial assets[1]	2,369	1,234	896
Hedging derivatives	—	4,205	—
Financial liabilities recognised in the			
balance sheet at fair value			
Financial liabilities held for trading	12,906	110,710	3,480
thereof: derivatives	4,285	83,556	3,178
Hedging derivatives	1	2,090	—

1 available-for-sale financial assets include financial instruments of €1,416 million valued at historical cost that are not included in these totals at 31 December 2010

(€ millions)

	31/12/2011		
	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET[1] (LEVEL 3)
Financial assets recognised in the			
balance sheet at fair value			
Financial assets held for trading	15,177	128,424	5,455
thereof: derivatives	3,165	112,621	3,167
Financial assets at fair value through profit or loss	5,357	21,524	1,164
Available-for-sale financial assets[1]	2,629	774	671
Hedging derivatives	—	5,288	—
Financial liabilities recognised in the			
balance sheet at fair value			
Financial liabilities held for trading	8,787	127,829	4,159
thereof: derivatives	3,907	113,957	3,151
Hedging derivatives	1	2,323	—

1 available-for-sale financial assets include financial instruments of €1,402 million valued at historical cost that are not included in these totals at 31 December 2011

The following tables show the development of the financial assets and financial liabilities that are assigned to Level 3 as part of the fair value hierarchy:

(€ millions)

	2011			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2011	**3,713**	**676**	**896**	**—**
Additions				
Acquisitions	3,605	21	3,383	—
Realised gains[1]	1,266	119	69	—
Transfer from other levels	4,833	4,924	2,672	—
Other additions[2]	—	3	44	—
Reductions				
Sale/repayment	(3,927)	(45)	(3,559)	—
Realised losses[1]	(1,325)	(87)	(153)	—
Transfer to other levels	(2,710)	(4,447)	(2,358)	—
Other reductions	—	—	(323)	—
Balance at 31/12/2011	**5,455**	**1,164**	**671**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

(€ millions)

	2011	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2011	**3,480**	**—**
Additions		
Sale/issue	3,159	—
Realised losses[1]	529	—
Transfer from other levels	3,467	—
Other additions[2]	—	—
Reductions		
Buy-back/redemption	(2,889)	—
Realised gains[1]	(274)	—
Transfer to other levels	(3,313)	—
Other reductions	—	—
Balance at 31/12/2011	**4,159**	**—**

1 in the income statement
2 also including changes in the group of companies included in consolidation

Other Information (Continued)

(€ millions)

	2010			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2010	**2,729**	**400**	**471**	**1**
Additions				
Acquisitions	2,185	10	194	—
Realised gains[1]	755	7	44	1
Transfer from other levels	1,975	715	428	—
Other additions[2]	517	26	182	—
Reductions				
Sale/repayment	(1,452)	(23)	(181)	—
Realised losses[1]	(612)	(4)	6	—
Transfer to other levels	(2,384)	(445)	(215)	(2)
Other reductions	—	—	(33)	—
Balance at 31/12/2010	**3,713**	**676**	**896**	**—**

1 in the income statement
2 also including changes in the group of companies included in consolidation

(€ millions)

	2010	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2010	**3,208**	**—**
Additions		
Sale/issue	1,318	—
Realised losses[1]	587	—
Transfer from other levels	2,040	—
Other additions[2]	181	—
Reductions		
Buy-back/redemption	(389)	—
Realised gains[1]	(591)	—
Transfer to other levels	(2,874)	—
Other reductions	—	—
Balance at 31/12/2010	**3,480**	**—**

1 in the income statement
2 also including changes in the group of companies included in consolidation

77 Fair values of financial instruments compliant with IFRS 7

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

The fair values are calculated using the market information available at the reporting date as well as individual company valuation methods.

(€ billions)

	2011		2010	
ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash balances	4.3	4.3	3.1	3.1
Financial assets held for trading	149.1	149.1	133.4	133.4
Financial assets at fair value through profit or loss	28.0	28.0	26.6	26.6
Available-for-sale financial assets				
thereof measured				
at cost	1.4	1.4	1.4	1.4
at fair value	4.1	4.1	4.5	4.5
Shares in associated companies accounted for using the equity method				
and joint ventures accounted for using the equity method	—	—	0.1	0.1
Held-to-maturity investments	2.5	2.4	2.6	2.6
Loans and receivables with banks	44.3	44.1	46.3	46.6
Loans and receivables with customers	136.6	141.3	139.4	141.4
Hedging derivatives	5.3	5.3	4.2	4.2
Total	**375.6**	**380.0**	**361.6**	**363.9**

The hedge adjustment amount of hedged items in the fair value hedge portfolio shown in 2010 under assets and liabilities is an item that contains commercially interest-induced changes in the fair value of the items hedged against interest rate risk and does not reflect standalone assets or liabilities. When comparing carrying amounts and fair values for the hedged items shown in the table above, it should be noted that part of the undisclosed reserves/charges has already been included in the hedge adjustment amount.

(€ billions)

	2011		2010	
LIABILITIES	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Deposits from banks	57.9	58.5	51.9	52.0
Deposits from customers	107.4	107.9	108.5	108.5
Debt securities in issue	42.7	45.2	48.7	50.4
Financial liabilities held for trading	140.8	140.8	127.1	127.1
Hedging derivatives	2.3	2.3	2.1	2.1
Total	**351.1**	**354.7**	**338.3**	**340.1**

Other Information (Continued)

(€ billions)

	2011		2010	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial guarantees and irrevocable credit commitments	61.2	61.2	58.9	58.9

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate.

For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates taking into account the respective spreads. The spread used here for receivables is determined on the basis of Basel II-compliant expected loss values and the cost of capital. Where loans and receivables with banks and customers contain reclassified securities, these are stated at the fair value shown in Note 74.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. The fair value of the remaining securities is calculated as the net present value of anticipated future cash flows.

The fair values of single currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally accepted models used to calculate the price of options. The common Black & Scholes (equity, currency and index instruments) or lognormal models (interest instruments) are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value.

Where the fair value of non-listed assets cannot be reliably determined, such assets are recognised at amortised cost.

The fair values of financial guarantees and irrevocable credit commitments are the same as their carrying amounts.

The difference in HVB Group between the fair values and carrying amounts totals €4.4 billion for assets and €3.6 billion for liabilities. The balance of these amounts is €0.8 billion.

78 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39 (c). These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the respective maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €40,180 million (2010: €39,721 million). This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as the complete utilisation of all open credit commitments and financial guarantees on the next day cannot be expected. The same holds true for the presentation of the fair values of trading derivatives.

Breakdown of financial assets by maturity bucket (€ millions)

	2010						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	20,411	1,155	1,053	2,821	15,127	6,638	8,300
Derivatives on financial assets held for trading	88,700	—	—	—	—	—	—
Financial assets at fair value							
through profit or loss	—	503	937	1,996	21,494	3,551	—
Available-for-sale financial assets	12	25	36	192	2,609	4,224	1,125
Held-to-maturity investments	7	—	—	13	2,440	167	4
Loans and receivables with banks	8,075	20,421	1,920	4,836	6,323	3,651	167
Loans and receivables with customers	7,578	13,054	13,658	18,571	56,145	37,225	6,018
Hedging derivatives	—	109	533	998	2,212	623	—

(€ millions)

	2011						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	7,943	1,392	1,388	4,200	9,497	3,647	6,287
Derivatives on financial assets held for trading	118,953	—	—	—	—	—	—
Financial assets at fair value							
through profit or loss	—	231	563	3,403	22,604	2,796	—
Available-for-sale financial assets	—	91	354	338	2,279	922	1,926
Held-to-maturity investments	—	25	16	2,172	133	132	—
Loans and receivables with banks	14,881	11,435	1,781	5,573	9,354	2,070	36
Loans and receivables with customers	11,987	8,244	10,720	12,915	49,517	64,812	8,232
Hedging derivatives	—	129	639	1,200	2,532	1,196	—

Other Information (Continued)

Breakdown of non-derivative and derivative financial liabilities by maturity bucket (€ millions)

	2010						
CARRYING AMOUNTS	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	15,292	10,376	3,745	6,634	10,238	6,384	43
Deposits from customers	69,906	11,818	7,888	6,937	7,265	4,499	593
Debt securities in issue	41	2,888	2,832	7,835	17,564	15,001	—
Financial liabilities held for trading	20,903	64	283	631	5,376	2,521	4,865
Derivatives on financial assets held for trading	91,029	—	—	—	—	—	—
Hedging derivatives	—	82	262	506	1,041	334	—
Credit commitments and financial guarantees	58,853	—	—	—	—	—	—

(€ millions)

	2011						
CARRYING AMOUNTS	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	12,352	16,893	8,806	4,966	10,048	6,545	—
Deposits from customers	53,133	17,490	19,410	7,986	5,050	4,106	—
Debt securities in issue	31	549	3,968	6,325	24,280	15,261	—
Financial liabilities held for trading	5,834	116	244	2,154	6,529	1,622	3,729
Derivatives on financial assets held for trading	121,015	—	—	—	—	—	—
Hedging derivatives	—	84	268	522	1,120	467	—
Credit commitments and financial guarantees	61,230	—	—	—	—	—	—

79 Key capital ratios (based on German Commercial Code)

HVB Group manages its economic and supervisory capital as part of its overall bank management strategy. Since 2010, the economic yield expectations have been calculated using the allocated capital principle that UniCredit introduced across its entire organisation. Within the scope of this principle, it is ensured that at least the regulatory capital requirement is met at all times. This means that regulatory (or used core) capital is allocated to the divisions that is expected to yield an appropriate return, which is derived from the expectations of the capital market and which has to be earned by our business units. At product and customer level, this capital allocation may be performed on the basis of the maximum principle; the capital requirement may be derived from either the regulatory capital or the internal capital based on the credit portfolio model. In the future, the internal capital will be used to calculate the allocated capital not only at the micro level but also at the macro level for all divisions and for HVB Group as a whole in accordance with the principle of dual control.

The supervisory ratios are discussed below.

The capital ratio for banking supervisory purposes defined in the German Solvency Regulation (SolvV) represents the ratio of the eligible equity compliant with Section 10 KWG to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted equivalent of these risk positions). Under Section 10 of the German Banking Act in conjunction with Section 2 SolvV, the core capital ratio calculated as the ratio of core capital to total risk-weighted assets determined as described above must be at least 4.0%.

The eligible equity which is used to calculate the capital ratio in accordance with the German Solvency Regulation consists of the core capital, the supplementary capital and Tier 3 capital. The Tier 3 capital comprises current subordinated liabilities which are only used to back market risk positions. HVB Group, in particular, uses internal models to measure market risk positions.

The following table shows equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2011:

Equity funds[1] (€ millions)

	2011	2010
Tier 1		
Shares of common stock	2,407	2,407
Additional paid-in capital, retained earnings, minority interest, own shares	17,331	17,302
Hybrid capital instruments (silent partnership certificates and trust preferred securities)		
without prorated interest	779	864
Other	282	223
50% deductible items	(153)	(174)
Total core capital for solvency purposes	**20,646**	**20,622**
Tier 2		
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	47	47
Cumulative shares of preferred stock	—	—
Participating certificates outstanding	—	—
Subordinated liabilities	2,457	2,779
Value adjustment excess for IRBA positions	419	426
Other	18	19
50% deductible items	(153)	(174)
Total supplementary capital for solvency purposes	**2,788**	**3,097**
Total equity capital	**23,434**	**23,719**
Tier 3 capital	—	—
Total equity funds	**23,434**	**23,719**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

Pursuant to Sections 10 and 10a KWG, the equity funds of HVB Group amounted to €23,434 million at 31 December 2011. Supplementary capital includes no unrealised reserves pursuant to Section 10 (2b) 1 No. 6 and 7 KWG.

Our equity funds compliant with the KWG rules are calculated on the basis of the individual financial statements of the consolidated companies, taking into account the special provisions of German banking supervisory regulations.

Other Information (Continued)

The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS: (€ millions)

	CORE CAPITAL	SUPPLEMENTARY CAPITAL	TIER 3 CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	23,318	—	—	23,318
Reconciliation to the equity funds compliant with the German Banking Act				
AfS reserve	134	—	—	134
Hedge reserves	(22)	—	—	(22)
Cumulative shares of preferred stock	—	—	—	—
Deduction of intangible assets	(245)	—	—	(245)
Ineligible profit components under banking supervisory regulations	(2,148)	—	—	(2,148)
Consolidated profit for 2011	(1,017)	—	—	(1,017)
Hybrid capital recognised under banking supervisory regulations	779	—	—	779
Eligible portion of certificates outstanding	—	—	—	—
Eligible portion of subordinated liabilities	—	2,457	—	2,457
Reclassifications to Tier 3 capital due to banking supervisory regulations	—	—	—	—
Eligible Tier 3 capital unused	—	—	—	—
Unrealised reserves in land and buildings and in securities	—	—	—	—
Value adjustment excess for IRBA positions	—	419	—	419
Deductible items due to non-consolidated investments	(26)	(25)	—	(51)
Deductible items compliant with Sect.10 (6a) KWG	(2)	(2)	—	(4)
Other effects				
(e. g. differences in group of consolidated companies and principles of consolidation)	(125)	(61)	—	(186)
Equity funds compliant with German Banking Act	**20,646**	**2,788**	**—**	**23,434**

(€ billions)

	2011 BASEL II	2010 BASEL II
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	65.4	79.3
off-balance sheet counterparty risk positions	11.8	16.7
other counterparty risk positions[1]	0.7	0.7
derivative counterparty risk positions	14.5	15.1
Total credit risk-weighted assets	**92.4**	**111.8**
Risk-weighted asset equivalent for market risk positions	**23.8**	**3.7**
Risk-weighted asset equivalent for operational risk	**11.2**	**9.0**
Total risk-weighted assets	**127.4**	**124.5**

1 primarily including repos and securities lending transactions

At 31 December 2011, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows: **(in %)**

	2011 BASEL II	2010 BASEL II
Core capital ratio (Tier 1 ratio)		
(core capital (Tier 1 capital)/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk))	16.2	16.6
Core capital ratio without hybrid core capital (core Tier 1 ratio)		
(core capital without hybrid core capital (core Tier 1 capital)/		
(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk))	15.6	15.9
Capital ratio		
(equity funds/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk))	18.4	19.1

80 Contingent liabilities and other commitments

(€ millions)

	2011	2010
Contingent liabilities[1]	**21,050**	**19,170**
Guarantees and indemnities	21,050	19,170
Other commitments	**40,634**	**40,279**
Irrevocable credit commitments	40,180	39,721
Other commitments[2]	454	558
Total	**61,684**	**59,449**

1 contingent liabilities are offset by contingent assets to the same amount
2 without commitments arising from leases (see Note 73)

Neither contingent liabilities nor irrevocable lending commitments contain any significant items. The guarantees and indemnities listed here essentially reflect guarantees and indemnities that the Bank has granted on behalf of customers. Consequently, the Bank has a right of recourse against the customer (contracting party) should the guarantee or indemnity in question be used. An appropriate provision is set up where such a customer's creditworthiness is doubtful. The gross volume of contingent liabilities for which provisions have been created in the above totals €520 million (2010: €594 million). The provisions of €180 million (2010: €283 million) set up for these liabilities have been deducted from the contingent liabilities recognised and are carried under provisions in the balance sheet (see Note 69, "Provisions").

In connection with the grouping of information regarding lease operations in Note 73, we have modified the composition of the other commitments shown in the table as follows:

– Future payment commitments arising from non-cancellable operating lease agreements are discussed in Note 73 and hence no longer included other commitments.
– Obligations to return securities arising from securities lending transactions are discussed separately below and are similarly no longer included in the figure stated for other commitments in the table.
– Other commitments in the table now also include commitments for uncalled payments on shares and participating interests not fully paid up, and liability for defaults on such calls and for calls for additional capital in accordance with the German Private Limited Companies Act, which are described individually below.

Securities lending transactions are not recognised, as economic ownership remains with the lender. The Bank only becomes the legal owner of the borrowed securities which are returned to the lender when the lending transaction falls due. Obligations of €21,433 million (2010: €25,289 million) to return securities arising from securities lending transactions are thus offset by borrowed securities of the same amount, which are not carried as assets on the assets side of the balance sheet.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by our H.F.S. Hypo-Fonds-beteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement.

Commitments for uncalled payments on shares not fully paid up amounted to €388 million at year-end 2011 (2010: €489 million), and similar obligations for shares in cooperatives totalled €1 million (2010: €1 million). We were not liable for any defaults on such calls under Section 22 (3 and 24) of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG). Under Section 26 GmbHG, we were liable for calls for additional capital of €5 million (2010: €5 million) with regard to CMP Fonds I GmbH and of €58 million (2010: €58 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.

Other Information (Continued)

At the balance sheet date, we had unlimited personal liability arising from shares in 74 partnerships.

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

With a Statement of Responsibility dated 21 December 1993, HVB issued an undertaking to the State of Baden-Wuerttemberg (Ministry of Finance) to assume a liquidity provision obligation in the event of the sale, liquidation or bankruptcy of HVB Projekt GmbH.

In the same way as HVB and its affiliated banks assume liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Contingent liabilities payable to related entities (€ millions)

	2011	2010
Non-consolidated affiliated companies	1,705	3,649
of which: UniCredit S.p.A.	182	2,253
Joint ventures	—	—
Associated companies	—	—
Other participating interests	155	140
Total	**1,860**	**3,789**

Besides the contingent liabilities attributable to UniCredit S.p.A., the contingent liabilities of €1,705 million attributable to non-consolidated affiliated companies include contingent liabilities of €1,375 million attributable to sister companies and €148 million attributable to subsidiaries.

81 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

If our shareholding in a particular company declines, our commitment arising from the above Statement of Responsibility is also reduced to the same extent with regard to commitments of the relevant company that did not arise until after our shareholding decreased.

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

82 Trust business

Trust assets (€ millions)

	2011	2010
Loans and receivables with banks	580	587
Loans and receivables with customers	415	705
Equity securities and other variable-yield securities	204	1,959
Bonds	—	—
Participating interests	349	23
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	2,089	1,492
Remaining trust receivables	—	—
Total	**3,637**	**4,766**

Trust liabilities (€ millions)

	2011	2010
Deposits from banks	762	1,028
Deposits from customers	2,871	1,968
Debt securities in issue	—	1,768
Other liabilities	4	2
Total	**3,637**	**4,766**

83 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €50.6 billion (2010: €47.8 billion). These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

The following table shows the breakdown of assets that we provide as collateral for own liabilities: (€ millions)

	2011	2010
Financial assets held for trading	15,556	24,357
Financial assets at fair value through profit or loss	14,309	8,425
Available-for-sale financial assets	2,022	1,045
Held-to-maturity investments	—	—
Loans and receivables with banks	403	1,713
Loans and receivables with customers	18,519	6,701
Property, plant and equipment	—	—
Non-recognised received securities pledged on:		
Pledged securities from non-capitalised securities lending transactions	20,090	23,142
Received collateral pledged	7,963	9,873
Total	**78,862**	**75,256**

Other Information (Continued)

The collateral pledged from loans and receivables with customers relates to special credit facilities provided by KfW and similar institutions. Furthermore, this concerns non-written-off securitised loans and receivables with customers underlying the Rosenkavalier 2008 true sale transaction (see also Note 60, "Own securitisation"), serving indirectly as collateral for repurchase agreements with the ECB in this context.

The assets pledged by HVB Group as security relate to the following liabilities:

(€ millions)

	2011	2010
Deposits from banks	41,811	32,852
Deposits from customers	18,500	11,133
Debt securities in issue	—	—
Financial liabilities held for trading	5,216	15,553
Contingent liabilities	—	—
Obligations to return non-expensed, borrowed securities	13,335	15,718
Total	**78,862**	**75,256**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition, details will be added to the extent to which the security provided may be pledged or sold on by the borrower.

(€ millions)

	2011	2010
Aggregate carrying amount of assets pledged as security	78,862	75,256
of which:		
pledged/sold on	44,178	26,562

84 Collateral received that HVB Group may sell on or pledge on

As part of repurchase agreements and securities lending transactions, HVB Group has received security that it may sell on or pledge on at any time without the security provider having to be in arrears. The fair value of this security is €21.6 billion (2010: €22.4 billion).

HVB Group has actually sold or pledged on €8.0 billion (2010: €9.9 billion) of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

The transactions that make it possible to use this collateral were conducted under the customary market terms for repurchase agreements and securities lending transactions.

85 Information on relationships with related parties

Besides the relationships with consolidated, affiliated companies, there are a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies as a result of the integration of HVB into the UniCredit group of companies. The quantitative information in this regard can be found in the notes to the balance sheet and the income statement.

In the course of the integration of HVB into the UniCredit group of companies, HVB has been assigned the role of centre of competence for markets and investment banking for the entire corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via HVB.

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.

Like other affiliated companies, HVB has outsourced IT activities to UGIS, a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality services by means of a service level agreement. HVB incurred expenses of €482.7 million for these services during 2011. This was offset by income of €8.3 million from services rendered and internal charges. Moreover, software products worth €13.6 million were purchased from UGIS.

Furthermore, HVB has transferred certain back office activities to UniCredit Business Partner S.C.p.A. (which was absorbed by UGIS 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. HVB incurred expenses of €80.5 million for these services during 2011. This was offset by income of €2.9 million from services rendered and internal charges.

Transactions involving related parties are always conducted on an arm's length basis.

Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to the members of the Management Board is not shown on an individualised basis.

Emoluments paid to members of the Management Board and Supervisory Board **(€ millions)**

	FIXED COMPENSATION		PERFORMANCE-RELATED COMPONENTS		LONG-TERM INCENTIVES[1]		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
Management Board members of UniCredit Bank AG	4	3	2[2]	2[2]	1[3]	1[3]	7[4]	6
Supervisory Board members of UniCredit Bank AG								
for Supervisory Board activities	0.6	1	0.2[5]	2[6]	—	—	0.8[5]	3[5]
Former members of the Management Board								
of UniCredit Bank AG and their surviving dependants	—	—	—	—	—	—	2[7]	2[7]
Transitional allowances for former members								
of the Management Board	—	—	—	—	—	—	—	2

1 cash value of the share-based compensation
2 the profit-related components for 2011 are generally deferred over several years, as was also the case in 2010, with disbursement in subsequent years dependent on defined company targets being achieved
3 prorated disclosure of the long-term incentive plans for 2005 to 2008 and the long-term incentive plan for a performance period of 2011 to 2013
4 costs for international health insurance and social security, including the accrued taxes, of €0.4 million were additionally assumed for one executive under his existing UniCredit S.p.A. contract
5 the profit-related component for the 2011 financial year totals €0.2 million, provided the Annual General Meeting of Shareholders adopts a resolution regarding the appropriation of net income as proposed
6 the profit-related component of €1.7 million for the 2009 financial year was disbursed in 2010 together with €0.3 million for the 2010 financial year
7 an amount of €0.15 million was assumed in the 2011 financial year for some former executives within the framework of insurance benefits under a corporate Directors and Officers insurance policy, the accrued taxes and legal costs (2010: €0.4 million)

The plenary session of the Supervisory Board is responsible for setting the total compensation of each member of the Management Board. Appropriateness and sustainability are key criteria for the form and structure of compensation paid to members of the Management Board. The structure of compensation is derived from the service agreements with the members of the Bank's Management Board. It has two components: fixed salary and a variable element.

Besides 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.

For more information about stock options and performance shares, please refer to Note 37 where the UniCredit long-term incentive plan underlying these instruments is described.

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed compensation shown.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit group companies is surrendered to the Bank.

Other Information (Continued)

A sum of €5,787 was transferred to provisions for pensions in the 2011 financial year to cover the commitments (for death benefits) made to the members of the Management Board.

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €115 million (2010: €120 million).

The compensation paid to retired members of the Management Board and their surviving dependants amounted to €1.6 million in 2011 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2010: €1.7 million).

Details of share-based compensation

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	
Options	
Stock options 2010	—
Stock options 2011	1,844,156[1]
Fair value per option at grant date (€)	0.6019
Performance shares	
Performance shares 2010	—
Performance shares 2011	826,517[1]
Fair value per performance share on grant date (€)	1.712
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

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2011: (€)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION[5]	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Sergio Ermotti[1], Chairman	9,863.01	—	4,931.51	14,794.52	10,112.06[6]
Federico Ghizzoni[2], Chairman since 4/3/2011	49,972.60	—	24,986.30	74,958.90	51,234.40[6]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00	—	22,500.00	67,500.00	67,500.00
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[6]
Beate Dura-Kempf	30.000.00	—	15,000.00	45,000.00	45,000.00
Klaus Grünewald	30,000.00	—	15,000.00	45,000.00	45,000.00
Werner Habich[4]	28,767.12	—	14,383.56	43,150.68	43,150.68
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[6]
Klaus-Peter Prinz	30,000.00	—	15,000.00	45,000.00	45,000.00
Jutta Streit[3]	1,232.88	—	616.44	1,849.32	1,849.32
Jens-Uwe Wächter	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00	—	15,000.00	45,000.00	45,000.00
Total	**419,835.61**	**137,500.00**	**209,917.81**	**767,253.42**	**692,953.96[6]**

1 member until 1 March 2011
2 member since 2 March 2011
3 member until 15 January 2011
4 member since 16 January 2011
5 subject to a resolution adopted by the Annual General Meeting of Shareholders regarding the appropriation of profit available for distribution
6 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2010: (€)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Sergio Ermotti, Chairman	60,000.00	—	30,000.00	90,000.00	61,515.00[3]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00	—	22,500.00	67,500.00	67,500.00
Gerhard Bayreuther[1]	21,780.82	19,965.75	10,890.41	52,636.98	52,636.98
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[3]
Beate Dura-Kempf	30,000.00	—	15,000.00	45,000.00	45,000.00
Paolo Fiorentino[1]	21,780.82	—	10,890.41	32,671.23	22,330.79[3]
Giulio Gambino[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Klaus Grünewald	30,000.00	—	15,000.00	45,000.00	45,000.00
Karl Guha[1]	21,780.82	—	10,890.41	32,671.23	22,330.79[3]
Beate Mensch[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[3]
Roberto Nicastro[1]	21,780.82	—	10,890.41	32,671.23	22,330.79[3]
Klaus-Peter Prinz[2]	8,219.18	—	4,109.59	12,328.77	12,328.77
Panagiotis Sfeliniotis[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Professor Hans-Werner Sinn[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Jutta Streit	30,000.00	—	15,000.00	45,000.00	45,000.00
Michael Voss[1]	21,780.82	—	10,890.41	32,671.23	32,671.23
Jens-Uwe Wächter	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00	—	15,000.00	45,000.00	45,000.00
Total	**594,246.56**	**157,465.75**	**297,123.28**	**1,048,835.59**	**943,436.77[3]**

1 member until 22 September 2010
2 member since 22 September 2010
3 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Bank's Articles of Association. The currently applicable arrangements under these articles are based on a resolution adopted by the Shareholders' Meeting on 22 September 2010. The compensation is divided into a fixed and a variable, dividend-dependent component. Under the terms of the arrangements, the members of the Supervisory Board receive fixed compensation of €30,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share, but no more than €15,000. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the members of the Audit Committee each receive fixed annual compensation of €27,500 payable upon conclusion of the financial year. The chairman of the Audit Committee receives twice this amount. The members of the Remuneration & Nomination Committee receive no separate compensation for committee work. Furthermore, every member of the Supervisory Board and every member of the Audit Committee receives a reimbursement for expenses of €250 for attending a meeting of the Supervisory Board or the Audit Committee. In addition, the members of the Supervisory Board are reimbursed their incidental expenses and value-added tax payable on their Supervisory Board activities. If they are members of the Executive Management Committee of UniCredit S.p.A., those members of the Supervisory Board transfer to UniCredit S.p.A. the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty. Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the financial year receive pro rata compensation. The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2011, expense allowances totalling €33,008.54 were paid to members of the Supervisory Board. No remuneration was paid in the 2011 financial year for services provided personally.

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 members of the Executive Management Committee of UniCredit and their respective immediate family members are considered related parties.

Other Information (Continued)

(€ milions)

	2011			2010		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Management Board members of UniCredit Bank AG	1	—	5	2	—	5
Supervisory Board members of UniCredit Bank AG	3	—	6	4	—	3
Executive Management Committee	—	—	—	—	—	—

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.

86 Fees paid to the independent auditors

The following table shows the breakdown of fees of €17 million recorded as expense in the year under review, as paid to the independent auditors KPMG AG, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

(€ millions)

	2011[1]	2010[1]
Fee for auditing of the financial statements	7	6
Appraisal services	2	3
Tax advisory services	—	—
Other services	8	5

1 excluding value-added tax

87 Employees

Average number of people employed by us

	2011	2010
Employees (excluding trainees)	20,585	20,038
Full-time	15,354	14,936
Part-time	5,231	5,102
Trainees	960	1,062

The staff's length of service was as follows:

in %

	WOMEN	MEN	2011	2010
	(EXCLUDING TRAINEES)		TOTAL	TOTAL
Staff's length of service				
31 years or more	9.4	10.7	10.0	9.7
from 21 years to less than 31 years	21.8	18.5	20.3	19.0
from 11 years to less than 21 years	36.5	28.6	32.8	35.4
less than 11 years	32.3	42.2	36.9	35.8

88 Offices

Offices, broken down by region

	1/1/2011	ADDITIONS NEW OPENINGS	REDUCTIONS CLOSURES	REDUCTIONS CONSOLIDATIONS	CHANGE IN CONSOLIDATED GROUP	31/12/2011
Germany						
Baden-Wuerttemberg	35	1	1	—	—	35
Bavaria	497	7	7	—	19	516
Berlin	16	2	4	—	– 1	13
Brandenburg	8	1	—	—	—	9
Bremen	7	—	1	—	—	6
Hamburg	42	1	4	1	—	38
Hesse	18	1	1	—	—	18
Lower Saxony	30	—	—	—	3	33
Mecklenburg-Western Pomerania	9	1	1	—	—	9
North Rhine-Westphalia	28	3	3	—	—	28
Rhineland-Palatinate	25	2	2	—	—	25
Saarland	10	—	—	—	—	10
Saxony	19	3	6	—	—	16
Saxony-Anhalt	11	—	—	—	—	11
Schleswig-Holstein	69	—	—	—	—	69
Thuringia	11	1	1	—	—	11
Subtotal	**835**	**23**	**31**	**1**	**21**	**847**
Other regions						
Austria	11	1	—	—	—	12
Other western Europe	38	2	3	—	– 3	34
Africa	1	—	—	—	—	1
Americas	22	1	2	—	2	23
Asia	20	1	3	—	– 1	17
Subtotal	**92**	**5**	**8**	**—**	**– 2**	**87**
Total	**927**	**28**	**39**	**1**	**19**	**934**

89 List of holdings pursuant to Section 313 HGB

The separate list of holdings drawn up in compliance with Section 313 (2), HGB, contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not, together with other holdings. The list also includes selected holdings of less than 20% and fully consolidated special purposes entities without shareholding of HVB compliant with IAS 27 in connection with SIC 12.

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
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	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]

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %		CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
		TOTAL	OF WHICH HELD INDIRECTLY			
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]

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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				

Other Information (Continued)

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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

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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			

Other Information (Continued)

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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			

Other Information (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

Other Information (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.

Other Information (Continued)

90 Members of the Supervisory Board

Federico Ghizzoni since 2 March 2011 Chairman since 4 March 2011	**Chairman**
Sergio Ermotti until 1 March 2011	**Chairman**
Peter König	**Deputy Chairman**
Dr Wolfgang Sprissler	**Deputy Chairman**
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	

91 Members of the Management Board

Peter Buschbeck	Family & SME division[1]
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

1 formerly Retail division; the division was renamed Family & SME on 1 January 2011 after resegmentation

Munich, 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 consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and Management's Discussion and Analysis includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 15 March 2012

UniCredit Bank AG
The Management Board

Buschbeck Danzmayr Diederichs Hofbauer

Laber Varese Dr Weimer

Auditors’ Report

We have audited the consolidated financial statements prepared by the UniCredit Bank AG, Munich, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of other comprehensive income, the statement of changes in consolidated shareholders’ equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch “German Commercial Code”] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, 15 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski	Pfeiffer
Wirtschaftsprüfer	Wirtschaftsprüfer

Partnering with clients to generate success.

One of Russia's largest soft drink companies, a longtime client of our bank, once used 6.7 million euros in UniCredit financing to modernize its production facilities. Through this partnership, concrete action was taken in three steps: the bank devised a five-year financing plan; it helped arrange export partnerships with other companies of the Group and it extended additional UniCredit resources, including those of UniCredit Leasing, which financed some of the plant's machinery. This example shows how our bank acts as a truly European commercial institution, with a truly global vision.

Old Spring Group, Stavropol Region, Russia

Corporate Governance

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List of Executives and Outside Directorships

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
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]
Sergio Ermotti Former Deputy CEO of UniCredit S.p.A. and Head of Corporate and Investment Banking & Private Banking Strategic Business Area, former member of the Executive Management Committee of UniCredit S.p.A., Collina d'Oro Chairman until 1 March 2011		UniCredit Bank Austria AG, Vienna[2], until 1 March 2011 London Stock Exchange Group Plc, London Bank Pekao, Poland[2], until 23 February 2011 Darwin Airline SA, Lugano (Chairman) Enterra SA, Lugano, until 15 December 2011 Hotel Residence Principe Leopoldo SA (Chairman), Lugano, 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
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)
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		

1 as of 31 December 2011
2 Group directorship

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
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	

Supervisory Board Committees[3]

Remuneration & Nomination Committee
Sergio Ermotti, until 1 March 2011
Federico Ghizzoni, since 2 March 2011
Peter König
Dr Wolfgang Sprissler

Audit Committee
Dr Lothar Meyer, Chairman
Aldo Bulgarelli
Peter König
Marina Natale

Ad-hoc Committee
Aldo Bulgarelli
Peter König
Dr Lothar Meyer
Jens-Uwe Wächter

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Bernd Schreiber
President of the Bavarian Department of State-Owned Palaces, Gardens and Lakes,
Markt Schwaben

Deputies

Dr Alexander Didczuhn
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Munich

Dr Ulrich Klein
Ministerialdirigent in the Bavarian State Ministry of Finance, Munich
until 31 December 2011

Dr Josef Bayer
Ltd. Ministerialrat in the Bavarian State Ministry of Finance, Landsberg
since 1 January 2012

1 as of 31 December 2011
2 Group directorship
3 see also the Report of the Supervisory Board

List of Executives and Outside Directorships (Continued)

Management Board

NAME	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Peter Buschbeck Born 1961 Family & SME division	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[2], since 28 July 2011
Jürgen Danzmayr Born 1950 Private Banking division since 1 July 2011		Schoellerbank AG, Vienna (2nd Deputy Chairman) Wealth Management Capital Holding GmbH, Munich (Chairman)[2], since 1 July 2011
Lutz Diederichs Born 1962 Corporate & Investment Banking division	Deutsche Schiffsbank AG, Bremen/Hamburg, until 9 November 2011	UniCredit Leasing S.p.A, Bologna, Italy
Peter Hofbauer Born 1964 Chief Financial Officer (CFO)	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[2], since 28 July 2011 Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2] Wietersdorfer Industrie-Beteiligungs-GmbH, Klagenfurt Wietersdorfer Rohrbeteiligungs GmbH, Klagenfurt
Heinz Laber Born 1953 Human Resources Management Global Banking Services	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)[2], from 1 January to 31 May 2011 UniCredit Business Partner Società Consortile per Azioni, Cologno Monzese, Italy UniCredit Global Business Services GmbH, Munich (Chairman)[2], since 28 July 2011 UniCredit Global Information Services Società Consortile per Azioni, Milan, Italy, until 16 December 2011
Andrea Umberto Varese Born 1964 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2]	UniCredit Credit Management Bank S.p.A., Verona UniCredit Global Business Services GmbH, Munich[2], since 28 July 2011 UniCredit Luxembourg S.A., Luxembourg (Deputy Chairman)[2], since 8 July 2011 Wealth Management Capital Holding GmbH, Munich[2]
Dr Theodor Weimer Born 1959 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 Born 1961 Private Banking division until 30 June 2011		Schoellerbank AG, Vienna (Chairman), until 1 June 2011 UniCredit Luxembourg S.A., Luxembourg (Chairman)[2], until 1 June 2011 Wealth Management Capital Holding GmbH, Munich, until 1 June 2011

1 as of 31 December 2011
2 Group directorship

Women's Council

Patrons:
Dr Theodor Weimer, spokesman of the Bank's Management Board and UniCredit Country Chairman Germany
Dr Susanne Weiss, attorney, member of the Bank's Supervisory Board and founding president of the HVB Women's Council

In December 2009, HVB became the first bank in Germany to form its own Women's Council, with which it has set a new tone in the German banking world ever since. Besides dealing with feedback and comments and regularly discussing economic and social issues relating to women, the Council looks at ways of improving the position of women in the financial sector, among other things. The Council aims to reflect the constantly rising importance of women in financial and purchasing decisions. It helps the Bank to make better provision for the specific needs of female customers and employees. The Council accompanies the Bank, launches initiatives and devises new measures. The Bank benefits from the valuable advisory skills of experienced entrepreneurs and is also helping to reinforce the role of women in German industry. The Council is specifically empowered by the Management Board of HVB to make recommendations and launch its own initiatives. The members – 30 or so outstanding entrepreneurs and managers – meet for plenary sessions at least twice a year and also collaborate in workgroups when drawing up the initiatives. For current information about HVB's Women's Council, visit www.hvb-frauenbeirat.de.

Professor Dr Dadja Altenburg-Kohl
Member of the Management Board of Kohl Medical AG,
Managing director of kohlpharma GmbH, Merzig

Dr Christine Bortenlänger
Member of the Management Board of Bayerische Börse AG, Munich

Evi Brandl
Managing director of Vinzenz Murr GmbH, Munich

Stephanie Czerny
Managing director of DLD Media GmbH, Munich

Angelika Diekmann
Manager, publisher of Verlagsgruppe Passau GmbH, Passau

Britta Döttger
Head of Group Treasury of SGL Carbon SE, Wiesbaden

Nina Hugendubel
Managing director of H. Hugendubel GmbH & Co. KG, Munich

Andrea Karg
Designer, managing director of ALLUDE GmbH, Munich

Sabine Kauper
Chief Financial Officer of Phoenix Solar AG (until Dezember 2011), Sulzemoos

Ines Kolmsee
Chief Executive Officer of SKW Stahl-Metallurgie Holding AG, Unterneukirchen

Dr Marita Kraemer
Member of the Management Board of Zurich Group Germany, Frankfurt am Main

Anja Krusel
Senior Director Finance and Administration of Microsoft GmbH, Unterschleissheim

Andrea Kustermann
CFO/Finance Management & Controlling of the Obermaier Group, Munich

Dr Christine Frfr. von Münchhausen
Attorney/mediator/owner
Consulting, training, coaching & mediation, Pullach

Andrea Neuroth
Managing director of KION Financial Services GmbH, Wiesbaden

Kristina Gräfin Pilati
Attorney and notary, Pilati + Partner Rechtsanwälte, Frankfurt am Main

Professor Susanne Porsche
Managing director of Summerset GmbH, Munich

Monika Rödl-Kastl
Managing partner of Rödl & Partner GbR, Nuremberg

Sabine Schaedle
Vice president of BMW Bank GmbH, Munich

Annette Schnell
Owner of Dr. Schnell Chemie GmbH, Munich

Alexandra Schöneck
Managing director of Alexandra Schöneck Schatzmeisterei,
Munich

Alexandra Schörghuber
Chairwoman of the Foundation Board of Schörghuber Stiftung & Co. Holding KG,
Munich

Maria-Theresia von Seidlein
Founder and managing director of S&L Medien Gruppe GmbH, Munich

Gabriele Strehle
Head designer of Strenesse AG, Nördlingen

Claudia Strittmatter
Senior Manager Corporate Finance of Wacker Chemie AG, Munich

Ildikó M. Várady
Head of Finance of Krauss-Maffei Wegmann GmbH & Co. KG, Munich

Gabriele Zedlmayer
Vice President Global Social Innovation & Global Citizenship of
Hewlett Packard International, Zurich

Report of the Supervisory Board

Again in 2011, the Supervisory Board paid close attention to the work of the Management Board. The Supervisory Board advised the Management Board on the running of the Bank in line with the rights and obligations imposed on it by law, the Bank's Articles of Association and its internal regulations, and monitored its management of the Bank. The Supervisory Board was consulted on all major decisions and, whenever necessary, granted its approval after detailed consultations.

The Management Board kept the Supervisory Board informed regularly, promptly and comprehensively about the performance and economic situation of the Bank ("HVB"), the planning and budget process, the risk situation and risk management as well as compliance-related issues. This happened primarily during the meetings of the Supervisory Board and its committees, but also in writing at other times. Furthermore, the Chairman of the Supervisory Board was in constant, close contact with the Board Spokesman and was kept continually informed about the current business situation, major transactions and decisions taken by the Management Board.

Focus of discussion during the plenary sessions of the Supervisory Board

The Supervisory Board met at five plenary sessions last year, one of which was an extraordinary meeting. Three meetings were held in the first half of 2011 and two in the second half. In addition, the Management Board held information events with the employee and shareholder representatives on the Supervisory Board on 15 and 22 September 2011 respectively, and a telephone and video conference was held on 15 November 2011. Furthermore, 22 of its resolutions were adopted by written circular, 19 of which concerned approval for lending transactions with companies compliant with Section 136 of the Italian Banking Act (Testo Unico Bancario – TUB) and related parties compliant with CONSOB regulation no. 17221/2010. Section 136 TUB and the CONSOB regulation are banking supervisory regulations that are intended to prevent the abuse of privilege by corporate officers and companies and also to ensure that relevant transactions are conducted transparently.

In 2011, the Supervisory Board focused on the strategic orientation and performance of the Bank in an environment shaped by uncertainty arising from the debt crisis in some European countries. At the same time, it was also concerned to a considerable extent with internal proceedings and events at the Bank.

During the Supervisory Board meeting on 15 March 2011, the annual and consolidated financial statements for 2010 were discussed in detail and respectively approved or adopted by the Supervisory Board. The Supervisory Board had the opportunity in preliminary discussions of the shareholder and employee representatives held in the run-up to the meeting to discuss the audit reports and annual financial statements with the independent auditors and the Management Board. In this context, the independent auditors also outlined to the Supervisory Board the extent to which the preparation of the annual financial statements for 2010 was more difficult than usual due to the roll-out of the new IT platform, EuroSIG. The workarounds in place at the start of 2011 were replaced by regular operation during the course of the year.

The 2011 annual budget was also presented to the Supervisory Board at this meeting. The performance of the Bank, which – as last year – also benefited from the strong recovery of the German economy in the first half of 2011, and of the individual divisions was also the topic of extensive discussions at the other meetings of the Supervisory Board in July (presentation of the Half-yearly Financial Report) and November (presentation of the Interim Report at 30 September). The Management Board used appropriate documents, notably the Half-yearly Financial Report and the interim reports, to report on the Bank's current performance, any deviations from budgets or plans, the liquidity situation and the underlying economic conditions, which were shaped by massive market gyrations caused by the debt crisis in the second half of 2011.

During its meeting on 15 March 2011, the Supervisory Board also received a comprehensive portfolio report from the Chief Risk Officer (CRO). The Supervisory Board used the report and the presentation documents to obtain an overview of the development of credit risk, market risk and operational risk. The CRO also outlined the development of the Bank's risk capital and risk-bearing capacity. Following recent events, the Supervisory Board again considered the methods used to calculate the risk-bearing capacity in accordance with the requirements of the Internal Capital Adequacy Assessment Process (ICAAP) again during the Supervisory Board meeting on 26 July 2011 and discussed optimisation options with the Management Board. An advanced training session on the topic of the ICAAP was run for members of the Supervisory Board on 7 November 2011.

Also at the March meeting, the CRO reported on a major wind-farm project in the North Sea, the completion of which has been delayed due to technical difficulties. Based on various technical and legal reports regarding the feasibility of the project, the Bank has decided to make further funds available to ensure the completion of the wind farm. The Supervisory Board was updated regularly on the status of this commitment and the progress of the work during the later meetings in 2011. Finally, the CRO's report contained initial ideas regarding the 2011 risk strategies of HVB, the corporate group and the divisions, which the Supervisory Board then looked at in greater depth during the Supervisory Board meeting on 12 April 2011.

The Management Board has set up a project with a view to improving the internal control and risk management system. This project aims to centrally summarize the findings arising from audits of the annual financial statements and from audits by the supervisory authorities. These findings are subject to close scrutiny and progress monitoring in accordance with the relevant plan. Any future findings will also be recorded here. The Supervisory Board received regular reports on the progress of this project at its meetings last year. In light of the large increase in regulatory requirements, the Supervisory Board had the Head of Human Resources detail the steps taken in this context to build up the necessary staffing levels in the relevant CFO and CRO units.

Throughout 2011, the Supervisory Board also dealt at length with the development of upstream exposure. This concerns the exposure of HVB Group to UniCredit S.p.A. and its subsidiaries. A material part results from the fact that UniCredit's markets and investment banking activities are pooled at HVB and that HVB acts as intermediary between the group companies and the market players for derivative transactions. The Management Board agreed with the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) a strategy to reduce this exposure on account of the changed market environment, and especially the sovereign debt crisis in countries where the corporate group operates, and informed the Supervisory Board accordingly. The Supervisory Board was kept constantly informed about the progress of discussions and the status of the exposure during its meetings and also by means of reports written by the Management Board.

At the Supervisory Board meeting on 12 April 2011, the Management Board presented a comprehensive report on UniCredit's cross-border integration project "All4Quality" to the Supervisory Board, which then discussed the implementation of this project at length with the Management Board on the basis of the documents presented and verbal explanations. The project aims to boost customer orientation and improve quality by bundling back office activities in a new company. The Supervisory Board was updated on the progress of this project during its meeting on 26 July 2011 and in information events run by the Management Board for the employee representatives and shareholder representatives on the Supervisory Board on 15 and 22 September 2011 respectively. Furthermore, a modification to the original plan was discussed at the Supervisory Board meeting on 8 November 2011.

At the Supervisory Board meeting on 26 July and again on 8 November 2011, the Supervisory Board considered a refinement of the business strategy which had been presented in full in 2010, which had necessitated a reorientation in the Corporate & Investment Banking division (CIB) in light of the changed market environment. The Supervisory Board also discussed the multi-year plan for 2012 to 2015 with the Management Board at the Supervisory Board meeting on 8 November 2011. In addition to this, the Chairman of the Supervisory Board in his function as CEO of the parent company, UniCredit S.p.A., informed the Supervisory Board and Management Board in a video and telephone conference on 15 November 2011 about the Industrial Plan of UniCredit S.p.A. through 2015 that had been adopted the previous day.

As in previous years, in 2011 the Supervisory Board again discussed the various legal proceedings in connection with the sale of Bank Austria and other activities in eastern Europe to UniCredit S.p.A.

The out-of-court settlement agreed by HVB with the hedge funds regarding the suits filed to have the annual financial statements for 2006 declared null and void and further issues relating to the claim for damages by the hedge funds were the subject of lengthy deliberation at the meeting on 15 March 2011. On the previous day, the Ad-hoc Committee which the Supervisory Board had set up in 2008 in connection with these lawsuits, and which met twice in the 2011 financial year, also discussed these matters in great detail. The committee's legal advisor from a prestigious law firm, who took part

Report of the Supervisory Board (Continued)

in the deliberations, explained the legal aspects of the case to the committee members. Based on the comments of the legal advisor and a corresponding recommendation from the Ad-hoc Committee, the Supervisory Board approved the out-of-court settlement with the hedge funds together with the further conditions in connection with the claim for damages. In order to avoid any potential conflict of interests, one member of the Supervisory Board did not take part in the deliberations or vote on the resolution as this member was a defendant in the lawsuit asserting claims for damages by the hedge funds which has in the meantime been settled out of court.

At the Supervisory Board meeting on 12 April 2011, the Supervisory Board was again updated on the current status of the various lawsuits initiated by former HVB shareholders. In a letter dated 28 July 2011, the Management Board informed the Supervisory Board that the German Federal Court of Justice (Bundesgerichtshof – BGH) had rejected a denial of leave to appeal asserted by the special representative against a ruling of Munich Higher Regional Court (Oberlandesgericht – OLG) confirming the effectiveness of the dismissal of office of the special representative by the Extraordinary Shareholders' Meeting held on 10 November 2008. At its meeting on 8 November 2011 attended by its legal advisor, the Supervisory Board then considered at great length the question of how to proceed with the still pending lawsuit of the former special representative seeking the return of Bank Austria or, alternatively, the payment of damages. On the previous day, the Ad-hoc Committee had similarly discussed this question in detail. The committee and the plenary session of the Supervisory Board discussed the various alternatives with the legal advisor at length. A final resolution will be adopted by the plenary session of the Supervisory Board at a later point in time. In order to avoid any potential conflict of interests, one member of the Supervisory Board, did not take part in the deliberations or vote on the resolution as this member is a defendant in the lawsuit.

At the Supervisory Board meeting on 8 November 2011, the Management Board satisfied its obligation under the German Regulations governing Supervisory Requirements for Institutions' Remuneration Systems (Instituts-Vergütungsverordnung) to submit a report to the Supervisory Board at least once a year on the structure of the Bank's remuneration systems. The report simultaneously contained the report of the Remuneration Committee to the Supervisory Board on the appropriateness of the systems.

Further topics considered by the Supervisory Board during the course of 2011 included the cost of the bank levy, the facility and office concept for the bank premises in Munich and Hamburg, the Equity Finance line of business, the roll-out of the Markets IT transformation programme "EuroMIB" and strategic plans within the Family & SME division. In December 2011, the Management Board also forwarded the annual personnel report to the Supervisory Board.

Finally, the Supervisory Board had to deal with executive personnel matters. As proposed by the Remuneration & Nomination Committee, the contract of one member of the Management Board was terminated by mutual agreement and a new member was appointed to the Management Board. Furthermore, five members of the Management Board whose mandates expired at the end of 2011, or will expire during the course of 2012, were re-appointed to the Management Board.

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 (a prestigious law practice and a firm of auditors experienced in forensic investigations) compliant with Section 111 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) to conduct an audit of such matters. At the Supervisory Board meeting on 8 November 2011, the legal advisor reported to the Supervisory Board on the reviews carried out to that date and the further review plan.

Corporate governance
In 2011, the Supervisory Board again considered corporate governance issues in depth.

In the course of the Bank's delisting in 2008, the Management Board and Supervisory Board decided that HVB would voluntarily comply with the provisions of the German Corporate Governance Code (the "Code") to the extent that these provisions can be applied to a non-listed company with just one shareholder.

In accordance with the allocation of responsibilities set out in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG), the Supervisory Board – with a legal advisor in attendance but without the Management Board members concerned – adopted resolutions at its plenary session on 15 March 2011 regarding the following compensation arrangements: the short-term incentive payments to the Management Board members for the preceding 2010 financial year, the long-term incentive plan (for a performance period from 2011 to 2013), the basic terms for variable compensation in 2011, the compensation of Management Board members for 2011, and target agreements (performance matrices) with the Management Board members for 2011. In the run-up to the meeting, the members of the Supervisory Board had the opportunity to have the documents provided on these matters explained at the preliminary discussions of the shareholder and employee representatives.

Subsequently, the Supervisory Board again had to discuss the 2011 Performance Matrix for a Management Board member during the Supervisory Board meeting on 12 April 2011, and the employment contract and remuneration package at an extraordinary meeting on 1 June 2011 together with the 2011 Performance Matrix 2011 during the meeting on 26 July 2011 for a new member of the Management Board. Based on the explanations given and the documents presented, the Supervisory Board was able to satisfy itself that the terms agreed are also appropriate for this new Management Board member. Further details on the compensation of Management Board members are provided in the Compensation Report comprising part of the Corporate Governance Report in this Annual Report.

At its meeting on 8 November 2011, the Supervisory Board also examined the efficiency of its work based on the Corporate Governance Code and adopted the voluntary declaration of compliance. In 2011, eight of the Code's recommendations were not followed, six of which were not applicable to non-listed companies with just one shareholder. Further details are given in the joint Corporate Governance Report by the Management Board and Supervisory Board which follows the present Report of the Supervisory Board in this Annual Report.

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. No members of the Supervisory Board attended fewer than half the meetings held in 2011.

Main focus of committee work
The Supervisory Board had two standing committees in 2011 to support the work of the Supervisory Board. A description of the tasks performed by the committees is given in the Corporate Governance Report; their composition is shown in the Supervisory Board list in this Annual Report.

Remuneration & Nomination Committee
The Remuneration & Nomination Committee met three times last year and adopted three resolutions by written circular. In particular, it discussed executive personnel matters. Remuneration levels for members of the Management Board were also a subject for discussion, with the arrangements considered in detail and the adoption of the respective resolutions was prepared for the plenary session of the Supervisory Board. Furthermore, the Remuneration & Nomination Committee approved loans to executives and Board members and granted approval to the Management Board members who wished to accept seats on supervisory boards of other companies.

Report of the Supervisory Board (Continued)

Audit Committee

The Audit Committee had six meetings last year, one of which was an extraordinary meeting. In addition, two resolutions were adopted by written circular. Dr Lothar Meyer, former Chairman of the Management Board of ERGO Versicherungsgruppe AG, chairs this committee. In particular, the Audit Committee examined the preliminary audit of the annual financial statements and the consolidated financial statements and the report on relations with affiliated companies, and discussed the Half-yearly Financial Report and the interim reports at 31 March and 30 September 2011. The independent auditor was present when the Half-yearly Financial Report and the Interim Report at 30 September 2011 were discussed – as he was when the annual financial statements were considered – and gave a report on the findings of a review of the data forwarded to UniCredit S.p.A. for the purpose of preparing UniCredit's Half-yearly Financial Review and Interim Report.

At four meetings, the committee requested the Chief Risk Officer (CRO) to submit a comprehensive portfolio report and had the development of credit risk, market risk, operational risk and liquidity risk in particular explained on the basis of the documents. Against the backdrop of the debt crisis in some European states, the committee solicited information on loans provided to the countries in question and again discussed in detail the current market trends, their impact on the risk positions, the response by Risk Management to the macroeconomic developments, individual stress tests and the underlying stress test scenarios. In response to the increasing importance and addition of new regulatory requirements, the committee also looked closely at the methods used to determine the Bank's risk-bearing capacity in accordance with the ICAAP requirements. The methods used to determine internal capital were revised and group models integrated during the course of the year. At the meeting on 17 October 2011, the CRO informed the Audit Committee that the risk-bearing capacity is adequate even when calculated on the basis of the new methodology and parameters. The committee also repeatedly requested reports on the liquidity situation, the development of upstream exposure, the progress of the offshore wind farm project financed by the Bank and the project for working through audit findings.

In compliance with the MaRisk regulations, risk reports were submitted to the committee on a quarterly basis.

Other topics discussed at length were the internal control system (ICS), the risk management system (RMS) and the internal audit system (IAS). The Management Board explained how the individual systems operate and – where necessary – discussed the measures that have been planned to refine these systems with the Audit Committee. The audit processes were reviewed as part of the audit of the annual financial statements; in the opinion of the independent auditor, they satisfy the MaRisk requirements.

To prepare for the election of the independent auditor for the 2011 financial year by the Annual General Meeting, the committee assessed the independence of the proposed auditor. For this purpose, it received a detailed statement from the auditor on facts which limit their independence. Following this, the Audit Committee reached the conclusion that the facts presented were not detrimental to the auditor's independence. Based on the documents presented, there were no concerns about the audit team not being appropriately qualified. The committee had the independent auditor explain the audit plan, the main points of the audit and the fee proposal, and gave the audit assignment, setting the fee. Furthermore, the committee gave its consent for the appointment of the independent auditor to perform non-audit-related consulting work.

The audit plan for 2011 prepared by the Internal Audit department was submitted to the committee towards the end of 2010. The Audit Committee subsequently discussed through the rest of 2011 the

reports of the Internal Audit on the audit findings for the first three quarters of 2011 and a preview of the audit findings for the fourth quarter. Furthermore, the independent auditor's report on the annual audit of the securities account business was discussed in detail, the outcome of which was that the securities account business is in large parts conducted in due form. With regard to the Compliance organisation, at a meeting on 4 May 2011 the Bank's Compliance Officer outlined to the committee the regulatory developments that have led to a large increase in the tasks to be performed by Compliance. In particular, the German Minimum Requirements for Compliance (Mindestanforderungen für Compliance – MaComp), which came into force in 2010, were explained to the committee.

In addition to this, the committee discussed a report on money-laundering prevention during its meeting on 26 July 2011 and a report by the Data Protection Officer on 7 November 2011. Furthermore, the committee was kept informed about the latest progress on the CFO EuroSIG follow-up project and the scheduled discontinuation of individual workarounds.

In addition, the committee considered the suit filed by a customer against the Bank in connection with tax credits with a total amount in dispute of €124 million. The customer had entered into transactions based on the expectation of receiving dividend withholding tax credits on dividends in relation to German equities which were traded around dividend dates. After the tax authorities had demanded repayment of the dividend withholding tax credits plus interest by the customer as primary debtor, the customer aims with the suit against HVB to have the Bank indemnify him against said and future potential payment obligations vis-à-vis the tax authorities with respect to the transactions.

The Chairmen of the Supervisory Board Committees reported to the plenary sessions of the Supervisory Board on the topics discussed at the committee meetings, the results of these discussions and any votes held.

Audit and approval of the 2011 annual financial statements

The annual financial statements and Management Report of UniCredit Bank AG for the 2011 financial year as well as consolidated financial statements and Management's Discussion and Analysis prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, were audited by KPMG. The independent auditor issued an unqualified opinion in both cases.

The Chairman of the Audit Committee attended the final discussion of the Management Board with the independent auditor. The financial statements listed above were forwarded to the Supervisory Board, together with the Management Board's proposal for the appropriation of net profit and the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The auditor reported on the findings of the audit, in particular on the internal control system and the risk management system compliant with Section 171 (1) AktG relating to the accounting process and provided detailed answers to the questions of the members of the Supervisory Board at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the independent auditor also stated that there were no circumstances that might be understood to impair his independence and reported on the work he had performed in addition to the audit of the financial statements.

Moreover, the Management Board explained the financial statements in detail at the meeting of the Audit Committee and the Supervisory Board. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. The Supervisory Board concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. It determined that, on the basis of its own examination of the financial statements,

Report of the Supervisory Board (Continued)

the consolidated financial statements, the Management Report and Management's Discussion and Analysis as well as the proposal for the appropriation of net profit, no objections were to be raised. On 22 March 2012, the Supervisory Board therefore approved the annual financial statements prepared by the Management Board. Consequently, the annual financial statements were adopted. The Supervisory Board also approved the consolidated financial statements prepared by the Management Board as well as the Management Board's proposal for the appropriation of net profit.

UniCredit S.p.A. has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relations of HVB to affiliated companies for the 2011 financial year in accordance with Section 312 AktG. The report contains the following concluding statement by the Management Board:

"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted."

KPMG audited this report and issued the following opinion:
"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high or disadvantages were compensated for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relations to affiliated companies and the related audit report by KPMG were also forwarded to the Supervisory Board. In the course of the preliminary audit, the Audit Committee and then the Supervisory Board considered these documents in depth. The Supervisory Board checked the information for plausibility and consistency, and carefully examined individual legal transactions between HVB and UniCredit and its affiliated companies together with other cost-generating measures initiated by UniCredit. KPMG took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. The Supervisory Board concurred with the results of the audit by KPMG. Based on the final outcome of its own examination of the report on relations of HVB to affiliated companies in the 2011 financial year prepared by the Management Board compliant with Section 312 AktG, which did not identify any deficiencies, no objections are to be made about the final declaration of the Management Board in this report.

Personnel

On 30 June 2011, Andreas Wölfer left the Management Board by mutual consent. Jürgen Danzmayr was appointed his successor on the Management Board with effect from 1 July 2011. The Supervisory Board would like to thank Mr Wölfer for his successful work as a member of the Bank's Management Board.

At the beginning of 2011, there were changes in the composition of the Supervisory Board. With effect from 15 January 2011, Jutta Streit resigned from office as a member of the Supervisory Board. Succeeding her was Werner Habich, who was elected as a substitute member for Ms Streit in accordance 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). He will serve as a member of the Supervisory Board for the remaining term of office. In addition, Sergio Ermotti resigned from his position as Chairman and member of the Supervisory Board with effect from the end of 1 March 2011. Federico Ghizzoni was appointed his successor for the remaining term of office with effect from 2 March 2011 by an Extraordinary Shareholders' Meeting and elected Chairman of the Supervisory Board on 4 March 2011.

The Supervisory Board would like to thank the members who have left the Supervisory Board for their committed and valuable work on this Board. As already expressed at this point last year, this applies in particular to the departed Chairman of the Supervisory Board, Sergio Ermotti, who had been a member of the Supervisory Board since August 2006 and its Chairman since February 2009.

Wilhelm Pfeiffer died on 14 December 2011. Mr Pfeiffer had been a member of the Management Board of Bayerische Hypotheken- und Wechsel-Bank from 1972 to 1992, after which he served on the Bank's Advisory Board until 2002. Dr Hans Günther Schönmann died on 6 February 2012. After successfully serving on the Management Board of Bayerische Handelsbank, Dr Schönmann was appointed to the Management Board of Bayerische Vereinsbank in 1966, where he remained until 1986. Following on from this, he remained closely associated with the Bank until 1993 first as a member of the Advisory Board and later as its Chairman. Dr Klaus Geiger died on 11 February 2012. Dr Geiger was a member of the Management Board of Bayerische Hypotheken- und Wechsel-Bank from 1983 to 1995, after which he acted as a member of this bank's Supervisory Board until 1998 and subsequently served on the Advisory Board of Bayerische Hypo- und Vereinsbank until 2002. The deceased gentlemen served the Bank faithfully, demonstrating a high level of personal commitment, professional competence and sound judgement. We will continue to hold their memory in the highest esteem.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work in the past year. They all contributed to the Bank's good performance in a demanding market environment in the 2011 financial year.

Munich, 22 March 2012
The Supervisory Board

Federico Ghizzoni
Chairman

Corporate Governance and Compensation Report

For **UniCredit Bank AG**, good corporate governance entails the responsible management of enterprises. It is of vital importance for achieving corporate objectives and a sustained increase in company value, thus helping to increase the confidence of stakeholders in UniCredit Bank AG.

In accordance with sub-paragraph 3.10 of the German Corporate Governance Code, the Management Board and Supervisory Board report on corporate governance at UniCredit Bank AG (hereinafter referred to as "HVB" or "the Bank") in the following Corporate Governance Report.

Management Board and Supervisory Board

Management Board

The Management Board is directly responsible for managing the company and works closely with the other bodies of the company and employee representatives in the interests of the enterprise. It is obligated to acting in the interests of the company and to increasing its sustainable value. Within the framework of its leadership function, it is responsible for corporate planning and strategic orientation, and for ensuring adequate risk management and risk control.

The members of the Management Board are jointly responsible for managing the Bank. They work together cooperatively and inform each other about important business events and developments in their respective areas of responsibility. The matters reserved for the Management Board and the respective segment responsibilities on the Bank's Management Board are specified in a schedule of responsibility, which forms part of the Management Board's internal regulations. The Management Board's internal regulations also specify the details of the work within the Management Board and the requirements for adopting resolutions and the required majorities.

The Management Board generally adopts resolutions during meetings that are supposed to be held at least twice a month. As a general rule, Management Board meetings are held every week. Any member may request a meeting be convened, citing the matter for discussion. In addition to this, resolutions may also be adopted outside of meetings. The Management Board is responsible for preparing the annual financial statements of HVB and the consolidated financial statements of the HVB subgroup, and for preparing the interim reports and the half-yearly financial report. The Management Board is also responsible for ensuring compliance with the statutory provisions and internal guidelines and encouraging group companies to ensure compliance as well. The Bank's Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning, including any deviation from plans, strategic development, the course of business and the state of the Bank, including the risk situation as well as compliance issues.

When appointing people to management positions in the Bank, the Management Board takes account of diversity and seeks in particular to ensure that women are adequately represented through mechanisms such as special mentoring programmes for women.

The Bank's Management Board consists of seven members. The segment responsibilities on the Management Board match HVB's organisational structure, which is divided into customer groups (business divisions) and functions. The Management Board consists of the Board spokesman, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Head of Human Resources Management (HRM), who is also responsible for Global Banking Services (GBS) and labour relations and social affairs together with the heads of the operating divisions: Family & SME (F&SME), Private Banking (PB) and Corporate & Investment Banking (CIB).

The Board Spokesman, Dr Weimer, is also a member of the Business Executive Management Committee of UniCredit S.p.A. in the function of Country Chairman Germany. The member of the Management Board responsible for the Family & SME division, Mr Buschbeck, is also a member of the Management Committee of UniCredit S.p.A. in the function of Head of Family & Small and Medium-Sized Enterprises Germany. The member of the Management Board responsible for the Corporate & Investment Banking division, Mr Diederichs, is also a member of the Management Committee of UniCredit S.p.A. in the function of Head of CIB Network Germany. The members of the Business Executive Management Committee and the Management Committee have an advisory function at the level of the holding company, where they also represent the interests of HVB.

The compensation paid to members of the Management Board is shown in detail in the Compensation Report below.

Supervisory Board

The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business. It is directly involved in decisions that are of fundamental importance for the Bank. The Management Board informs the Supervisory Board at regular intervals about business policy as well as fundamental issues regarding the Bank's financial, earnings and assets position, its risk position, risk management and risk control. At least once a year, it receives a report on corporate planning. The Supervisory Board approves the annual financial statements and adopts the consolidated financial statements. It appoints and dismisses the members of the Management Board. The Supervisory Board sets the total remuneration payable to the individual members of the Management Board as proposed by the Remuneration & Nomination Committee, adopts the remuneration system for the Management Board, complete with the key contractual elements, and reviews this at regular intervals. The Supervisory Board has adopted by-laws specifically defining the details of the work within the Supervisory Board, the creation and tasks of committees and the tasks of the chairman. In addition, the by-laws state that certain types of transaction require the approval of the Supervisory Board. Once a year, the Supervisory Board examines the efficiency of its work, including its collaboration with the Management Board.

The chairman of the Supervisory Board coordinates the work of the Supervisory Board. He maintains contact with the Management Board, notably with the Board spokesman, and discusses the Bank's strategy, performance and risk management with the Management Board. The Management Board spokesman informs him immediately about events that are important for assessing the Bank's position and development and for managing the company. In accordance with Article 13 (2) of the Bank's Articles of Association, the chairman may under certain circumstances have two votes on Supervisory Board resolutions.

The compensation paid to members of the Supervisory Board is shown in detail in the Compensation Report below.

Composition of the Supervisory Board

The Supervisory Board is constituted primarily on the basis of the relevant legal provisions, the German Corporate Governance Code, the by-laws of the Supervisory Board and in line with objectives defined in the meaning of sub-paragraph 5.4.1 of the German Corporate Governance Code regarding its composition.

In accordance with Section 24 (1) of the German Act on the Co-determination of Employees in Connection with a Cross-border Merger (Gesetz über die Mitbestimmung der Arbeitnehmer bei einer grenzüberschreitenden Verschmelzung – MgVG) in connection with Sections 95, 96 Stock Corporation Act (Aktiengesetz – AktG) and Section 9 of the Articles of Association, the Supervisory Board consists of 12 members, comprising an equal number of shareholder and employee representatives in accordance with the co-determination provisions.

According to Section 36 (3) of the German Banking Act (KWG), the members of the Supervisory Board must be fit and proper persons and must possess the knowledge and skills required to perform the control function and to assess and monitor the Bank's commercial activities.

The Supervisory Board's by-laws essentially contain the following regulations regarding its composition: An adequate number of independent members should sit on the Supervisory Board. In addition, no more than two former members of the Management Board may sit on the Supervisory Board. It must also be ensured that no members of the Supervisory Board serve on governing bodies or perform advisory functions for key competitors of the Bank. The members of the Supervisory Board should also make sure that they have enough time available to perform their functions properly. Members of the Supervisory Board should not normally be more than 70 years old.

Objectives of the Supervisory Board regarding its composition

The Supervisory Board adopted the following objectives regarding its composition in line with sub-paragraph 5.4.1 of the German Corporate Governance Code:

– The Supervisory Board of HVB should be composed in such a way that the Management Board can be effectively monitored and advised by the Supervisory Board.
  Its members as a group should possess the knowledge, ability and expert experience required to properly complete the Supervisory Board's task, such that all the capabilities required for the Bank's Supervisory Board are represented on the Supervisory Board. The necessary general knowledge and experience should be supplemented in this way with regard to the Bank's specific situation and orientation. The general knowledge that every member is expected to posses specifically includes theoretical knowledge and practical experience in the following areas: legal principles and compliance, corporate accounting and risk control.

Corporate Governance and Compensation Report (Continued)

The candidates proposed for election should, by virtue of their integrity and personality, be in a position to perform the tasks of a member of the Supervisory Board in a commercial bank with international operations. The members of the Supervisory Board shall on their own take on the necessary training and further education measures required for their tasks, with appropriate support from the Bank.

– Furthermore, diversity should be reflected in the composition of the Supervisory Board. In other words, the Supervisory Board should include an appropriate proportion of women and members with international professional experience or an international cultural background.

The current composition of the Supervisory Board of HVB already meets these objectives. The idea is to continue satisfying these objectives with the composition of the Supervisory Board into the future. When examining potential candidates for election or appointment to positions on the Supervisory Board that become vacant, the Supervisory Board will continue to ensure that suitably qualified women are included in the selection process. With Marina Natale and Dr Susanne Weiss as shareholder representatives and Beate Dura-Kempf as an employee representative, one-quarter of the Supervisory Board members are female, even after the departure of Jutta Streit at the start of 2011. The Supervisory Board is keen to raise the proportion of female members to such a level that, if possible, women account for at least one-third of the Supervisory Board in 2015. It should be noted in this context, however, that the Supervisory Board can only influence its composition through the candidates of the shareholder representatives it proposes for election to the shareholders' meeting.

A list of members of the Supervisory Board, complete with information on their professions and an overview of their positions on other supervisory boards or comparable boards required by law, is published in the section of the present Annual Report entitled Corporate Governance and in the notes to the annual financial statements in the Annual Report of HVB.

Supervisory Board committees

To support its work, the Bank's Supervisory Board has set up two standing committees in 2011. The chairmen of the committees report in detail on the committees' activities at plenary meetings of the Supervisory Board. Information on the committees' work over the last financial year is provided in the Report of the Supervisory Board in the present Annual Report.

The composition and tasks of the committees are as follows:

Remuneration & Nomination Committee

The Remuneration & Nomination Committee, comprised of the chairman of the Supervisory Board and the two deputy chairmen, is primarily concerned with succession planning for the Management Board, preparing the resolutions of the Supervisory Board regarding the structure of Management Board remuneration and the process of setting the total remuneration of the individual members of the Management Board.

Audit Committee

The Audit Committee, which generally conducts five meetings each year, has four members. Compliant with Section 107 (4) in conjunction with Section 100 (5) of the German Stock Corporation Act (AktG), the Audit Committee has at least one independent member with expert knowledge in the field of accounting or auditing.

The Chairman of the Audit Committee, Dr Lothar Meyer, has particular knowledge and experience in the application of accounting principles and internal control procedures, as required by sub-paragraph 5.3.2 of the German Corporate Governance Code. Furthermore, he is independent and not a former member of the Bank's Management Board whose appointment ended less than two years ago. Neither is Dr Lothar Meyer the same person as the Chairman of the Supervisory Board, meaning that the suggestion made in sub-paragraph 5.2 of the German Corporate Governance Code has also been met.

The major functions of the Audit Committee include preparing the Supervisory Board's decision on the approval of the annual financial statements and the consolidated financial statements, conducting a preliminary audit on the report on relationships with affiliated companies and elucidating the half-yearly financial report and interim reports. The Audit Committee submits a recommendation to the

Supervisory Board regarding the Supervisory Board's proposal for the election of the independent auditor by the Annual General Meeting of Shareholders. Its tasks in this regard include checking the necessary independence of the auditor and specifying the type and scope of the non-auditing services to be provided by the auditor. The Audit Committee is also responsible for commissioning the auditor for the annual financial statements and the consolidated financial statements on the basis of the resolution adopted by the Annual General Meeting of Shareholders, including the specification of the main areas subject to scrutiny and the fee.

Further key tasks of the Audit Committee include monitoring the effectiveness of the internal control system (ICS) and the risk management system (RMS). In this context, the RMS is geared to identifying not only risks endangering the Bank's continued existence at an early stage but also all significant risks, including ways of managing and mitigating them. The risk situation and the early identification of risk are of fundamental importance for the Bank's continuing existence. In accordance with the Minimum Requirements for Risk Management by banks laid down by the German Financial Supervisory Authority, risk reports are presented to the Audit Committee each quarter. In addition to this, key information from the risk point of view is passed on to the Audit Committee immediately. The business strategy defined by the Management Board and a risk strategy that is consistent with it are presented to the Supervisory Board together with any necessary amendments to the strategies for consideration. This approach ensures that both the Supervisory Board and the Audit Committee are provided with detailed reports on a regular basis, particularly on the risk strategy, credit risks, market risks and operational risks as well as liquidity and reputational risks.

The main activities of the Audit Committee also include monitoring the effectiveness of the internal audit system (IAS). This involves the committee assessing whether the resources, the audit plan and the audit findings are appropriate. The Audit Committee is informed on a regular basis about any serious shortcomings identified by the Internal Audit department, significant shortcomings that have not yet been remedied and the measures that have been initiated to achieve this. The Management Board informs the Audit Committee about any particularly serious shortcomings immediately. Furthermore, the chairman of the Audit Committee has the right to request information directly from the head of the Internal Audit department upon consultation with the Management Board.

The Audit Committee has also been tasked with reviewing the effectiveness of the compliance system set up by the Management Board. At its meetings, the Audit Committee also discusses any compliance issues that may have arisen. Furthermore, the chairman of the Supervisory Board is authorised to request information directly from the Compliance Officer upon consultation with the Management Board.

Ad-hoc Committee
The Supervisory Board has also employed an ad-hoc committee since 2008 to look at the pending lawsuits brought by former shareholders. The Report of the Supervisory Board contains information on the activities of the ad-hoc committee.

Integrity Charter, Code of Conduct, Compliance and data protection
The Integrity Charter is a common set of values connecting all UniCredit group companies which is supported by the introduction of an ombudsman system. It contains guidelines on the conduct of Management Board members and employees at the workplace and lays down standards of behaviour for the employees of all UniCredit group companies.

In addition to this, a Code of Conduct is in force at HVB. This code summarizes existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all Bank employees.

The Bank has set up an independent compliance structure – reporting directly to the CEO as of 1 April 2011 – to monitor compliance with the relevant legal and supervisory provisions. The new organisational structure follows the divisional structure of the sales units. HVB's Compliance unit has been tasked with assisting the Management Board of HVB and its subsidiaries in the management of compliance risk. Compliance advises management and staff with regard to existing, proposed and pending laws, rules and regulations as well as standards within the competence of Compliance in regard to existing and new business, transactions, products (new product process) and

Corporate Governance and Compensation Report (Continued)

branch offices. Compliance focuses primarily on the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and associated directives, rules and regulations, including stock market rules, the German Money Laundering Act (Geldwäschegesetz – GwG) and applicable financial sanctions. However, it also deals with regulations arising from the German Banking Act (Kreditwesengesetz – KWG) and other rules affecting the Bank's operations, including regulations regarding corruption prevention and antitrust issues. Compliance runs various training courses regarding these topics, some of which are voluntary although most are compulsory. A risk analysis forms the basis of the annual Compliance Plan which encompasses the individual measures such as organising training courses and drawing up policies and the monitoring plan. A further key task of Compliance is to ensure that activities like employee transactions and the Bank's trading activities are monitored on a daily basis and matters like churning, investment logs and marketing materials are monitored both on a daily basis and on the basis of random checks. Additionally in 2011, Compliance started to carry out on-site reviews covering all German branches over a period of several years. Compliance is also the point of contact for the German Federal Banking Supervisory Authority (BaFin) and the supervisory authorities in the countries where HVB operates as well as for stock market trading oversight units.

The creation of an effective system of data protection is an essential element of good corporate governance with a view to ensuring compliance with the provisions of privacy law, internal guidelines and corporate values. Data protection is a very high priority at HVB and is seen by the Management Board as a key management task. In order to avoid any potential conflict of interests, the Data Protection unit that was previously allocated to Legal & Compliance was moved to the Global Banking Services division (GBS) during 2011. The reorganisation reflects the regulatory requirement for a direct reporting line to exist from the Data Protection Officer to the Management Board. With this move, moreover, HVB is ensuring greater awareness of the need for privacy when dealing with personal data and compliance with the provisions of privacy law.

Remuneration Committee

The Management Board of HVB has set up a Remuneration Committee compliant with BaFin Circular 22/2009 covering supervisory requirements for institutions' remuneration systems (Aufsichtsrechtliche Anforderungen an die Vergütungssysteme von Instituten) dated 21 December 2009 and the regulations governing supervisory requirements for institutions' remuneration systems (Instituts-Vergütungsverordnung) dated 6 October 2010. This committee is tasked with reviewing the appropriateness of the remuneration systems in light of these standards. Members of the Committee are drawn from the HR, Finance, Risk Control, Compliance and Trading/Markets departments as well as front office and back office units. The Internal Audit department is involved within the bounds of its functions. The chairmen of the Central Works Council and the Speakers' Committee for Senior Executives are ex officio members of this committee. The other members are appointed and removed by the Bank's Management Board. The Senior Director Legal, Corporate Affairs & Documentation is the Chairman of the Remuneration Committee. All members of the Remuneration Committee are Bank employees or executives; they do not receive any separate compensation for their work on the Remuneration Committee. The Remuneration Committee reports to the Management Board and the Supervisory Board at least once a year on the appropriate structure of the Bank's compensation systems. The chairman of the Supervisory Board has the right to request information directly from the Remuneration Committee.

Stock option plans and share-based incentive schemes for employees

UniCredit has two different share-based schemes:

First, a long term incentive program including share-based remuneration elements in UniCredit S.p.A. shares (stock options and performance shares) has been set up for executives and junior managers of all UniCredit group companies selected using defined criteria.

Second, an employee share ownership plan has been set up enabling employees to buy UniCredit shares at favourable terms. For more information about these share-based plans, please refer to Note 37 in the notes to the consolidated financial statements in the present Annual Report.

Shareholders, General Meeting of Shareholders
Since the squeeze-out was filed in the Commercial Register on 15 September 2008, the rights in the General Meeting of Shareholders are exercised by the sole shareholder, UniCredit S.p.A.

Shareholdings
Since UniCredit S.p.A. is the sole shareholder of HVB, none of the members of the Management Board and/or Supervisory Board personally holds any shares in HVB.

Executives' conflicts of interest
During the reporting period, one member of the Supervisory Board did not participate in the discussion and subsequent voting regarding an out-of-court settlement between HVB and the hedge funds in the suit aimed at having the annual financial statements for 2006 declared null and void and further queries in connection with the claim for damages asserted by the hedge funds to avoid a potential conflict of interests. This is because the member of the Supervisory Board in question was himself a defendant in the suit asserting claims for damages regarding the hedge funds, which has in the meantime also been settled out of court.

For the same reason, the member of the Supervisory Board in question did not participate in the discussion and subsequent voting regarding the question of how to proceed with the pending claim by the former special representative in connection with the sale of Bank Austria to UniCredit S.p.A.

The Report of the Supervisory Board contains more information in this regard.

Risk management
The Bank maintains a risk management system that encompasses its subsidiaries. This notably covers strategies, the ability to bear risk, and risk management and control processes. The monitoring and coordination of the main risks come under the responsibility of the Chief Risk Officer, who reports to the Audit Committee of the Supervisory Board on a regular basis. Please refer to the Risk Report in the present Annual Report for more details.

Communication, transparency
HVB greatly values regular and prompt communication with its customers, its shareholder, its employees and the general public. Press releases and reports provide information on the state of the Bank. Information that could have a substantial impact on share and market prices as defined in Section 12 of the German Securities Trading Act is published in ad-hoc communications and also made available on the Bank's website. In addition, the Board spokesman and CFO of HVB report on issues important to the Bank and current business results in communications on results and at press telephone conferences held regularly, the dates of which are published in a financial calendar. This financial calendar and other information published by HVB, such as the Bank's Articles of Association and corporate governance topics, can similarly be found online together with the latest consolidated financial statements and interim reports. The publications are released in both German and English.

Voluntary declaration of compliance
The Management Board and Supervisory Board issued the following voluntary declaration of compliance on 8 November 2011:

"Voluntary declaration of compliance with the German Corporate Governance Code for 2011
UniCredit Bank AG is not required to submit a declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act. Nevertheless, the Management Board and Supervisory Board of UniCredit Bank AG have decided to adhere to the German Corporate Governance Code on a voluntary basis, inasmuch as the provisions of the Code can be applied to a non-listed company with only one shareholder. For this reason a voluntary declaration of compliance with the German Corporate Governance Code will be submitted as follows:

The Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" made by the Federal Ministry of Justice in the official part of the electronic Federal Gazette have been complied with, apart from the following recommendations, which are listed below, including the reasons why these recommendations were not complied with. The basis for this declaration is the German Corporate Governance Code as amended on 26 May 2010, which has been applied since 17 December 2010 (date of the last declaration of compliance).

Corporate Governance and Compensation Report (Continued)

UniCredit Bank AG did not comply with the following recommendations:

1. In accordance with sub-paragraph 4.2.3 sentence 11 of the Code, payments to a Management Board member in the event of premature termination of their activity without good cause shall neither exceed the equivalent of two years' compensation including fringe benefits (severance cap) nor the compensation due for the residual term of the employment agreement.

   This recommendation is not being complied with in the case of one employment agreement with a Management Board member due to that member's long years of service to the Bank; the severance payment arrangements have also been retained in extension to the employment agreement with this Management Board member. All other employment agreements with Management Board members no longer provide for severance payments.

2. In accordance with sub-paragraph 5.3.3 of the Code, the Supervisory Board is to establish a nomination committee, which shall exist exclusively of shareholder representatives and is to propose names of suitable candidates to the Supervisory Board for the latter's election nominations.

   In view of the company structure with one shareholder and the size of the Supervisory Board with only six shareholder representatives, the Supervisory Board considers the forming of a nomination committee unnecessary.

3. In addition, UniCredit Bank AG did not comply with the following recommendations:

   Sub-paragraph 2.3.2 (the transmission of Annual General Meeting documents in electronic form),
   Sub-paragraph 2.3.3 sentence 2 (assistance of shareholders for absentee and proxy voting),
   Sub-paragraph 4.2.3 sentence 14 (explanation of compensation system at the annual general meeting),
   Sub-paragraph 5.4.3 sentence 1 (elections to the Supervisory Board on an individual basis),
   Sub-paragraph 6.6 sentence 1–3 (directors' dealings) and
   Sub-paragraph 6.7 sentence 1 2nd manuscript (publishing of the date of the annual general meeting in the financial calendar).

   The purpose and intent of the recommendations only relate to listed public limited companies with free float and not to a non-listed company with only one shareholder.

Furthermore, the Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission Corporate Governance Code", as amended on 26 May 2010 and announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, continue to be observed, with the exception of the above-mentioned deviations.

Munich, 8 November 2011

The Supervisory Board
Federico Ghizzoni

The Management Board
Dr Theodor Weimer
Peter Hofbauer"

HVB has applied the numerous **suggestions** included in the German Corporate Governance Code ("should" or "can" provisions) with the following exceptions:

– Sub-paragraph 3.6: On co-determined supervisory boards, the shareholder representatives and the employee representatives are each required to prepare supervisory board meetings separately, if appropriate in conjunction with members of the management board. In 2011, both the shareholder representatives and the employee representatives held preparatory meetings on a regular basis. Only in the case of an extraordinary meeting of the Supervisory Board on 1 June 2011 preparatory meetings did not take place.
– Sub-paragraph 5.4.6: The remuneration paid to members of the Supervisory Board does not contain any components linked to the Bank's long-term success. A large majority of our Supervisory Board members are required to surrender the Supervisory Board compensation, which means that no individual Supervisory Board member would profit from an appropriate regulation.

Furthermore, UniCredit Bank AG has not applied the following suggestions as only they relate to listed companies with free float and not to non-listed companies with only one shareholder:

– Sub-paragraph 2.2.1 (authorisation of the remuneration system for the members of the management board by the Annual General Meeting),
– Sub-paragraph 2.3.3 (presence of a proxy representative at the Annual General Meeting) and
– Sub-paragraph 2.3.4 (transmission of the Annual General Meeting using modern communication media).

Compensation Report

The first part of the following compensation report describes the system of compensation for members of the Management Board of UniCredit Bank AG ("HVB" or "the Bank"). The second part describes the amount of compensation paid to members of the Supervisory Board in detail and shown individually, broken down into remuneration categories.

1. Structure of compensation paid to members of the Management Board for 2011

It is the task of the plenary sessions of the Supervisory Board of the Bank to discuss and decide on a proposal put forward by the Remuneration & Nomination Committee of the Supervisory Board regarding the structure of the compensation of members of the Management Board. Furthermore, the plenary sessions of the Supervisory Board determine the total compensation of each member of the Management Board, also upon proposal by the Remuneration & Nomination Committee. Appropriateness and sustainability are key criteria for the form and structure of compensation paid to members of the Management Board.

The structure of compensation is derived from the service agreements with the members of the Bank's Management Board. It has two components: fixed salary and a variable element.

To evaluate whether the compensation paid to Management Board members is commensurate with market conditions, an external remuneration advisor performed a market survey for the year under review which specifically covered the compensation paid to management board members in similar companies. The compensation paid to members of the Bank's Management Board for the year under review was stipulated in the plenary session of the Supervisory Board in March 2011 taking account of this survey.

The structure of compensation paid to members of the Management Board is reviewed regularly by the Supervisory Board and adjusted if necessary. When doing so, the Supervisory Board makes use of the expertise of external, independent remuneration and legal advisors.

1.1 Fixed salary

The fixed salary is equivalent to the level paid in similar financial institutions. It is disbursed in 12 monthly installments.

1.2 Variable compensation (performance-related components)

In 2011, the variable compensation system was modified further to reflect the German regulations governing institutions' remuneration systems (Instituts-Vergütungsverordnung). The variable compensation reflects the changed economic environment and the requirements of the regulators and strengthens the importance of sustainable company success. Competitive, success-oriented variable compensation coupled with a partial shift of disbursement to the medium- to long-term future are intended to help tie executives to the Bank and promote the sustainable corporate earnings.

The variable compensation consists of a bonus opportunity (80%) and performance stock options (20%). Disbursement takes place over a total period of five years.

The following disbursement arrangements are applicable for the **bonus opportunity:**
- Year 1: 25% of the bonus disbursed in cash
- Year 2: 25% of the bonus disbursed in cash
- Year 3: 25% of the bonus disbursed in shares
- Year 4: 25% of the bonus disbursed in shares

First, the amount of the bonus is permanently coupled to the core capital ratio and the adjusted return on equity of UniCredit. The conditions for the sustainable corporate earnings are set in the form of target ratios for profitability and sustainability ("Group Gate"). This Group Gate is applicable for the first tranche of the bonus (25%). The Group Gate totals 100% if the set ratios are met in full or exceeded. Depending on the shortfall in the set profitability ratio/sustainability target measured, the amount totals 80% (75% for one member of the Management Board), 60% (50% for one member of the Management Board) or 0%.

Second, the amount of the bonus depends upon certain targets agreed individually with the members of the Management Board being met. These targets are recorded in matrices and encompass operational targets with a weighting of 30% or 50% and sustainable targets with a weighting of 70% or 50%. Parameters like customer satisfaction, reputation index, People Survey results and so on are included for the sustainability targets.

Corporate Governance and Compensation Report (Continued)

The bonus is not disbursed if the profit after tax is less than zero and/or UniCredit is unable to meet its liquidity requirements on a given number of days ("zero factor"). This zero factor is applied to tranches for the years 2, 3 and 4 of the incentive.

There is similarly no entitlement to the disbursement of a bonus whatsoever if any compliance and/or value rules have been violated.

The following arrangements are applicable for the **performance stock options:**

The performance stock options are granted in the fifth year. The number of options granted can vary between 0% and 150%, based on the achievement of performance conditions that are verified at the end of the fourth year.

The performance conditions are measured by the relative total shareholder return (rTSR) of UniCredit S.p.A. and the group economic profit (EP or EVA of UniCredit S.p.A.) over the four-year period (2012–2015). The group economic profit is measured by the cumulative budget targets over the four-year period.

1.3 Long-term incentive (LTI)
After no long-term incentive plan was set up for 2010, this took place in 2011 with a performance period of 2011 to 2013. This long-term incentive plan with a performance period from 2011 to 2013 comprises a combination of stock options and performance shares.

The actual number of options acquired and shares granted may vary between 0% and 150% of the communicated reference amounts, conditional on the performance conditions being met in the period from 2011 to 2013 on the basis of two indicators: the economic profit (EP) and the relative total shareholder return (rTSR).
The EP is measured at group or business level at the time of allocation. The UniCredit rTSR is valued with peer groups from the European Stoxx Banking Sector Index (Bloomberg Code: SX7P) with a higher market capitalisation than the average on the last business day of a performance period.

There is no longer a separate long-term incentive plan for the 2011 financial year.

1.4 Additional comments
In 2011, five members of the Management Board (one of whom left the Management Board during the year) had a corporate employment contract with UniCredit S.p.A. as well as a service agreement with HVB. Compensation is paid from this corporate employment contract to the same extent as the proportion of their duties performed within UniCredit. The entitlement from the service agreement with HVB declines accordingly; the entitlements are offset between HVB and UniCredit S.p.A. on a pro rata basis. In other words, each member of the Management Board is only entitled to one set of compensation in the amount set by the Supervisory Board of HVB for the financial year in question.

In 2011, one member of the Management Board (who was appointed during the year) had an employment contract with UniCredit Bank Austria AG as well as a service agreement with HVB. A second member of the Management Board had a suspended employment contract with UniCredit Bank Austria AG in 2011 as well as a service agreement with HVB. The same procedure as with corporate employment contracts was applied to the compensation paid under these two employment contracts.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit Group companies is surrendered to the Bank.

1.5 Compensation paid to members of the Management Board for 2011
The compensation paid to members of the Management Board for the 2011 financial year totalled €7.0 million (2010: €6.0 million).

Subsequent to the registration of the squeeze-out resolution in the Commercial Register on 15 September 2008, the Bank is not listed any more. Consequently, the compensation paid to members of the Management Board is not shown on an individualised basis.

(€ millions)

	FIXED COMPENSATION		PERFORMANCE-RELATED COMPONENTS		LONG-TERM INCENTIVES[1]		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
Management Board of UniCredit Bank AG	4	3	2[2]	2[2]	1[3]	1[3]	7[4]	6
Supervisory Board of UniCredit Bank AG for								
Supervisory Board activities	0.6	1	0.2[5]	2[6]	—	—	0.8[5]	3[6]
Former members of the Management Board of								
UniCredit Bank AG and their surviving dependants							2[7]	2[7]
Transitional allowances for former								
members of the Management Board							0	2

1 cash value of the share-based compensation
2 the profit-related components for 2011 are generally deferred over several years, as was also the case in 2010, with disbursement in subsequent years dependent on defined company targets being achieved
3 prorated disclosure of the long-term incentive plans for 2005 to 2008 and the long-term incentive plan for a performance period of 2011 to 2013
4 costs for international health insurance and social security, including the accrued taxes, of €0.4 million were additionally assumed for one executive under his existing UniCredit S.p.A. contract
5 the profit-related component for the 2011 financial year totals €0.2 million, provided the Annual General Meeting of Shareholders adopts a resolution regarding the appropriation of net income as proposed
6 the profit-related component of €1.7 million for the 2009 financial year was disbursed in 2010 together with €0.3 million for the 2010 financial year
7 an amount of €0.15 million was assumed in the 2011 financial year for some former executives within the framework of insurance benefits under a corporate Directors and Officers insurance policy, the accrued taxes and legal costs (2010: €0.4 million)

Details of share-based compensation (long-term incentive)

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	NUMBER
Options	
Stock options 2010	—
Stock options 2011	1,844,156[1]
Performance shares	
Performance shares 2010	—
Performance shares 2011	826,517[1]
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

1.6 Pension commitments

Besides direct remuneration shown in the chart, 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 as 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.

Corporate Governance and Compensation Report (Continued)

The Bank credits the contributions to the deferred compensation plans to the Management Board member's capital account and invests them in a fund. The Bank guarantees an annual return of 2.75%. If the market value of the fund less 10% (fluctuation reserve) exceeds the amount of the commitments, the difference is credited to the Management Board member's pension account. When the beneficiary becomes entitled to receive benefits, the capital credit balance is converted into a pension for life. In the process, the actuarial calculations applicable at the time, in particular life expectancy, are taken as a basis. An annual adjustment of 1% is granted for the pension; this fulfils the Bank's obligation to adjust pension commitments. Alternatively, the capital can be disbursed if the eligible Management Board member has applied for this two years before the insured event occurs.

A sum of €5,787 was transferred to provisions for pensions in the 2011 financial year to cover the commitments (for death benefits) made to the members of the Management Board.

One member of the Management Board receives allocations to a UniCredit group pension fund. Contributions were made to a pension fund for two further members of the Management Board, which were deducted on a pro rata basis from the fund-linked commitment (AgfA).

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €115 million (2010: €120 million).

Compliant with Section 285 of the German Commercial Code (Handelsgesetzbuch – HGB), the provisions for pensions payable to former members of the Management Board and retired members of the Management Board and their surviving dependants totalled €34 million (2010: €33 million) at HVB at 31 December 2011.

The compensation paid to retired members of the Management Board and their surviving dependants amounted to €1.6 million in 2011 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2010: €1.7 million).

1.7 Fringe benefits

The members of the Management Board can also use their company car for private purposes, among other things. The Bank paid the premiums for an accident insurance policy valid 24-hours a day and a sum insured of €1,200,000 in the event of death and €1,400,000 in the event of complete disability. Furthermore, members of the Management Board receive the same preferential terms for bank services as the Bank's employees.

1.8 Commitments to pay a transitional allowance

The new contracts concluded with members of the Management Board as of 2009 do not contain a commitment to pay a transitional allowance in the event of non-extension of the contract or a severance allowance in the event of early termination of Management Board activities.

The content of this entitlement to a severance allowance has been modified for only one member of the Management Board, who already had a contractual entitlement to a transitional payment in the event of non-extension of the contract or the early termination of the appointment, when the Management Board service agreement was extended. This served to implement the regulations governing institutions' remuneration systems (Instituts-Vergütungsverordnung) that have now come into force.

Neither do the contracts contain any commitments to make payments in respect of early termination of Management Board activities as a result of a change of control (change of control clause).

2. Compensation paid to members of the Supervisory Board

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Bank's Articles of Association. The currently applicable arrangements under these articles are based on a resolution adopted by the Shareholders' Meeting on 22 September 2010. The compensation is divided into a fixed and a variable, dividend-dependent component. Under the terms of the arrangements, the members of the Supervisory Board receive fixed compensation of €30,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share, but no more than €15,000. The chairman of the Supervisory Board receives twice

the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the members of the Audit Committee each receive fixed annual compensation of €27,500 payable upon conclusion of the financial year. The chairman of the Audit Committee receives twice this amount. The members of the Remuneration & Nomination Committee receive no separate compensation for committee work. Furthermore, every member of the Supervisory Board and every member of the Audit Committee receives a reimbursement for expenses of €250 for attending a meeting of the Supervisory Board or the Audit Committee. In addition, the members of the Supervisory Board are reimbursed their incidental expenses and value-added tax payable on their Supervisory Board activities. If they are members of the Executive Management Committee of UniCredit S.p.A., those members of the Supervisory Board transfer to UniCredit S.p.A. the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty.

Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the financial year receive pro rata compensation.

The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2011, expense allowances totalling €33,008.54 were paid to members of the Supervisory Board. No remuneration was paid in the 2011 financial year for services provided personally.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2011:

(€)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION[5]	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Sergio Ermotti[1], Chairman	9,863.01	—	4,931.51	14,794.52	10,112.06[6]
Federico Ghizzoni[2], Chairman since 4 March	49,972.60	—	24,986.30	74,958.90	51,234.40[6]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00	—	22,500.00	67,500.00	67,500.00
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[6]
Beate Dura-Kempf	30,000.00	—	15,000.00	45,000.00	45,000.00
Klaus Grünewald	30,000.00	—	15,000.00	45,000.00	45,000.00
Werner Habich[4]	28,767.12	—	14,383.56	43,150.68	43,150.68
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[6]
Klaus-Peter Prinz	30,000.00	—	15,000.00	45,000.00	45,000.00
Jutta Streit[3]	1,232.88	—	616.44	1,849.32	1,849.32
Jens-Uwe Wächter	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00	—	15,000.00	45,000.00	45,000.00
Total	**419,835.61**	**137,500.00**	**209,917.81**	**767,253.42**	**692,953.96[6]**

1 member until 1 March 2011
2 member since 2 March 2011
3 member until 15 January 2011
4 member since 16 January 2011
5 subject to a resolution adopted by the Annual General Meeting of Shareholders regarding the appropriation of profit available for distribution
6 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

Munich, 16 March 2012

The Management Board The Supervisory Board

Speaking the language of our clients.

As a result of expanded international mobility, many citizens who work in Austria do not speak German. These are citizens of other nationalities and cultures, who need to communicate in their own languages when discussing delicate subjects such as banking transactions. Bank Austria's *Banking Without Borders* programme guarantees that such customers, on any given day, will have access to an employee who speaks his or her own language. Additionally, in Vienna, five branches provide documentation and product literature in several languages other than German. An effective answer to a multicultural society.

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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

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Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Net interest	1,033	1,080	994	966
Dividends and other income from equity investments	65	36	36	13
Net fees and commissions	367	323	326	292
Net trading income	514	273	(148)	(449)
Net other expenses/income	31	11	41	8
OPERATING INCOME	**2,010**	**1,723**	**1,249**	**830**
Operating costs	(888)	(895)	(910)	(918)
OPERATING PROFIT/(LOSS)	**1,122**	**828**	**339**	**(88)**
Net write-downs of loans and provisions for guarantees and commitments	(127)	163	(114)	(188)
NET OPERATING PROFIT/(LOSS)	**995**	**991**	**225**	**(276)**
Provisions for risks and charges	(58)	(116)	(107)	30
Restructuring costs	—	—	(33)	(75)
Net income from investments	58	50	(12)	(57)
PROFIT/(LOSS) BEFORE TAX	**995**	**925**	**73**	**(378)**
Income tax for the period	(314)	(286)	(163)	123
PROFIT/(LOSS) AFTER TAX	**681**	**639**	**(90)**	**(255)**
Impairment on goodwill	—	—	(4)	—
CONSOLIDATED PROFIT/(LOSS)	**681**	**639**	**(94)**	**(255)**
attributable to shareholder of UniCredit Bank AG	651	623	(88)	(255)
attributable to minorities	30	16	(6)	—
Earnings per share (€)	**0.81**	**0.78**	**(0.11)**	**(0.32)**

Summary of Annual Financial Data

HVB Group

(€ millions)

OPERATING PERFORMANCE	2011	2010	2009	2008	2007
Net interest	4,073	4,100	4,476	4,059	3,753
Dividends and other income from equity investments	150	148	52	200	376
Net fees and commissions	1,308	1,312	1,187	1,453	1,721
Net trading income	190	759	1,074	(1,882)	473
Net other expenses/income	91	239	141	147	169
OPERATING INCOME	**5,812**	**6,558**	**6,930**	**3,977**	**6,492**
Payroll costs	(1,819)	(1,756)	(1,822)	(1,961)	(2,067)
Other administrative expenses	(1,593)	(1,459)	(1,418)	(1,281)	(1,250)
Amortisation, depreciation and impairment					
losses on intangible and tangible assets	(199)	(218)	(222)	(253)	(259)
Operating costs	**(3,611)**	**(3,433)**	**(3,462)**	**(3,495)**	**(3,576)**
OPERATING PROFIT/(LOSS)	**2,201**	**3,125**	**3,468**	**482**	**2,916**
Net write-downs of loans and provisions for guarantees and commitments	(266)	(632)	(1,601)	(760)	(536)
NET OPERATING PROFIT/(LOSS)	**1,935**	**2,493**	**1,867**	**(278)**	**2,380**
Provisions for risks and charges	(251)	(442)	(151)	(6)	(161)
Restructuring costs	(108)	(37)	(170)	(26)	13
Net income from investments	39	(132)	(280)	(285)	730
PROFIT/(LOSS) BEFORE TAX	**1,615**	**1,882**	**1,266**	**(595)**	**2,962**
Income tax for the period	(640)	(154)	(382)	(54)	(794)
PROFIT/(LOSS) AFTER TAX	**975**	**1,728**	**884**	**(649)**	**2,168**
Impairment on goodwill	(4)	—	—	—	—
CONSOLIDATED PROFIT/(LOSS) OF HVB GROUP	**971**	**1,728**	**884**	**(649)**	**2,168**
attributable to shareholders of UniCredit Bank AG	931	1,703	819	(671)	2,050
attributable to minorities	40	25	65	22	118
Cost-income ratio in % (based on total revenues)	62.1	52.3	50.0	87.9	55.1
Earnings per share (€) (adjusted)[1]	—	—	1.18	(0.80)	2.03
Earnings per share (€)	1.16	2.12	1.02	(0.84)	2.60
CONSOLIDATED PROFIT/(LOSS),					
attributable to shareholders of UniCredit Bank AG	**931**	**1,703**	**819**	**(671)**	**2,050**
Consolidated profit of discontinued operations	—	—	—	—	3,698
Minorities in consolidated profit of discontinued operations	—	—	—	—	—
CONSOLIDATED PROFIT/(LOSS),					
including discontinued operations,					
attributable to shareholders of UniCredit Bank AG	**931**	**1,703**	**819**	**(671)**	**5,748**

1 2009 and 2008 adjusted for restructuring costs
2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and non-recurring tax charges arising from German tax reforms

HVB Group[1]

	2011	2010	2009	2008	2007
Balance sheet figures (€ billions)					
Total assets	385.5	371.9	363.4	458.6	422.1
Shareholders' equity	23.3	23.7	23.6	23.0	24.0
Key capital ratios	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**
Core capital (€ billions)	20.6	20.6	20.4	21.2	23.6[2]
Risk-weighted assets (€ billions) (including					
equivalents for market risk and operational risk)	127.4	124.5	115.1	148.2	145.5
Core capital ratio (%)					
(calculated based on risk-weighted assets including					
equivalents for market risk and operational risk)	16.2	16.6	17.8	14.3	16.2[2]
Employees	19,442[3]	19,146[3]	18,874[3]	24,638	24,784
Offices	934	927	852	852	846

1 without discontinued operations
2 pro forma: based on approved annual financial statements, including the transfer of €3.7 billion to reserves approved by the Annual General Meeting of Shareholders on 30 July 2008
3 number of employees in full-time equivalents

Rewarding talented young entrepreneurs.

As Italy's future relies on its young talents, *Il talento delle idee* (The Talent of Ideas), a contest involving UniCredit and the Young Entrepreneurs Association, provides a valuable challenge. Dedicated to entrepreneurs between the ages of 18 and 40, the contest identifies and promotes business ideas based on feasibility and innovation. Originators of the three best ideas are awarded with specialized financial support, entrepreneurial training, introductions to potential investors and mentoring from UniCredit. Financial awards go to selected projects at a national level. This is a concrete example of how real needs find clear answers at UniCredit.

Annex

UniCredit Profile

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Highlights

UniCredit operates in 22 countries, with more than 160,000 employees and over 9,500 branches.

UniCredit benefits from a strong European identity, extensive international presence and a broad customer base.

Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.

EMPLOYEES[1]
over 160,000

BRANCHES[2]
over 9,500

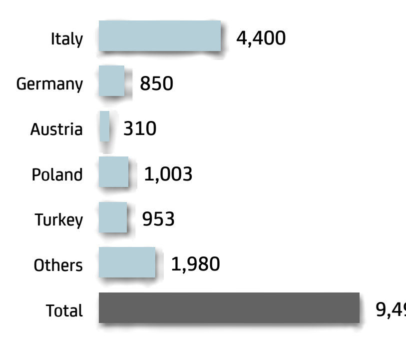
1 Data as at 31 December 2011. FTE = "full time equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.

2 Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

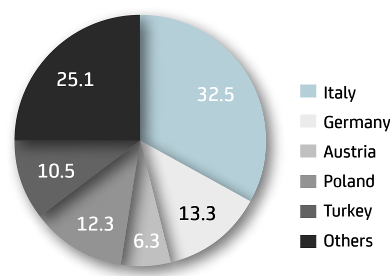
WHERE WE OPERATE

AUSTRIA
AZERBAIJAN
BOSNIA AND HERZEGOVINA
BULGARIA
CROATIA
CZECH REPUBLIC
ESTONIA
GERMANY
HUNGARY
ITALY
KAZAKHSTAN
KYRGYZSTAN
LATVIA
LITHUANIA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SLOVENIA
TURKEY
UKRAINE

BRANCHES BY COUNTRY[2]



EMPLOYEES BY COUNTRY[1] (%)



Focus

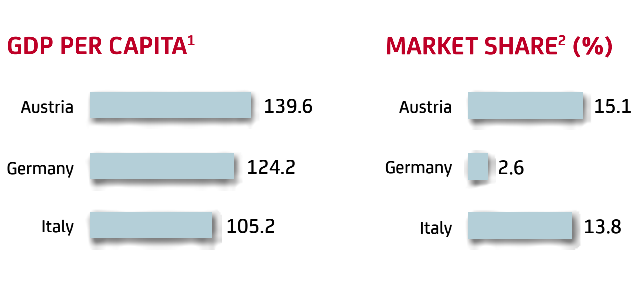
AUSTRIA, GERMANY AND ITALY

UniCredit is strategically positioned in Italy, Germany and Austria. These three countries account for more than one-third of the combined GDP of the European Union and collectively represent one of the continent's wealthiest transnational regions.

GDP per capita in each of these countries is higher than the average for the EU as a whole. Moreover, Germany ranks first in terms of GDP per capita among the four largest EU economies, surpassing France, the United Kingdom and Italy.

UniCredit has one of the largest banking networks in all three of these core Western European countries and provides access to 310 branches in Austria, 850 in Germany and 4,400 in Italy. Each country is closely linked to the growing economies of Central and Eastern Europe.

In terms of economic performance, 2011 was another year of moderate expansion for these core countries. The first half of the year saw a growth in momentum that was sustained by healthy global demand. During the second half of the year, there was a marked slowdown in economic activity following the sovereign debt crisis, which took place during the summer. In particular, market repricing of risk premiums on Italy's sovereign debt took its toll, fueled by investor concerns about the sustainability of the country's public debt in the context of structurally low GDP growth. The response of the Italian government in terms of fiscal consolidation was impressive, although this likely contributed to dampen the country's growth prospects, at least in the short-term. As for Germany, market sentiment remained extremely positive with regard to the country's perceived health.



1 Nominal GDP per capita as at 31 December 2010 (EU27=100). Estimate of nominal GDP per capita within the EU-27 as at 31 December 2010.

2 Market share in terms of total customer loans as at 31 December 2010.

Source: Eurostat, UniCredit Research.

For the next two years, our three core markets will face challenges. These will be particularly acute in Italy. Nevertheless, these three countries will continue to demonstrate their relative strength in comparison to the nations of southern Europe given their balanced growth model, relatively low level of private sector debt and continued prudent management of public finances. Italy and Germany possess the eurozone's largest manufacturing base, together generating more than 50 per cent of the euro area's total nominal added value.

From 2011 to 2015, real economic growth is expected to continue at an average annual rate of roughly 2 per cent in Austria and Germany, and nearly 0.5 per cent in Italy. This is higher than the average rate achieved over the previous five-year period for the three countries. Moreover, while exports will certainly be an important factor behind the ongoing economic recovery, another favourable development will be seen in domestic demand, which will become an increasingly important engine of economic development. Particularly in Germany, this will result in a more sustainable pattern of growth that is not exclusively export-driven.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, where it has a broad network of roughly 3,900 branches.

Its regional footprint is diverse, and includes a direct presence in 19 countries. It is ranked in the top five in 11 of these countries. In fact, the CEE now accounts for 18 per cent of the Group's revenues.

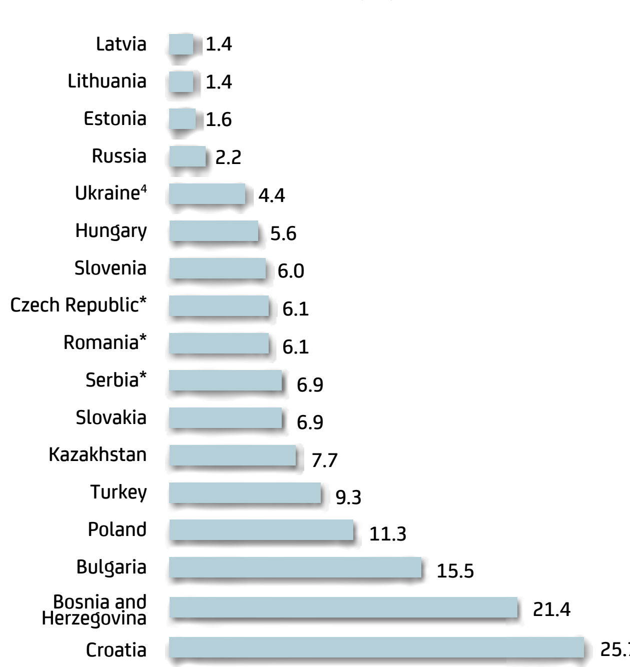
UniCredit has a long history in this dynamic region, from which nearly half of all its employees come. The Group is well positioned to benefit from the process of economic convergence that has been generating higher living standards and a better business environment in these countries.

UniCredit's market position in this region gives its local banks a substantial competitive advantage. This includes the sharing of best practices, significant economies of scale, access to international markets and strong brand recognition. Moreover, the bank's diversified portfolio in this region enables modular growth and increased market penetration for UniCredit's global product lines.

In the first three quarters of 2011, most countries in the region posted strong gains in economic activity, supported by robust external demand, favourable agricultural conditions and, in some cases, resilient domestic demand growth. To date, available data indicates some slowdown in economic activity in the fourth quarter, in part as a result of weaker external and industrial demand. Nevertheless, the region as a whole proved relatively resilient to the challenges of the EMU. The risks, if any, to UniCredit's prediction of 4.7 per cent GDP growth for CEE in 2011 are to the upside.**

In 2012, economic growth for the region is forecast at 3.3 per cent, assuming a broadly flat first half-year followed by an improved second half-year. Among the largest economies in the region, Russia is expected to lead, posting growth of almost 4 per cent, while in Turkey and Poland GDP should post gains of approximately 3 per cent. These economies will benefit from lower debt levels and from a head start in fiscal consolidation relative to the EMU. Other economies in the region, including Croatia, Slovenia and Hungary, will struggle to post positive gains in GDP.

MARKET SHARE[3] (%)



* as at September, 2011.

** GDP figures at 31 December 2011 are not yet final.

3 Market Share in terms of Total Assets as at 31 December 2011. Market Share in Azerbaijan and Kyrgyzstan not available.

4 Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).

Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Business Model

This model focuses on four pillars:

Customer centricity

This is the focus of the Business Divisions – *Families & SMEs, Corporate & Investment Banking, Private Banking and Central Eastern Europe.* With their highly specialised services, they offer clear and simple solutions to all customer segments, thereby maximising long-term value and generating customer satisfaction.

A multi-local approach

UniCredit combines an international distribution network with deep local roots and close ties to its customers by leveraging on the global product lines, like Leasing and Factoring, its global service lines and the local expertise of UniCredit's people operating in the local markets.

Global product lines

Each of the product lines is responsible for the centralised development of a complete portfolio of financial products and services suitable to the diverse needs of its customers. These product lines generate added value for customer segments in all countries and regions by also leveraging on the specialised skills and knowledge of the Group's banks/companies (e.g Fineco Bank).

Global service lines

UniCredit's service lines provide a broad range of specialised internal services such as information technologies, back-office activities, personnel administrative management, loan recovery, purchasing and real estate management.

Organisational structure

UniCredit's organisation reflects its divisional business model and geographic scope.
To meet customers' needs, UniCredit is divided into **specialised Business Divisions**, as follows:

- Three divisions – *Families & SMEs, Corporate & Investment Banking, Private Banking* – manage the activities intended for their respective customer segments. These include marketing, defining service models and developing products, as well as overseeing and coordinating some specific businesses.
- The CEE Division serves to align the activities in 19 countries of Central and Eastern Europe to a single, comprehensive business vision.

In line with the multi-local approach, responsibility for individual countries is lodged with leadership roles – such as the Country Chairman in the four main markets of Austria, Germany, Italy and Poland and the Country CEO in the six divisionalised CEE countries. Their task is to combine the Group's strategic business vision with that of their country.

Lastly, the functions called **Competence Lines** oversee the guidance, coordination and control of UniCredit's activities and manage the related risks. These competence lines include Planning, Finance & Administration, Risk Management, Legal & Compliance, Internal Audit, Human Resources, Organization and Identity & Communications.

The UniCredit Strategic Plan

Clear goals, specific actions and a long-term vision are key elements of the UniCredit Strategic Plan that will be implemented through 2015. The strategic targets of the plan are related to commercial activity which meets real needs with concrete solutions, capital strength, operating efficiency, profitability and the focus on Europe.

Commercial activity. Placing a renewed emphasis on the importance of being a commercial bank will put UniCredit at the centre of the real economy. Customers primarily look to UniCredit to provide them with savings and lending services. Most importantly, the Group's return to traditional banking fundamentals means that it can provide tailored solutions to fit these needs.

Capital strength. UniCredit's position as one of the 29 global systemically important financial institutions (G-SIFIs) is official recognition that it is now one of the most secure banks in the world. However, it remains a priority to further improve its capital and liquidity positions, as well as its access to funding.

Operating efficiency. To be truly competitive in the years to come, UniCredit requires a simplified operating structure that is more customer-focused, efficient, cost-conscious and streamlined in terms of central functions.

Profitability. Profits must be sustainable. And only a strong, low-risk traditional business model can generate sustainable profits and a return on capital that is greater than its costs.

Focus on Europe. UniCredit's current orientation is towards Europe. Its geographic diversity is an unquestionable asset that will continue to serve the Group well into the future. In fact, its strong presence in Western Europe and in those CEE countries with high growth potential will strengthen UniCredit's relationships with strategic customers internationally.

The steps set forth in the UniCredit Strategic Plan to achieve these goals can be broken down into four areas of activity: use of capital; cost control and simplification; a business shift for CEE and CIB; and a resurgence in Italy.

Use of capital. This must be carefully addressed. Being a G-SIFI bank may mean that UniCredit is one of the 29 most secure banks in the world, but it also means it is one of the most regulated institutions. This is especially true with regard to capital endowment and risk profile. UniCredit's successful €7.5 billion capital increase was the first step towards strengthening its position, and, in 2012, it gave the bank a Common Equity Tier 1 Ratio of over 9 per cent based on Basel 3 criteria. UniCredit's goal is to exceed 10 per cent by 2015. As for the reduction of its risk profile, this will require the sale of €48 billion in non-strategic assets and greater selectivity in lending as compared to the past. These transactions will allow UniCredit to focus more on its traditional banking business by raising funds and providing loans on an ongoing basis and under attractive conditions.

Cost control and simplification. UniCredit aims to be efficient, streamlined, fast and unified. To achieve this as quickly as possible and starting in 2012, the strategic plan calls for difficult decisions requiring it to break with the past. UniCredit's organisational model and several other components will change according to customer needs and will involve a downsizing of support functions plus a shift to centralised departments. At the same time, spending will be thoroughly reviewed to achieve overall savings of €440 million.

Business shift for CEE and CIB. Both of these business areas will be reviewed. On the one hand, this will involve leveraging countries with the greatest growth potential – especially those where UniCredit is well-positioned in terms of risk/return (the Czech Republic, Poland, Russia and Turkey). On the other hand, it will involve a shift in lending to focus on more strategic customers in order to create additional loans.

Resurgence in Italy. While Italy is number one for UniCredit in terms of revenues and loans, the country's profitability must improve. To do this, UniCredit will adjust the risk profile of its loan portfolio to favour higher credit ratings, reduce the efficiency gap with its main competitors and be more selective in its lending. These steps will allow UniCredit to provide new medium- and long-term credit lines totaling €33 billion to SMEs, and to extend new loans to households totaling more than €39 billion.

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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