ANNUAL REPORT 2004

Driving value

Growing with Europe.

HVB Group

CONTENTS

What makes a company strong? Factors like size or position, of course, but also fundamental attitudes, beliefs, convictions. In other words: values.

For HVB Group, what matters is consistency and staying power – especially in challenging times. This explains why we are reinforcing our long-term profitability on the basis of our strategic orientation. All this relates to our commitment to Europe and our strategy as the leading bank in the heart of Europe.

In extending our operations in Central and Eastern Europe, for instance, we have anticipated changes that are sweeping the European Union and are consolidating our already outstanding position in the flourishing markets of the New Europe. Our goal is to intensify our efforts to tap the advantages of this position as the leading banking network in the region by generating even greater synergies.

LIVING VALUES. DRIVING VALUE.

The second point that characterizes us is a consistent focus on the customer, especially in Germany. We have optimized our offerings for retail customers and introduced attractive service packages. This is helping us to win new customers, boost cross-selling, and raise our profile on the market. Our corporate customers benefit from an all-inclusive approach complete with innovative products and competent advice. Our knowledge of the capital markets, notably in the field of structured investment products and financial solutions, rounds off our range.

All of this is geared to the third and most important issue: the value-driven development of HVB Group in the interests of our shareholders. The photos we have included in this report reflect some aspects of our business activities, underlining our core message this year: driving value.

HVB GROUP PROFILE

- We have a unique profile in European financial services markets.
- We are focusing our resources on retail and corporate banking in Europe.
- We are the leading bank in the heart of Europe. Our growth stems from our strong roots in Germany and Austria, as well as in Poland and other countries of Central and Eastern Europe.
- The customer 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.
- We aim to constantly increase our return on equity for the benefit of our shareholders. We are systematically cutting back our non-strategic activities and reinvesting the freed equity capital to strengthen our core operations and boost profitable growth.
- We give our people a stake in the success of HVB Group through performance-related systems of remuneration.

FINANCIAL HIGHLIGHTS

Key indicators	2004	2003
Return on equity after taxes (adjusted)[1]	4.9 %	2.1 %
Return on equity after taxes	(17.6) %	(19.7) %
Return on equity before taxes (adjusted)[1]	7.3 %	5.3 %
Return on equity before taxes	(11.5) %	(14.6) %
Cost-income ratio (based on operating revenues)	65.6 %	63.0 %
Operating performance		
Operating profit (loss)	€1,389 m	€1,432 m
Profit (loss) from ordinary activities/net income (loss) before taxes	€(1,781) m	€(2,146) m
Net income (loss)	€(1,992) m	€(2,442) m
Cash dividend per share of common stock	—	—
Earnings per share (adjusted)[1]	€0.91	€0.54
Earnings per share	€(3.27)	€(4.92)
Balance sheet figures		
Total assets	€467.4 bn	€479.5 bn
Total volume of lending	€324.6 bn	€338.3 bn
Shareholders' equity	€11.5 bn	€10.3 bn
Key capital ratios compliant with BIS rules[2]		
Core capital	€15.7 bn	€14.4 bn
Equity funds	€27.1 bn	€25.6 bn
Risk assets	€238.6 bn	€241.8 bn
Core capital ratio	6.6 %	5.9 %
Core capital ratio including the effects of consolidation to be incorporated from the start of 2005	6.2 %	—
Equity funds ratio	10.4 %	9.7 %
Share information		
Share price: Year-end	€16.70	€17.62[3]
High	€21.13	€19.26[3]
Low	€12.86	€5.47[3]
Market capitalization	€12.5 bn	€9.8[4] bn
Employees	57,806	60,214
Branch offices	2,036	2,062

[1] 2004 figures adjusted for amortization of goodwill, addition to restructuring provisions, and allocation to special provisions for bad debts

2003 figures adjusted for amortization of goodwill, current income and expenses from norisbank, Bank von Ernst, Bankhaus Bethmann-Maffei, and the non-scheduled items defined in the consolidated financial statements for 2003

[2] as per approved financial statements

[3] HVB share price adjusted for rights markdown

[4] before capital increase

Ratings

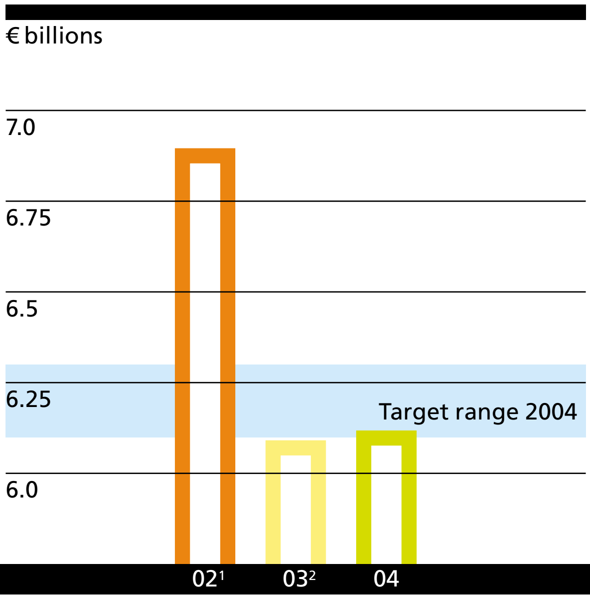
	Long-term	Short-term	Outlook	Public Pfandbriefs	Mortgage Pfandbriefs
Moody's	A3	P–1	negative	Aa2*	Aa3*
S&P	A–	A–2	negative	AAA	—
Fitch Ratings	A–	F2	stable	AAA	AAA**

* On review for possible upgrade since March 15, 2004

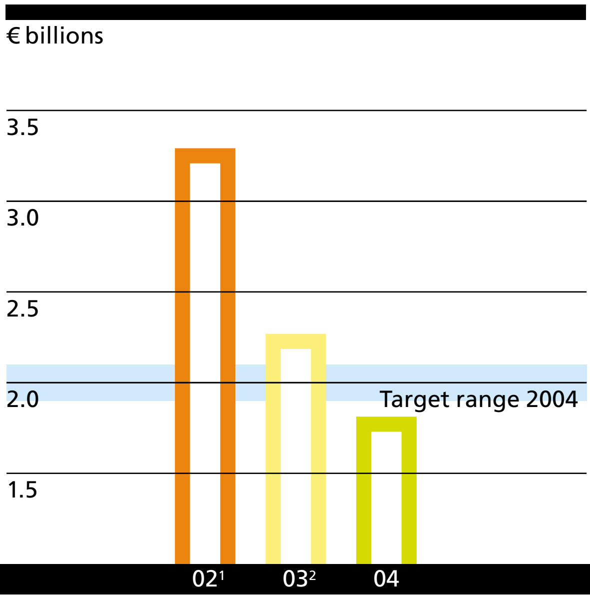
** On rating watch negative since January 21, 2005

2004: COSTS AND RISKS FIRMLY UNDER CONTROL…

Sharp reduction in administrative expenses



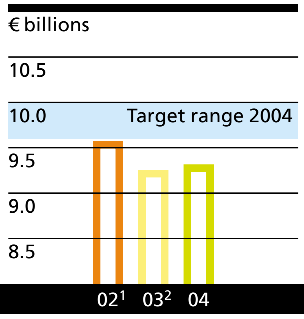
Big cutback in loan-loss provisions



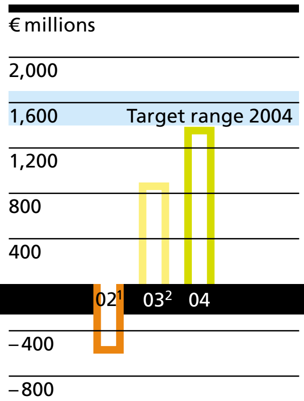
[1] new HVB Group
[2] adjusted for deconsolidation effects (including gains on the disposal of norisbank and Bank von Ernst) and the effect of the Contractual Trust Arrangement (CTA)

...EARNINGS TARGETS ALMOST REACHED*

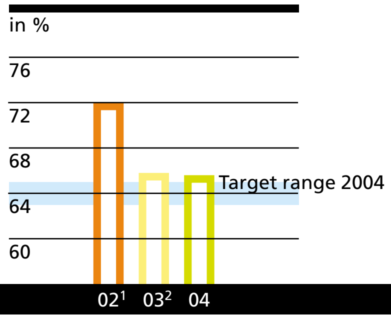
Stabilization of total operating revenues



Strong rise in operating profit



Cost-income ratio virtually unchanged



* The target ranges are planning ranges published on p.17 of the Financial Section in the 2003 Annual Report

2004: MILESTONES

Shareholdings sold

Allianz holding sold and Munich Re stake reduced to less than 10%

February

Rights issue

Biggest German rights issue in banking sector successfully placed with a volume of €3 billion

April

Non-strategic holdings sold

Complete shareholding in Brau und Brunnen sold and E.ON stake disposed of

Capital market access for small and mid-sized companies

Innovative PREPS finance product eases access to equity capital for our mid-sized corporate customers at attractive terms

May

Sales campaign in Germany

New MOVE program boosts sales culture and reaches new customer groups, including job entrants, students, and apprentices, with the free Starter Package

Russian presence boosted

Steps initiated to take a majority stake in International Moscow Bank, building an even stronger position in the Russian banking market

Corporate customers acquired from ING BHF

Market position in small and mid-cap segment broadened by concluding a transfer agreement with ING BHF-Bank notably for a loan portfolio

Efficiency program launched

Ambitious efficiency program announced, optimization of back offices and processes

Expansion in Serbia

Acquisition of Eksimbanka in Serbia completed, market share tops 5%

August

September

October

November

December

VuW integrated

Outstanding shares in Vereins- und Westbank acquired; VuW absorbed by HVB AG (entered in Commercial Register on January 14, 2005) to raise sales profile in the German market

New members of the Management Board

Two new Management Board members named for Germany business segment

Acquisition in Bulgaria

Purchase agreement signed for Bulgaria's Hebros Bank, increasing market share in Bulgaria to 10%

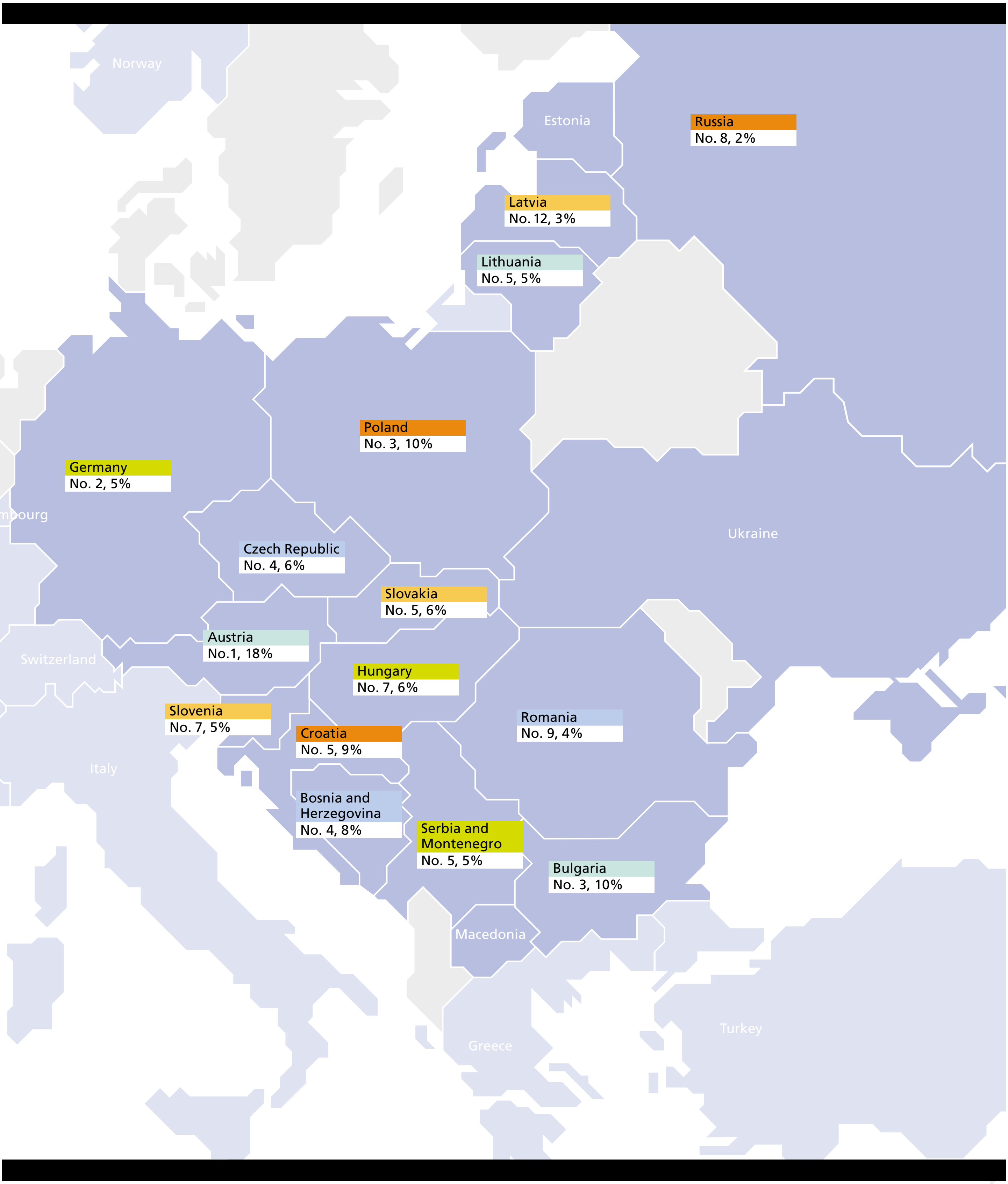
CORE MARKET

Leading bank in the heart of Europe

HVB Group is one of the major banks in Europe. We are the leader in the heart of Europe, an economic area encompassing more than 200 million people in Germany and Austria together with Poland and other Central European countries. We also have a strong presence in Russia and the Baltics. We are the only German bank with offices in all three Baltic states.

Our market position has been reinforced by countries like Poland, the Czech Republic, Slovakia, Hungary, Slovenia, and the Baltic states joining the European Union. We also have offices in the world's main financial centers.

Valid as of year-end 2004



Norway
Estonia
Russia
No. 8, 2%
Latvia
No. 12, 3%
Lithuania
No. 5, 5%
Poland
No. 3, 10%
Germany
No. 2, 5%
Luxembourg
Czech Republic
No. 4, 6%
Ukraine
Slovakia
No. 5, 6%
Austria
No.1, 18%
Switzerland
Hungary
No. 7, 6%
Slovenia
No. 7, 5%
Croatia
No. 5, 9%
Romania
No. 9, 4%
Italy
Bosnia and Herzegovina
No. 4, 8%
Serbia and Montenegro
No. 5, 5%
Bulgaria
No. 3, 10%
Macedonia
Greece
Turkey

Miroslav Velikov
Head of Custody
HVB Bank Biochim, Sofia

»As part of HVB Group I already feel like a European, even if the politicians are still a couple of steps behind.«

➔ Austria & Central and Eastern Europe business segment


НАРОДНО СЪБРАНИЕ

SHAREHOLDER INFORMATION

Dieter Rampl

LETTER TO OUR SHAREHOLDERS

Dear shareholders:

One of the epoch-making events we will commemorate in 2005 is the achievement of Albert Einstein, who published his famous essay on the theory of relativity 100 years ago. I'd like to begin my comments here with one of his great insights: "Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted."

What do I mean by that? Let's review last year. In my previous letter to you, I said: "We can certainly look back on a pretty successful year. Indeed, there are plenty of reasons to be optimistic. However, let's not overlook the downsides of the last twelve months." Trying to sum up 2004, I get a sense of déjà vu, even though the specific results are distinctly different from those of twelve months ago. Once again we had a successful year in customer operations – yet we still had to make painful decisions. And so as I look back today at the past year, I have mixed feelings.

A year ago, I also informed you that, even though the transformation of HVB Group had been a success, it would be false to maintain that we could look forward to quiet times in 2004. My prediction proved to be true; we had a considerable number of challenges to face. The economy performed less dynamically than expected, so that business conditions for banks remained difficult, especially in Germany, and despite lower credit risks. Lending growth for the year was well below average, demand for financial services was generally slack, and movements on the capital markets were minimal.

As you may recall, our financial goals for 2004 were very ambitious. In my letter to you, I mentioned three factors for success: boosting profitability, developing growth options, and expanding our leeway for strategic maneuvers. How far did we get with these factors in fiscal 2004, and where do we stand in that process today?

"We made significant progress in operating profitability compared to last year."

We made significant progress in operating profitability compared to last year. Our operating profit increased 55%, to almost €1.4 billion, and we partially succeeded in achieving our ambitious target ranges. We fully met our targets for general administrative expenses, and even performed better than planned in risk provisioning. In spite of lower trading profits, we almost achieved our target range for total operating revenues. Following a tremendous final lap in the fourth quarter, both our cost-income ratio and operating profit also nearly made the mark. All in all, then, the results were respectable. Most importantly, our core business unquestionably made good progress. Incidentally, you can find informative charts on these figures in the section headed "Costs and risks firmly under control … earnings targets almost reached."

In January of 2005, we decided to restructure our Germany business segment. In this context, we'll be transferring the workout portfolios from the entire German real estate finance business of HVB AG to the new Real Estate Restructuring segment together with the remaining portfolios of the Real Estate Workout segment.

At the same time we have modified our strategy: to improve the portfolio's marketability with a view to eliminating it as quickly as possible, we have taken a special provision for bad debts of €2.5 billion after changing the valuation method for the real estate collaterals associated with these portfolios. But the consequence of this is that, for fiscal 2004, we have had to report a clear net loss and no dividend payment.

You will quite rightly note that 2004 is the third fiscal year in a row in which we have not reported a profit or paid a dividend. Certainly many of you will be thinking, "Not again!" I won't deny that this was precisely the reason why we on the Management Board – and I in particular – found this such a very difficult decision. We deeply regret the consequences for you, our shareholders. Nevertheless, we are firmly convinced that this was the right step to take – not least for the benefit of our share price, which did not perform to my satisfaction last year.

For the sake of our Bank's future viability, we had to free ourselves by drawing a line under the troublesome subject of our legacy burdens in the real estate business. As you are only too well aware, these have repeatedly had a serious effect on our profits over the past few years, and they would have continued to do so in future years as well. Now we can remove a significant portion of the risk from our future income statements and concentrate our resources entirely on profitable new business. This will strengthen both our profitability and our ability to retain earnings.

Which brings me to our second factor for success: growth options. As you certainly know, we are the leading bank in the heart of Europe. Our Bank Austria Creditanstalt subsidiary is excellently positioned not only in Austria, but also in Europe's fastest-growing region of Central and Eastern Europe (CEE).

"As you certainly know, we are the leading bank in the heart of Europe."

We strengthened our already-impressive market position during the year through both organic growth and carefully chosen acquisitions. The accession of eight emerging economies to the EU on May 1, 2004 will lend additional momentum to our activities. We also gained a strong source of income in Russia by expanding our stake in International Moscow Bank. A look at the map in the section entitled "Core Market" will demonstrate how well we are positioned in this region.

The theme of the HVB Group Europa Forum, held for the first time in Munich in 2004, was a remark by the keynote speaker, Madeleine Albright. The former U.S. Secretary of State rightly declared: “With the new accession countries, Europe has become richer, and thus so has the world.” And indeed, the financial performance of our units in Central and Eastern Europe is a source of great satisfaction. Our investments, made with an eye to the long term, are bearing fruit. You can find the details in the section on the Austria and CEE business segment.

Let’s move on to the third point: leeway for strategic maneuvers. We were very pleased with the success of our capital increase last spring. This, together with the reduction of our market risks, did more than lay the capstone for our transformation process. It was at the same time the first step in our strategic “Growing with Europe” program – the theme of the present report. As I have already mentioned, the financial statements for 2004 include an important, though painful, step to release us from credit risks. It has brought a decisive improvement in our competitive position, especially in the German market.

These were the main events of 2004. And by the way, don’t forget to look at our new list of 2004 milestones, where you’ll find the highlights of the year in chronological order.

Naturally, for both you and us, even more important than a description of the past is the key question of what lies ahead for HVB Group in the future. Basically, we can say that the far-reaching strategic decisions of the past two years have significantly changed our Bank. We now plan to take them as a basis for the value-driving development of HVB Group. The objective here is a lasting improvement in the Bank’s ability to add value at the customer interface. To us, that means directing the Bank systematically toward generating value for our shareholders. So let’s look together at our agenda for 2005 and beyond.

“The far-reaching strategic decisions of the past two years have significantly changed our Bank.”

The clear number-one item on our agenda is the Germany business segment. Let me say frankly that we must and will quickly close the substantial gap that remains between our unquestionably good performance in other countries and our weak profitability at home. My colleague Michael Mendel has done a fine job with our German business, and has laid a viable foundation for his two successors to build upon. We now have Christine Licci and Johann Berger on our team – two high-profile bankers who enjoy an excellent reputation in the financial services industry. They'll be taking joint charge of this business segment and will move it ahead briskly. This will have a major impact on sales programs like the MOVE initiative for retail customers, which got off to a successful start during the past year. You can find more information about this in the section on the Germany business segment.

The second item on the agenda involves improving efficiency. In my letter last year I pointed out the need for further optimization. Now we have set up a program to do this, entitled PRO (Process Redesign and Optimization). The name says it all. These are not tactical savings to push up profits for the short term. We want to optimize the Group's cost base at the structural level – meaning for the medium and long term. PRO focuses on our infrastructure: corporate functions will be streamlined, processes and procedures will come under scrutiny. All in all, we have identified potential synergies here worth at least €280 million a year, and will realize them in full starting in 2007.

Ladies and gentlemen, I am also the Board member in charge of human resources. Which is why I can state emphatically here that we need capable, motivated employees more than ever. They are the best guarantee of our success. In the section entitled "Our People," you can read how we intend to promote a culture of achievement at our Bank. In that connection, I'm reminded of something the French film director Jacques Tati once said: "We could solve all our economic problems if they'd make complacency taxable." So please – don't assume that any of us at HVB will owe tax for that reason! And at this point, I would like to warmly thank the staff of HVB Group; it's unquestionably thanks to them that the Bank has performed so well despite our difficult environment.

This makes it all the harder for us to broach the issue of staffing levels under the PRO program. Let's not beat around the bush. We are working on the assumption that between 2,200 and 2,400 jobs will be shed at the Group level between 2005 and 2007. But be assured, there will be no cuts at the customer interface – meaning in sales and at our branches. Quite the contrary. PRO, after all, is intended to support the work of our sales force and take administrative duties off their shoulders. I've declared PRO a top priority, and I give you my personal word that this program will be a success.

Implementing our long-term efficiency program will call for a commitment from the Chief Operating Officer that extends well beyond the end of Gerhard Randa's contract. He will be relinquishing his duties on HVB Group's Management Board as of the end of the upcoming General Meeting of Shareholders in May. Gerhard Randa has set standards, and not just as a master of costs and procedures. Most significantly, he has earned our thanks in the merger between Bank Austria Creditanstalt and HypoVereinsbank. Michael Mendel will be taking over responsibility for the Austria and CEE business segment on the HVB Group's Management Board.

Now to the third point on our agenda: boosting profits. No matter how important it is for us to improve our efficiency, we still need to speed up our earnings initiatives. And for that reason, I can tell you again that customer relations have always been, and will always be, our prime concern. And here we have achieved very promising advances in the past year. In retail banking, for example, our new service packages have already met with a very positive response from our customers. The same applies to our capital market-oriented solutions for mid-sized and large corporate clients. I am firmly convinced that our increasingly attractive range of services will have a big impact.

"No matter how important it is for us to improve our efficiency, we still need to speed up our earnings initiatives."

Driving value is the fourth, last, and most important point, as I've already mentioned. After the change processes that our Bank has experienced, we now have a corporate structure perfectly aligned with our strategy. All the same, we will still need to rethink individual business models to test their ability to drive value. This helps to explain the report's message of "Driving value." Restructuring our real estate finance operations is certainly a cornerstone in this respect. The goal is to reduce the portfolio of the Real Estate Restructuring segment quickly, making use of every option, and thus to free up some of the equity we need for profitable growth in other segments and regions. Here of course I am thinking first and foremost of Central and Eastern Europe. But at the same time, I am also firmly convinced that our business in Germany will pick up rapidly (see the section entitled "Growing with Europe: Value-driving Development of HVB Group" for more details).

There, then, is our agenda. Moving on, the talk surrounding consolidation in the European banking industry in general, and the German banking industry in particular, continues to grab the headlines. I, too, have added my voice to the debate, always emphasizing that we intend to be one of the forces that will shape the German and European consolidation process. My position on that point has not changed. But here we have another step to take first. We'll concentrate for now on our own value-driven development. Our clear goal: a significant, rapid increase in profitability. On that basis – and in this regard I'm happy to repeat myself – we will not rule out any configurations that make sense for our shareholders, customers, and employees.

Finally, I would like to comment on our financial targets for this year. In January we already announced that, for 2005, we would seek a return on equity roughly equivalent to our cost of capital. We have already laid the groundwork. Of course we will have to make use of significant improvements in our profits – and thus our enhanced reinvestment capacity – to return our core capital ratio to a higher level. We announced a package of measures to this purpose at the end of February. But at the same time, with our competitive profitability, we'll create the conditions for a reasonable dividend payment to you, our esteemed shareholders.

Ladies and gentlemen, as I already mentioned at the beginning of this letter, this year we celebrate the centenary of an annus mirabilis, the year when Albert Einstein published his world-famous formula “$E=mc^2$” and thus helped found quantum physics. Will 2005 similarly prove to be a year of miracles for HVB Group? Quite honestly: probably not. But it will be a thoroughly successful year nonetheless. And you will share in that success.

So please keep the faith. It will be worth your while.

Sincerely

Dieter Rampl
Board spokesman

The HVB Group Board
(left to right):
Dieter Rampl
Christine Licci (since January 17, 2005)
Dr. Michael Kemmer
Johann Berger (from April 1, 2005)
Gerhard Randa (until May 12, 2005)
Michael Mendel
Dr. Stefan Jentzsch
Dr. Wolfgang Sprissler

Dr. Albrecht Schmidt

REPORT OF THE SUPERVISORY BOARD

Following the successful implementation of the extensive transformation program, the major issue addressed by the Supervisory Board in 2004 was the action to be taken to bolster the earnings power of HVB Group. In the light of high market expectations and the persistently difficult economic climate, the Supervisory Board monitored the development of the earnings situation very closely. For this purpose, it solicited regular reports on developments in the business segments; and in a very open dialogue with the Management Board, it discussed the business plan, business management and deviations from plans, as well as revaluation and capital measures.

Focus of discussion during the plenary sessions of the Supervisory Board

The Supervisory Board met at six plenary sessions in 2004. The outset of the year was marked by the reporting and intensive discussion of the planned write-downs on financial investments and the amortization of goodwill on affiliated companies that was brought forward. The transformation program was completed with these radical revaluation measures, as shown in the 2003 financial statements. At its meeting on February 25, 2004, the Supervisory Board approved the capital increase then carried out and examined the adjusted plans for 2004 and future years. Following this meeting, the Supervisory Board was kept up-to-date on the status of target achievement. For this purpose, it received reports on the development of the three business segments: Germany, Austria & Central and Eastern Europe (Austria and CEE), and Corporates & Markets (C&M). In November of last year, the Supervisory Board and the Management Board discussed the annual business plan for 2005 and the multi-year plan. In the course of this discussion, the two boards came to the conclusion that a clear reduction in the anticipated risk provisions and the planned general administrative expenses would be needed to significantly improve results on a long-term basis and increase gross earnings. Consequently, the Management Board announced an efficiency program at the Supervisory Board meeting on November 3, 2004, and presented it to the Supervisory Board on February 23, 2005. It informed the Supervisory Board on January 21, 2005 that it intends to concentrate existing non-performing real estate exposures totaling a volume of about €15 billion in a new segment named Real Estate Restructuring and make them marketable.

To increase the marketability of these holdings, the underlying real estate collateral was assessed at its liquidation value. This change to the valuation criteria resulted in special provisions for bad debts of €2.5 billion in the 2004 financial statements. In conjunction with a restructuring provision of €250 million for the efficiency program, this led to an annual loss being posted again for 2004 and no dividend being paid, despite an operating profit. The Supervisory Board greatly regrets this. However, in the light of the persistently difficult market environment with declining real estate prices, it supports this drastic measure because it significantly eases the strain on future income statements.

During the year, the Supervisory Board also received an extensive risk report and, when provided with the reports from the committees, studied the main contents of the personnel report to be submitted annually. Furthermore, the Supervisory Board was informed about the takeover of a corporate customer portfolio from ING BHF-Bank and about changes and measures in the field of investments.

Corporate governance

As in the previous year, a major issue in 2004 was how to continue enhancing the work of the Supervisory Board. The Supervisory Board addressed this topic at two plenary sessions. A particular concern in this connection was how to allow more time for discussion at meetings. In addition, regular preliminary discussions on the shareholder side were agreed and the internal regulations of the Supervisory Board were adjusted to incorporate the amendments to the Articles of Incorporation adopted by the Annual General Meeting of Shareholders on April 29, 2004. In accordance with the Corporate Governance Code, the Supervisory Board discussed and examined a proposal put forward by the Executive Committee on the structure of the remuneration system for the Management Board. Changes will occur in future to performance-related components, the long-term incentives, and pension arrangements for new members joining the Management Board. Furthermore, the Supervisory Board adopted the Statement of Compliance in accordance with Section 161 of the German Stock Corporation Act at the end of the year, whereby one of the Code's recommendations is not followed and another only applied in part.

Further comments on this issue are contained in the joint Corporate Governance Report of the Management Board and the Supervisory Board as well as the Compensation Report (see the next sections).

Main focus of committee work

The Supervisory Board has set up five committees that support the work of the Supervisory Board. A description of their tasks is given in the Corporate Governance report. The composition of the committees is shown in the Supervisory Board list elsewhere in this Annual Report.

The Executive Committee met seven times in 2004. At its meetings, it discussed executive appointments and succession planning. It also considered the remuneration structure and the detailed remuneration levels for the Management Board. Moreover, the Executive Committee granted its approval to members of the Management Board who wished to accept seats on supervisory boards of other companies. Topics addressed by the Executive Committee when preparing agenda items for Supervisory Board meetings included the business development of the Group, the efficiency review of the Supervisory Board and the Statement of Compliance. Finally, the Executive Committee considered loans requiring approval by circular, with approval being granted in every case.

At its five meetings, the Strategy and Business Development Committee solicited and reviewed information from the Management Board on the current business situation and on the status of the complete integration of Vereins- und Westbank, Hamburg, which was absorbed by Bayerische Hypo- und Vereinsbank on January 14, 2005. At the beginning of 2004, the Committee also studied the capital increase and the adjustments of plans for 2004 and the following years, and procured comprehensive individual reports on the three business segments – Germany, Austria and CEE, and C&M – including major subsidiaries. In preparation for the Supervisory Board meeting on November 29, 2004, the considerations of the Management Board on the strategic orientation as well as the annual business plan for 2005 and the multi-year plan were discussed in depth with the Management Board. The performance of the assets managed by the Group, a personnel report, and a report, by the Chief Operating Officer (COO) particularly about processes and IT were other topics considered by the Committee.

The Audit Committee had four meetings in 2004. In particular, it examined the preliminary audit of the annual financial statements and consolidated financial statements and discussed the interim reports. To prepare for the election of the independent auditors by the Annual General Meeting of Shareholders, the committee assessed the independence of the proposed auditors and stipulated the type and extent of non-audit related services provided by the auditors. After the election, the committee had the auditors explain their plan, and appointed them to perform the audit, specifying the areas to be subject to special scrutiny and setting the fee. Another topic of discussion were the reports of the audit department on the internal auditing results of the first three quarters of the past year, which were in general satisfactory. In addition, the report of the auditors on the annual audit of the securities' account business was discussed in detail. Moreover, the committee solicited information on the observance and development of regulatory capital ratios and compliance with data protection regulations.

The Risk Committee met four times in 2004. At each meeting, the Chief Risk Officer (CRO) submitted a portfolio report to the committee. The report provided the committee with information on the amount of, and changes in, risk provisions, individual exposures with an increased risk potential, and industry-specific sub-portfolios. Furthermore, the committee received reports on market and country risks and on loan portfolio management. Other topics discussed included:

- reports on the status of implementation of the Minimum Requirements for the Credit Business of Credit Institutions and the further development of the loan risk strategy,
- a report on the development of rulings of the Federal High Court of Justice and the European Court of Justice on brokered real estate finance and finance in respect of closed-end real estate funds, and
- a report on operational risks and a report on the liquidity and funding situation.

Furthermore, the committee solicited information on the cross-asset derivatives, earnings potential, and risk controlling for this new product. In addition, it was informed of the status and implementation of Basel II in HVB Group.

The Negotiating Committee required by law did not have to convene in the past year.

The chairmen of the respective committees reported to the Supervisory Board meetings on the topics discussed at the committee meetings, and on the results of these discussions and any votes held. The Management Board also informed the members of the Supervisory Board in writing about unusual events between meetings. The Chairman of the Supervisory Board met regularly with the spokesman of the Management Board for consultations on major developments, and was informed continually on decisions by the Management Board and ongoing events.

Audit and approval of the 2004 financial statements

The annual financial statements and management report of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, as well as the consolidated financial statements and management's discussion and analysis for fiscal 2004 prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, were audited by KPMG. The independent auditors issued an unqualified opinion in both cases.

In fulfillment of their professional obligations under Section 317 (4) of the German Commercial Code, the independent auditors also examined the monitoring systems used by the Bank to detect risks at any early stage. The independent auditors came to the conclusion that the monitoring systems installed are suitable for the management, identification, and monitoring of the risks incurred by HVB Group, and confirms that the management report for the parent bank and management's discussion and analysis for the Group present a true and fair view of the risks of future business development. The Chairman of the Supervisory Board and the Chairman of the Audit Committee attended the final discussions of the Management Board with the independent auditors.

The financial statements listed above were forwarded to the Supervisory Board, together with the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The lead auditor reported on the findings of the audit 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. In addition, the Management Board explained the financial statements in detail at these meetings. The Supervisory Board concurred with the results of the audit. It determined that on the basis of its own examination of the parent bank's financial statements and management report together with the consolidated financial statements and management's discussion and analysis, no objections were to be raised. At its meeting on March 16, 2005, the Supervisory Board therefore approved the annual financial statements and consolidated financial statements prepared by the Management Board upon recommendation by the Audit Committee.

Personnel changes

Christine Licci and Johann Berger were appointed to the Management Board with effect from January 17, 2005 and April 1, 2005, respectively. Gerhard Randa will step down from the Management Board at the end of the Annual General Meeting of Shareholders on May 12, 2005. The Supervisory Board has nominated Mr. Randa for election to the Supervisory Board at the Annual General Meeting of Shareholders on May 12, 2005. The Supervisory Board wishes to thank Mr. Randa for his outstanding and very successful services to the Group. As the former Chairman of the Managing Board of Bank Austria Creditanstalt and then the Chairman of the Supervisory Board of this bank, Gerhard Randa greatly influenced the very dynamic development of this subgroup and also provided invaluable service to the Bank as Chief Operating Officer.

Dr. Diether Münich, who had been appointed to the Supervisory Board under a resolution issued by Munich Register Court on January 13, 2004, resigned from the Supervisory Board with effect from the end of the Annual General Meeting of Shareholders on April 29, 2004. In his place, Dr. Mathias Döpfner, CEO of Axel Springer AG, was elected to the Supervisory Board by the Annual General Meeting of Shareholders. Since then, Dr. Münich has been a deputy member for each elected Supervisory Board representative of the shareholders on the basis of an appropriate election. Furthermore, the Annual General Meeting of Shareholders on April 29, 2004 re-elected to the Supervisory Board for their remaining term of office the gentlemen appointed to the Supervisory Board: Dr. Manfred Bischoff, Volker Doppelfeld, Dr. Lothar Meyer, Dr. Hans-Jürgen Schinzler, Dr. Albrecht Schmidt, Dr. Siegfried Sellitsch, Professor Wilhelm Simson, and Professor Hans-Werner Sinn. They were elected in May 2003 by the election list procedure. Due to pending rescission proceedings, their appointment to the Supervisory Board was confirmed by Munich District Court on the precautionary motion filed by the Management Board on February 17, 2004. At the inaugural meeting of the Supervisory Board following the Annual General Meeting of Shareholders, the Chairman of the Supervisory Board and the two other deputy chairmen received a vote of confirmation.

On March 25, 2004, Max Dietrich Kley, former Deputy Chairman of the Board of Executive Directors of BASF AG and a member of the Supervisory Board of the same company, resigned from the Supervisory Board, as he had been appointed interim President and CEO of Infineon Technologies AG. An interlocking directorate had occurred due to this fixed-term appointment, since a member of the Management Board of Bayerische Hypo- und Vereinsbank also sits on the Supervisory Board of Infineon. After he had completed his term of office on the Management Board at Infineon, and there was therefore no longer a reason speaking against his appointment, Mr. Kley was reappointed to the Supervisory Board under a resolution issued by Munich Register Court on November 2, 2004. The Supervisory Board is nominating Mr. Kley for reelection to the Supervisory Board at the Annual General Meeting of Shareholders on May 12, 2005.

Dr. Siegfried Sellitsch, Chairman of the Managing Board of Wiener Städtische Wechselseitige Versicherungsanstalt-Vermögensverwaltung, is resigning from the Supervisory Board with effect from the end of the Annual General Meeting of Shareholders on May 12, 2005. The Supervisory Board also wishes to thank Dr. Sellitsch at this point for his successful service to this body. As the chairman of the former Trust Business Committee and a member of the Risk Committee, Dr. Sellitsch made an important contribution to the Supervisory Board's work.

The Honorary Chairman of our Supervisory Board, Dr. Maximilian Hackl, passed away on June 25, 2004 at the age of 79. Dr. Hackl joined Bayerische Vereinsbank in 1951. He was a member of the Management Board for twenty-eight years and became its spokesman in 1976. From 1990 to 1998, Dr. Hackl was the Chairman of the Bank's Supervisory Board, and from 1998 Honorary Chairman of the Supervisory Board of Bayerische Hypo- und Vereinsbank. Dr. Hackl was known for applying his tremendous strength of character and his outstanding skills in the best interests of the Bank. With determination and drive, he pressed ahead with turning the Bank into a major German financial institution with an international presence. He exerted a major influence on the spirit and culture of the Bank through his a great sense of duty and natural authority.

Rudolf Renner passed away on January 21, 2005. He served as a managing director of Bayerische Hypotheken- und Wechsel-Bank from 1975 to 1986 and then as a member of the Bank's Advisory Board until 1992. With tireless commitment, great skill and sound judgment, the deceased gentleman made an exemplary contribution to the expansion and development of the Bank. Gerhard Thomas passed away on June 26, 2004. He had been a member of the Supervisory Board of Bayerische Vereinsbank from 1988 to 1993, and was also an important advisor and a friend to the Management Board.

The Supervisory Board will hold the memory of the deceased gentlemen in the highest esteem.

The Supervisory Board would like to thank the Management Board, the employees, and employee representatives for their outstanding commitment in the past year. After the extensive segregation of the commercial real estate finance business and the high write-downs on investments in 2003, the special provision for bad debts is another courageous step toward sustainably enhancing our profitability and thus safeguarding the future existence of the Bank. The Supervisory Board wishes the Management Board and all the employees every success for the implementation of the efficiency program, by means of which processes are to be streamlined and administrative expenses reduced, and for the current marketing campaign especially in the Germany business segment.

Munich, March 16, 2005

The Supervisory Board

Albrecht Schmidt
Chairman

CORPORATE GOVERNANCE

Guiding principle

Good corporate governance is of vital importance for the preservation and sustainable growth of value for investors and all other stakeholders. It must place greater emphasis on the company's long-term success than on short-term gains on the stock market. Exemplary corporate governance is not characterized merely by adherence to formal regulations but above all by responsible management put into action. The Bank lives up to this maxim of responsible management through the close and efficient cooperation between the Management Board and the Supervisory Board, and through the openness and transparency of its communication.

Legal basis

As it is headquartered in Germany, Bayerische Hypo- und Vereinsbank operates in a legal framework provided by the German Stock Corporation Act, the German Co-Determination Act, capital market law, and the German Corporate Governance Code. The Bank complies with the recommendations of the German Corporate Governance Code as amended on May 21, 2003 with two exceptions, whereby one of these cases is only a question of degree. The deviations are described in detail in accordance with the "comply or explain" principle in the Statement of Compliance of the Management Board and Supervisory Board of December 13, 2004 as stipulated in Section 161 of the German Stock Corporation Act. First, no deductibles are agreed for the directors' and officers' (D & O) insurance; second, the compensation paid to the Board spokesman will be shown individually under the compensation paid to members of the Management Board. This disclosure will be made for the first time in the present annual report for 2004. As in the past, only the total compensation will be disclosed for the remaining Management Board members. The full text of the Statement of Compliance complete with comments on the deviations is included at the end of this section. The declaration is also permanently available to shareholders on the company's website. Bayerische Hypo- und Vereinsbank also follows the numerous suggestions of the Code with only two exceptions:

- There are no plans to introduce varying terms of office for the shareholder representatives on the Supervisory Board because such a move would be at odds with the desired continuity of the Supervisory Board's work. It would also apply only to the shareholder representatives, and would thus amount to unequal treatment of Supervisory Board members.
- The remuneration paid to members of the Supervisory Board of Bayerische Hypo- und Vereinsbank does not currently include any components linked to the company's long-term success. The discussions on the criteria best suited to a remuneration model of this kind are not yet complete.

The German Securities Trading Act and the German Act on the Improvement of Investor Protection contain additional statutory regulations aimed at promoting transparency and preventing misuse of insider information. In particular, these statutes contain regulations covering a ban on insider trading, ad-hoc publications, the publication of directors' dealings, and announcements of investments in listed companies when the stake reaches, exceeds or falls below certain thresholds. In addition, the statutory regulations on combating money laundering and the directives issued in this connection must be observed. There is a separate unit in the Bank responsible for ensuring compliance with, and implementation of, these regulations.

Articles of Incorporation, internal regulations, guidelines, compliance

Apart from the defining legal principles regulating the management and monitoring of joint stock corporations, other rules governing these matters at Bayerische Hypo- und Vereinsbank are the Articles of Incorporation adopted by the Annual General Meeting of Shareholders and the respective internal regulations adopted by the Management Board and the Supervisory Board. The Bank has introduced Compliance Guidelines and employee guidelines for dealings in securities and real estate. Compliance with these regulations is monitored by the Bank's compliance officer. In addition, the Management Board has passed a Code of Conduct that effectively summarizes existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all HVB Group employees.

www.hvbgroup.com/articles

Effective corporate supervision: Supervisory Board, committees

The Bank's Supervisory Board has 20 members. In compliance with the German Co-Determination Act, it includes equal numbers of representatives of the shareholders and employees. Independence and the absence of conflicts of interest are indispensable requirements for good supervisory board work, and are therefore anchored in the Supervisory Board's internal regulations. When new members are nominated for election to the Supervisory Board, care is taken to ensure that they have the required knowledge and skills and do not serve on governing bodies or perform advisory functions for key competitors. A summary of the mandates held by members of the Supervisory Board on other statutory supervisory boards or comparable supervisory bodies is published in the notes to the annual financial statements of the parent bank.

Under the German Stock Corporation Act, the tasks of management and supervision must be strictly separated. The task of the Supervisory Board is to monitor and advise the Management Board includ it conducts business. Key tasks of the Supervisory Board include the appointment and dismissal of members of the Management Board. In addition, certain types of transactions require the Supervisory Board's approval, either by law or because the Supervisory Board has made them subject to this restriction. This applies primarily to capital measures and – in accordance with the internal rules of the Supervisory Board – to investments or disposals exceeding a certain amount. To support its work, the Supervisory Board maintains five committees:

- The Executive Committee, comprised of the chairman of the Supervisory Board and the two deputy chairmen, is primarily concerned with succession planning for the Management Board, and determines the remuneration of its members, including the remuneration structure.
- The Strategy and Business Development Committee consists of five members, generally meets four times a year, and addresses the important issues pertaining to the company's strategic orientation and optimal positioning within a continually changing environment. Other issues on which it holds consultations or passes resolutions include annual and multi-year business plans, business trends within the Group and major investments or disposals.
- The Audit Committee, which usually conducts four meetings a year, has five members. It is responsible in particular for preparing the Supervisory Board's decision on approval of the annual financial statements and consolidated financial statements and for elucidating the quarterly financial statements. In addition, this committee prepares the Supervisory Board's proposal for the election of the independent auditor by the Annual General Meeting of Shareholders. This includes an assessment of the independence of the auditor and the specification of the type and extent of non-auditing tasks to be performed by the auditor. It is also responsible for the appointment of the auditor for the annual financial statements and consolidated financial statements on the basis of the resolution passed by the Annual General Meeting of Shareholders, including the specification of the main areas subject to special scrutiny and the fee. Another topic addressed by the audit committee are the regular reports prepared by the internal auditing department on its findings.
- The Risk Committee, which has five members, conducts at least four annual meetings at which it is informed on the company's risk situation and risk management. The risk situation and the timely identification of risks are of fundamental importance for the company's continuing existence. For this reason the Supervisory Board is provided with detailed reports on the Bank's current credit risks, market risks, liquidity risks, and country risks, as well as its operational, legal, and reputation risks.

– The Negotiating Committee, which has two shareholder representatives and two employee representatives, is responsible for submitting proposals to the Supervisory Board pertaining to the appointment or dismissal of members of the Management Board when a vote by the Supervisory Board does not yield the required two-thirds majority.

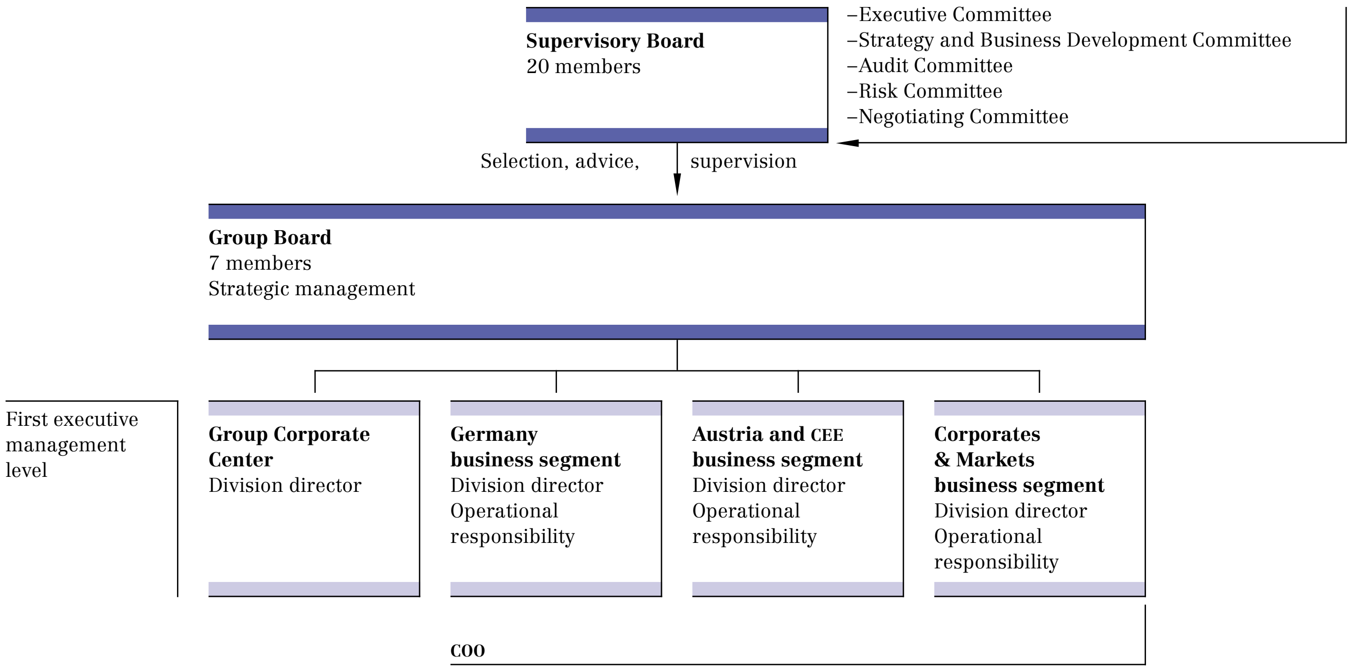
The chairmen of the committees report in detail on the committees' activities at plenary meetings.

Management Board

The Group Board of Bayerische Hypo- und Vereinsbank is the management body of the Group. In the 2004 fiscal year, it had six members. The Management Board has had seven members since January 17, 2005 and will have eight members for a temporary period between April 1 and May 12, 2005. Alongside its spokesman, who is also responsible for Human Resources Management, the Chief Finance Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operating Officer (COO), under whom all Groupwide technical/operational tasks and cost management are pooled, the Group Management Board has two additional members who are responsible for the Germany business segment, which is subdivided into the Private Customers, Corporate Customers and Professionals, and Real Estate business units. One member of the Group Management Board is responsible for each of the business segments Austria & Central and Eastern Europe and Corporates & Markets, with responsibility for Austria and CEE at Group Board level resting with the COO. Immediately below the Group Board are the division directors, who are in charge of operational management of the various divisions within the Group Corporate Center and the three business segments under the leadership of the Group Board members responsible for their areas. The Group Board provides the Supervisory Board with regular, timely, and comprehensive reports on all issues relevant to corporate planning, strategic development, the course of business, and the state of the Group, including the risk situation.

www.hvbgroup.com/org

Supervision and management structure of HVB Group



Shareholders, Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting of Shareholders. The Management Board usually convenes one such ordinary meeting a year, specifying an agenda. It takes place in the first half of the fiscal year, and the "one share, one vote" principle applies. All shareholders can exercise their voting rights in person or through a proxy, or authorize a designated proxy of the company to carry out their instructions. Voting instructions for a designated proxy can also be issued via the Internet. Shareholders receive details with the invitation to the Annual General Meeting. The Annual General Meeting of Shareholders adopts resolutions on such matters as the appropriation of net income, the discharge from liability of the Management Board and the Supervisory Board, the election of shareholder representatives to the Supervisory Board, the appointment of the independent auditor, amendments to the Articles of Incorporation, and capital-raising measures.

www.hvbgroup.com/agm

Risk management

The Bank conducts Groupwide risk monitoring and risk management. The monitoring systems are geared to identifying risks at an early stage. Controlling and risk management are combined under the area of responsibility of the Chief Risk Officer, who reports to the Risk Committee of the Supervisory Board on a regular basis. Please refer to the Risk Report for further details.

Communication, transparency

The Bank greatly values regular and prompt communication with its customers, shareholders, employees, and the general public. Press releases and reports provide information on the state of the company. Information that could have a substantial impact on the share price is published in ad-hoc communications and is also made available on the company's website. In addition, the spokesman of the Management Board and the CFO report on issues important to the company and current business results at regular analyst conferences and press conferences. The dates of these conferences are published in a financial calendar.

www.hvbgroup.com/ir

2004 statement of compliance with the German Corporate Governance Code

The Supervisory Board and the Management Board issued the following statement of compliance on December 13, 2004 pursuant to Section 161 of the German Stock Corporation Act.

The Management Board and Supervisory Board of Bayerische Hypo- und Vereinsbank hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" as amended on May 21, 2003 announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette have been and will be complied with, with the following deviations:

– Clause 3.8 (3) of the Corporate Governance Code stipulates that an appropriate deductible must be agreed if the company takes out D&O insurance for the Management Board and Supervisory Board.
Responsible action is an obvious duty for all Board members and therefore no deductible is required for this.

– Clause 4.2.4 (2) of the Corporate Governance Code states that compensation paid to management board members must be disclosed on an individual basis in the notes to the consolidated financial statements.

So far this recommendation has not been complied with.

The remuneration paid to the spokesman of the Management Board will be shown individually in the future, being disclosed for the first time in the notes to the consolidated financial statements for 2004. The previous practice of presenting only the total remuneration will be continued for the other Management Board members. The individual remuneration components, namely the fixed remuneration, performance bonuses and long-term incentives will be presented in the Notes to the Consolidated Financial Statements and in the Compensation Report. Consequently, we will partially comply with this recommendation in the Corporate Governance Code in the future. In our view, the disadvantages would outweigh the advantages if we presented remuneration on a more individualized basis.

Munich, March 16, 2005

The Management Board The Supervisory Board

COMPENSATION REPORT

In compliance with the German Corporate Governance Code, the basic principles underlying the system of compensation for the Management Board of Bayerische Hypo- und Vereinsbank are explained below. In addition, the amount of compensation paid to members of the Supervisory Board is described in detail.

Structure of compensation paid to members of the Management Board

The compensation paid to members of the Management Board is determined by the Executive Committee of the Supervisory Board. It comprises fixed and variable components: fixed remuneration, variable compensation featuring profit-related components (performance bonus), and a long-term incentive taking the form of share-based compensation (phantom stocks). The target amounts of these three compensation components are weighted equally; in other words, each target amount makes up approximately one-third of the total compensation. The reasonableness of the compensation is based on the tasks and the personal contribution of the member of the Management Board, the performance of the Management Board overall, the general economic situation, and the future potential of the company seen against the backdrop of its peer group.

Fixed compensation

The fixed compensation is disbursed as a monthly salary.

Performance bonus

The size of the performance bonus depends on certain targets set at the beginning of each fiscal year by the Management Board and the Executive Committee of the Supervisory Board being met. Among the elements comprising the basis for assessment is the consolidated profit after taxes. At its meeting on November 26, 2004, the Executive Committee decided to also set individual targets in the area of responsibility of each member of the Management Board starting in 2005. The performance bonus is disbursed together with the compensation for April of the following year.

Phantom stocks (long-term incentive)

To date, the members of the Management Board have received a stock bonus dependent on the performance of the HVB share as a long-term incentive. The German Act on the Improvement of Investor Protection, which came into force on October 30, 2004, has laid down new provisions regarding the elements of insider trading and has clearly expanded the scope of application of these provisions. To prevent members of the Management Board possibly being accused of acting in violation of insider provisions when they dispose of the shares allotted to them during their term of office on the Management Board, the Executive Committee of the Supervisory Board decided, at its meeting on November 26, 2004, to discontinue giving the members of the Management Board long-term incentives and to grant a cash payment after three years for a given amount of HVB shares. As the shares only serve as a basis for calculating the level of the cash payment, they are referred to as phantom stocks. After three years have passed, the members of the Management Board will then be paid the stock market value of the shares at such time in cash. This is how the members of the Management Board are directly involved in the movement of the HVB share price, because the amount of the payment is based on the price of the shares when the three-year period expires. Phantom stocks are allotted primarily in line with the average price of the HVB share during the past fiscal year in comparison with the weighted average price of a benchmark basket composed of at least eight stocks of European financial institutions of similar size and structure to Bayerische Hypo- und Vereinsbank. None of the financial institutions involved is weighted at more than 20% within the basket. The Executive Committee of the Supervisory Board decides on the composition of the benchmark at the beginning of each year. If the average price of the HVB shares matches the benchmark, phantom stocks can be allotted up to a fixed euro amount determined in advance by the Executive Committee of the Supervisory Board. If the average price of the HVB share outperforms or underperforms the benchmark, the euro amount can be higher or lower for each percentage point by more than three percent above or below the benchmark. The equivalent amount of the allotted phantom stocks is capped; it may not exceed 200% of the target amount for this compensation component.

Compensation paid to members of the Management Board for positions on supervisory boards of Group companies is to be transferred to Bayerische Hypo- und Vereinsbank AG.

For fiscal 2004, the compensation paid to members of the Management Board totaled €8 million[1].

In the Statement of Compliance of December 13, 2004, with the German Corporate Governance Code, the Management Board and Supervisory Board declared that the compensation paid to the Board spokesman would be disclosed on an individual basis in the future, while the compensation paid to the other Management Board members would continue to be shown as an aggregate total as before (see below).

Pension commitments

In addition to their regular compensation, the members of the Management Board have received pension commitments under a defined benefit plan. In other words, the Bank has committed itself to paying a given level of pension. At its meeting on November 26, 2004, the Executive Committee of the Supervisory Board decided to start applying a defined contribution plan for new members joining the Management Board. This means that an individually agreed percentage of the compensation paid for the prior year will be additionally provided to new members joining the Management Board as deferred compensation for future retirement benefits. Compared with the defined benefit plan, this has the advantage that all of the company's obligations under the Board member's contract are fulfilled in this way and that there will be no burden on future years through changes in the calculation of provisions.

The total compensation paid to former members of the Management Board and their surviving dependants amounted to €9 million in 2004. At December 31, 2004, the reserves in the Group for pension commitments to former members of the Management Board and their surviving dependants stood at €97 million.

Compensation paid to members of the Management Board

€ millions	Fixed compensation		Profit-related components		Long-term incentives		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Management Board of HVB AG	4	4	2	2	2	2	8[1]	8
of which compensation paid to Board spokesman for 2004	0.8		0.4		0.4		1.6	

[1] figure excluding variable compensation for fiscal 2003 not determined and disbursed until 2004

Compensation paid to the Supervisory Board

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the parent bank's Articles of Incorporation. The currently applicable arrangements under these articles are based on a resolution adopted by the Annual General Meeting of Shareholders on May 3, 2000. 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 €15,000.00 payable upon conclusion of the fiscal year and dividend-dependent compensation of €400.00 for every €0.01 dividend paid above the amount of €0.12 per no-par share. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the Supervisory Board is entitled to a fixed annual compensation of €370,000.00 payable upon conclusion of the fiscal year, which is used to compensate committee members on the basis of a corresponding Supervisory Board resolution. Under the terms of these arrangements, members of the Strategy and Business Development Committee, the Audit Committee and the Risk Committee receive an annual compensation each of €20,000. The chairmen of the committees receive twice this amount. The members of the Executive Committee and the members of the statutory Negotiating Committee, which only meets if required, received no separate compensation for committee work. In addition, the members of the Supervisory Board are reimbursed their expenses and the sales tax payable on their Supervisory Board functions.

Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the fiscal year received pro rata compensation based on the number of days of service.

The following table shows the breakdown of compensation paid to members of the Supervisory Board for fiscal 2004, for which no dividend-dependent compensation accrued.

Compensation paid to members of the Supervisory Board

€	Fixed compensation	Compensation for committee work	Total (excl. sales tax)
Dr. Albrecht Schmidt, Chairman	30,000	100,000	130,000
Peter König, Deputy Chairman	22,500	20,000	42,500
Dr. Hans-Jürgen Schinzler, Deputy Chairman	22,500	20,000	42,500
Dr. Manfred Bischoff	15,000	—	15,000
Dr. Mathias Döpfner[1]	10,082	—	10,082
Volker Doppelfeld	15,000	—	15,000
Klaus Grünewald	15,000	—	15,000
Anton Hofer	15,000	20,000	35,000
Max Dietrich Kley[2]	5,943	7,924	13,867
Friedrich Koch	15,000	—	15,000
Hanns-Peter Kreuser	15,000	20,000	35,000
Dr. Lothar Meyer	15,000	40,000	55,000
Dr. Diether Münich[3]	4,426	—	4,426
Herbert Munker	15,000	20,000	35,000
Dr. Siegfried Sellitsch	15,000	20,000	(23,923)[4] 35,000
Professor Wilhelm Simson	15,000	20,000	35,000
Professor Hans-Werner Sinn	15,000	20,000	35,000
Maria-Magdalena Stadler	15,000	—	15,000
Ursula Titze	15,000	—	15,000
Jens-Uwe Wächter	15,000	20,000	35,000
Helmut Wunder	15,000	20,000	35,000
Total	**320,451**	**347,924**	**(657,298) 668,375**

[1] since April 29, 2004
[2] until March 25, 2004 and again since November 2, 2004
[3] from January 13 to April 29, 2004
[4] less 30% supervisory board tax and 5.5% solidarity surcharge

THE HVB SHARE

Summary

In the year under review, the HVB share showed a volatile performance. Viewed over the year as a whole, our share lost 5.2% and underperformed the DAX index by 12%. The HVB share's significantly weaker development than the DAX in the first half of the year was able to be partially compensated by its marked rise following our first half figures. Overall, however, we are not satisfied with the performance of the HVB share in 2004.

The weightings of the HVB share increased last year from 1.6% to 2.2% in the DAX and from 11.6% to 15.6% in the Prime Banks index. This was mainly a result of our capital increase which was completed in the spring of 2004. Deutsche Börse calculates the weight based on the free-float market capitalization of the ordinary shares included in the DAX. This involves the market capitalization of all the shares below the 5% reporting threshold not held permanently.

Performance during the course of the year

In the first month of the year, the HVB share was able to continue the turnaround of 2003 and reached its year high of €21.13 on January 19, 2004. For the rest of the first quarter, the HVB share was unable to evade the downward trend of the financial stocks which set in after the Madrid terrorist attack in March. Overall, the HVB share underperformed the whole market as a whole over the first three months. But it should be taken into account that we started to carry out our capital increase in the first quarter in a rather unfavorable climate on the stock market.

After the capital increase was successfully completed in the second quarter, the share initially tracked the DAX during April. When to the first quarter results failed to meet market expectations, the share came under pressure at the end of April. Its performance stabilized in May and June, and it again moved in line with the whole market. The HVB share declined 8.3% during the second quarter.

In the third quarter, our share initially underperformed the DAX and reached its year low of €12.86 on July 15, 2004. After the first half results were published, the share again climbed sharply at the beginning of August. It gained almost 6% in value during the course of the next three-month period to close the quarter at €15.46.

In the last quarter, the HVB share continued its climb and gathered momentum, particularly after the announcement on November 4 of the operating results for the third quarter. At that same time we announced our efficiency program. On December 8, the share reached its highest peak in the last quarter of 2004 at €17.26. The HVB share closed at a year-end price of €16.70, representing an 8% gain during the fourth quarter.

On January 21, 2005, we announced the restructuring of real estate finance in the Germany business segment. At the same time, we mentioned that no dividend would be paid for the 2004 fiscal year, especially as a result of the special provision for bad debts of €2.5 billion and the ensuing pressure on the net result.

Successful €3 billion capital increase bolsters capital base

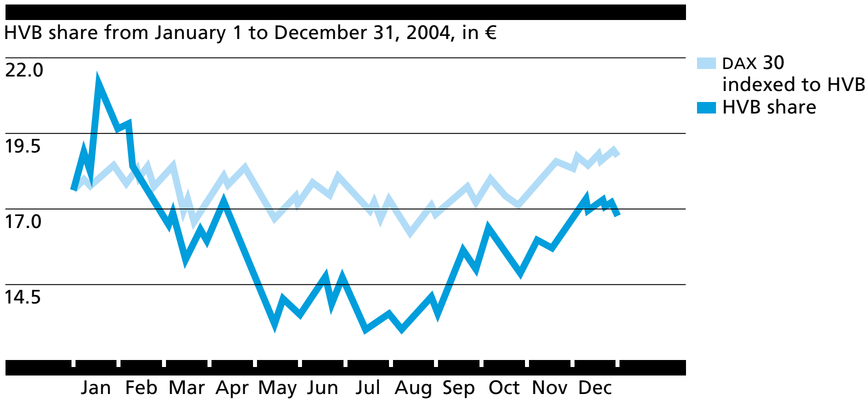
On February 26, 2004, we had announced our intention of bolstering the capital base of HVB Group with a capital increase. We subsequently increased our subscribed capital by €643 million as part of the transaction completed in April 2004. For this purpose, we offered 214,410,440 new shares to our shareholders at a price of €14 each. The subscription ratio was 5 to 2, which meant that shareholders could buy two new HVB shares for every five HVB shares they already held.

Compared with other large capital increases in Germany during 2004, the HVB share achieved the lowest price markdown between the subscription price and the theoretical share price without subscription rights. The total amount issued for the transaction was roughly €3 billion, and the subscription ratio for the new shares stood at 99.8%. Overall, the placement met with high demand, with investors outside Germany showing particularly strong interest.

HVB stipulated attractive subscription conditions using an innovative bidding procedure in cooperation with an international banking consortium, and was able to reduce the dilution effect of the capital increase despite high volatility on the markets. The transaction was realized by an international banking consortium under the leadership of JP Morgan, Lehman Brothers, and HVB Group. The capital increase was the largest cash capital measure implemented by our Bank to date, and at the same time the biggest rights issue in Germany during the year under review.

The new shares were listed on April 6, 2004 at every German stock exchange, the stock exchange in Vienna, and the SWX Swiss Exchange.

HVB share relative to DAX 30 index



Weighting of the HVB share in the most important indexes at December 31, 2004

	Weighting	Ranking
DAX	2.19	13
Prime Banks	15.56	2

Key ratios of the HVB share based on average number of shares

in €	2004	2003
Average number of shares in millions	697.1	536.3
Number of shares at Dec. 31, in millions	750.7	536.3
Operating profit (loss) per share	1.99	2.67
Net income (loss) before taxes per share	(2.55)	(4.00)
Earnings per share (adjusted)[1]	0.91	0.54
Earnings per share	(3.27)	(4.92)
Shareholders' equity per share[2]	16.94	20.26
Net asset value per share[3]	14.11	17.25
Dividend per share of common stock	—	—
Dividend per share of preferred stock	—	—
Share price at year-end	16.70	17.62[4]
High	21.13	19.26[4]
Low	12.86	5.47[4]

Improved performance later in the year

2004	HVB share price in €	Quarterly performance in %
Q1	15.94	(9.5)
Q2	14.62	(8.3)
Q3	15.46	5.7
Q4	16.70	8.0

1 2004 figures adjusted for amortization of goodwill, addition to restructuring provisions, and allocation to special provisions for bad debts
2003 figures adjusted for amortization of goodwill, current income and expenses from norisbank, Bank von Ernst, Bankhaus BethmannMaffei, and the non-scheduled items defined in the consolidated financial statements for 2003

2 Calculation basis: subscribed capital, additional paid-in capital, retained earnings, and reserve arising from currency and other changes

3 Calculation basis: subscribed capital, additional paid-in capital, retained earnings, and reserve arising from currency and other changes plus available-for-sale reserve less goodwill

4 HVB share price adjusted for rights markdown

Shareholder structure: large free float

We analyze our shareholding structure and any changes to it at regular intervals. The most recent survey shows that institutional investors hold approximately 60% of the shares in HVB Group, and private investors around 15%. The strategic investors Munich Re, Privatstiftung zur Verwaltung von Anteilsrechten, and Bayerische Landesstiftung together hold approximately 25% of our shares. In total, 81.6% of our shares are considered free float – i.e., are below the 5% reporting threshold.

The majority of our institutional investors are located in the United States; German investors follow in second place. British investors come in third, followed by investors from Switzerland (3.8%) and Italy (2.5%). Compared with the last survey, the shares held in the rest of Europe have increased. We see this as a positive step towards broadening the geographical base of our shareholder structure.

Extensive coverage by equity research analysts

In 2004, about 40 equity research analysts actively monitored our company and published studies on HVB Group. We have published a compilation of the recommendations of 26 prestigious banks and securities firms on our Investor Relations homepage. At the beginning of March 2005, the majority of analysts (61%) had issued a "hold" recommendation, while 27% had recommended to "underweight" and 12% to "overweight" the HVB share.

www.hvbgroup.com/recommendations

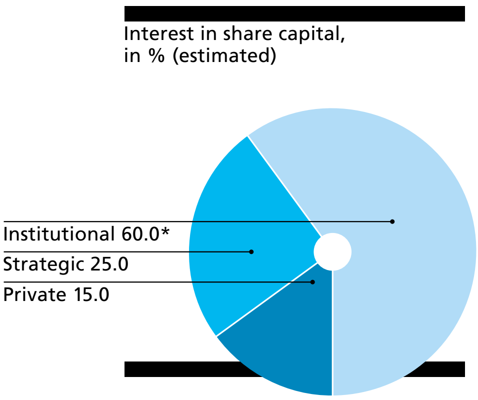
Increased trading volume

In 2004 there was a clear increase in the trading volume of our share, attributable to the rise in interest compared to the prior year: The average daily trading volume of HVB stock stood at 4.4 million shares, representing a 35% increase over the 2003 figure of 3.2 million.

Investor Relations activities: roadshows and one-on-ones …

The main objective of our investor relations work is to communicate openly with analysts, institutional investors, and private investors on an ongoing basis. This helps to ensure that the HVB share is fairly assessed on the capital market. In particular, we strive to broaden our existing base of shareholders through our work. In 2004, the focus was placed on increasing the financial transparency of HVB Group.

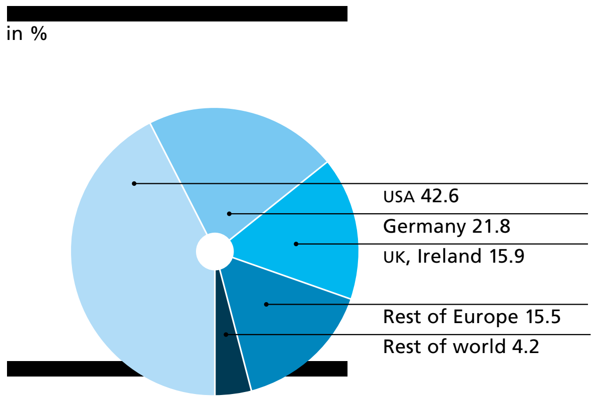
Shareholder structure



* Share of clearly identifiable investors approx. 40%

Source: Thomson Financial, HVB

Geographical distribution of institutional investors**



** Investors identified by HVB

We enable investors to gain access to HVB Group's senior executives by holding roadshows and one-on-ones, and participating in international conferences.

In the year under review, we had more than 200 meetings with investors and analysts. We organized some 15 roadshows in Europe and the United States with members of our Management Board and IR team, explaining the strategy, goals, and operating results of HVB Group at meetings with financial analysts and investors. In addition, members of the Management Board took part in eight important investors' conferences in Europe and the United States during 2004.

… expansion of the IR homepage …

Our Investors Relations homepage features all kinds of information on the HVB share, as well as records of our IR events and the latest financial data for shareholders and analysts. Annual and interim reports can be retrieved in a user-friendly interactive version or ordered directly. The range of other topics extends from a group profile and corporate governance through to information for our fixed-income investors. Private shareholders can reach the Investor Relations team directly via our free hotline or e-mail.

www.hvbgroup.com/ir

… and success of our ADR program

As part of a sponsored Level I ADR program, HVB American Depositary Receipts (ADRs) are traded on the OTC market in the United States. Our ADR program enables American institutional investors, who are subject to restrictions concerning the level of their investments in foreign securities, to choose the HVB share. In this case, one ADR represents one share. The number of outstanding ADRs of HVB has more than tripled over the last two and a half years – a sure sign of the increased interest within the U.S. market. The HVB ADR closed 2004 almost unchanged since December 31, 2003, at $22.60 compared with $22.80. The reason for this was the weakening of the dollar against the euro.

Ratings

	Long-term	Short-term	Outlook	Public Pfandbriefs	Mortgage Pfandbriefs
Moody's	A3	P–1	negative	Aa2*	Aa3*
S&P	A–	A–2	negative	AAA	—
Fitch Ratings	A–	F2	stable	AAA	AAA**

* On review for possible upgrade since March 15, 2004
** On rating watch negative since January 21, 2005

»We're helping to shape the country's infrastructure and earning money from it at the same time. I'd have to say I'm proud of this.«

Dusan Hladny
Director of Corporate Banking
HVB Bank, Prague

➔ Austria & Central and Eastern Europe business segment

SPECIAL REPORT

- **Value-driving development: successful start to the "Growing with Europe" strategic program**
- **Remodeling of real estate finance in the Germany business segment**
- **Earnings drive and greater efficiency ensure sustained value creation**
- **Value-based management: capital allocation based on value driven by business segments**

GROWING WITH EUROPE: VALUE-DRIVING DEVELOPMENT OF HVB GROUP

From transformation to value-driving development

By the close of 2004, HVB Group had taken further steps toward focusing its business model, bolstering its value creation structures on a sustained basis, and expanding its strategic room for maneuver. During 2003, we reached milestones in the far-reaching changes to our corporate structures and extensive optimization of the Bank's risk profile with our transformation program (see also the Special Report in the 2003 Annual Report). Having streamlined the investment portfolio and carried out the capital increase in the spring of 2004, we are now concluding this phase of setting the Bank's direction for the future by restructuring our real estate finance operations as announced at the start of 2005. We have thus created a solid foundation for our "Growing with Europe" strategic program, which was initiated during 2004 and will be accelerated this year.

With this program, HVB Group is now setting its focus on boosting the value at its customer interface after completing the restructuring of the corporate group. The components of Growing with Europe are:

- active capital and risk management
- bolstering our operational earnings capacity
- constantly sharpening our business profile

In 2005, we will consistently concentrate on these components and continue to develop HVB Group with a view to creating more value. Our objective is to significantly increase the profitability of HVB Group on the European marketplace and develop additional options for profitable growth in our core markets.

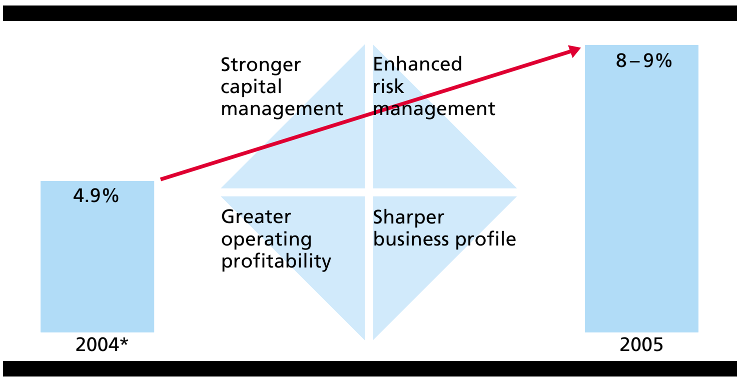
Clear progress in Growing with Europe: capital management initiated …

Taken together with the streamlining of our investment portfolio, the capital increase of April 2004 formed part of a consistent package of measures and at the same time initiated active capital management. We will continue to give high priority to the active allocation of our available equity as the key component of our value-driven capital management (see also the information on value-based management in this section).

… strict risk management has positive effects …

In the 2003 financial statements, we wrote down the book values of our main investments to their fair values. We subsequently divested all of our Allianz holding and reduced our stake in Munich Re to below 10% at the beginning of the year under review. These were already important steps in extensively reducing our market risk positions. Further moves also included the disposal of our shareholdings in E.ON and Brau und Brunnen during 2004. We remain committed to divesting non-strategic investments.

Measures to boost return on equity after taxes



* 2004 figures adjusted for amortization of goodwill, addition to restructuring provisions, and allocation to special provisions for bad debts

In terms of credit risks, we were already able to revise our original expectations for loan-loss provisions downward at the end of the first half of 2004. While signs of an improvement in the economic environment were a factor in this decision, the reduction in provisions was primarily the outcome of our strict approach to risk management. The risk quality of our new business continued to improve during the year under review.

… earnings drive creates operational value …

The main aim for our customer activities in the year under review was to increase operating revenues. Despite reduced risk assets, we were able to keep net interest income at last year's level and simultaneously record a significant increase in our fee- and commissioned-based operations. Low volatility on capital markets led to a decline in our trading operations. But operating revenues remained stable compared to the 2003 fiscal year. Although economic developments still remained unsatisfactory, we clearly achieved initial success with our earnings drive in Germany.

As already announced in the 2003 Annual Report, we are committed to systematically risk-adjusted margins in our lending operations. This enables us to compensate the effects of stagnating business volumes. Thus we were able to post further growth in margins overall, even though performance varied in the different customer segments. Assets from less profitable business operations were shifted to activities with higher margins. On the lending side, we optimized structures in like manner.

We introduced a large number of innovative, increasingly capital market-oriented products for retail and corporate customers in a move to expand our fee and commission-based operations. These products enabled us to generate value for our customers and increase cross-selling at the same time. We were also successful at winning new customers. In our trading operations, we are looking to maintain stability in our results and integrate our capital market activities more strongly into our other customer operations.

… and greater integration sharpens business profile

We expect greater networking between all HVB Group units to strengthen our sales force and boost efficiency. A milestone in this respect is the integration of Vereins- und Westbank, which we commenced in the year under review with a view to enhancing our presence in the German market. In January 2005, the legal aspects of the merger were completed when HypoVereinsbank absorbed Vereins- und Westbank. Eliminating duplicated functions in the two units and centralizing important coordination tasks will make it easier to steer the corporate group, reduce complexity, and hence streamline our corporate structures in Germany.

Value-driving development of HVB Group: components

Our priority for 2005 and the following years is to increase our structural ability to create value on the basis of our Growing with Europe program. The Germany business segment is a key component in this respect. Although this segment continued to improve its financial performance in 2004, there is still a significant gap between HVB Group's strong performance outside Germany and its weak profitability in domestic operations. We aim to close this gap on the basis of an ambitious schedule.

We are looking to sharply increase our earnings power in Germany already in 2005. In pursuit of this goal, we will press ahead with our customer campaigns and permanently increase our efficiency at the same time. In terms of risk provisions, we already took measures in the 2004 financial statements that will definitely ease the burden on the Germany business segment.

Remodeling of real estate finance in the Germany business segment…

With the German real estate markets showing no sign of picking up, HVB Group decided to carry out a strategic remodeling of the Germany business segment. To rapidly reduce risks, we will pool existing non-performing real estate exposures and make them marketable. In this connection, the workout portfolios from the entire German real estate finance business of HVB AG are being transferred to the new Real Estate Restructuring segment together with the remaining portfolios of the Real Estate Workout segment. This will include a volume of €15.4 billion. The aim is to completely eliminate the portfolios allocated to this segment without disrupting the market, by exploiting various options and the opportunities arising from the future development of the real estate markets. In the commercial real estate finance business, we will again tighten the criteria under which finance is granted, while private real estate finance will remain an integral part of our product range.

…and extensive measures in the 2004 financial statements to relieve from risks

To facilitate the rapid reduction of these legacy real estate exposures, it was necessary to change the valuation method for the real estate collaterals associated with these portfolios. In contrast to the previous approach, which in many instances aimed to restructure the individual commitments – sometimes over the long run – before returning them to regular treatment, the valuation is now made at liquidation value. To take account of the valuation method, we have set aside special provisions for bad debts totaling €2.5 billion for the segment. This has led to a significant increase in the coverage ratio.

After HVB Group had eliminated the market risks arising from its investment portfolio at the end of 2003, it was able to significantly reduce its future credit risks in the 2004 consolidated financial statements by changing the valuation method for real estate collaterals associated with the workout portfolios. This step enabled it to make crucial progress in optimizing its entire risk profile. HVB Group can now focus its resources completely on its profitable core business.

Acceleration of earnings campaigns

As the leading bank in the heart of Europe, HVB Group is at the forefront in its core European market. This market includes Germany, Austria, and the countries of Central and Eastern Europe (see also the section showing our presence in our core market). Compared with other European banks, we have a widely diversified earnings and risk profile. We serve the market through three business segments which have been designed to interact smoothly:

Germany business segment

With our MOVE customer campaign, we already achieved significant growth in new business in 2004 with innovative products for retail and corporate customers. We aim to build on this success, firstly by intensifying cross-selling and secondly by stepping up the acquisition of new customers (see also the section on the Germany business segment).

Austria and CEE business segment

We are pursing a clear growth path in this region. Our business operations again developed very well in 2004. This applies particularly to the CEE countries, where we significantly increased our presence. We achieved this through both organic growth and acquisitions, taking over Hebros Bank in Bulgaria and Eksimbanka in Serbia. By expanding our investment in Moscow-based IMB Bank to a majority shareholding, we have also bolstered our market position in Russia. We intend to fully tap the high potential of this market by positioning ourselves at an early stage (see also the section on the Austria and CEE business segment).

Corporates & Markets business segment

With a sales approach integrating all classes of assets and product groups, we enjoy a strong position and are able to meet all our customers' requirements. We see our expertise in innovative, tailor-made financial solutions and risk management products as a key value driver (see also the section on the Corporates & Markets business segment).

Greater efficiency with PRO

In the fall of 2004, we announced our intention to sustainably increase efficiency in the corporate group. The PRO (Process Redesign and Optimization) efficiency program serves this goal. HVB Group plans through PRO to realize annual cost-cutting potential of at least €280 million. With its goal of streamlining HVB back offices and domestic subsidiaries, the program is focused on sub-projects aimed at optimizing headquarters and staff units, improving credit processes, and streamlining transaction banking. The main levers will involve improving capacity management and processes, making greater use of flexible working-time models, value-added integration, and realignment of the COO organization.

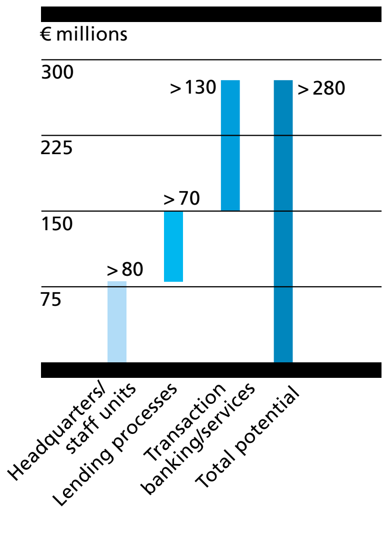
Some €55 million of the entire cost-cutting potential will already be reflected in the 2005 income statement of HVB Group as a result of lower operating expenses. More than 60% of the entire potential will affect net income in 2006. The full impact on results will be visible from 2007. As part of PRO, about 2,200 – 2,400 jobs will be shed in the Group. We are working on the assumption that the restructuring provisions of €250 million set aside in the 2004 consolidated financial statements will suffice to successfully implement PRO.

Outlook: sustained improvement of earnings power

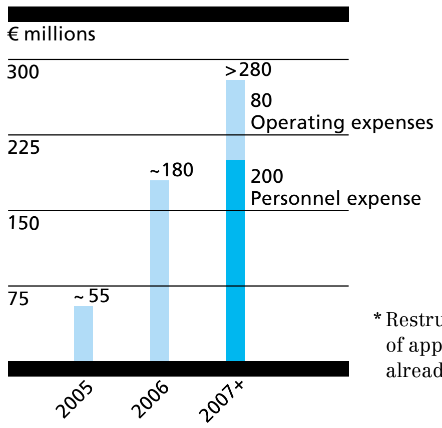
Our good operating performance in the year under review, coupled with the special measures taken in the 2004 financial statements, have created the basis for rapidly reaching a competitive profitability level. As a result of the change in the strategy of how restructured real estate exposures are treated, coupled with the required special provisions for bad debts this entailed, HVB Group is expecting a sharp reduction in loan-loss provisions to approximately €1.3 billion in 2005. Normalized addition rates will also noticeably ease the burden on the consolidated income statement in the coming years. HVB Group plans to achieve a return on equity after taxes in 2005 which is equivalent to its cost of capital (between 8 and 9%).

At the same time, HVB Group will fully concentrate on rapidly and significantly increasing its core capital ratio. A package of measures serving to reduce risk assets in the area of real estate financing in the Germany business segment, eliminate portfolios in the Real Estate Restructuring segment, carry out securitization measures, and reinvest earnings will provide the basis for our actions. By the end of 2005, the core capital ratio will have made clear headway towards 7%. All of this reinforces our aspiration to continue expanding our market position as the leading bank in the heart of Europe and, at the same time, to generate substantial growth in value for our shareholders.

Cost-cutting potential of at least €280 million identified*



Major part of cost-cutting potential will enhance net income in 2006



* Restructuring provisions of approx. €250 million already set aside in 2004

Dual steering principle

One of HVB Group's most important objectives is a sustained increase of corporate value. To take account of capital market requirements and the necessity of value-based management, we have implemented the concept of dual steering. This enables us to transfer the prime goal of value creation for our shareholders to the operational business segments.

Essentially, this concept requires a return from two (dual) capital resources: first, the regulatory capital determined on the basis of supervisory regulations; second, the risk capital, i.e. the economic capital actually required to cover risks determined by internal models. The valuation methods described in the capital accords published by the Basel Committee serve as a basis for calculating the equity to be set aside under supervisory regulations.

Internal models for risk measurement

To come up with a comprehensive and sophisticated depiction of the total risk situation, at HVB Group we measure the following risk types:
- market risk,
- credit risk,
- operational risk,
- business risk,
- real estate risk, and
- (financial) investment risk

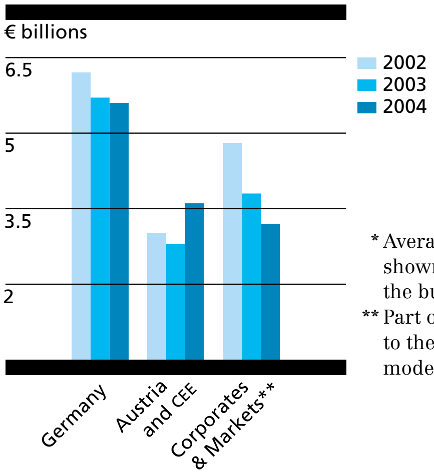
The great advantage of internal models is that estimated risk figures are more precise and take portfolio effects into account: essentially correlation effects both within a risk type and between the different risk types. Other methods are applied to estimate and manage liquidity risk and strategic risk (see Risk Report for further details).

Capital allocation based on value contribution of business segments

Our shareholders expect that they will be compensated with a risk-adjusted return for the capital provided. After covering the operating costs, the risk-free rate of interest and a risk premium have to be earned. The risk-free rate plus the premium must correspond to an alternative investment opportunity with a similar risk profile.

Starting from our current cost of equity of 8 – 9%, the expected internal rates of return are calculated by a model derived from modern capital market theory. These rates are allocated to the two capital resources. Depending on the extent of capital utilization and the corresponding required rates of return, the business segments' achievement of objectives is uniformly measured as value contribution. This indicates our ability to create value for our shareholders. Thus equity capital is allocated to business segments of strategic importance with the capability for sustained value creation.

Development of the value-based allocation of capital* to the business segments



* Average shareholders' equity shown in the balance sheet of the business segments

** Part of the decline is attributable to the application of the internal model for market price risk

Marta Schab
Private Customer Adviser
Bank BPH, Cracow

»Before long there'll be no difference between doing business inside a country and doing business across borders.«

→ Austria & Central and Eastern Europe business segment

BUSINESS SEGMENTS AND SERVICE DIVISIONS

- **Germany business segment: Private Customers business unit boosts sales; Corporate Customers extends core competencies; Real Estate suffers market-induced decline in earnings**
- **Austria & Central and Eastern Europe business segment: Private Customers business unit optimizes distribution processes and Corporate Banking Austria increases advisory business; Central and Eastern Europe grows fast**
- **Corporates & Markets business segment: Corporates business unit successfully implements active credit portfolio management; Markets business unit expands cross-asset activities**
- **Our people: en route to a new sales culture**
- **Operations: greater efficiency and lower costs in IT; payment operations expanded notably with corporate customers**
- **Sustainability and corporate citizenship: commitment to continuity and quality in sustainability; corporate citizenship focuses on culture, education, and social responsibility**

Earnings impacted by market conditions

The Germany business segment recorded an operating profit of €18 million for the past fiscal year. On an adjusted basis, we were able to achieve a significant year-on-year increase through a sharp rise of €251 million in our result. In addition to the increase of 4% in operating revenues, the 2% reduction in general administrative expenses coupled with the 4% lower loan-loss provisions also contributed to improving the bottom line (see also the Financial Review for a detailed description of the results).

Private customers and private banking: income increased

The Private Customers business unit posted an operating loss of €29 million. This represents an improvement of €115 million compared with the adjusted prior-year total. Operating revenues increased by 4% over the prior-year figure. Our active cost management enabled a 2% decrease in the general administrative expenses, while loan-loss provisions declined by 3%.

Strategy: product packages as a key value driver

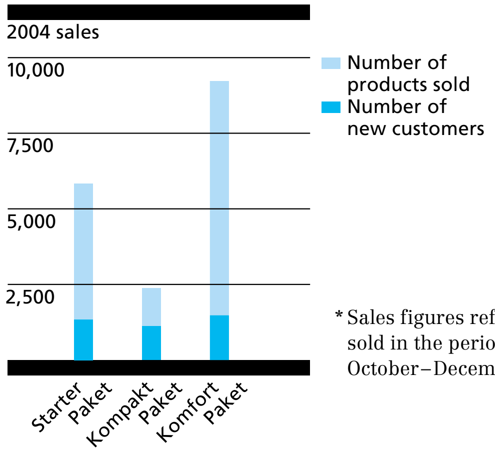
The MOVE sales campaign launched in September 2004 aims to enhance profitability on a sustained basis. Expertise and proximity are the success factors we are applying to give ourselves a unique presence on the market. MOVE is intended to help us win new customers and step up cross-selling.

In 2004, an extensive reorientation of our retail and private banking operations helped to sharpen HVB's market profile and boost efficiency at the customer interface. In this context, we
- brought to market product bundles catering to the needs of specific target groups,
- intensified activity-oriented sales management, and
- developed a comprehensive advisory philosophy.

We are pursuing three strategic goals with this reorientation: a significant increase in the number of customers that use us as their primary bank; the distribution of more products to our existing customers; and the systematic acquisition of new customers in defined market segments. With this in mind, we devised and launched four product bundles built on extensive market research:
- the HVB StarterPaket
- the HVB KompaktPaket
- the HVB KomfortPaket
- the HVB PremiumPaket

Starting from the current account as anchor product, the packages cover everything from basic services comprising an account and a card through to professional investment advisory and cash management. These offerings cater to a wide range of customer needs on attractive terms. Following their launch in the last quarter of 2004, more than 17,000 product bundles have already been sold; around a quarter of these sales were to new customers.

Private customers: initial sales success*



* Sales figures refer to products sold in the period from October–December 2004

Success with core products

The new business generated in the different areas of liquidity and wealth management, financial planning and real estate developed well in the year under review. Earnings from sales activities grew by 17% year-on-year:

- HVB Sofortkredit: The volume of this consumer loan product increased to €818 million, up almost 60% on last year. In addition, we were able to win more than 20,000 new customers.
- Investment: The professional advisory service for customers based on the HVB asset management concept and a tailored mix of innovative investment products for all risk types significantly increased earnings in this area.
- Real assets business: Earnings rose almost 40% year-on-year on the back of a placement volume of €455 million. The number of real asset transactions grew even faster, by a good 60% over the high figures already achieved in 2003.
- Financial planning: Sales of life and pension policies soared as a result of amendments to the German Retirement Income Act. At almost €1.5 billion, the aggregate valuation amount exceeded the total for the prior year by more than 170%.
- Cooperation with soccer club Bayern Munich: We have already gained more than 20,000 new customers overall. The volume of deposits with the FC Bayern Savings Card increased from €65 million to €570 million. Another attractive product, the FC Bayern MasterCard, has been available since the end of February 2004.
- Real estate finance: This remains an important contributor to earnings in retail banking. But the structurally induced high loan-loss provisions and the slimming down of holdings in private real estate finance must be compensated by other products. The regional tailoring we apply to portfolio management helped to boost new business in attractive markets at risk-adjusted margins. We respond to changing market conditions by constantly updating risk maps and equity requirements.

Innovative investment products on the road to success

We placed a series of attractive new products at a volume of around €2.0 billion with our private customers. Working in conjunction with the Corporates & Markets business segment, we offer solutions which take due account of special customer needs in times when uncertainty prevails on capital markets. Demand was particularly strong for products offering capital protection and attractive interest rates, such as the 7/3 Bond (sales volume almost €600 million), the Optimal Bond (more than €400 million), and bonus and express certificates (more than €700 million). The first open-ended capital protection fund marketed by Activest, our asset management company, also serves this purpose.

The Activest Total Return Fund family certainly also performed strongly. At €3.6 billion, its volume is the highest in its category in Germany. HVB Group thus managed to achieve the leading position in the market for this rapidly growing class of assets. In 2004 alone, our private customers purchased units worth over €1.74 billion.

In addition, we placed a volume of around €175 million of an innovative product, our HVBFF Life Erste KG life insurance fund.

Corporate customers and professionals: stronger earnings

We attained an operating profit of €290 million in the Corporate Customers and Professionals business unit in 2004, which is equivalent to three times the amount achieved in 2003. At the same time, our earnings structure clearly improved due to an increase in the share of service and deposit operations to almost 45%. This enhancement bears witness to the consistent implementation of our cross-selling concept. General administrative expenses remained unchanged over the prior year.

Strategy and customer development

Our strategic approach of serving all corporate customers – ranging from the self-employed through to large corporations – in one business unit is increasingly proving its worth. The Bank's various offerings are designed to fully accommodate the professional and private banking needs of our business and corporate customers. The range extends from standardized offerings through to individual customer care with innovative solutions. In particular, we are systematically standardizing innovative large customer solutions for a wide range of mid-sized companies.

We set ourselves the goal of winning 20,000 new customers during 2004, and we hit this target. Taking into account the integration of Vereins- und Westbank, the number of new corporate customers even exceeded 25,000 in the year under review.

Core expertise expanded

We achieved success in sales by offering a wide range of innovative products. At the same time, we were able to expand our competence in the following areas:

- PREPS: Preferred Pooled Shares have enabled us to gain the leading position as a provider of mezzanine finance in Germany. Mid-sized companies with revenues exceeding €50 million are offered an innovative source of finance using PREPS in order to generate economic equity capital. Nearly 100 companies participated in our PREPS transactions in 2004. Our mezzanine offerings made more than €1 billion available to German mid-sized companies, establishing us as both the market leader and the most innovative provider of these services in Germany.

– Interest rate derivatives: The liquidity and investment (LIB) specialists at HVB Group open up opportunities on the money and capital markets for mid-sized businesses. Based on the idea of seizing global opportunities but acting on a regional basis, they provide advice on all products traded – from interest management, securities and currency management through to hedging against weather and commodity price risks. Known as FiRM, this financial risk management approach is successfully employed to serve all sorts of customer groups. In the challenging market environment of 2004, we succeeded in achieving a double-digit increase in earnings in this area.

– Payment transactions: The Corporate Customers and Professionals business unit succeeded in significantly expanding electronic banking with customers. This resulted in a 13% increase in electronic customer payments in Germany compared with the prior year. International payments also experienced a sharp 29% increase. This enabled us to improve the earnings situation in this business, contrary to the market trend, despite declining margins. As 94% of all payments made by our customers in this segment are electronic, they are processed fully automatically and thus inexpensively.

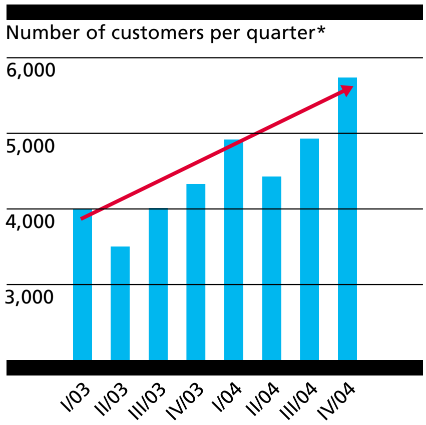
– Structured and tool-supported advisory services: These services allow us to greatly expand the use of our expertise in decentralized consulting for business and corporate customers through an intensive focus on ratings. Our KUBA tool (customer credit standing analysis for mid-sized businesses) provides a comprehensive and transparent depiction of our corporate customers' rating and financial power in comparison with current sector performance figures. In addition, the analysis results also allow us to develop both forward-looking strategies for our customers and cross-selling potential for the Bank. The ensuing consultation and analysis include the simulation of possible alternatives and developments for a company's present and future. This gives rise to basic ideas for new products in the areas of mezzanine finance, leasing, and private equity.

Takeover of ING BHF-Bank portfolio, synergies in CEE

By taking over a portfolio comprising mid-sized German corporate customers from ING BHF-Bank, we gained access to about 1,400 new corporate customers with major business potential for HVB core products. This boosted our market share in several German states.

In addition, we made greater use of synergies resulting from the leading position HVB enjoys in Central and Eastern Europe (CEE). In the course of the enlargement of the EU, many of our mid-sized customers who had not yet been active in CEE invested in these countries. Other German companies are expanding their existing activities. We were thus able, from Germany, to provide support and advice on more than 1,000 new or expanded investments. We made use of our subsidiaries' consulting expertise in these countries, while also supporting the financial management of our customers with the help of our newly introduced international payment service and loan products.

Corporate customers and professionals: new customer acquisition increased systematically



* HVB AG

Real estate: market-induced decline in earnings

Due to the 28% rise in loan-loss provisions, the operating loss of €242 million represented a decline in comparison to the previous year. The 3% rise in earnings and the 15% decline in general administrative expenses were unable to offset the adverse effects of the increase in loan-loss provisions.

Strategy and business development

Market conditions for commercial real estate finance are characterized by the weak economic climate and the restraint in demand shown by German buyers and investors. Declining or further stagnating rent levels and property prices coupled with some significant rises in vacant properties typified the situation on German real estate markets. The housing markets are slowly entering into a consolidation phase; it is even possible to detect slight upward movements here and there. In contrast, vacancies have significantly increased on the office property markets recently, due to the weak demand for office space.

Our lending policies continued to reflect these market conditions. New business had to comply with strict requirements in commercial real estate finance; this applied to the creditworthiness of investors and buyers as well as to the quality of the real estate financed. We continued to apply systematic risk-adjusted pricing. For us, active risk management means that loan products must, above all, be transferable and marketable. We acquired low-risk new business and simultaneously achieved a marked increase in income from commission and derivatives over last year.

Besides giving advice for large-scale real estate investments, the Real Estate Structured Products business division provides professional real estate customers and large companies with tailor-made products. This division sells and hedges the real estate finance risks generated throughout HVB Group through loan syndication and direct placements. This unit also plays an important role in portfolio and equity management.

The business transacted by Real Estate Structured Products developed strongly in 2004. Among other things, we obtained the mandate to sell one of the largest transactions worldwide in the area of non-performing loans. In large-scale lending operations, the focus was placed on portfolio finance effected by international investors, particularly of housing stock. The division has significantly helped to boost income from commission and services in the real estate finance business of HVB Group through a high proportion of commission, which totals about 76% in new business. Real estate finance transactions worth €4.5 billion were marketed via portfolio and syndication finance – some of which were also mandated by third parties.

Outlook: boosting income with new product bundles for private customers …

In 2005, we intend to consistently continue the successful reorientation of the Private Customers business unit, increase profitability, and press ahead the earnings initiatives we have launched. Our goal is to sell more than 300,000 of our new product bundles in total. We will also achieve a major improvement in efficiency by systematically streamlining our product portfolio and automating processes. In addition, we intend to reduce risk provisions yet further. One of our main thrusts will involve systematically gearing our sales acitivities to comprehensive customer advice. In the area of real estate finance, we are focusing on winning new low-risk business; we will reinforce our cross-selling approach by introducing special, needs-based packages of services for real estate as part of our comprehensive customer care.

… expanding business with corporate customers …

The Corporate Customers and Professionals business unit envisages a boost to its operations from both the integration of VuW and the customer portfolio acquired from ING BHF-Bank. Through the complete transfer of the HVB business model to both sets of customers, we will increase our cross-selling potential, press on in gaining new customers and bolster our leading position in financing the Mittelstand. In addition, we are striving to package and increase our existing expertise in our corporate finance offerings for mid-sized customers. The customer care provided simultaneously to both companies and entrepreneurs from a single source is rounded off by attractive offerings in private banking.

The target groups we focus on will include not only already existing groups of customers in the medical profession, business consultancies and customers in the public sector, we will also address foundations, wholesalers and logistics providers more strongly. We expect business to double again in international cash management. In the new fiscal year, we also intend to focus on reducing risk and general administrative expenses further.

… and sustained restructuring of real estate

Now that the real estate loan portfolios earmarked for restructuring have been separated off, we will continue to exercise caution and be selective with new business, taking the stricter income and risk criteria into account.

We will provide comprehensive advice to our customers on matters concerning liquidity, financial planning, and interest hedging. In addition, we plan to provide support to national and international investors for large-scale portfolio finance. We are looking to permanently restructure unprofitable portions of portfolios, with a view to significantly improving our risk/return profile and hence also the results of the Real Estate business unit.

AUSTRIA & CENTRAL AND EASTERN EUROPE BUSINESS SEGMENT

Strong performance

Although the demand for credit and the interest and capital market environment in Austria failed to pick up appreciably during 2004, the Austria & Central and Eastern Europe (CEE) business segment still posted significantly stronger earnings than in the prior year. Operating profit climbed a strong 67%, with the CEE countries making an especially strong contribution. Net interest income and net commission income were the main factors driving the increase in operating revenues.

General administrative expenses remained almost unchanged despite the greater volume of business while risk provisions declined by 10%. Risk-weighted assets rose by 10.3%, again mainly in the CEE countries, but this time also in the Austrian retail sector (see also the Financial Review for a detailed discussion of the results).

Leading banking network in Austria & Central and Eastern Europe

As the leading international banking network, we have a strong market presence in our core countries. We are the bank for Europe as it grows ever closer together.

Our strengths:

- In the retail customer business unit: customer proximity through dynamic target group segmentation; professional campaign management; consolidation and outsourcing of administrative and back-office functions
- In corporate banking: integrated corporate finance with capital-market products for mid-sized companies
- Excellent competitive position in and around Vienna; growth potential tapped in the other regions of Austria, notably by the mobile sales force
- Strong market position in the CEE countries, building on initial position and market maturity

Strategic orientation

Our target is to continue developing the different business units in Austria and the CEE countries, as varied as they are, on the basis of a common business model and to exploit location advantages. With this in mind, we have initiated several projects in Austria aimed at boosting efficiency. In the CEE countries, we are still expanding our integrated banking network, enabling us to gain additional market shares.

www.ba-ca.com

The Austria and CEE business segment has set itself the goal of only pursuing growth in areas where it can generate returns on equity well in excess of its cost of capital. To this end, we have introduced a value-oriented controlling function to be implemented in every business unit during 2005.

Progress in Private Customers and Professionals Austria

The Private Customers and Professionals Austria business unit suffered from persistently weak income trends which in turn impacted consumption. This was supported by restrained patterns of investment. Operating revenues declined by a slight 2% on account of the balance of other operating income and expenses. At the same time, there was a significant rise in net interest income and net commission income as against last year. Several key lines of business posted strong performances – not least due to our pro-active sales strategy.

As a result of this strategy, we achieved a significant increase in volume (+12%) in retail financing, most notably in consumer loans and real estate mortgage finance. The mobile sales force again played an important part in generating new business.

We reorganized the sales force in the Austrian customer business. Target groups were redefined on the basis of dynamic segmentation criteria and directly addressed as part of the "Fit for Sales" project. Computer-aided campaign management using various sales channels, such as the telephone, online banking, the branch or addressing the customer at home, were helpful in this context.

This sales initiative was reinforced by consolidating product development under common leadership. This enabled us to approach the lifecycle needs of customers in an adequate way. As a result, we were able to further standardize our processes and products.

On the deposits side, the volume of savings deposits rose slightly while time deposits fell. There was a sharp increase in the inflow into investment funds, particularly in the second half of the year. This attests to the success of Capital Invest, our Austrian fund company: Investors showed keen interest in its new equity funds investing in shares in Eastern Europe, which are provided with capital guarantees.

www.capitalinvest.at

We were also successful with Real Invest Austria, the first open-ended real estate fund under the new Austrian Investment Fund Act. Investors with a low risk profile were especially attracted to our tax-friendly real estate bonds. New sales stood at €618 million. Every investment fund in the business unit was able to post much better results.

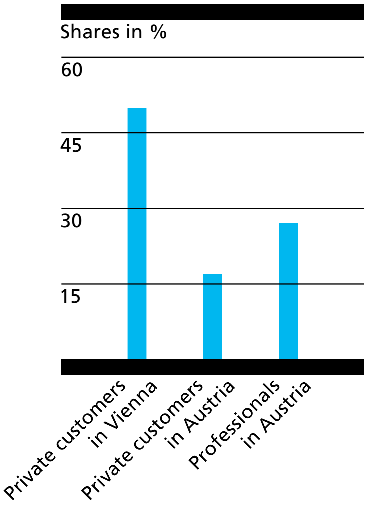
On the financial services side, the retail securities business again failed to match the level attained in "good" investment years. The implementation of European law decisions resulted in a decline in revenue; payment transaction services again depressed net commission income as a consequence.

Good performance by Corporate Banking Austria

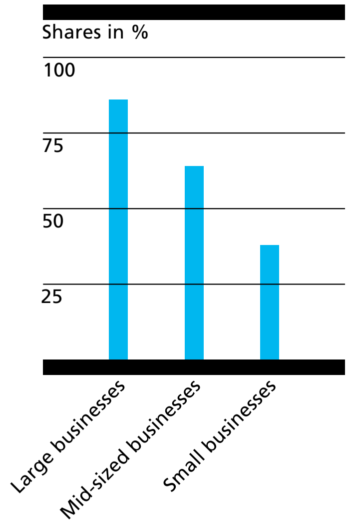
The Corporate Banking business unit operates at the interface between stagnating and expanding economies. The strong competition and weak margins left their mark on the operating profit generated in Austria. In addition, the demand for credit was weak, as companies enjoyed a plentiful supply of liquidity, not least as a result of the measures taken to clean up their balance sheets over recent years. Nevertheless the operating result increased by a solid 45% compared with last year. Net interest income made a 4% greater contribution to this rise and net commission income 12%. There was a slight decline in general administrative expenses. Export finance products fared well, both in terms of lending volumes and interest margins, due to the strong involvement of Austrian companies in eastern Europe.

For a long time now, the Bank has been pushing its integrated corporate finance concept with a view to promoting the capital market as an alternative to the debt market. We have achieved some initial success in enhancing awareness for this inevitable change with our rating-advisory and

Market leader in Austria Private Customers and Professionals



Corporate Banking



business-planning products. Nevertheless, a certain amount of time will be required to produce a fundamental transformation in customer behavior. We have revised our loan portfolio with this trend in mind. Viewed overall, the credit volume stagnated, but this can be attributed to a large-scale shift from poor credit standings to good ones. The outcome is a further improvement in the quality of the loan portfolio overall. As such, the Bank was spared any major bankruptcies.

The advisory business focuses primarily on interest and currency risk management for our corporate customers as well as the issuing operations. This advisory capacity is becoming increasingly important in the banking industry in general, and the same applies to HVB Group. In fact, this line of business was the main factor behind the rise in net commission income. In addition, we experienced a revival in securities trading in the Corporate Banking business unit, with major institutional investors featuring on our customer list.

The success of "special finance business" as leasing and commercial real estate operations deserves emphasizing.

www.ba-ca-leasing.com

Through a series of large-scale projects that frequently include cross-border investments, this line of business benefited significantly from the expansion of HVB Group and from the market upturn in Central and Eastern Europe.

Central and Eastern Europe: full potential growth successfully tapped

The contribution of €389 million made to net income by the CEE business unit was the highest in the segment. The operating revenues included a sharp 40% rise in net interest income and a 14% increase in net commission income.

The very pleasing operating results of our CEE subsidiaries benefited from two factors: the strong economic performance in each country and the structural acceleration of monetization in these places. We were one of the major forces driving market penetration of modern banking products. This rapid modernization led to high net interest and net commission income in the CEE countries. Restrictive monetary policies and the development of interest rates in these countries also helped to boost results during 2004. Notably, net commission income has already reached the high level that we achieve in our Austrian business units. The new EU member states and southeastern Europe (SEE) contributed to the higher operating profit in equal measure, even if the weightings differ in absolute terms.

Our subsidiaries in Central and Eastern Europe are not, however, merely participating in the general market upswing. We seized the initiative in 2004 following a

www.bph.pl

period of mergers between 2000 and 2003 which involved extensive cost-cutting, particularly in Poland. Since then we have been pursuing a strategy in the retail customer business unit that allows for regional differences but still targets full coverage. We plan, for example, to add about 200 new branches to the existing network by 2007; some new branches were opened in 2004. Our highly-qualified, mobile sales force complements our branch network, and we also rely heavily on our cooperation deals involving credit cards (in Poland, the Czech Republic, and Slovakia) and insurance (for example in Croatia).

The total number of customers in our CEE business unit stands at 4.5 million. These customers are served by almost 1000 branches. For more information on our market position in each CEE country, please refer to the Core Market map on pages 8–9.

Building on experience gained in mature markets, we are expanding the customer segment comprising small and mid-sized companies. The cross-border client group, which brokers international customer relationships within HVB Group, was also able to capitalize on our special market position. The exchange was fostered by the increased networking of industries in both East and West.

In the field of corporate finance, we were successful with large-scale project financing, for instance for highway projects, and with loan syndications. Our foreign trade financing business and short-term operations, which include international cash management as a network product for international corporations and their regional subsidiaries, opened the door to business with international companies.

We are continuing our expansion primarily through organic growth and, where appropriate, acquisitions. In November 2004, we signed a contract to purchase Bulgaria's Hebros Bank. The deal was concluded at the beginning of March 2005, and has served to increase our market share in Bulgaria from 6.7% to 10%. The purchase of the Serbia's Eksimbanka was completed in December 2004. Our market share in Serbia and Montenegro now stands at 5.3% (previously 1.9%).

Outlook: profitable growth

Our target in the Austria and CEE business segment is to expand profitable lines of business and focus investment in these areas. In this respect, we are looking largely to customer proximity and earnings-based growth. We are committed to keeping a close watch on costs, despite our investments. This means:

– within the country: further rationalization of processes as well as execution and management functions "behind customer business"
– between countries: increased exploitation of synergies in the development of products and technical infrastructures

In Austria, we have spun off back-office activities and administrative services as part of of our "credit processing" project. We have similarly entrusted payment transaction services to a company spin-off. These measures are intended to pool activities and thus achieve specialization gains. We are also looking to move into external markets over the long term. At the same time, we have started implementing reforms to working conditions in Austria. After switching from the Savings Bank Association to the Commercial Bank Association, we will now introduce a modern, profit-related remuneration system including an element strongly based on performance from April 1, 2005.

In line with our banking network concept, we will step up cross-selling and continue to promote business in the core markets of Austria and CEE under a common business approach that overarches differences between the regions. This action will enable us to develop location advantages for the entire HVB Group. All of our decisions are made on the basis of the best-practice principle. This helps us deal with complex issues, such as how to reduce duplicated functions during new product development, or to implement IT solutions.

We are committed to exploiting opportunities for profitable, risk-managed growth in the CEE countries in order to boost our earnings power and generate strong returns on the business potential in the interests of our shareholders.

Awards for the Austria & Central and Eastern Europe business segment in 2004

– "Bank of the Year in CEE" The Banker, September 2004
– "Bank of the Year in Austria" The Banker, September 2004
– "Best Bank in CEE" Euromoney, July 2004
– "Best Regional Custodian – Eastern Europe" Global Investor, May 2004
– "Best Bank in Austria" Euromoney, July 2004
– "IPO of the Year in Poland: Bank Austria Creditanstalt" Parkiet, 2004
– "Best Foreign Exchange Bank in CEE" Global Finance, March 2004
– "Best Foreign Exchange Bank in Austria" Global Finance, March 2004
– "Best Trade Finance Bank in Austria" Global Finance, February 2004

CORPORATES & MARKETS BUSINESS SEGMENT

Development in the Corporates & Markets business segment

The Corporates & Markets business segment (C&M) recorded an operating profit of €827 million (2003: €1,027 million) in the year under review. The strategic decision to reduce our dependence on lending business was already put into effect as part of the 2003 transformation program. The reduction of risk-weighted assets was started in 2003 and systematically continued in 2004, primarily in combination with the consistent use of risk-adjusted pricing. This effect on net interest income and the lower net interest result in Markets burdened the operating profits. In addition, the trading profit did not reach the previous year's result, chiefly due to the weak development in the third quarter of 2004. At the same time, however, net reversals were made in loan-loss provisions. General administrative expenses increased only slightly (see also the Financial Review).

Continued expansion of successful "integrated capital market bank" model

C&M maintained and expanded its strategic orientation as a powerful intermediary between issuers, capital markets, and investors during 2004. Starting from the point of view of the client, we have responded to individual customer needs by focusing our distribution competencies in a newly implemented relationship management unit. This unit concentrates on providing customers with comprehensive advice, and offering them innovative, tailor-made financial solutions across all product groups. Having direct access to our customers' senior management enables us to enter into a strategic dialog and advise customers proactively in their financial decisions. Our strength in this connection is in our advanced product development and structuring know-how. We see this as an important value driver in our business with corporates.

By pooling product competencies across the various asset classes, we have also tailored our activities to the changing needs of our customers. In doing so, we are supporting the trend of corporate customers toward the capital market and responding to the stronger demand for innovative, capital market-oriented financing solutions. On the capital-market side, we have further advanced our consistent orientation along the "origination–trading–distribution" value chain. We have addressed the requirements of capital-market issuers and pooled our origination activities on the basis of customer groups and their needs. We are backing up our extensive cross-asset knowledge by pooling our trading competencies in the areas of interest-rate, credit and structured products while utilizing the benefits of other cross-asset business approaches. In addition, we have concentrated our international placement power across all regions and asset classes. This move also reflects the cross-asset trend in distribution. This positioning and our comprehensive customer advice will enable us not only to provide efficient support in the business process between issuers and investors, but also to play a proactive role in shaping this process.

We have positioned ourselves as a specialist for structured, capital market-oriented financing and risk management products. In the Acquisition and Leveraged Finance unit we are also a leading player. Our range of services also encompasses both Equity Capital Market products and M&A. This enables us to operate as a one-stop provider of capital-market products meeting the needs of our Mittelstand customers capable of tapping the capital markets, institutional and multinational customers, and public sector clients.

C&M plays a leading role as a European credit arranger and distributor. Establishing an important precondition for risk transfer solutions, we set up the Active Credit Portfolio Management unit (APCM) in 2004 (see the Corporates business unit). C&M is an integral part of all capital market activities of HVB Group. Consequently, all HVB Group customers can draw on its capital-market expertise. In addition, C&M is the HVB Group center of competence for efficient balance sheet management and refinancing management.

Development in the Corporates business unit

The Corporates business unit earned an operating profit of €532 million in 2004 compared to €219 million in 2003. Operating revenues declined only slightly on the back of lower net interest income resulting from the significant reduction of risk-weighted assets in 2003. In addition, the proceeds from the disposal of the U.S. real estate portfolio last year are no longer included. General administrative expenses increased particularly on account of investments in promising product fields such as Active Credit Portfolio Management. The operating profit more than doubled as a result of net reversals of loan-loss provisions.

The Corporates business unit is responsible for approximately 250 corporate customers. To utilize the demand for capital-market products as a means of boosting our earning power, particularly in the commission-based business, we continue to pursue a strategy of tying classical loan financing to the procurement of mandates for capital-market transactions.

Active Credit Portfolio Management successfully implemented

We set up the new Active Credit Portfolio Management unit (ACPM) during 2004 with responsibility for the active management of our credit portfolio with the multinationals we serve. It acts as an interface between distribution and the credit/capital market. The underlying idea of ACPM is to disaggregate the traditional lending model, the goal being to simultaneously optimize the key management parameters in the C&M loan book. ACPM has enabled C&M to substantially improve its risk/return ratio and significantly reduce the volatility of risk costs. The factors operating in our favor are our extensive credit know-how, our skills in the area of credit derivatives, and our highly developed loan-trading capacities. The instruments used are derivatives, loan/bond trading and secondary syndication. With this approach, C&M is positioned as a market pioneer.

European market leadership in Structured Finance

Our Acquisition & Leveraged Finance unit can look back on a very successful year. C&M was involved in almost all important European LBOs either in first position as a mandated or joint lead arranger, or in second position as an arranger. We thus not only increased the number of mandates outside Germany, but also more than doubled our market share at the European level and gained ground on the market leaders in this fiercely competitive market. The year under review was also a very successful one for our Global Project & Structured Finance unit, which includes Project Finance as well as Commodity Trade Finance. Following the focus on reducing risk-weighted assets in 2003, we were again able to take on a leading role in the year under review. Despite tough competition, we were among the leading banks acting as mandated lead arranger in the European Project Finance market.

Better position as LBO-mandated arranger in western Europe

2003

Ranking	Name	Market share
1.	Barclays	15.1%
2.	Bank of Scotland	14.1%
3.	Royal Bank of Scotland	11.0%
4.	CSFB	9.0%
5.	Merrill Lynch & Co.	6.0%
6.	BNP Paribas	5.9%
	•	
	•	
13.	**HVB Group**	**1.8%**

2004

Ranking	Name	Market share
1.	Barclays	14.2%
2.	Royal Bank of Scotland	13.4%
3.	Bank of Scotland	7.4%
4.	Deutsche Bank	6.6%
5.	JP Morgan	5.3%
6.	**HVB Group**	**4.4%**
	•	
	•	
	•	

Source: Reuters/LPC

Development in the Markets business unit

The Markets business unit reported an operating profit of €296 million in the year under review after €808 million in 2003. The weaker development of operating earnings can be attributed primarily to conditions in the capital markets, where historically low volatilities in all asset classes and generally sluggish activity predominated. On the plus side, at €712 million general administrative expenses remained at almost the same level as in 2003.

The Markets business unit serves several thousand international institutional customers. A consistent orientation toward changing customer needs is intended to our long-term earning power, particularly in the commission business. The positive factors we see are the continuing penetration of our broad customer base with innovative capital market products and with products – such as covered bonds – for which we are already established as market leaders.

Systematic expansion of cross-asset activities

The top priority for 2004 was to continue implementing strategic measures to pool our structuring skills across all asset classes. By taking this action, C&M was responding to the increased demand for cross-asset products. At the same time, we are looking to optimize our comprehensive approach to the customer relationship in the areas of strategic and tactical advisory; the focus was on the customer's entire asset side with a view to optimizing asset allocation.

We made substantial progress last year toward our goal of positioning C&M as a leading "structured derivatives" house in Europe. As a first step, we combined the three areas of equity-based, credit-based and interest-rate derivatives, centrally pooling them in the new Structured Derivatives unit. This enables us to make even more efficient use of our considerable skills in the area of financial derivatives across all asset classes and place them at the disposal of our customers. In addition we have combined the various research units (including equities, bonds, emerging markets, and commodities) to strengthen sales support and the development of innovative, cross-asset research products. We were also able to implement this cross-asset concept at the German Investment Conference organized by C&M. This event brought representatives from 67 major German corporations – including 26 of the 30 corporations making up the DAX index – together with more than 270 international institutional customers. The conference met with a very positive response from our customers.

HVB Group capital increase successfully placed

C&M placed the HVB Group rights issue as joint bookrunner in an international consortium of banks. A total of 214.4 million shares were issued. With proceeds of approximately €3 billion, C&M made a major contribution toward the successful conclusion of the transcation.

Funding diversification and lower funding requirements

As a result of the significant decrease in risk-weighted assets brought about by the 2003 transformation program, HVB Group has substantially lower funding requirements than in previous years.

Our funding policy, which is geared toward transparency for capital markets and investors, is also reflected in the considerable success of Jumbo Pfandbrief No. 7: A total volume of €1.5 billion of this issue was placed with domestic and international investors. We further diversified our funding base by structuring products tailored to retail customers. The funding volume from the retail sector amounted to approximately €2.7 billion.

C&M bolsters market position in issuance business

The "e-Orderbuch" software went into operational use at the start of 2004. This tool enables C&M to perform the book-building process for a capital market transaction online and in real time with access by external banks and investors. The innovation has been warmly welcomed by our customers. We have now used e-Orderbuch to handle 113 issues with a total volume of €65.4 billion.

In the German market, C&M ranks among the top five for benchmark bonds issued by German states. Issues in which we acted as a joint lead manager included the Brandenburg No. 5 state bond, with a volume of €1 billion, and issues by the states of Berlin (€2 billion) and Baden-Wuerttemberg (€1.25 billion).

We maintained our leading market position in the European covered bond business by gaining 28 lead mandates during the course of the year. In this context, our position as the market leader in the German Jumbo Pfandbrief segment deserves special mention. The 17 mandates we secured made us the leading underwriter of 2004 – a noteworthy success. We assume that a new law on the issuance of Pfandbrief bonds, due to come into force in 2005, will strengthen our market position in Germany and also support our efforts to expand in Europe.

C&M is typified by an integrated, cross-asset distribution approach that also transcends product groups. In addition, the business segment combines the skills of specialists and generalists. This enables us to address the full range of needs of institutional customers and multinationals. We have created ideal conditions for exploiting synergies and achieving sustainable gains in earning power.

Outlook: continuing growth in the Corporates business unit…

The focus in the Corporates business unit is on continued growth in high-yield segments, specifically in Leveraged Finance and Project Finance, where we aim to expand our leading position. At the same time, we are looking to enhance the efficiency of our distribution activities through cross-segment support of the customer management process. Following the successful launch of ACPM, the priority now is to further optimize the credit portfolio in order to reduce risk while simultaneously boosting profitability.

…and pooling of product competencies in the Markets business unit

The prime value driver in the Markets business unit will be the systematic pooling of product competencies in the trading area as implemented at the end of 2004. The goal is to serve our customers' needs even more efficiently. For international distribution, the main focus will be on improving problem-solving skills and comprehensive advisory. This will ensure that the full range of customer needs will be met in the future, concurrent with significant value creation. Our new market-oriented positioning is also helping to promote a consistent orientation toward the needs of issuers in the primary market business. We firmly believe that all these measures together put us in an ideal position.

MAJOR HVB GROUP COMPANIES

Germany business segment

Bayerische Hypo- und Vereinsbank AG, Munich*
Equity capital: EUR 11,137,585,000

HVB Banque Luxembourg S. A., Luxembourg
Equity capital: EUR 1,070,700,000
Interest held: 100%

Activest Investmentgesellschaft mbH, Munich
Equity capital: EUR 19,757,000
Interest held: 100%

Bankhaus Neelmeyer AG, Bremen
Equity capital: EUR 42,192,000
Interest held: 100%

DAB Bank AG, Munich
Equity capital: EUR 129,062,000
Interest held: 76.4%

H. F. S. Hypo-Fondsbeteiligungen für Sachwerte GmbH, Munich
Equity capital: EUR 4,890,000
Interest held: 100%

HVB Leasing GmbH, Hamburg
Equity capital: EUR 22,000
Interest held: 100%

Internationales Immobilien-Institut GmbH, Munich
Equity capital: EUR 8,100,000
Interest held: 94%

Nordinvest Norddeutsche Investment-gesellschaft mbH, Hamburg
Equity capital: EUR 26,602,000
Interest held: 100%

Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich
Equity capital: EUR 62,418,000
Interest held: 70%

Westfalenbank Aktiengesellschaft, Bochum
Equity capital: EUR 108,529,000
Interest held: 100%

Activest Investmentgesellschaft Luxembourg S. A., Luxembourg
Equity capital: EUR 25,552,000
Interest held: 100%

direktanlage.at AG, Salzburg
Equity capital: EUR 17,689,000
Interest held: 100%

* Vereins- und Westbank AG, Hamburg, was absorbed by Bayerische Hypo- und Vereinsbank AG, Munich, on January 14, 2005

Austria and CEE business segment

Bank Austria Creditanstalt AG, Vienna
Equity capital: EUR 6,053,352,000
Interest held: 77.5%

Asset Management GmbH, Vienna
Equity capital: EUR 7,508,000
Interest held: 100%

Bank Austria Creditanstalt d. d. Ljubljana, Ljubljana
Equity capital: SIT 19,476,334,000
Interest held: 100%

Bank Austria Creditanstalt Leasing GmbH, Vienna
Equity capital: EUR 298,063,000
Interest held: <100%

Bankprivat AG, Vienna
Equity capital: EUR 11,766,000
Interest held: 100%

Bank BPH Spólka Akcyjna, Cracow
Equity capital: LPN 5,926,789,000
Interest held: 71%

Capital Invest die Kapitalanlage-gesellschaft der Bank Austria/Creditanstalt Gruppe GmbH, Vienna
Equity capital: EUR 9,162,000
Interest held: 100%

HVB Bank Biochim AD, Sofia
Equity capital: BGN 167,945,000
Interest held: 99.7%

HVB Bank Czech Republic a. s., Prague
Equity capital: CZK 12,991,867,000
Interest held: 100%

HVB Bank Hungary Rt., Budapest
Equity capital: HUF 96,063,000
Interest held: 100%

HVB Bank Romania S. A., Bucharest
Equity capital: EUR 54,489,000
Interest held: 100%

HVB Bank Slovakia S. A., Bratislava
Equity capital: SKK 7,220,190,000
Interest held: 100%

Schoellerbank Aktiengesellschaft, Vienna
Equity capital: EUR 114,585,000
Interest held: <100%

Splitska banka d. d., Split
Equity capital: HRK 1,589,788,000
Interest held: 99.7%

Corporates & Markets business segment

Bayerische Hypo- und Vereinsbank AG, Munich*
Equity capital: EUR 11,137,585,000

Bank Austria Creditanstalt AG, Vienna
Equity capital: EUR 6,053,352,000
Interest held: 77.5%

HVB Banque Luxembourg S. A., Luxembourg
Equity capital: EUR 1,070,700,000
Interest held: 100%

Bode Grabner Beye AG & Co. KG, Grünwald
Equity capital: EUR 4,767,000
Interest held: 100%

INDEXCHANGE Investment AG, Munich
Equity capital: EUR 11,481,000
Interest held: 100%

HVB Risk Management Products Inc., New York
Equity capital: USD 62,711,000
Interest held: 100%

HVB U.S. Finance Inc., New York
Equity capital: USD 67,452,000
Interest held: 100%

International Moscow Bank, Moscow
Equity capital: USD 276,751,000
Interest held: 46%

Resource streamlining at home, growth abroad

2004 was a year of challenges for the employees of HVB Group. For one, we continued to streamline our human resources, especially in Germany. At the same time, we expanded in other European countries – through organic growth, as in Poland and Hungary, and through acquisitions in Bulgaria and Serbia. By the end of the year, 57,806 people were working for the Bank, after 60,214 in 2003; 45.4 percent of the total were in Germany and 54.6 percent in other countries.

Sales support is focus of on-the-job training

The HVB Academy is playing a key role in improving the skills of our executives and employees alike – especially in connection with the MOVE program. This program signifies a change from a predominantly product-oriented sales strategy to a solution-oriented one (see also the Germany business segment). In the year under review, the Academy held 2,118 days on the new sales philosophy. The 543 participants were mainly executives who were deliberately trained first so that they could coach their employees in line with their skills. In 2005, we will lead 2,959 employees through this program on a total of 10,157 days. In total, 15,307 participants underwent training on 31,970 days through events held by HVB Academy in 2004. Our advanced training programs focused on sales and management skills with a budget amounting to some €19 million in HVB AG.

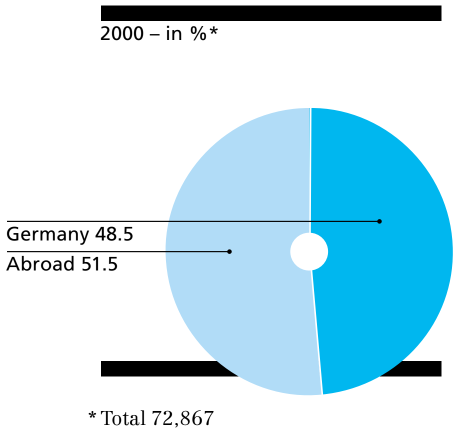
Focus on performance-oriented remuneration …

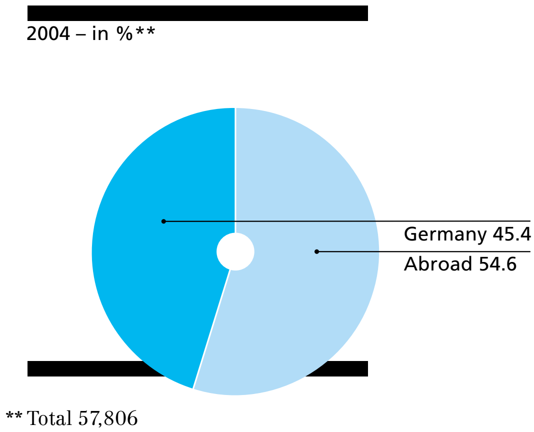
We introduced a more performance-oriented scheme of remuneration at HVB AG at the beginning of the year under review. The "12+2 model" increases the variable portion of the employee's salary. Now, in addition to twelve fixed monthly salaries, employees at HVB AG receive a bonus ranging from zero to four monthly salaries depending on the degree of goal attainment, with two monthly salaries functioning as the base value. As the first bank to do so in Germany, we used the delegation clause in the collective bargaining agreement for the private banking sector to achieve greater performance orientation in the collective bargaining area. The bonus or profit-sharing level depends on how far each individual employee reaches the targets set. Each employee's performance is assessed once a year during an individual discussion with their supervisor. We have increased the number of rating levels in this assessment from three to five in order to reflect more clearly the performance rendered by each individual employee.

Executives receive a share in profits which is linked to the Bank's results.

In 2004 we were able to reduce our personnel expense by a further €117 million to €3,514 million after €3,631 million in 2003.

Workforce: lower total, more outside Germany





… and flexible capacity management

We focus on flexibility, not only in employee remuneration but also with regard to capacity management. Our work-time models have proved their worth particularly during the current economic downturn. Their primary purpose is to streamline our processes and cut costs, but we also take the varied interests of our employees into account by offering part-time employment models. The proportion of part-time workers totaled 14.1 percent in the corporate group and 20.1 percent in HVB AG.

For years we have been applying a range of other tools to reduce staffing levels. Among these tools are regulations for early retirement, part-time work for employees in the run-up to retirement, and sabbaticals – unpaid leaves of absence lasting from twelve to twenty-four months. In all, there is an 8.3 percent rate of turnover at HVB AG.

Our personnel management company, HVB Profil, has become a benchmark in its own right: in 2004 it was the only German "best-practice" company selected in a pan-European research project on corporate restructuring processes. HVB Profil currently maintains a pool of some 600 people who are deployed both inside and outside the Bank. This pool also includes our trainees once they have completed their vocational training.

www.hvbprofil.de

In the course of the continued strategic development of the Germany business segment, we completely integrated our former Vereins- und Westbank subsidiary. This led to further savings on the payroll side: We were able to cut 600 positions without having to issue a single compulsory-redundancy notice.

620 employees decided to transfer jobs within HVB Group in the year under review, contributing to shifts in capacity and exchanges of knowledge. Here, as elsewhere, constructive cooperation with the employee representatives on the basis of trust proved its worth. We were invariably able to find solutions satisfying the interests of everyone concerned. We wish to thank the employee representatives, particularly those on the Central Works Council and the Speaker's Committee for Senior Executives, for their constructive and trustful cooperation.

Fit for the future: innovative talent management

Our future success lies in the hands of junior talent. Reflecting this fact, we bundled all our recruiting, supervision, and development activities under the umbrella of a single "Talent Center" as early as 2002. One of the most important accomplishments of this unit during the year under review was the development of our vocational BANG (Bankers Next Generation) training concept. This program combines a broadly conceived course in banking basics with a phase of specialization, and uses modern forms of instruction to boost the sales and advisory skills of our apprentices. BANG achieved second place in the 2004 German Employers' Association Prize for Education.

In promoting junior talent, we set our sights on quality and continuity. That is why we have arranged fixed company-wide quotas of at least 6 percent for apprentices and at least 1 percent for trainees.

"Success Requires Dialogue:" increasing employee satisfaction

Without skilled and motivated employees, we would not be able to achieve our ambitious targets. In 2004, we carried out a large-scale opinion poll of our employees to determine their degree of satisfaction and commitment. The survey ran under the motto of "Success Requires Dialogue," and some 80 percent of all employees took part. The supervisors' task was to discuss the findings of the poll with their employees in workshops and to develop solutions for the weaknesses it exposed. Further, the Group Board and Divisional Boards made a thorough study of the findings for the Bank as a whole. The actions decided upon as a result of the poll will contribute to an improvement in motivation among our employees.

Future prospects: more quality and efficiency

We will continue to increase the quality of our personnel development. The assessment of performance and potential during the annual discussion with employees plays a key role in this regard, while the newly introduced employee portfolio provides us with an overview of the development potential of our people. This means that any need for action can be identified more rapidly, and decisions on promotion can be made on a more informed basis. All in all, we intend to open up new opportunities for talented employees and promote a stronger performance culture in HVB Group.

In November 2004, we announced an ambitious efficiency program for the period from 2005 to 2007. The PRO (Process Redesign and Optimization) efficiency program will make our in-house organizational structures even leaner. Its principal objective is to streamline administrative and back-office work processes. The PRO Project also calls for between 2,200 and 2,400 positions to be cut in the staff and service units.

Information technology: further cutbacks made

For the third time in a row, HVB Group was able to reduce its total spending on information technology (IT) in 2004. Following savings of €150 million made between 2002 and 2003, we reduced Group-wide IT expenditures by a further €50 million in 2004, to €1.12 billion from €1.17 billion in 2003. Efficient project management and cross-functional steering in almost all segments helped to reduce our IT spending. Targeted investments in active credit portfolio management and the range of structured derivative products offered raised IT expenditures in the Corporates & Markets business segment.

The reduction in costs in Germany is based on efficiency gains by our internal service provider, HVB Systems, which succeeded in reducing the clearing rate by 8% in 2004 and is looking to shave a further 4% off the total in 2005.

Despite these cutbacks, we are continuing to invest in change projects. The focus during the year under review was firstly the preparations for the new regulatory capital regime under Basel II, and secondly the introduction of our new SAP management software known as Bank Analyzer. In the Germany business segment, important IT conditions were created for MOVE, the sales offensive (see also the section on the Germany business segment). Our IT lays the foundation for innovative products for Corporates & Markets.

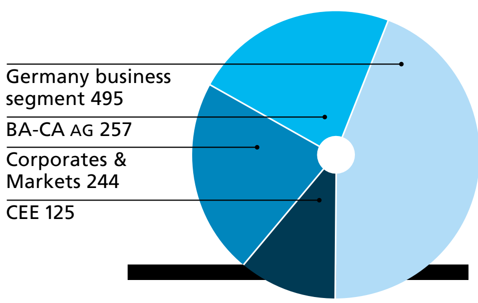
Computer center operations underwent further consolidation in 2004. We are concentrating all IT operating services with our internal computer center provider to achieve cost advantages. Mainframe computers and PC technology have been brought completely up-to-date. Our computer center operated by HVB Info is now providing the full range of services for PC operations at our branches, which will be expanded to include other banking areas in 2005. For example, a high-performance computer system has been introduced for derivatives trading.

Payments: lively growth with lower expenditures

HVB Group was able to expand the payment services it provides for its customers in 2004. Electronic customer payments in Germany increased by 30% compared with 2003. Foreign payments grew by a massive 36%. Despite the higher transaction volumes, we reduced the cost of payment services by 20% year-on-year. This resulted in a clear improvement in unit costs. Innovative products and systems from the areas of e-banking and payment services supported this development. Today, we offer a top payment solution allowing corporate customers in particular to process their entire payments simply, swiftly, and reliably via HVB Group. Our successful positioning in payments is evidenced, for example, by the fact that Munich Re transferred its entire payment operations to HVB Group in the year under review.

Total IT spending in 2004

€ millions



Securities handling: efficient management of lost accounts and new FX trading system introduced

Our securities handling operation faced the challenge during 2004 of managing the loss of external customers and accelerating the ensuing rescaling of IT systems. Adjustments were made to both staffing levels and floor-space requirements as a result. It proved possible to slightly reduce the handling costs charged to the Bank. At the same time, we pressed ahead with the renewal of the system landscape used for money market and FX operations, and a new FX trading system went live. Approximately 14.6 million transactions were handled in 2004, and the number of securities accounts stood at around 800,000.

Central Purchasing and Central Services: Group-wide purchasing organization implemented and cash logistics outsourced

The implementation of a cross-country organizational structure and the creation of a new Chief Procurement Officer (CPO) function were two of the milestones of the year under review for Central Purchasing. A series of improvements were made to operations to coincide with the reorientation of the organizational structure. Examples of these are the standardization of specifications and the concentration of Group-wide procurement volumes. The success of the restructuring exercise can be measured in part by lower purchasing costs, which beat the target figures forecasted for the first year. Further proof is provided by HVB AG's appearance in the final round of the innovation prize competition run by the Federal Association of Materials Management, Procurement and Logistics.

In cash handling and logistics, HVB AG entered into a strategic partnership with Giesecke & Devrient. Since the beginning of 2004, our partner has been operating a modern cash center, unique until now in Germany, on behalf of HVB AG, where payments into the night safe by corporate customers are quickly and reliably counted and recorded. The project has enabled HVB AG to realize a significant reduction in cash logistic costs as well as focus more consistently on its core competencies.

Real estate management: successful cost-cutting and marketing

Our real estate management operations were restructured during 2004. This involved both optimizing the core processes and modifying the organizational structure to meet new requirements. Staffing levels were reduced by 10% on the basis of these measures. The reduced headcount coupled with other measures, such as a decline in overheads and floor space, resulted in an 11% fall in the management/property expenditure. The floor space reduction is largely attributable to the letting of third-party properties and the success achieved in marketing the Bank's own properties. Despite the difficult market situation, we managed to let approximately 40,000 square meters of floor space and to generate over €140 million in revenues by selling redeveloped properties and buildings not used by the Bank.

Outlook: focus on greater efficiency

We will continue to focus on boosting IT efficiency during 2005. To cite one example, the full-service offering of our HVB Info computer center for PC operation will be expanded to cover other areas of the Bank. Services relating to server operations are being consolidated in our computer center. As part of the program initiated at the end of 2004 to optimize our core processes and infrastructure, we devised measures aimed at sustainably enhancing or back-office and operational units. Some of these measures will be completed during 2005 while others will continue through 2007.

Besides greater efficiency, we are relying on further growth notably in payments. In this respect, we are looking to build on our successful payments solutions, which we will actively promote among our corporate customers in 2005.

Sustainability: commitment to continuity and quality

Despite the stiff competition in the banking industry, we consider it essential for us as a company to behave in a responsible manner toward both the environment and society. This belief rests on two pillars. First, to be successful on a long-term basis, we need the trust of our stakeholders – our customers, shareholders, employees, and society. Behaving responsibly toward society and the environment strengthens this trust. Second, by taking ecological and social risks and rewards into account, we strengthen our corporate value.

Our objectives include:
- minimizing credit risks,
- opening up new market segments such as renewable energy sources and sustainable investments, and
- enhancing our own attractiveness as a sustainable investment.

We published HVB Group's second Sustainability Report, subtitled "Sustainability moves ahead," at the end of 2004. It covers all our activities in the field of sustainability management in detail.

www.hvbgroup.com/sr2004

In this annual report we will limit ourselves to a few statements on the subjects of banking products, management, and operations.

Sustainable banking products

We minimize our exposure to credit and reputation risks by performing environmental risk audits. This applies to corporate finance, for example, or wherever environmental and social standards have to be met in the process of financing projects or export deals. The problem of contaminated land is another issue we tackle on the real estate side. Moreover, we are one of the original signatories of the Equator Principles, a global industry-wide standard for the financing of large-scale projects. This standard regulates the observation of ecological and social requirements.

At the same time, we are capitalizing on potential new growth and earnings, for example in the financing of renewable sources of energy. We also offer sustainable investment plans and public investment funds such as Activest EcoTech and Capital Invest Ethik. We have formed a Carbon Solutions Team to satisfy our customers' need for advice in the fields of emissions trading and the Kyoto mechanisms. We were the first bank to successfully market a self-contained portfolio of wind parks as a corporate bond.

www.hvbgroup.com/sustainability

Sustainability ratings and rankings

Rating agency/investor	Rating	Scale	Ranking
Dow Jones Sustainability Indexes	Listed		
FTSE4Good Europe/Global	Listed		
Ethibel Sustainability Index Global/Europe	Listed		
ASPI – Advanced Sustainable Performance Indices	Listed		
CoreRatings	B +		Best bank rating
oekom research	B	A + to D –	1st out of 93 banks
WWF: Environmental ranking for the protection			
of primeval forests	B +	A + to D –	3rd out of 11 banks
scoris DAX-30-Rating	7,1	1 to 10	1st out of 30 companies
Zürcher Kantonalbank	AA	AAA – C	
Bank Sarasin	Best in class		
Storebrand	Best in class		
Innovest	Best in class		

Sustainability management

Responsibility for coordinating and steering the sustainability action areas has been entrusted to the Sustainability Management department. This unit reports to the Management Board through the head of the Executive Office. HVB Group has been one of the leading banks in the field of sustainability for years, as is evident in the findings of leading sustainability rating agencies and the investment decisions of ethically minded clients. We have also done trailblazing work in Central and Eastern Europe (CEE), for example though our activities as a founding member of the UNEP Finance Initiative Task Force for CEE. Here we are playing an active role in knowledge transfer and in developing an instrument for examining environmental risks.

Sustainable banking operations

The main focal points in this area in 2004 included:

- expanding our ecological control system. For example, energy-consumption figures for all bank-owned buildings in Germany were recorded and monitored for the first time,
- optimizing our facility management program in construction projects and building operations to further reduce the consumption of energy and water and the production of waste material, and to further lower costs,
- integrating sustainability criteria in our purchasing guidelines,
- increasing our percentage of recycled paper and reducing paper consumption, for example by further digitizing our business processes, and
- reducing CO_2 emissions from business trips through more rigorous travel guidelines and promoting the use of telephone and video conferences.

Corporate citizenship: culture, education, and social responsibility

HVB Group has long promoted a large number of nonprofit institutions and initiatives. We are among the largest sponsors of cultural activities in Germany, Austria, and the other European countries where we are active. We have large art collections and mount exhibitions in our own galleries in Munich and Vienna. We also support private initiatives, for example with the annual preservation award for historic monuments sponsored by the Hypo Foundation for Culture. Thanks especially to the commitment of our Bank Austria Creditanstalt subsidiary, we are one of Europe's leading patrons of music. We also place an emphasis on literature: for years we have co-sponsored the Corine, an international book prize awarded by the Bavarian section of the Börsenverein des Deutschen Buchhandels. In the year under review, our annual Christmas donation was devoted to the restoration of the Anna Amalia Library in Weimar.

In the field of education, we have major commitments to the Max Planck Society and the Stifterverband für die Deutsche Wissenschaft, an association of donors to German science. Not only are we among the patrons of the universities in Munich and Vienna, we also function as treasurer to the Technical University and the Ludwig Maximilian University in Munich, providing staff and infrastructure as necessary. We are also a founding member of the Nobel Laureate Foundation in Lindau on Lake Constance.

www.hvbgroup.com/commitment

On the social side, we support numerous institutions, including churches, schools, and organizations providing social relief. We also provide quick assistance in emergencies, for instance in the aftermath of the tsunami that swept Asia at the end of 2004. HVB Group made a donation as soon as the disaster was reported. As part of the fund-raising campaign run at the same time, we decided to match the donations made by our employees and thus help the recovery work in the stricken countries.

Future prospects: expanding our sustainability management program and upholding corporate citizenship

We plan to expand our sustainability management program, especially by integrating our subsidiaries in Central and Eastern Europe into our system parameters. Another point of emphasis will be expansion in growth fields such as sustainable investment and emissions-trading advice. We will also seek to safeguard the high quality of our environmental risk audits by training our employees and increasing our use of modern analytic tools. Last but not least, we are dedicated to making sparing use of resources in our operations.

We will remain committed to corporate citizenship, focusing this year especially on the 2005 Bach Festival in Leipzig, the care of senior citizens, and workers' welfare, not to mention our continued aid to the victims of the tsunami disaster in Asia.

»We develop our financial solutions in a dialog with our customers, not in an ivory tower. People like that.«

➔ Corporates & Markets business segment

Stephen Coles
Senior Relationship Management
Corporates & Markets business segment, Munich

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

2004: "Growing with Europe" strategic program launched and real estate finance restructured in the Germany business segment

During 2004 we finished setting the Bank on its future course with the capital increase successfully carried out in April and the announced restructuring of real estate finance.

By implementing the transformation program in 2003, with its far-reaching changes to corporate structures, and by streamlining the investment portfolio in the 2003 financial statements, we laid a solid foundation for our Growing with Europe strategic program that we launched in 2004 and intend to accelerate in 2005.

The 2004 income statement was marked by a special provision of €2.5 billion for bad debts. This was connected with the transfer to the new Real Estate Restructuring segment of the parent bank's workout portfolios of the entire German real estate finance business and the remaining portfolios of the Real Estate Workout segment. The goal is to make the portfolios allocated to this segment marketable. The income statement also includes a restructuring provision of €250 million relating to our efficiency program.

As a result of these non-recurrent charges, we have posted a net loss before taxes of €1,781 million and a net loss for the year of €2,278 million despite a 55% improvement in our operating result to just under €1.4 billion (compared with the prior-year operating result adjusted for the effects of deconsolidation relating to Bank von Ernst, Bankhaus BethmannMaffei and norisbank).

General economic trends in 2004

The global economy has returned to strong and, above all, sustainable growth. In particular, robust demand for capital goods from China has joined with a consistently high level of consumption among U.S. households to yield the sharpest increase in global GDP of the last 25 years. This development has been accompanied by a huge rise in the price of raw materials. The sharp increase in oil prices evoked memories of the two oil crises in the 1970s and 1980s, but the impact on growth has so far been relatively weak. Although the fast growth rates initially recorded could not be maintained in Japan or the United States in particular, the decline was not overly dramatic.

Strong demand also boosted the economy in Europe. However, growth was driven largely by exports, whereas domestic demand made only a minor contribution to economic recovery. Consequently, the upturn in the euro area began to slow as the pace of global growth waned and the common currency reached new highs. Despite these developments, the euro-zone economy still expanded 1.8% last year, the strongest rate since 2000.

Mixed fortunes in Germany:

- The German economy expanded by 1.6% year-on-year after contracting 0.1% the previous year.
- Inflation rose distinctly to an annual average of 1.7%, after 1.0% in the prior year, as a result of the sharp increase in oil prices and various increases in charges and indirect taxes.
- The situation on the labor market deteriorated yet again, even though the increase in the number of people unemployed from an annual average of 4.387 million to 4.380 million in 2004 was an improvement over the prior year.
- The current account surplus stood at 3% of GDP after 2.1% in 2003.
- The public-sector deficit fell slightly, from 3.8% of GDP last year to 3.7%.
- Long-term interest rates continued to decline, reaching 3.5% by the end of 2004; the key interest rates have remained unchanged at 2% since June 6, 2003.
- The situation on the real estate markets remained difficult; almost all of them gave cause for varying degrees of concern, while major regional differences were also evident. The housing market showed signs of consolidation, although the number of foreclosures increased and vacancy rates declined only slowly in structurally weak regions. High vacancy rates in office markets led to downward pressure on rents in new tenancy contracts. The market for retail properties suffered from slow private consumption while the supply of floorspace continued to rise.

The Austrian economy expanded by around 2.0% in real terms in 2004. Industrial production in particular benefited from stronger demand for exports, increasing 2.1% in 2004 after 0.8% in 2003. Inflation rose from 1.3% in 2003 to 2.0% as a result of higher raw material prices.

Growth in almost all the economies of Central and Eastern Europe accelerated one percentage point to an average of just under 5% in 2004. Expansion in Poland was even stronger, up from 3.8% in 2003 to 5.4% in 2004. The trend in Southeastern Europe was again very strong, with Romania for example recording growth of 8.3% after 4.9% in 2003.

Sector development

All in all, the business environment for the German banking industry eased slightly over the last twelve months. Nevertheless, the banking sector enjoyed only a minor rise in earnings on account of the persistent structural weaknesses in the German banking landscape together with slow economic expansion and difficult capital markets. In essence, earnings were stimulated in 2004 by cost-cutting measures that had already been initiated in previous years and were for the most part continued in the year under review. This was assisted by loan-loss provisioning rates that continued to decline from the previous year's highs.

Turning now to developments in detail, the net interest income booked by German banks was affected by weak demand for credit from companies together with persistently low levels of private consumption. The interest yield curve continued to level off as the year wore on. Banks were able to cushion this development in part by enforcing risk-adjusted pricing. At the same time, there was a rise in the use of alternative financial solutions by mid-sized companies able to access the capital market. Banks have responded to this trend by offering a broad array of innovative products based on the capital market. Fee- and commission-based operations benefited from this structural shift in earning components. Innovative asset and investment products in particular were value drivers in this respect on the retail side as well. In terms of proprietary trading, German banks faced inconsistent trends, with the stock markets tending slightly higher, whereas the capital market environment was marked by little activity and historically low volatilities in all classes of assets for much of the year.

After many of them had implemented extensive restructuring measures, German banks posted general administrative expenses at stable levels as a result of continuing strict cost management.

Business and strategy

Restructuring of real estate finance

In response to the persistently difficult situation on German real estate markets, we have decided to carry out a strategic restructuring of our real estate finance operations.

The workout portfolios from the entire German real estate finance business of the parent bank are being transferred to the new Real Estate Restructuring segment together with the remaining portfolios of the Real Estate Workout segment. The aim is to completely eliminate the portfolios allocated to this segment without disrupting the market, by exploiting various options and the opportunities arising from the development of the real estate markets.

To facilitate the rapid reduction of these portfolios, it is necessary to change the valuation method for the real estate collaterals associated with these portfolios. In contrast to the previous approach, which in many instances aimed to restructure the individual commitments – sometimes over the long run – before returning them to regular treatment, the valuation is now made at liquidation value. As a consequence an allocation to special provisions for bad debts amounting to €2.5 billion was necessary.

Efficiency program

With our PRO (Process Redesign and Optimization) efficiency program launched in the fall of 2004, we intend to enhance the efficiency in the corporate group on a sustained basis. This program serves to streamline our workflows and optimize back-office areas. It has been included in the 2004 financial statements with a restructuring provision of €250 million.

Integration of Vereins- und Westbank

At the beginning of April 2004, the parent bank and Vereins- und Westbank Aktiengesellschaft (VuW) agreed on an integration model which was presented to the public during the Annual General Meeting of VuW on April 15, 2004. In March 2004, the Bank had increased its holding in VuW to more than 95% and announced a squeeze-out procedure to remove minority shareholders. The transfer resolution was adopted at an Extraordinary General Meeting of VuW on June 24, 2004. As part of a court settlement, the cash compensation was raised on October 29, 2004 and the transfer resolution subsequently filed in the Commercial Register.

Thus around 2.79 million shares held by minority shareholders of VuW were transferred to the Bank by act of law. The merger of VuW with the Bank took effect on January 14, 2005 once filed in the Commercial Register maintained by Munich District Court.

The assets and liabilities of VuW were transferred to the Bank with effect from June 30, 2004, at which date VuW prepared a closing balance sheet. Starting July 1, 2004, all actions and transactions of VuW are considered performed for account of the parent bank.

As VuW had been included in the group of consolidated companies in the past, the merger did not have any impact on the income statement of HVB Group.

Growing with Europe: significant progress made in core operations…

Our Growing with Europe strategic program concentrates specifically on increasing our operating profitability, in addition to implementing active capital and risk management and continuing to sharpen our business profile. We have intensified new business campaigns and made further progress in customer acquisition and stepping up product utilization. We further consolidated our market position in all core European regions – Germany, Austria, and Central and Eastern Europe – with the aid of innovative products for private and corporate customers.

In the Germany business segment, we have already achieved a significant increase in new business involving innovative products for private and business customers under our MOVE campaign. We aim to continue this success, firstly by intensifying cross-selling and secondly by stepping up the acquisition of new customers.

Our sales approach in the Corporates & Markets business segment integrates all classes of assets and product groups, making us well positioned to meet all our customers' requirements. Our expertise in innovative, customized financial solutions and risk management products is a key value driver.

… and further expansion of our market position in Central and Eastern Europe

With Bank Austria Creditanstalt, HVB Group has the leading banking network in Central and Eastern Europe. Our presence spans a total of 16 countries where we serve over four million customers. In the summer of last year, we launched a region-wide campaign in the retail banking sector. We are looking to open up to 200 new branches and sharply increase our customer base. While we are continuing to rely primarily on organic growth in Central and Eastern Europe, we are also examining possible value-generating acquisitions.

We are consolidating our position in Russia by increasing our shareholding in International Moscow Bank (IMB) to just under 53%; this is scheduled for the first quarter in 2005. The highly profitable IMB is one of the leading banks in Russia in the retail, corporate, and capital market sectors. Through IMB we hope to benefit from the expected rise in the country's economy as a whole and to tap the potential of the Russian banking market for ourselves and our customers.

Business trend and key figures

The course of business on the operational side largely matched our expectations in 2004.

Despite lower revenues caused by the effects of deconsolidation, we were able to almost reach the operating result recorded in the previous year. Adjusted for the effects of deconsolidation, we even succeeded in increasing the operating result by 55%.

In the Outlook of the Financial Review (starting on page 15 of the Financial Section in the 2003 Annual Report) we stated the aspired target ranges for 2004 as a whole:

HVB Group	2004 e	2004 (actual)
Total operating revenues, €m	9,600 – 10,000	9,320
Administrative expenses, €m	6,100 – 6,300	6,118
Loan-loss provisions, €m	1,900 – 2,100	1,813
Operating profit, €m	1,400 – 1,700	1,389
Cost-income ratio, %	63 – 65	65.6

While we remained 2.9% below the range for total operating revenues, we were able to meet our targets for general administrative expenses and loan-loss provisions.

We have achieved a figure at the bottom end of the range forecast for general administrative expenses, while loan-loss provisions declined to a figure below the target range.

The operating profit of €1,389 million was only slightly below the target range.

Development of income

To facilitate comparison between the current figures and last year's figures in the 2004 income statement, we also provide an additional year-on-year comparison in the notes below on the development of income. Thus, in addition to the comparison with the figures shown in the income statement, we also show the prior year figures adjusted for the current income and expenses for norisbank, Bank von Ernst, Bankhaus BethmannMaffei, the effect of the Contractual Trust Arrangement (CTA, see Note 63) and the non-scheduled items defined in the 2003 consolidated financial statements (referred to below as "deconsolidation effects"; income statement, compared with adjusted prior year figures, see page 109).

Operating revenues

At €9,320 million, total operating revenues were 7.9% down from last year's figure, particularly as a result of the deconsolidated effects mentioned. However, if the prior-year figure is adjusted for the deconsolidation effects, the total is up 0.7% year-on-year. This development benefited from a favorable fourth quarter, for which the highest quarterly figure in 2004 was posted.

Compared with last year, there was a significant decline of €225 million, or 3.8%, in net interest income. Adjusted for deconsolidation effects amounting to €263 million, we closed 2004 slightly above last year's level. At the same time, the declines in volume were more than offset by better margins after our risk assets were reduced under our transformation program. Based on average risk assets, the interest margin rose sharply, from 2.44% to 2.63%, compared with the prior year, and continued to increase in the course of 2004. A detailed breakdown of interest income and expenses is shown in the Notes.

At €2,845 million, net commission income is 1.8% above the figure from last year, despite deconsolidation effects. Adjusted for deconsolidation effects, the total increased by a solid 6.3%, due especially to the development in the business segments covering Germany, up 7.3% compared with the previous year adjusted for deconsolidation effects, and Austria and CEE, up 8.7%. The share of net commission income in total operating revenues rose to 30.5% from 27.6% in 2003.

The trading profit of €718 million failed to match the previous year's high figure of €820 million. We earned less in the third quarter than in the other quarters as a result of low volatility in capital markets, particularly due to the difficult market conditions in August and September.

General administrative expenses
We posted general administrative expenses of €6,118 million for HVB Group in 2004, down 4.0% from the prior year. Adjusted for deconsolidation effects, these expenses are roughly equal to last year's total (up 0.4%).

We calculate the cost-income ratio as a quotient of administrative expenses to total operating revenues: at the end of 2004, it stood at 65.6% compared with 63.0% in 2003, or 65.8% without deconsolidation effects.

Provisions for losses on loans and advances
Provisions for losses on loans and advances stood at €1,813 million for fiscal 2004. This reflects a decline of €456 million, or 20.1%, compared with the previous year.

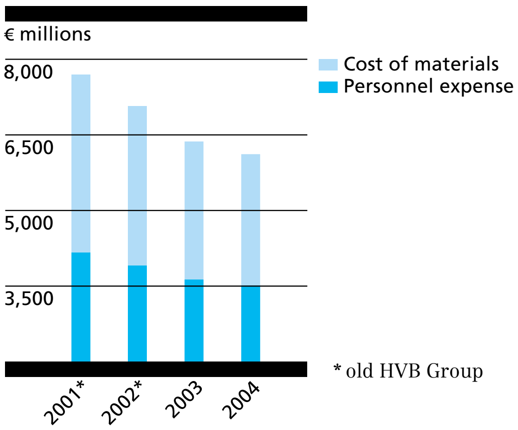
Operating result
At €1,389 million, the operating profit almost matched the prior-year figure which benefited particularly from gains on the disposal of norisbank and Bank von Ernst. Adjusted for deconsolidation effects, we were able to boost the operating profit by €493 million or 55.0%. In the fourth quarter, we achieved the highest quarterly figure in 2004, at €491 million. This continues the sustained improvement to the operating result from fiscal 2003. The 2004 operating result includes the gains of approximately €56 million on the disposal of Bankhaus BethmannMaffei.

Net income from investments, amortization of goodwill, additions to restructuring provisions and special provisions for bad debts, and other income and expenses
In the year under review, we achieved net income from investments of €102 million, notably through the sale of our holdings in Brau und Brunnen and E.ON, after we reported net loss from investments of €1,806 million in 2003 caused by revaluation measures taken on our available-for-sale holdings.

Scheduled amortization of goodwill was taken in our financial statements compliant with IFRS for the last time in fiscal 2004. Amortization of goodwill totaled €165 million at year-end 2004. This represents a decline of €969 million compared with the prior year, which was depressed by the non-scheduled amortization of goodwill taken at the end of 2003, particularly for Bank Austria Creditanstalt AG (BA-CA). Compliant with IFRS 3, amortization of goodwill is only to be permitted in future if there is a case of impairment.

We have set aside restructuring provisions of €250 million compliant with IAS 37 for a package of measures under our PRO efficiency program and have shown them separately.

Consistent reduction of general administrative expenses



For more information about the allocation to special provisions for bad debts of €2.5 billion, please refer to the comments under "Restructuring of real estate finance" above and note 40 to the consolidated financial statements.

Other income and expenses include the final risk shield for the Hypo Real Estate Group of €130 million. Moreover, the higher losses absorbed from companies allocated to the Real Estate Workout segment are reported under this item.

Net income/loss before taxes
The net loss before taxes of €1,781 million was aggravated particularly by the additions to special provisions for bad debts and restructuring provisions. Without these measures, we achieved a net profit of €969 million and thus clearly surpassed last year's net profit of €549 million adjusted for deconsolidation measures.

Taxes on income
Taxes on income decreased by €85 million to €211 million. The current taxes arise mainly from the net income posted by our international subsidiaries. The decline in deferred tax expenses is attributable to the increase in the deferred tax assets reported for losses carried forward.

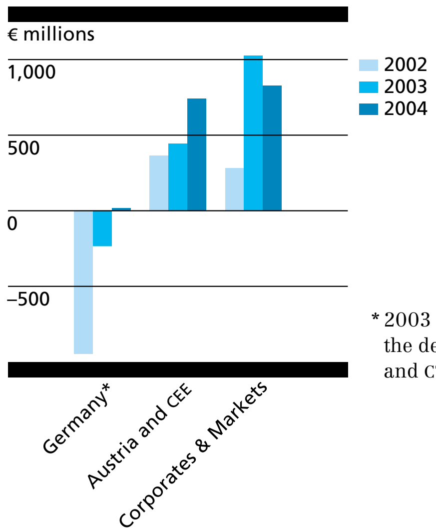
Minority interests in net income
Minority interests, particularly the external shareholders of BA-CA, account for €286 million of the net result.

Developments in the individual business segments
The business segments contributed to the operating result totaling €1,389 million as follows:

Germany	€18 million
Austria and CEE	€743 million
Corporates & Markets	€827 million
Real Estate Workout loss of	€133 million

Developments in the Germany business segment
The Germany business segment achieved an operating profit of €18 million. Last year's operating profit of €303 million was boosted by the gains on the disposal of norisbank and Bank von Ernst. Moreover, the overall favorable operating results from the deconsolidated companies norisbank, Bank von Ernst and Bankhaus BethmannMaffei as well as the effects from the CTA are not included in 2004. To facilitate comparison with last year, the prior year figures for the Germany business segment and the business units are also shown adjusted for the deconsolidation effects (including the gains on the disposal of norisbank and Bank von Ernst) as well as CTA effects in the Notes to the segment report. We have provided the year-on-year figures for the Germany business segment and for the Private Customers business unit in the Notes below solely on the basis of the adjusted prior-year figures.

Operating result by operating business segment



* 2003 adjusted for the deconsolidation and CTA effects

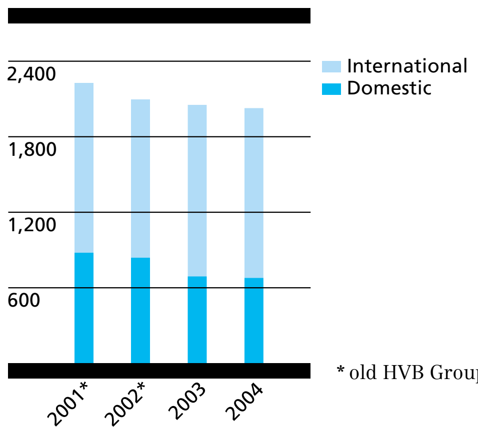
In adjusted terms, the operating profit of the Germany business segment rose by a sharp €251 million compared with the prior year figure. This resulted among other things from the gain on the disposal of Bankhaus BethmannMaffei of around €56 million. At the same time, adjusted operating revenues increased by about 4%. We were able to reduce administrative expenses by a slight 2%, excluding deconsolidation effects. This produced a clear 65.6% improvement in the cost-income ratio as against the adjusted prior-year figure of 69.5%. Apart from the higher productivity, the 4% or so reduction in loan-loss provisions also contributed to the healthy development of the operating result.

In the Private Customers business unit (including asset management and private banking activities), last year's operating loss of €144 million was reduced significantly to €29 million. Despite strong sales performance, the operating result was depressed by structurally-induced high risk provisions and the declining portfolios in private real estate finance. But operating revenues nevertheless increased 4% compared with the adjusted prior-year figure. Sales figures experienced a huge increase in the areas of pension products (+ 70%), asset management (+ 7%), and consumer loans (+ 40%) as a result of the selling activities performed by the parent bank. Net commission income increased 3% overall. Sales of attractive investment products like the HVB 7/3 Bond, the HVB Optimal Bond as well as bonus and express certificates, with a total volume of €2 billion, made an important contribution to this result. In addition, the gain on the disposal of Bankhaus BethmannMaffei had a positive effect on the operating result as a non-scheduled item. Active cost management led to a 2% reduction in general administrative expenses and an improvement in the cost-income ratio to 86.3% from an adjusted 91.7% in 2003. Subsidiaries allocated to the business segment increased their net income by 42% over the prior year, thus contributing €16 million to the segment's improved profit of €115 million. The Activest Group developed particularly strongly. With a volume of €3.6 billion, its Total Return group of funds is meanwhile the largest in its class in Germany.

The Corporate Customers and Professionals business unit managed to more than triple its operating profit, by €197 million to €290 million. At the same time, loan-loss provisions decreased by 22%. Operating revenues increased by 4%, particularly due to the pleasing 16% rise in net commission income. This development benefited especially from an increase in sales in the derivatives business with customers and intensified finance advisory services for mid-sized corporate customers. Net interest income remained stable. With general administrative expenses remaining the same, the cost-income ratio improved to 48.7%.

The Real Estate business unit is still heavily weighed down by stagnating and in some cases declining real estate markets. This is reflected by the 28% increase in loan-loss provisions compared with last year. With net interest income remaining stable, operating revenues rose by 3%, particularly due to higher net commission income. The rise in earnings and the 15% decline in general administrative expenses were able to only partially offset the need for higher risk provisions. This resulted in the operating loss of €182 million increasing to €242 million.

Offices: consolidation in Germany, targeted expansion in rest of Europe



* old HVB Group

Developments in the Austria and CEE business segment

The Austria and CEE business segment boosted its operating profit by 67.0% compared with last year, to €743 million. With general administrative expenses declining slightly, the cost-income ratio improved by 5 percentage points to 66.3% on account of the 7% increase in operating revenues. In addition, the 10% reduction in loan-loss provisions contributed to the healthy development of net income.

Operating revenues in the Private Customers business unit of the Austria and CEE business segment decreased by 2% as a result of the lower balance of other operating income and expenses. In contrast, net interest and commission income rose compared with last year. General administrative expenses remained at the same level. Despite the 11% decline in loan-loss provisions, the operating profit at €106 million was 7% down on last year's figure.

Operating revenues in the Corporate Customers business unit in Austria increased 4% compared with the prior year due to the 4% rise in net interest income and the 12% increase in net commission income. Advisory services, notably interest and currency risk management as well as issuing operations with our corporate customers, were key factors in the increase in net commission income. With a slight decrease in general administrative expenses, the cost-income ratio improved to 55.6% from 58.8% in the prior year. The greater profitability and the 13% decline in loan-loss provisions led to a strong 45% increase in net income, to €248 million.

The operating profit of the Central and Eastern Europe (CEE) business unit developed strongly, more than doubling. At €389 million, the CEE business unit generated the highest contribution to net income in the business segment. At the same time, the cost-income ratio improved tangibly, increasing by about 14 percentage points to 59.3% as a result of the 24% rise in operating revenues. General administrative expenses remained stable. Operating revenues included a sharp 40% rise in net interest income and a 14% increase in net commission income.

The Bank Austria Creditanstalt Group as a whole, including the results from Corporates & Markets and the Other/consolidation segment together with Group-specific items like amortization and the funding expense of goodwill, contributed €670 million to the net income before taxes of HVB Group. The system of segment reporting employed by HVB Group involves allocating all income and expenses to the business segments in line with causation. This takes place irrespective of whether they accrue directly at a Group company or need to be considered at corporate level, as is the case with the Group-specific items mentioned. Consequently, the contributions to earnings made by the Bank Austria Creditanstalt Group and all other Group companies with Group-specific items do not, from the corporate point of view, match their primary net income. The Bank Austria Creditanstalt Group has disclosed a primary net income before taxes of €836 million in its consolidated financial statements.

Developments in the Corporates & Markets business segment

The net income of the Corporates & Markets business segment was affected by decreasing operating revenues in 2004. This can be attributed to a decline in trading profit due to the weak development in the third quarter of 2004 in addition to a reduction in net interest income. Coupled with a slight increase in general administrative expenses, this resulted in 19% lower net income in spite of net reversals of loan-loss provisions.

The operating revenues of the Markets business unit fell by 32% as a result of the decline in the net interest income and especially due to the weak trading profit in the third quarter of the year. General administrative expenses remained stable, while the operating profit decreased to €296 million.

Operating revenues in the Corporates business unit largely held steady at last year's level, falling just 5%, despite the fall in net interest income resulting from the decline in volumes under the transformation program and the sale of the U.S. real estate portfolio. In addition, higher general administrative expenses, incurred particularly through investments in promising product fields such as active loan portfolio management, led to a higher cost-income ratio. Due to net reversals of loan-loss provisions, the operating profit more than doubled.

Financial situation

Total assets and lendings

HVB Group's total assets stood at €467.4 billion at year-end 2004; this figure was €12 billion, or 2.5%, less than at the end of the previous year. This is primarily due to a decline in investments of €9.4 billion, loans and advances to customers of €8.4 billion, and the placements with, and loans and advances to, other banks of €5.4 billion. In contrast, assets held for trading purposes rose by €11.3 billion. The allowances for losses on loans and advances increased by about €2 billion, notably as a result of the addition to special provisions for bad debts made at the end of 2004.

Due to the moderate demand for credit coupled with risk-adjusted pricing, the full volume of lending decreased by €13.8 billion to €324.6 billion. This resulted from a decline in both the placements with, and loans and advances to, other banks and customers, and contingent liabilities.

Investments include fixed-income securities of €8.7 billion (down 4%) held to maturity, available-for-sale securities and other financial instruments of €33.6 billion (down 21%), participating interests in companies valued at equity of €1.0 billion (up 26%), and investment property of €0.4 billion (up 3%).

On the liabilities side, the amounts owed to other depositors increased by €4.1 billion and the liabilities held for trading purposes by €4.6 billion. In contrast, the liabilities evidenced by paper were down by €13.2 billion, and the deposits from other banks by €9.4 billion.

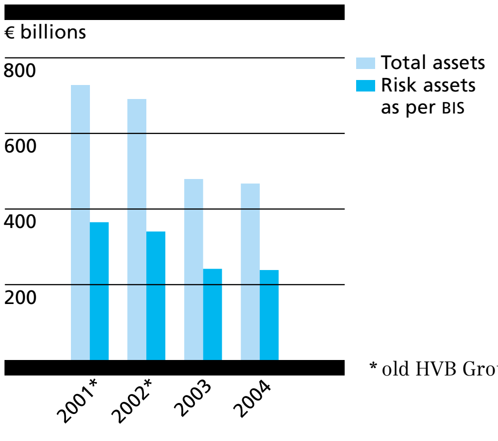
As a result of the capital increase completed at the beginning of April, subscribed capital increased by 40%, or €643 million, to €2,252 million through the issue of 214.4 million new shares. At €9.3 billion, additional paid-in capital is at approximately last year's level. The addition from the capital increase is offset by the reduction in additional paid-in capital required to cover the net loss for 2004. In total, the shareholders' equity shown in the balance sheet rose by 11.4% to €11.5 billion.

The changes in fair values of hedging derivatives in effective cash flow hedges are disclosed in the hedge reserve. The changes in the value of these derivatives are offset by future compensating effects arising from the hedging relationships which are not yet permitted to be recorded in the balance sheet. This explains why the hedge reserve does not have any economic informative value when taken in isolation. In particular, no shareholders' equity has been consumed since the negative changes in the value of the derivatives in the balance sheet items are offset by historic undisclosed reserves. The available-for-sale reserve and the hedge reserve are not included for the purpose of calculating the return on equity.

Risk assets and capital ratios

We significantly reduced our risk assets in 2003, to €241.8 billion. For 2004 we had planned moderate growth of our risk assets up to €250 billion, on the basis of a considerably improved capital base.

Balance sheet



* old HVB Group

At year-end 2004, risk assets amounted to €238.6 billion in accordance with BIS rules, €3.2 billion less than in the prior year. This decline is connected with the addition to special provisions for bad debts, which is deducted from risk assets. Without the special provisions, the trend would have been sideways as a result of the moderate demand for credit and consistent risk-adjusted pricing.

The core capital of HVB Group rose by about 9% to €15.7 billion.

Equity funds, which include both liable equity of €25.8 billion and Tier III capital of €1.3 billion, increased by 5.9% to €27.1 billion.

The core capital ratio compliant with BIS rules improved to 6.6% after 5.9% in the prior year. Taking into account consolidation effects to be included from the start of 2005, it stands at 6.2%. The equity funds ratio increased from 9.7% to 10.4%.

A bank's liquidity is evaluated using the liquidity ratio defined in Principle II of the German banking supervisory regulations. 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 1.0. At HVB AG, the figure averaged 1.2 in 2004 (2003: 1.2).

Events after December 31, 2004

In January 2005, we announced that the workout portfolios of the entire German real estate finance business of the parent bank would be transferred to the new Real Estate Restructuring segment together with the remaining portfolios of the Real Estate Workout segment. This will involve a volume of €15.4 billion.

Starting with the first quarter of 2005, we will report separately on this new segment in our segment reports in the interim report.

There were no further events after December 31, 2004 worth reporting.

Outlook

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

The world economy will probably experience strong growth again in 2005, although this may not be as sturdy as in 2004. The slackening U.S. economy in particular is dampening global dynamic forces, an effect offset by the flourishing regions of emerging Asia and Central and Eastern Europe. After a rise of about 4% in 2004, there are indications that worldwide value creation will expand by around 3% this year.

The weaker global environment will also leave its mark on the euro zone. Growth will probably fall to 1.5% this year from 1.8% in 2004, and to a meager 1% in Germany after 1.6% in 2004. Yet the change underlying this initially disappointing trend is important for growth prospects over the medium term: extensive structural reforms carried out over the last two years have made the prospects for a solid boost to domestic growth forces much brighter – particularly in Germany. At the outset, the difficulties inevitably entailed in change processes predominate, such as the increase of the official level of unemployment to over five million in Germany. But more flexible labor markets in particular should contribute to an increase in gainful employment in the course of 2005 and thus to a stabilization of consumer and investment plans.

Only slightly weaker growth is expected in Austria in 2005 than in 2004 (1.9%). The slackening of foreign demand should be cushioned by an increase in domestic demand coupled with tax reform. Inflation should fall to below 2% again toward the end of the year.

Growth is expected to slacken a little in Central and Eastern Europe during 2005, although it should still reach over 4% again, whereas almost 5% is anticipated in Southeastern Europe. At the same time, investment should underpin growth.

Sector development

The underlying data for the European banking sector should nevertheless improve during 2005. Although there is still no sign of a cyclical tailwind since general economic growth rates are too low, structural reforms are creating new possibilities for market forces to develop. In the German banking industry, stringent cost management together with the strict management of risk costs will play a crucial role in improving the earnings situation alongside a focus on earnings campaigns.

Planning

Our own plans are based on the following premises for Germany:

- GDP growth of just under 1%; the global upturn will lose a little momentum, but will continue
- Inflation of 1.5%
- Long-term interest rates within a range between 4.5% and 5.5%
- Slight reduction in the number of company bankruptcies

Development of HVB Group

Our good operating performance in the year under review and the special measures in the 2004 financial statements have formed the foundation for us to swiftly achieve a competitive profitability level. We are planning for HVB Group to return to a much lower level of loan-loss provisions of approximately €1.3 billion in 2005. Normalized addition rates will noticeably ease the burden on our income statement in the coming years as well. HVB Group is already assuming that the return on equity after taxes will roughly match its cost of capital (between 8% and 9%) in 2005.

The measures taken to improve efficiency will boost our profitability. We intend to again significantly increase the core capital ratio as rapidly as possible by retaining profits and releasing equity capital, in part by rapidly eliminating the portfolios in the Real Estate Restructuring segment.

RISK REPORT

HVB Group as a risk-bearing entity

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

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

Groupwide management and monitoring of risk

1 Risk management

For risk management purposes, the Bank defines its overall risk strategy at corporate group level. In particular, this means determining, on the basis of the available capital cushion, the extent and manner of permissible risk exposure for the various business segments and business units. This means that whenever risk is taken, it must be determined whether it is possible to do so, based on risk cover calculations, and whether it is worth doing so in terms of risk/reward calculations.

Through the targeted and controlled assumption of risk, the various business segments and business units implement – with profit responsibility – the risk strategies defined for them on a Groupwide basis. In doing so, they utilize the regulatory and economic capital allocated to them within the framework of limit systems.

2 Risk monitoring

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

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

In addition to the quantification of the risks incurred and the monitoring of the allocated limits, the subsequent risk control process involves risk reporting, which at the same time provides management with recommendations for action when making future risk-policy decisions.

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

3 Divisions and committees

Risk management

The business segments and business units are responsible for performing the risk management functions within the framework of the competencies defined by the Group Board. Important bodies operating at the Group level are the Strategic Group Credit Committee and the Group Asset Liability Committee.

As a central body, the Strategic Group Credit Committee is responsible for making decisions on credit strategy or, when legally required, making recommendations on credit decisions to the management boards of the individual subsidiaries. This essentially includes the credit risk strategy, credit policies (the general credit policy and special credit policies), segment-related risk strategies, credit organization principles, and risk evaluation processes and parameters. This committee is chaired by the Chief Risk Officer, and has representatives from all business segments, the Chief Credit Risk Officer and the Group Credit Risk Control division.

The Group Asset Liability Committee makes decisions at its monthly meetings on asset/liability management of the parent bank and sets guidelines for the corporate group. The committee pursues the following key goals:
– optimal utilization of the financial resources of liquidity and capital within the corporate group,
– coordination of the business segments' needs for financial resources and the corporate business strategy, and
– establishment of uniform Groupwide methods for asset/liability management.

Risk monitoring

The Chief Risk Officer is responsible for monitoring and coordinating risk-policy activities within HVB Group. The activities of the Chief Risk Officer are accompanied by those of the Risk Committee of the Supervisory Board, the Group Finance and Tax division, and the Group Audit division.

The Risk Committee of the Supervisory Board, which has five members, takes into account the vital importance of comprehensive early recognition of all risks for the continuing existence of the company. The Risk Committee has at least four meetings a year. It is informed by the Management Board on the risk situation and risk management. In this way, the Supervisory Board receives detailed reports on all risks relevant to the Bank.

The following divisions are under the responsibility of the Chief Risk Officer:

– Group Credit Risk Control is responsible for credit risk control within HVB Group. Its mission includes the implementation, operation and ongoing development of credit risk measurement systems. The instruments and systems it uses encompass rating processes and pricing tools as well as the portfolio model for credit-value-at risk calculations. In addition, this divison carries out credit portfolio reporting for the parent bank and the Group.

– Risk Control is responsible for the Groupwide measurement of market risk, counterparty and issuer risk, operational risk, business risk, and the risks arising from the Bank's own real estate portfolio and shareholdings/financial investments. Its tasks and competencies include ongoing, independent risk measurement and monitoring, responsibility for risk measurement methods and their ongoing development, as well as reporting to the Chief Risk Officer and the Group Board. In addition, Risk Control is responsible for Groupwide risk capital measurement and aggregation as well as the implementation of uniform risk control standards, taking into account the corresponding statutory requirements and especially the regulatory requirements.

– The Group Asset Liability Management division is responsible for the Groupwide management of short-term and long-term liquidity to ensure that the Bank has adequate liquidity at all times and to optimize the funding costs. Key elements of its work include coordinated operations on money markets and capital markets as well as the specification of liquidity profiles of Group units. Group Asset Liability Management also carries out asset/liability management and measures to optimize regulatory capital. The measures implemented in connection with these functions serve to support HVB Group's rating and return targets. At the beginning of 2005, the unit was transferred from the Chief Risk Officer organization and reports to the Management Board member responsible for Corporates & Markets.

– The Credit & Risk Management division groups together the credit processing units for normal business transactions for the credit business of the Germany segment as defined in the Minimum Requirements for the Credit Business of Credit Institutions (MaK). This essentially includes credit analysis and credit decisions along with their subsequent implementation and processing. These activities serve in particular to meet regulatory requirements, and encompass our business with retail, business and corporate banking customers, as well as professional real estate customers. Real estate financing business is handled by the Real Estate Service Center, in which all processes are carried out over the course of all real estate loans – from funding to repayment. This division is supported by industry specialists who are involved in the decision-making process for credit exposures larger than €5 million for the lending business of the Germany segment and across the board for the lending business of the Corporates & Markets segment. We see their input on credit exposure decisions as a value-added contribution in the interest of sector-oriented risk management.

– The tasks of the Chief Credit Risk Officer include risk provision forecasting, detailed portfolio analysis, and the production of central policies or procedures for the entire credit business. It is primarily the Restructuring and Workout division that is placed under the jurisdiction of the Chief Credit Risk Officer. This unit is in charge of early identification of risks, restructuring activities, and workout/collateral liquidation. Non-performing exposures are placed under intensive care on the basis of data including IT-based risk warnings within the framework of a watch list process. If restructuring measures are needed, then the exposure is transferred to specialized units that define the strategy to be applied to the exposure and support its implementation. If successful restructuring is no longer deemed possible, then the exposure enters the workout phase.
– The Real Estate Valuation and Consulting division focuses on the valuation of individual properties and portfolios, and the analysis and forecasting of real estate market trends. With these activities, the unit supports risk assessment and risk management in the real estate finance business of HVB Group.

The Group Finance and Tax division covers the group accounting, regulatory reporting, global tax, and group market finance functions.

The Group Accounting subdivision is able to identify unfavorable trends by analyzing the income statements which it produces on a regular basis. This provides an important contribution to compliance with the risk management process. The Regulatory Reporting subdivision is responsible for reporting to the regulatory bodies with jurisdiction over the banking sector. Along with Principle I (backing of risk assets and market risk positions with own funds) and Principle II (ensuring that institutions have adequate liquidity at all times), this specifically includes the evidence of large exposures, loans in excess of €1.5 million, and loans to directors.

In addition, Group Finance and Tax is closely involved in our Basel II project activities together with the Group Credit Risk Control division.

Group Audit operates as an independent organizational division. It reports directly to the Chief Financial Officer and acts on behalf of the Group Board. Although it primarily perfoms the internal audit function for the parent bank, it also performs tasks for the Group as a whole. Its duties range from a control and advisory function based on a standardized system of reporting through to complete execution of internal auditing for subsidiaries.

The Minimum Requirements for the Internal Audit Function of Credit Institutions (MaI) issued by the Federal Financial Supervisory Authority stipulate that all operational and business processes must be audited at least every three years – if useful or appropriate – and all processes subject to especially high levels of risk must be audited at least once a year.

An annual review is prepared to provide the Group Board with an overview of essential audit findings and conclusions, as well as their current status. In addition, the head of Group Audit reports on current trends and results in auditing activities at the regular sessions of the Supervisory Board's Audit Committee.

Risk types and risk measurement

1 Relevant risk types

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

2 Risk measurement methods

With the exception of liquidity and strategic risk, we measure all risk types using a value-at-risk approach under which potential future losses are measured on the basis of a defined confidence level.

The calculated risk capital figures are then aggregated at the Group level, applying a uniform one-year holding period and a 99.95% percent confidence level across all risk types.

This aggregation takes into account risk-reducing portfolio effects, which encompass both the correlations within the individual risk types between business units and Group units and the correlations across the risk types.

Liquidity risk and strategic risk are not measured using statistical approaches. The methods applied to the measurement of these risk types are described in the relevant sections of this Risk Report.

3 Development of risk measurement and monitoring methods

The methods used to measure and monitor risks are subject to an ongoing development and improvement process. This is the result of our own quality standards as well as a response by HVB Group to the increased statutory requirements and, to an even greater extent, the increased regulatory requirements, (especially Basel II).

Overall bank management

1 Dual management principle for overall bank management

The main focus of capital market-oriented management in HVB Group is on investment and the value-oriented allocation of our capital resources to business activities with attractive risk-return ratios. Within the framework of our dual management principle, the business segments and their business units are allocated both regulatory (or used core) capital and risk capital. Both resources are expected to yield an appropriate return, which is derived from the expectations of the capital markets and is expected to be earned by our business units.

2 Regulatory capital adequacy

Used core capital

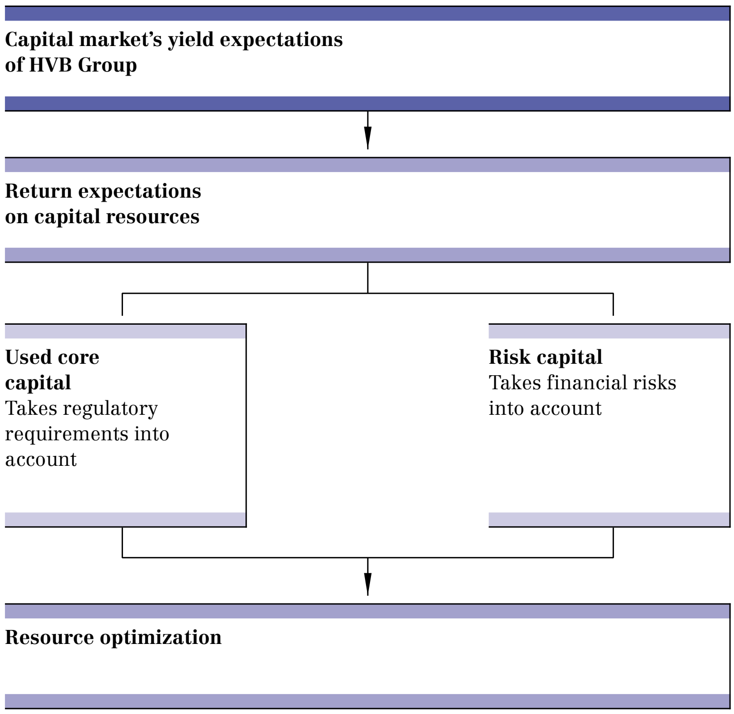
The business segments and business units are required to have core capital backing equal to 7 percent of risk-weighted assets and 50 percent of the market risks to be covered in accordance with the capital accord published by the Basel Committee on Banking Supervision (BIS). In the Austria and CEE business segment, the foreign units in the CEE business unit comprise an exception to this rule, with the core capital backing allocated to them equal to 10 percent of risk assets. The average used core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. In this context, a rate of interest is applied which, according to our empirical observations, represents the average long-term rate of return of a risk-free asset on the capital market.

Management of regulatory capital adequacy requirements

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

- core capital ratio (ratio of core capital to risk-weighted assets)
- core capital fulfilment ratio (ratio of core capital actually available to minimum regulatory core capital)
- equity capital ratio (ratio of equity capital to risk-weighted assets)
- equity funds ratio (ratio of equity funds to the sum of risk-weighted assets and market risk positions weighted by a factor of 12.5)

More detailed information on these ratios in 2004 is contained in the Financial Review and in the notes to the consolidated financial statements (Note 76) in the present Annual Report.



When planning these four ratios, we take into account the shrinkage and volatility of our equity funds (repayment of capital components, change in revaluation reserves due to market conditions, exchange rate influences, and so on) along with the fluctuations affecting risk-weighted assets and market risk positions.

To determine the appropriate capital funding, we have essentially defined the following process:

- Based on our multi-year plan, we prepare a rolling eight-quarter projection for ongoing forecasting of our capital ratios in accordance with the Basel capital accord.
- Reports on the actual ratios and significant effects on them are submitted every month to the Group Asset & Liability Committee, which decides on appropriate action if the actual ratios deviate significantly from plan.

3 Economic capital adequacy

The future risk capital requirements of the business segments and their business units – broken down by risk type – are determined under the annual planning process in close cooperation between Risk Control and the individual operating units. After approval by the Group Board, the risk capital figures are anchored in the control and reporting instruments. A comparison between the targets and the actual values of risk capital is produced on a quarterly basis and reported to the Chief Risk Officer.

Our risk capital, aggregated on a Group basis (including minority interests), amounts to €8.3 billion after taking into account all risk-reducing portfolio effects. This represents a significant decrease of €1.6 billion compared with the prior year total.

Risk capital after portfolio effects

Confidence level 99.95%

Broken down by risk type	2004 € millions	2004 in %	2003 € millions	2003 in %
Market risk	270	3.2	277	2.8
Credit risk	2,821	33.9	2,718	27.3
Business risk	1,019	12.3	977	9.8
Operational risk	1,206	14.5	1,364	13.7
Risks arising from the Bank's own real estate portfolio	353	4.2	284	2.9
Risks arising from the Bank's shareholdings/financial investments	2,648	31.9	4,321	43.5
Total	**8,317**	**100.0**	**9,941**	**100.0**
Capital cushion to cover risks	**18,012**		**17,247**	
Utilization	**46.2**		**57.6**	

Broken down by business segment	2004 € millions	2004 in %	2003 € millions	2003 in %
Germany	2,330	28.0	2,249	22.6
Austria and CEE	2,164	26.0	1,939	19.5
Corporates & Markets	1,320	15.9	1,521	15.3
Real Estate workout	2	0.0	5	0.1
Other (shareholdings/financial investments not allocated to the business segments)	2,501	30.1	4,227	42.5
Total	**8,317**	**100.0**	**9,941**	**100.0**

This reduction is solely attributed to the risk capital in our shareholdings/financial investments, due to the sale of all of our shares in Allianz AG and the reduction of our stake in Munich Re, which amounted to €1.7 billion. This change is shown in the business segment 'Other.' As a consequence, the share of investment risk in the overall risk capital declined significantly, to about 32%.

In an analysis of our ability to support risk, we measure the Group's risk capital against the capital cushion available to us to cover risk on a quarterly basis. In our multi-year budgeting process, this sustainability analysis is also carried out with a three-year forecasting horizon.

We revised the internal definition of the capital cushion used within the Bank during the year under review. As a result of increasing external demands, the definition is now more conservative and transparent, and consists of IFRS capital components, participatory certificate and hybrid capital, reserves, and both the planned and actual results. Minority interests are included and goodwill is deducted. Following these changes in the relative composition of the capital cushion, it amounted to €18.0 billion at the end of 2004 (comparable prior-year figure: €17.2 billion). With an aggregate risk capital of €8.3 billion, this represents a utilization of 46% of the cushion.

Risk types in detail

1 Credit risk

Risk management

Credit risk is defined as potential losses arising from a customer default or downgraded credit rating. We distinguish here between the risk categories of loan default risk, counterparty risk, issuer risk, and country risk.

– Loan default risk is defined as the potential losses arising from commercial lending operations. It is taken into account when creating loan-loss provisions.

– Counterparty risk is defined as the potential losses arising from the default or deterioration of credit ratings of counterparties with whom we have engaged in OTC derivatives transactions involving interest rates, foreign currencies, equities/indexes, or other futures or derivative transactions. It can be broken down into settlement and replacement risk. For the Bank there is a settlement risk whenever payments are exchanged and, when processing the transaction, we make advance payments without being certain at the time of the payment that the counterparty will make the corresponding payment. The replacement risk is defined as the risk that the Bank must replace a transaction at less favorable market conditions following a default by the counterparty.

– Issuer risk reflects the risk from an issuer's default or downgraded credit rating. It arises in connection with the purchase of securities for own account securities issuance and placement transactions, and credit derivatives.

– Country risk is defined as potential losses arising from transfer/conversion restrictions, bans, or other sovereign measures imposed by the borrower's country (transfer risk). Country risk arises in cross-border transactions in foreign currencies. The loan default risk of central governments and central banks is also taken into account (sovereign risk). This includes all positions from lending and trading activities, including internal transactions within the corporate group and the issuer risk associated with tradable fixed-interest securities.

Credit risk is managed on the basis of an integrated concept of clearly defined policies, approval authority structures and risk assessment processes.

With reference to credit risk, all HVB Group units that are involved in credit business must take organizational steps to segregate business origination functions ("front office") and credit risk management functions ("back office") at all levels by way of fully independent reporting lines. The back-office functions are grouped together under the Chief Risk Officer. In addition, centrally positioned senior risk managers are involved in the decision-making process in all business segments for exposures in excess of a certain amount. They bear risk responsibility for their assigned portfolios and manage the sectors in accordance with the portfolio strategies adopted by the Strategic Group Credit Committee.

The credit equivalents (exposure values) of a given treasury transaction serve as a basis for the credit decision within the framework of the credit process, and are examined in conjunction with the exposure values from commercial lending operations. This applies both to individual credit decisions and to the management of concentration risk at Group level.

Country risk is managed on the basis of value-at-risk and volumes. For this purpose, a Groupwide strategy is established annually and compared over the course of the year with the actual situation.

Emphasis in 2004:

– Adjustments to the organizational structure were made at the start of 2004 in connection with real estate finance as a result of the spin-off of the mortgage banking subsidiaries to Hypo Real Estate Holding AG at the end of 2003. The sales activities of the parts of the Real Estate segment remaining with us were integrated into the Germany segment. The credit risk management functions were placed under the Chief Risk Officer.

– The first measures were implemented by the Active Credit Portfolio Management division. This unit will be responsible for the active management of subportfolios capable of tapping the capital markets, and will buy and sell credit risks through capital markets on behalf of other divisions. For instance, hedge strategies are implemented to reduce concentration risks by entering into credit default swaps or through securitization.

Measurement methods

We use differentiated risk measurement instruments to assess our loan default risk:

– Rating analysis

It is vitally important for us to reliably assess the default probabilities of our customers in the interest of credit decisions, pricing, regulatory capital coverage under Basel II (under the IRB approach), and for our internal credit risk model. For this reason we place particular emphasis on the ongoing development and fine-tuning of our internal credit analysis instruments.

HVB Group has a wide range of rating and scoring processes tailored to the needs of the various business segments and customer groups. We continually optimize these systems, applying modern statistical processes, in order to ensure the best possible selectivity and forecasting accuracy with regard to the default probability of a loan.

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

The rating and scoring processes are subject to continual monitoring. They are validated at regular intervals and recalibrated or fundamentally revised as required.

– Internal credit risk model

To measure credit risk, we employ an internal credit risk model to quantify and assess our loan default and counterparty risks on a Groupwide basis. The advantage of this internally devised model is that its methodology and parameters perfectly match our portfolio and that it can be updated at any time to take account of new knowledge. Country risk is also assessed using a portfolio model.

– Expected loss

For purposes of credit risk measurement, we distinguish between the expected loss and the unexpected loss (expressed as credit value-at-risk). The expected loss reflects the default losses expected from the current loan portfolio over the next twelve months, taking into account the assigned ratings and the collateral on hand.

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

A credit equivalent is computed as a calculation basis for OTC derivatives (counterparty risk): the so-called expected exposure. The credit equivalent is equal to the current fair value of a transaction increased by the amount of the so-called add-on, a premium for potential future market movements. The counterparty exposure calculated in this way takes into account both risk-reducing netting agreements and dynamic collateral contracts that oblige the counterparty to provide collateral on a daily basis to match the fair value of current transactions.

The parameters assumed for measuring the exposure at default and the loss given default are based on long-term statistical averages derived from internal defaults and losses, and from external reference parameters.

– Credit value-at-risk

The credit value-at-risk (unexpected loss) provides information about the maximum negative deviation of the possible loss from the expected loss (99.95% probability) within one year. This potential loss is backed by risk capital as a safety cushion, taking portfolio effects into account.

– Scenario analysis
The credit value-at-risk is calculated under the assumption of normal conditions. Scenario analysis helps us to simulate the effects of future macroeconomic trends or exogenous shocks and quantify their impact on the potential losses in the credit portfolio of HVB Group. The analysis includes multi-year forecasts of interest rate trends, economic growth, or unemployment, but also such events as extreme changes in the price of oil or political crises. The results of these scenario evaluations are also used to manage and limit loan default and country risk.

– Risk-based and market-oriented pricing
To optimize the loan portfolio and hence enhance the profitability of our lending business, we apply a pricing methodology with an orientation toward the risk-reward ratio. The credit margin takes into account the internal rating, collateral coverage, loss ratios, internal costs, maturity, existing country risks, and the contribution of the loan to the diversification of the HVB portfolio. This methodology ensures coverage of the processing and risk costs (for expected and unexpected losses) while reducing to a minimum any future price changes resulting from Basel II. To ensure consistency with capital markets, we carry out regular benchmarking of our lending margins against market prices.

– Implementation of Basel II
A core element of the new Basel Capital Accord in the area of loan default risk is a stronger differentiation of risk for regulatory capital requirements for loans according to customers' rating classes and the collateral structure of the transactions. This applies in particular to the most sophisticated approach, the so-called IRB Advanced Approach, which we intend to implement.

In the year under review we were able to largely complete the functional expansion of the productive rating and collateral management systems in our Basel II implementation project. In addition, we substantially expanded our central system architecture. This applies both to our Groupwide database, which enables us to perform "Basel II-compliant" assessments of internal risk parameters, and to the expansion of our algorithms to include IRB approaches. Today we are already producing our first regulatory reports – in compliance with the current legal situation – using our new Basel II system. Next year we will also be able to measure risk-weighted assets in compliance with Basel II on this basis in a system environment secured for production operations.

Thus Basel II is moving the regulatory viewpoint toward the economic viewpoint of risk-adjusted management, which is already established as an approach within our Bank through our internal instruments.

– Measuring country risk
At HVB Group, we measure country risk mainly by using short-term and medium-term country ratings. The country ratings consist of two components: empirically calculated statistical models permit the determination of default probabilities and loss ratios on the basis of macroeconomic factors. Moreover, the assessment of political considerations and other soft facts is a crucial factor for the final rating of states as assigned by HVB Group's independent Economic Research division. Along with the probability of default and the loss ratio, the measurement of country risk takes the structure of transactions into account.

A portfolio model building on this information is used to calculate the value-at-risk stemming from country risks for HVB Group every month. Due to the small number of countries, country portfolios tend by their nature to be rather undiversified. For this reason an accurate reflection of the portfolio and diversification effects among countries, regions and loan default risks (exceeding the Basel II standards) is an integral part of our portfolio model. The use of internal portfolio models thus enables us even today to achieve important management effects anticipated through the Basel II requirements.

Risk monitoring

Risk monitoring takes place at two different levels:
– at the level of individual exposures,
– 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 by the Group.

At the corporate level, loan default risk concentrations with subsidiaries are limited by credit ratings together with a uniform methodology for all industries and subsidiaries.

In addition, all credit risks are 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. Concentrations are measured on the basis of internal risk models, using stress tests.

We employ limit systems as a key element of our management and control of counterparty and issuer risk to prevent the unintended and uncontrolled increase of our risk positions. These systems are available online at all key HVB Group facilities engaged in trading activities, except for the Bank Austria Creditanstalt Group, where limits are still monitored using separate systems. Each new trade is immediately entered and applied to the corresponding limit. For counterparty risk, this applies to both replacement risk and settlement risk. For the latter, the risk for the future value date is limited and monitored right from the time the Bank enters into the transaction, so that a concentration of payments on a single value date is prevented beforehand. This enables each trader to check current limit utilization and lets the risk controller perform direct limit monitoring for each counterparty or issuer.

Country risk is managed on the basis of the measurement methods described above with the aid of regional value-at-risk limits. Transactions with high levels of country risk are given a higher weighting for inclusion in regional risk limits than transactions with low levels. In taking this approach, we are striving to limit country risk while implementing risk-oriented portfolio management and exposure management based on transaction potential. In addition, country risk management works with volume limits for each country, broken down by product risk group.

Another instrument for risk monitoring is internal reporting. In accordance with the Minimum Requirements for the Credit Business of Credit Institutions (MaK), the Management Board and Supervisory Board must receive a report on the credit portfolio on a quarterly basis. Additional risk reports are produced between these MaK reporting dates for internal purposes.

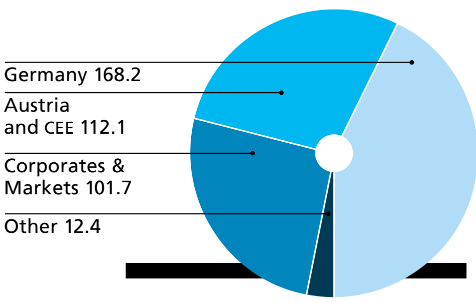
Emphasis in 2004:
- In the course of a project aimed at optimizing processes in the operational back-office organization of the Germany segment, we made additional improvements to the risk-oriented decision-making process through refinements in the scoring and rating processes for retail and business customers, and established comprehensive management reporting for the lending business of the Germany segment.
- In view of gathering and expanding the credit data relevant to Section 18 of the German Banking Act, we made additional improvements to our document management system during the year under review.

Quantification and specification

The workout portfolios from the entire German real estate finance business of the parent bank are being transferred to the new Real Estate Restructuring segment together with the remaining portfolios of the Real Estate Workout segment. This segment will include a volume of €15.4 billion. The aim is to completely eliminate the portfolios allocated to this segment without disrupting the market, by exploiting various options and the opportunities arising from the development of the real estate markets.

Breakdown of loan default exposure and counterparty exposure by business segment

2004 – € billions



To facilitate the rapid reduction of these portfolios, it is necessary to change the valuation method for the real estate collaterals associated with these portfolios. In contrast to the previous approach, which in many instances aimed to restructure the individual commitments – sometimes over the long run – before returning them to regular treatment, the valuation is now made at liquidation value.

As a consequence, an allocation to special provisions for bad debts totaling amounting to €2.5 billion was necessary.

Breakdown of loan default exposure and counterparty exposure by industry sector

Industry sector	2004 € billions
Banks and insurers	89.0
Retail customers	84.4
Construction	59.6
Food, consumer goods, services	46.8
Public authorities	32.9
Utilities	13.8
Chemicals, health, pharmaceuticals	13.4
Transportation	10.8
Mechanical engineering, steel	9.5
Other	8.7
Electrical, IT, Communications	7.6
Vehicles	7.6
Media, printing, paper	6.4
Mineral oil	3.9
Total	**394.4**

Breakdown of loan default exposure and counterparty exposure by region

Region	2004 € billions
Germany	199.2
Austria	76.1
Central and Eastern Europe	28.6
Rest of Europe	57,1
North America	16,2
Asia	3.7
Japan	2.4
Other	11.1
Total	**394.4**

Loan default exposure and counterparty exposure by rating class

Rating	2004, € billions
Free of credit risk	16.7
Not rated	20.7
Rating 1 – 4	209.2
Rating 5 – 8	123.7
Rating 9 – 10	24.1
Total	**394.4**

Risk cover[1] for rating classes 9 and 10 by business segment

Business segment	2004 in %
Germany	54.8
Austria and CEE	66.8
Corporates & Markets	44.0

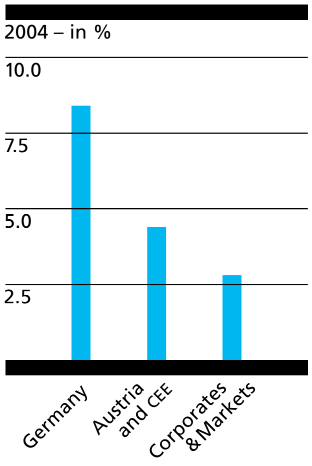
[1] total loan-loss provisions and allowances for losses on guarantees and indemnities as a proportion of loan default and counterparty exposure. The newly formed special provision for bad debts is included

Breakdown of expected loss, and of loan default risk and counterparty risk (value-at-risk) by business segment

Business segment	Expected loss 2004 in %	Value-at-risk 2004 in %
Germany	56.7	46.4
Austria and CEE	27.3	32.4
Corporates & Markets	13.7	18.2
Other	2.3	3.0
Total	**100**	**100**

Our total loan-loss allowances, including allowances for losses on guarantees and indemnities, increased by €1.9 billion to €13.8 billion in 2004, taking into account write-offs taken on the lending portfolio of €2.7 billion. This total includes the special provisions for bad debts of €2.5 billion for the Real Estate Restructuring segment.

Share of rating classes 9 and 10 in loan default exposure and counterparty exposure by business segment



Issuer risk by rating class[1]

Rating	2004, € billions
Free of credit risk	15.3
Not rated	3.8
Rating 1 – 4	43.3
Rating 5 – 8	0.9
Rating 9 – 10	< 0.1
Total	**63.3**

[1] use

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

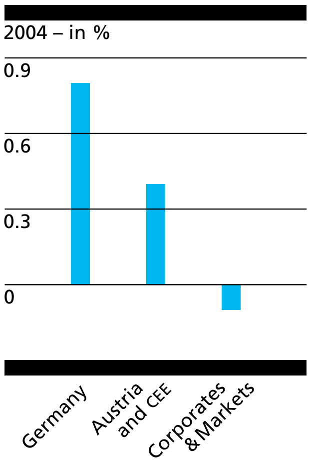
At year-end 2004, the total nominal amount of worldwide derivative transactions of HVB Group totaled approximately €2,545 billion. Of this total, €2,055.6 billion (80.8%) relates to interest rate derivatives, €296.1 billion (11.6%) to foreign exchange derivatives, €139.3 billion (5.5%) to equity/index derivatives, €53.4 billion (2.1%) to credit derivatives, and €0.4 billion to other derivatives (precious metal derivatives, commodity derivatives, and weather derivatives).

However, the nominal amounts do not reflect the potential risk inherent in derivative transactions, whereas the positive fair values are relevant for purposes of default risk as replacement values for the OTC derivatives. They 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) at year-end 2004 totaled €48.1 billion (December 31, 2003: €47.1 billion). Taking into account the risk-reducing effects of existing, legally enforceable bilateral netting agreements totaling €39.3 billion (December 31, 2003: €37.9 billion) and of the provision of collateral provided by borrowers totaling €2.8 billion (December 31, 2003: €2.6 billion), the remaining economic counterparty risk amounted to €6.0 billion (December 31, 2003: €6.6 billion).

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

Provisioning rate* by business segment



* loan-loss provisions (net additions) as a proportion of loan default and counterparty exposure

Derivatives transactions

€ millions	Nominal amount					Fair value			
	Remaining maturity			Total	Total	Positive		Negative	
	less than 1 year	1–5 years	more than 5 years	2004	2003	2004	2003	2004	2003
Interest rate derivatives	**997,044**	**662,771**	**395,806**	**2,055,621**	**2,717,337**	**36,698**	**32,658**	**37,399**	**35,050**
OTC products									
Forward rate agreements	125,778	16,392	—	142,170	283,115	70	96	72	93
Single-currency swaps	664,826	562,403	361,188	1,588,417	2,053,280	34,600	31,076	35,083	33,226
Interest rate options									
– purchased	22,851	34,531	16,522	73,904	74,889	2,017	1,482	—	—
– written	23,984	33,152	17,519	74,655	82,503	—	—	2,242	1,730
Other interest rate derivatives	49	775	577	1,401	4,025	11	4	2	1
Exchange-traded products									
Interest rate futures	46,391	15,518	—	61,909	70,896	—	—	—	—
Interest rate options	113,165	—	—	113,165	148,629	—	—	—	—
Foreign exchange derivatives	**241,032**	**40,156**	**14,921**	**296,109**	**349,067**	**7,835**	**9,669**	**9,851**	**11,108**
OTC products									
Foreign exchange forwards	178,413	12,389	69	190,871	186,901	5,656	7,004	6,444	7,059
Cross-currency swaps	12,578	26,647	14,760	53,985	42,982	1,624	1,178	2,831	2,845
Foreign exchange options									
– purchased	24,475	530	46	25,051	54,601	555	1,487	—	—
– written	25,566	590	46	26,202	64,583	—	—	576	1,204
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	—	—	—	—	—	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Equity/index derivatives	**51,367**	**77,022**	**10,952**	**139,341**	**122,663**	**3,263**	**4,491**	**3,113**	**4,417**
OTC products									
Equity/index swaps	—	—	—	—	—	—	—	—	—
Equity/index options									
– purchased	10,685	27,303	1,972	39,960	48,405	3,235	4,397	—	—
– written	21,501	33,611	5,610	60,722	47,110	—	—	3,092	4,411
Other equity/index derivatives	1,478	1,536	1,307	4,321	4,515	28	94	21	6
Exchange-traded products									
Equity/index futures	4 493	1	—	4,494	3,197	—	—	—	—
Equity/index options	13,210	14,571	2,063	29,844	19,436	—	—	—	—
Credit derivatives[1]	**13,056**	**26,253**	**14,044**	**53,353**	**42,819**	**411**	**341**	**1,206**	**808**
Other transactions	**118**	**234**	**3**	**355**	**17**	**15**	**1**	**13**	**1**
Total	**1,302,617**	**806,436**	**435,726**	**2,544,779**	**3,231,903**	**48,222**	**47,160**	**51,582**	**51,384**
Counterparty risk (after netting and collateral received, excluding add-on)						**6,031**	**6,617**		

[1] the presentation in the 2003 Annual Report focused on counterparty risk; the fair values of credit-linked notes were accordingly not shown. For details of credit derivatives, please see the relevant table below

Derivatives transactions by counterparty type

€ millions	Fair value			
	Positive		Negative	
	2004	2003	2004	2003
OECD central governments (and central banks)	199	243	174	275
OECD banks	42,062	41,455	44,965	44,128
OECD financial institutions	3,365	3,052	4,284	4,066
Non-OECD central governments (and central banks)	1	6	8	11
Non-OECD banks	138	145	131	116
Non-OECD financial institutions	60	72	7	336
Other companies and private individuals	2,397	2,187	2,013	2,452
Total	**48,222**	**47,160**	**51,582**	**51,384**

Credit derivatives

€ millions	Nominal amount					Fair value			
	Remaining maturity			Total	Total	Positive		Negative	
	less than 1 year	1–5 years	more than 5 years	2004	2003	2004	2003	2004	2003
Banking book	**349**	**1,664**	**11,471**	**13,484**	**14,002**	**9**	**21**	**427**	**253**
Protection buyer									
Credit default swaps	294	964	8,625	9,883	11,444	8	15	13	6
Total return swaps	—	—	2,000	2,000	2,000	—	—	240	93
Credit-linked notes	28	58	88	174	154	—	—	172	154
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	27	642	758	1,427	398	1	—	2	—
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	6	—	6	—	—
Other	—	—	—	—	—	—	—	—	—
Trading book	**12,707**	**24,589**	**2,573**	**39,869**	**28,817**	**402**	**320**	**779**	**555**
Protection buyer									
Credit default swaps	2,086	13,877	1,149	17,112	11,469	6	34	175	161
Total return swaps	4,408	26	199	4,633	3,981	116	2	5	76
Credit-linked notes	—	467	10	477	299	—	—	478	299
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	2,261	10,093	909	13,263	9,679	180	167	6	15
Total return swaps	3,952	116	221	4,289	3,348	2	76	115	4
Credit-linked notes	—	10	85	95	41	98	41	—	—
Other	—	—	—	—	—	—	—	—	—
Total	**13,056**	**26,253**	**14,044**	**53,353**	**42,819**	**411**	**341**	**1,206**	**808**

Credit derivatives by reference asset

€ millions	Nominal amount					
	Credit default swaps	Total return swaps	Credit-linked notes	Other	Total 2004	Total 2003
Public-sector bonds	1,480	101	45	—	1,626	1,482
Corporate bonds	30,378	9,721	406	—	40,505	28,826
Equities	—	—	—	—	—	—
Other assets	9,827	1,100	295	—	11,222	12,511
Total	**41,685**	**10,922**	**746**	**—**	**53,353**	**42,819**

Country risk year-on-year
In the year under review, the exposures entailing country risk increased by €19 billion. A major share of this amount (€14 billion) can be attributed to an increase in business (particularly trading business) in risk-free, highly developed countries in western Europe and Asia.

In view of EU enlargement and the associated economic upswing, flanked by decreasing country risk in eastern Europe, HVB has continued with the consistent implementation of its strategy of concentrating on core markets in Central and Eastern Europe. Our exposure in eastern Europe increased by €4 billion as a result.

The favorable structure of the country risk portfolio was virtually unchanged compared with the previous year. Of the exposures entailing country risk, 95 percent are from countries rated investment grade. A majority of these (66 percent) are accounted for by highly developed countries with no transfer risk.

Country exposure[1] and country value-at-risk by rating class

Rating	Exposure € millions	Share of exposure in %	Value-at-risk € millions	Share of value-at-risk in %
Rating 1 – 4	85,398	96.4	67	58.3
Rating 5 – 8	3,170	3.5	39	33.9
Rating 9	70	0.1	9	7.8
Total	**88,638**	**100.0**	**115**	**100.0**

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

Country exposure[1] by region and product category

Region	Lending		Trading		Issuer risk		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Africa	502	627	48	130	33	39	583	796
Asia/Pacific	3,952	2,953	9,180	5,032	822	589	13,954	8,574
South and Central America	3,136	4,041	2,527	1,735	1,514	1,895	7,177	7,671
North America	5,076	5,402	5,555	5,090	2,580	1,904	13,211	12,396
Western Europe	11,731	10,472	26,517	18,884	2,087	1,554	40,335	30,910
Eastern Europe	8,284	6,418	3,840	2,030	1,254	919	13,378	9,367
Total	**32,681**	**29,913**	**47,667**	**32,901**	**8,290**	**6,900**	**88,638**	**69,714**

Top ten countries by exposure[1]

(across all rating classes)

Country	Exposure	Share of exposure	Value-at-risk
	€ millions	in %	€ millions
UK	31,094	35.1	0.0
USA	10,290	11.6	0.0
Japan	5,545	6.3	0.0
Switzerland	5,341	6.0	0.0
Cayman Islands, on-shore	4,202	4.7	5.0
Singapore	2,469	2.8	2.5
Poland	2,149	2.4	5.4
Canada	1,891	2.1	0.0
Czech Republic	1,640	1.9	4.1
Denmark	1,609	1.8	0.0
Total	**66,230**	**74.7**	**17.0**

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

2 Market risk

Risk management

Market risk is defined as the potential loss arising from an adverse change in the financial market prices of our positions in the trading or banking book. Market risk comprises the risk categories interest rate, foreign exchange, equity, and credit-spread risk.

Our market risks are managed in the Corporates & Markets segment and in the various treasury units or asset/liability units of our subsidiaries.

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. To determine and allocate the risk capital requirements for market risks, this value-at-risk, like other risk types, is scaled to a confidence level of 99.95% and a holding period of one year, taking portfolio effects (diversification) into account.

To calculate the value-at-risk we use an internal model based on a Monte Carlo simulation approach for the interest rate risk and credit spread risk of the parent bank, which has been approved by the regulatory authorities. We check the appropriateness of the methods used to measure market risk by means of periodic back-testing that compares the value-at-risk calculations with the market value changes derived from the positions. The results of this back-testing confirm the high quality of our internal risk model.

As a further risk approach, the risks associated with foreign exchange and equity products as well as some of the interest rate risks in the banking book in the parent bank are calculated statistically on the basis of various conservative assumptions (such as considering currencies separately while disregarding risk-reducing correlation effects). During the first half of 2005, we will make a gradual transition from this current method for measuring risks associated with foreign exchange and equity products in the parent bank to the Monte Carlo simulation approach of the internal model. At the same time, we will integrate into the internal model the interest rate risks in the banking book not yet covered by it.

In addition, other appropriate methods are applied within the corporate group, such as a variance-covariance approach. In the Bank Austria Creditanstalt subgroup, we previously applied an internal model based on a variance-covariance approach to measure risks associated with equities, interest rates, and foreign exchange. This model was extended in 2004 to include a simulation approach that also covers the measurement of credit spread risks. In 2005 we plan to make a transition with our regulatory reporting to the simulation model, thus replacing the standard method for measuring the specific interest rate risk with an internal model.

In addition to calculating the value-at risk, we continually conduct stress tests across the entire corporate group to determine the potential losses in our market risk positions resulting from extreme market movements and worst-case scenarios. The scenarios we examine range from simple interest rate shocks and the default of major market players to a collapse of all correlations.

Risk monitoring

The risk positions in the trading and banking books are monitored using a uniform, hierarchical limit system that restricts the loss potential from market risk. The risk limits are approved annually by the Group Board and are not permitted to be exceeded.

Whenever limits in subportfolios are exceeded, an escalation process is triggered immediately and the reduction of the positions in question is monitored closely. In 2004 there were no major instances in which limits were exceeded. Market Risk Control has direct access to the front office systems used in trading operations, enabling it to monitor the risk situation and compliance with limits on an intraday basis.

Management is informed daily of the exposure to market risk, limit utilization, and the profits and losses within the corporate group. Information is provided on a monthly basis on the results of the risk analyses, including the results of the back-testing and stress tests.

Quantification and specification

The table below shows the aggregate market risks of our trading positions in HVB Group for last year. Due to the underlying conservative assumptions, the value-at-risk figures, which are not computed using the internal model, actually represent a very cautious estimate of our market risk.

Market risk from trading positions

Value-at-risk, 99% confidence level, one-day holding period

€ millions	Average 2004[1]	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003
Interest rate positions (incl. credit-spread risks)	21	13	26	25	21	17
Foreign exchange positions	30	25	37	33	25	17
Equity/index positions	64	74	59	66	55	60
Total	**115**	**112**	**122**	**124**	**101**	**94**

[1] arithmetic mean

With the further expansion of the internal model, the value-at-risk figures will therefore decrease again significantly in the future.

At year-end, the banking book contained market risks of €38 million (2003: €50 million; one-day holding period), of which €27 million stemmed from asset-side and liability-side fixed interest guarantees.

3 Liquidity risk

Risk management

We distinguish three categories of liquidity risk:

– Short-term liquidity risk (narrowly defined liquidity risk) represents the risk that the Bank will not be able to meet its payment obligations in full or in time.
– Funding risk represents the risk that additional refinancing funds will be available only at higher market interest rates.
– Market liquidity risk represents the risk that the Bank will be able to liquidate assets on the market only at a discount.

The rules and principles of liquidity management are specified in a Group Liquidity Policy adopted by the Group Board, and are implemented by the operational business units. Implementation – for short-term liquidity risk and funding risk – is coordinated and tracked by the Group Asset Liability Management division.

Market liquidity risk is managed by the people responsible for the various trading portfolios as they perform their defined market-related tasks. As a result, it is included in the measurement of market risk, so that reference should be made to the measurement and monitoring risks listed for market risk.

Measurement methods

To measure short-term liquidity risk, daily cash flow reports are produced and offset against the available liquidity reserves, which consist primarily of the available highly liquid securities. These two components are used as the basis for determining cumulative limits for the most important Group units ranging from the next banking day up to one month.

Furthermore, stress scenarios based on the liquidity profiles of the Group units are simulated, and the limits are adjusted accordingly as required. In addition to this internal measurement methodology, we are subject to the regulatory standards defined in the Liquidity Principle II.

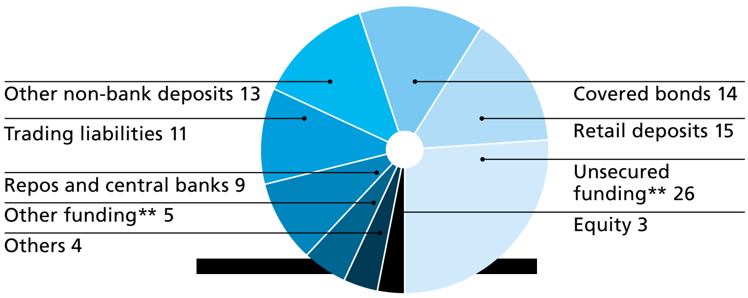
To measure funding risk, long-term funding needs are determined through a coordinated process on the basis of expected business trends and are updated regularly. The annual funding targets derived from this process ensure a balanced maturity structure of assets and liabilities within defined maturity buckets.

Risk monitoring

The Groupwide monitoring of our liquidity situation has been entrusted to our Group Asset Liability Management unit. It essentially comprises the analysis, classification, and management of cash flow gaps across all maturities. This enables us to identify liquidity risks early and limit mismatches through limits and funding targets. Compliance with the allocated limits is monitored on a daily basis. We keep appropriate liquidity reserves on hand for defined stress situations. The target volumes and instruments derived from the funding targets are implemented in consultation with Group Treasury Management.

Liability diversification of HVB Group*

in %



* total assets of €467 billion; covered bonds and unsecured funding as per tables below

** including deposits from non-consolidated subsidiaries and special funding (e.g. KfW)

The local treasury units are responsible for observing developments in the various local markets. These units submit regular reports to the Group Asset Liability Management division.

The Group Asset Liability Committee and the Group Board are kept regularly informed about the current liquidity and funding situation. A contingency plan is in place to deal with liquidity bottlenecks. It describes the distribution of responsibilities, internal reporting requirements, decision-making powers, and potential countermeasures.

Quantification and specification
Conditions on the money markets and capital markets improved continually during the year under review. Risk premiums for refinancing costs declined appreciably compared with 2003.

Within the framework of our limit system, which operates under conservative assumptions, we showed an overall positive balance of short-term liquidity risk for the corporate group of €12.9 billion for the next banking day at the end of December 2004. The portfolio of highly liquid securities eligible as collateral for central bank borrowings and available at short notice to compensate for unexpected outflows of liquidity amounted to €14.9 billion at year-end.

Breakdown of secured bonds

	2004 € billions
Mortgage Pfandbriefs	25.2
Jumbo mortgage Pfandbriefs	24.2
Public Pfandbriefs	11.5
Public Jumbos	4.1
Total	**65.0**

Breakdown of unsecured funding

	2004 € billions
Promissory notes	22.5
Bank deposits	38.3
Certificates of deposit and commercial papers	6.5
Other liabilities evidenced by paper (capital market)	18.5
Subordinated liabilities (capital market)	35.1
Total	**120.9**

The requirements of the regulatory Liquidity Principle II were met at all times by the relevant Group units during the year under review. In 2004 the funds available to the parent bank exceeded its payment obligations for the following month by an average of €18 billion.

The funding risk of HVB Group is quite low due to our broad funding base with regard to products, markets and investor groups. This enables us to obtain adequate funding for our lending operations even during difficult market phases. HVB Group refinanced a volume of €14.8 billion on the capital market during 2004. With their high credit quality and liquidity, our Pfandbrief mortgage bonds still remain one of the most important funding instruments.

4 Operational risk

Risk management
We define operational risk as the risk of losses resulting from inadequate or failed internal processes, human errors, technological breakdowns, or external events.

The identification, analysis and management of operational risk are the responsibility of the individual business segments or that of our central and service divisions. The activities are guided by a tool-based operational risk management process defined internally within the Bank. It was launched in pilot projects at selected divisions of the parent bank in 2004 and at a number of subsidiaries. Groupwide implementation will take place in 2005. These will take into account the requirements of Basel II, in particular the Basel Committee's "Sound Practices for the Management and Supervision of Operational Risk."

The operational risk managers in the various units are responsible for the operational implementation of the process, which involves in particular the collection, verification, and quality assurance of risk data and the planning of appropriate measures.

Our Group Legal Department is responsible for managing legal risk. Within the framework of its corporate center function, it monitors compliance by the HVB Group companies with the applicable statutory regulations and the recognized principles of case law. For Group companies with their own legal departments, it performs this function in close cooperation with these departments.

Measurement methods
We employ the loss distribution approach to quantify operational risk. Our quantification model for this purpose uses internal and external data to determine the loss distributions.

We use an operational risk loss database, launched on a Groupwide basis in 2003, to collect the internal loss data of our model. A Monte Carlo simulation is used to calculate the value-at-risk figures, taking into account risk-reducing measures such as insurance.

The monitoring and process quality of the individual units, which is identified as part of an annual control self-assessment, is also incorporated in the calculation as a current quality score. The risk values for the subsidiaries are derived from the operational risk measured in this way for the parent bank.

When determining capital adequacy in HVB Group for regulatory purposes within the Basel II framework, we will implement at least the Standardized Approach with all related requirements. At the same time, in order to establish a basis for enhancing our loss distribution approach to meet the criteria of the Advanced Measurement Approach as recognized by the regulatory authorities, we will continually examine and implement methodological improvements to our model.

Risk monitoring
As part of regular reporting, the Chief Risk Officer and the Group Board are kept informed by Risk Control on the development of the primary operational risks identified and the volume of loss events. This provides the basis for any measures deemed necessary.

An indicator-based early warning system will be implemented for monitoring important risks during 2005.

Quantification and specification
The risk capital for operational risks of HVB Group amounted to €1.2 billion at the end of 2004.

The following measures were the most important steps taken during the year to minimize operational risk and avoid possible losses for HVB Group:

Business segments and service divisions:
- The collection of information on loan losses from operational risk, as required under Basel II, was started. This information will be used in the future to derive measures to optimize credit processes.
- In the Corporates & Markets segment, the new product process was re-engineered to reflect market requirements and the increased complexity of products.
- Operational risk was substantially reduced at Financial Markets Service Bank by consolidating and optimizing securities back-office systems.
- Within the Bank Austria Creditanstalt Group, work began on establishing a newly structured security organization for data security and personal security with a Security Management Board and a Group Security Office.

Handling crisis situations:
- The crisis and emergency management organization of HVB Group demonstrated its ability to perform through its appropriate and effective responses to real situations and drills.
- Within the scope of crisis management, the Germany segment investigated 15 of the most vital IT applications from a process standpoint for potential system optimization measures.

IT risks:
- The drastically increased threat from software viruses was successfully addressed by protecting Internet access and individual computers.
- We were able to minimize risks in Internet banking by means of an intensive information policy and customer education, and with the aid of the technological security level achieved in recent years.
- Risks arising from IT projects are analyzed on the basis of a specific project risk process.

Legal risks:

– If customers cancel their property loan agreements under the Doorstep Transactions Act, this will have no negative legal impact on the parent bank, since the borrower is still obliged to repay the principal according to final court rulings. From today's standpoint, this situation is not affected by the pending queries submitted by the Bochum District Court and the Bremen Regional Appeals Court to the European Court of Justice. The Bank's claim to repayment remains in effect even if the borrower issued an invalid proxy to a third party and the Bank relied on the validity of the proxy. From the standpoint of the parent bank, the decisions of the Second Civil Court of Appeal of the German Federal Supreme Court pertaining to the financing of purchases of shares in real estate funds by the borrower also result in no change in the assessment of the legal situation when third parties arrange loans for real estate purchases. In other decisions on loans taken out to purchase shares in real estate funds and not secured by real property liens, the Second Civil Court of Appeal of the German Federal Supreme Court ruled that the bank has no claim against the borrower to repayment of the loan if it utilized the sales organization 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 when the borrower has the right to cancel the transaction. The ruling also stated that the borrower in each individual case would have to demonstrate that these prerequisites were met. From today's standpoint, we assume that these circumstances will apply, if at all, only in exceptional cases.

– In a ruling in November 2002, the German Supreme Court nullified the resolutions of the parent bank's Annual General Meeting concerning the appointment of the auditor of the 1999 financial statements on grounds of bias. This ruling prompted shareholders of the parent bank to initiate a court challenge to the validity of the Bank's financial statements for 1999 – 2002. The suit was dismissed at all levels of appeal. We also believe that extraordinary legal remedies will meet with no success in this case. Our view that concerns relating to partiality in the appointment of the auditor in 1999 do not call into question the validity of the financial statements for 1999 – 2002 is supported by expert reports prepared by leading legal researchers and practitioners.

– Individual shareholders have also filed suits challenging the resolution passed at the Annual General Meeting on May 14, 2003 approving the spin-off to Hypo Real Estate Holding AG of the institutions engaged in commercial real estate activities and amalgamated in DIA Vermögensverwaltungs-GmbH. We believe that these suits are also unfounded. Regardless of the fact that the formal errors claimed by the plaintiffs were not made, we consider the spin-off irreversible.

– In numerous legal challenges and complaints filed with courts, shareholders are calling into question the appointment by a court and the election of the shareholder representatives to the Supervisory Board at the Annual General Meeting of our Bank on April 29, 2004. The Bavarian Supreme Court has already rejected numerous complaints. Consequently, we believe that the legal action demanding the reversal of the appointment, which also disputes the validity of the election of the auditor, will not succeed. The same applies to the motions based on the same consideration, seeking to remove the capital increase carried out in the spring of 2004 from the Company Register.

– In a first appeal, the fines totaling €31 million imposed on the parent bank and Vereins- und Westbank AG by the European Commission in December 2001 for alleged illegal price-fixing of currency exchange fees were lifted in November 2004 in a ruling by the European Court of Justice. Despite the objection pending against this decision, we are confident that it will become final.

– Bank Austria Creditanstalt AG has filed a first appeal with the European Court of Justice challenging the amount and imposition of a €30 million fine imposed for alleged illegal price collusion with other banks on interest rates, prices charged to retail customers for various bank products as well as other terms and conditions. At present, the outcome of these proceedings is uncertain. If the Commission's decision is upheld, the total amount of the fines would not be substantial for our Bank, but could restrict the future earning opportunities of HVB Group. For a number of reasons, we regard the damage claims under consideration by certain Austrian consumer protection groups and politicians against the banks involved in the above-mentioned proceedings, including Bank Austria Creditanstalt AG, to be unfounded.

– In connection with alleged claims stemming from the Nazi era and World War II, a claim for damages has been filed by two private individuals with the United States District Court for the District of Columbia against Bank Austria Creditanstalt AG and HVB AG for a total amount of $40 million. We are convinced that the suits will be dismissed.

– We also assume that a pending lawsuit against Bank Austria (Switzerland) AG, a former subsidiary of Bank Austria Creditanstalt, is unfounded. The suit claims damages of approximately €128 million in connection with alleged claims of the Treuhandanstalt, the predecessor of the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ("BvS").

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 serious deterioration of the market environment, changes in the competitive situation or customer behavior, but may also result from changes in the legal framework.

As part of its cost and income responsibility, each business unit is responsible for the operational management of business risk.

Measurement methods

The risk capital arising from business risk is measured on the basis of a value-at-risk approach. For this purpose, income and cost volatilities are determined at business unit level and, with due consideration given to correlations, a value-at-risk is calculated that represents the possible fluctuations in the company value associated with business risk.

Risk monitoring

Risk capital arising from business risk is calculated and analyzed by the Risk Control division and reported to the Chief Risk Officer.

The Group Controlling division is responsible for tracking interim revenues and costs of the business units as levers of business risk by comparing the actual figures with the budgeted targets. The results form a part of a monthly report to the Management Board.

Quantification and specification

The calculated risk capital for business risks amounted to about €1 billion at year-end 2004.

While continuing with our strict cost management in the year under review, we also focused on boosting our earning power. We pushed ahead with new business initiatives and made further progress in attracting new customers and intensifying the utilization of our products.

The PRO efficiency program launched at the end of 2004 is intended to optimize the structure of HVB Group's cost base in the medium to long term. The program aims to boost the efficiency of our infrastructure, improve processes, and streamline the staff units. Despite the continual review of the project, there may be a risk of delays in the adaptation of the business processes, so that the synergies are achieved later than planned.

In addition, it is still our goal to strengthen our sales activities in order to achieve long-term improvements in our revenues.

6 Risks arising from our 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 the parent bank and its special purpose companies and shareholding companies, as well as the portfolios of the Bank Austria Creditanstalt Group and other subsidiaries.

HVB Immobilien AG is responsible for portfolio management, project development and implementation, property management, and the sale and rental of the properties under its jurisdiction. At our operational subsidiaries – in particular Bank Austria Creditanstalt – the subsidiaries themselves are responsible for managing their real estate holdings.

Measurement methods

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

Risk monitoring

Risk capital for real estate risk is calculated and analyzed by the Risk Control division and reported to the Chief Risk Officer. The analysis focuses mainly on changes in the composition of the real estate portfolio.

At HVB Immobilien AG a risk monitoring system was already introduced in 2003 to systematically identify and measure real estate risks as well as the known external and internal risks associated with the company. A risk inventory was carried out, and additional reporting and inventories will be performed on a regular basis in the future. This will increase risk transparency and, as another important effect, serve to create an even keener awareness of risk.

Quantification and specification

The risk capital relating to our real estate portfolio amounted to €0.35 billion at the end of 2004. Our real estate portfolio is located primarily in Munich and Vienna, with 29% and 25% of the total respectively. In total, a substantial part of our portfolio consists of property which is used by HVB Group itself.

7 Risks arising from our shareholdings and investments

Risk management

We classify changes in the market prices of our portfolio of listed and unlisted shareholdings and financial investments under this risk type. Operational subsidiaries are excluded, as their risks are already separately identified and recorded as part of the other risk types.

The Group Board is responsible for managing our entire portfolio of shareholdings/financial investments (including operational subsidiaries).

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. For listed companies, this is determined on the basis of share price movements. In the case of investments in unlisted companies, we apply the book values as market value estimates as well as the volatilities of industry-specific indexes. To reflect the recent past more adequately in our risk calculations, we perform an exponential weighting when calculating the volatilities, taking the long-term holding period of investments into account.

Risk monitoring

The Risk Control division calculates and analyzes the risk capital for shareholdings and financial investments, and reports it to the Chief Risk Officer.

The task of investment controlling is the responsibility of the Group Finance and Tax division. It uses auditors' reports, annual reports and interim reporting instruments to regularly verify the value of our investments. This ensures that substantial negative changes in value are recognized early, analyzed, and reported to the Chief Financial Officer.

Quantification and concretization

The systematic efforts in 2003 to streamline our non-strategic investment portfolio were continued in 2004 with the further reduction of our financial holdings. In particular, this included the disposal of our stake in Allianz AG and the further reduction of our holding in Münchener Rückversicherungs-Gesellschaft AG. In addition, we disposed of our investment in Brau und Brunnen AG and reduced our shareholding in E.ON AG.

Almost exclusively as a result of our efforts to streamline our portfolio, there was a substantial €1.7 billion decrease in risk capital to €2.6 billion. Our stake in Münchener Rückversicherungs-Gesellschaft AG is our largest financial investment of all. A significant or sustained decline in the price of this Company's shares would have an accordingly negative impact on our revenues.

8 Strategic risk

Risk management

Strategic risk results from management being slow to recognize important trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that may prove to be disadvantageous in terms of the Bank's long-term goals and may be difficult or impossible to reverse.

As a part of corporate management, the management of the strategic risk lies within the area of responsibility of the Group 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 markets while subjecting our own strategic positioning to an ongoing review process.

Risk monitoring

As part of our long-term planning, the Management Board regularly reviews the defined strategy of HVB Group. This ensures that we can respond to changing conditions as required with adjustments to the business model or the business processes. When deriving strategic initiatives of this kind, the Management Board conducts close consultations with the Supervisory Board, in particular with the Risk Committee and the Strategic and Business Development Committee.

Quantification and specification

– Risk from overall economic trends and the business environment

A particular risk that could impede the strategic direction taken by HVB Group stems from the overall economic trend. Despite the accelerated economic growth in our domestic markets in 2004, it remained at a rather moderate level, particularly in Germany. Based on the prospects for 2005, we do not anticipate any substantial change.
In addition, it is not possible to predict the consequences of the continuing strength of the euro against the dollar and the high oil price on the economies of our domestic markets.

The risk factors listed above could individually or cumulatively prevent us from achieving the financial goals we have set.

HVB Group is one of the largest lenders to the German Mittelstand. In addition, our Bank is one of the leading providers of personal and business loans in Germany and Austria as well as Central and Eastern Europe. Against the backdrop of the economic outlook described above, the environment in which we do business remains difficult, particularly in Germany. Sluggish economic growth coupled with high numbers of bankruptcies, faltering real estate markets, and the high level of unemployment were already causing an increase in loan defaults and loan-loss provisions in the past. If the prevailing conditions remain unchanged, we cannot preclude the possibility that loan-loss provisions will remain at a high level.

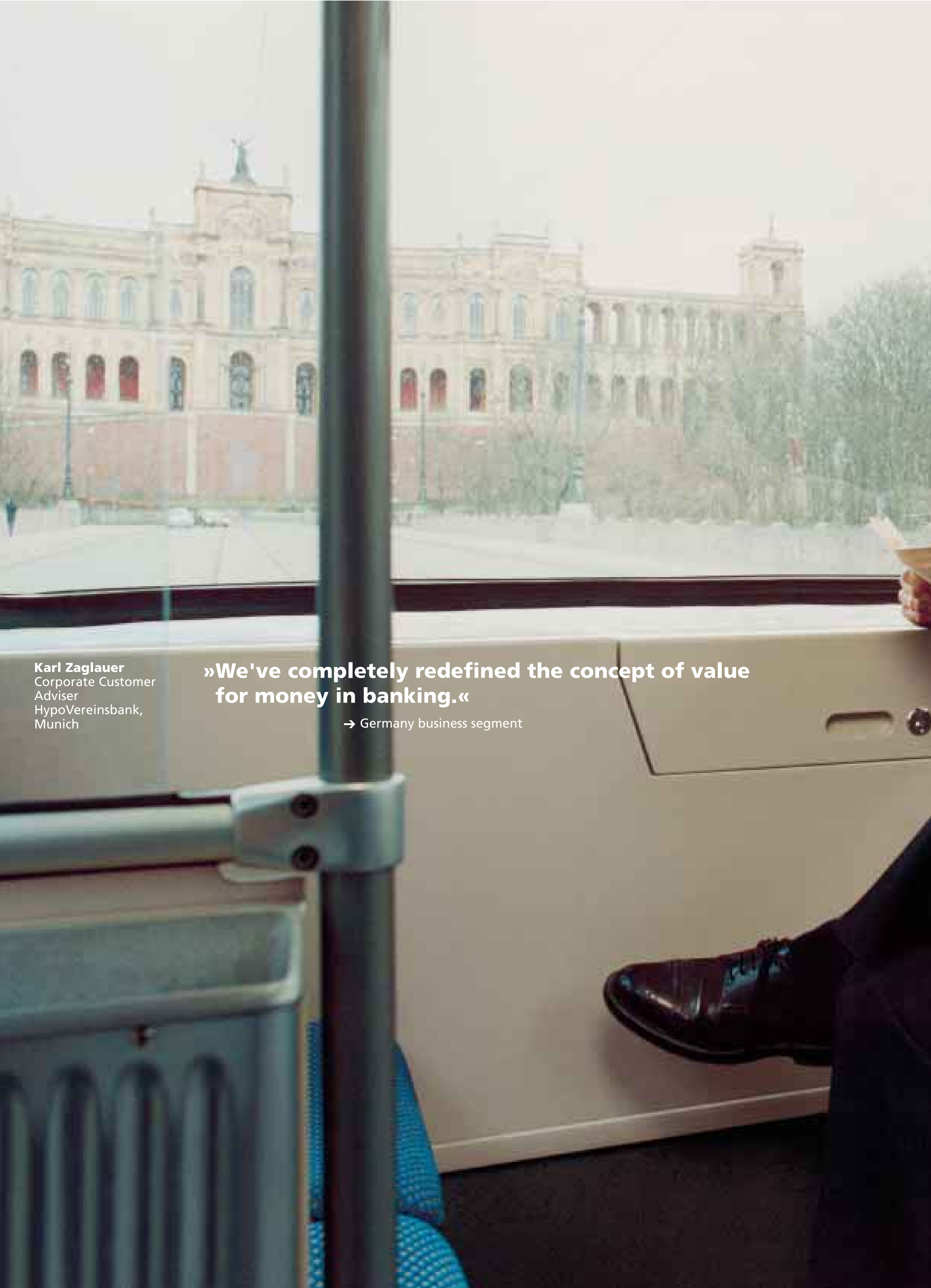
– Rating situation
Despite the fact that Standard & Poor's confirmed its long-term credit rating for HVB AG and Bank Austria Creditanstalt AG on February 25, 2005, it is possible that this present assessment may be altered at some point in the future, especially if the business environment were to develop unfavorably for HVB Group. A deterioration of the credit rating would make funding more expensive for HVB Group, with a consequent impact on the earnings situation of our Bank.

– Expansion in Central and Eastern Europe
A central pillar of the HVB Group strategy is to expand in Central and Eastern Europe through the Austria and CEE segment. The countries in this region have experienced considerable change in recent years, culminating in eight of them joining the EU on May 1, 2004.

In the coming years we may see the current economic momentum of this region slowed by restrictive regulations imposed by the European Union. An adjustment process of this kind would have a corresponding negative impact on the Austria and CEE segment. The increased competitive pressures which can also be expected in these countries may mean that we will not be able to achieve the anticipated interest margins and commission income. Finally, we cannot preclude negative effects in case the key macroeconomic and political parameters of the entire region or individual countries do not prove as stable as we currently assume.

– Consolidation of the banking sector
Consolidation is generally expected to sweep the banking sector in Germany as well as across Europe. Although it is impossible to predict the specific form of this consolidation process, HVB Group wishes to play an active role in it. It is watching the market, assessing the conceivable possibilities, and entering into discussions with other market participants. However, we have not yet reached a stage at which HVB Group believes that a decision is imminent.

Consequently, it remains undecided whether HVB Group will be part of a consolidation process, and what impact such a measure could have on HVB Group, regardless of whether or not it is involved. However, if there is a consolidation process involving banks in Europe, this may result in a much tougher competitive environment for HVB Group.



Karl Zaglauer
Corporate Customer Adviser
HypoVereinsbank, Munich

»We've completely redefined the concept of value for money in banking.«

→ Germany business segment

INCOME STATEMENT AND APPROPRIATION OF NET INCOME FOR THE YEAR ENDED DECEMBER 31, 2004

Income/expenses	Notes	2004	2003	Change	Change
		€ millions	€ millions	€ millions	in %
Interest and similar income		17,209	19,645	(2,436)	(12.4)
Interest expense and similar charges		11,553	13,764	(2,211)	(16.1)
Net interest income	(29)	5,656	5,881	(225)	(3.8)
Provisions for losses on loans and advances	(30)	1,813	2,313	(500)	(21.6)
Net interest income after provisions for losses on loans and advances		3,843	3,568	+ 275	+ 7.7
Fee and commission income		3,472	3,409	+ 63	+ 1.8
Fee and commission expenses		627	614	+ 13	+ 2.1
Net commission income	(31)	2,845	2,795	+ 50	+ 1.8
Gains less losses arising from trading securities (trading profit)	(32)	718	820	(102)	(12.4)
General administrative expenses	(33)	6,118	6,371	(253)	(4.0)
Balance of other operating income and expenses	(34)	101	620	(519)	(83.7)
Operating profit (loss)		**1,389**	**1,432**	**(43)**	**(3.0)**
Net income from investments	(37)	102	(1,806)	+ 1,908	
Amortization of goodwill	(38)	165	1,134	(969)	(85.4)
Addition to restructuring provisions	(39)	250	—	+ 250	+ 100.0
Allocation to special provisions for bad debts	(40)	2,500	—	+ 2,500	+ 100.0
Balance of other income and expenses	(41)	(357)	(638)	+ 281	+ 44.0
Profit (loss) from ordinary activities/ net income (loss) before taxes		**(1,781)**	**(2,146)**	**+ 365**	**+ 17.0**
Taxes on income	(18, 42)	211	296	(85)	(28.7)
Net income (loss)		**(1,992)**	**(2,442)**	**+ 450**	**+ 18.4**
Minority interest in net income (loss)		(286)	(197)	(89)	(45.2)
Net income (loss) adjusted for minority interest		**(2,278)**	**(2,639)**	**+ 361**	**+ 13.7**
Transfers to (from) retained earnings		(2,278)	(2,639)	+ 361	+ 13.7
Consolidated profit (loss)		—	—	—	—

The parent bank did not generate any profit available for distribution in 2004. Hence no dividend will be paid for the 2004 fiscal year.

Earnings per share

in €	Notes	2004	2003
Earnings per share (adjusted)[1]	(43)	0.91	0.54
Earnings per share	(43)	(3.27)	(4.92)

[1] 2004 figures adjusted for amortization of goodwill, addition to restructuring provisions, and allocation to special provisions for bad debts

2003 figures adjusted for amortization of goodwill, current income and expenses from norisbank, Bank von Ernst, Bankhaus BethmannMaffei, and the non-scheduled items defined in the consolidated financial statements for 2003

Since no conversion rights or option rights on conditional capital existed at the closing dates for 2004 and 2003, there is no calculation of diluted earnings per share.

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2004

Compared with the prior year figures adjusted for deconsolidations, the CTA, and non-scheduled items

Income/expenses	2004	2003[1]		Change
	€ millions	€ millions	€ millions	in %
Net interest income	5,656	5,618	+ 38	+ 0.7
Provisions for losses on loans and advances	1,813	2,269	(456)	(20.1)
Net interest income after provisions for losses on loans and advances	3,843	3,349	+ 494	+ 14.8
Net commission income	2,845	2,676	+ 169	+ 6.3
Gains less losses arising from trading securities (trading profit)	718	818	(100)	(12.2)
General administrative expenses	6,118	6,091	+ 27	+ 0.4
Balance of other operating income and expenses	101	144	(43)	(29.9)
Operating profit (loss)	**1,389**	**896**	**+ 493**	**+ 55.0**
Net income from investments	102	61	+ 41	+ 67.2
Amortization of goodwill	165	232	(67)	(28.9)
Addition to restructuring provisions	250	—	+ 250	+ 100.0
Allocation to special provisions for bad debts	2,500	—	+ 2,500	+ 100.0
Balance of other income and expenses	(357)	(176)	(181)	>(100.0)
Profit (loss) from ordinary activities/				
net income (loss) before taxes	**(1,781)**	**549**	**(2 ,330)**	
Taxes on income	211	292	(81)	(27.7)
Net income (loss) after taxes	**(1,992)**	**257**	**(2,249)**	
Minority interest in net income (loss)	(286)	(197)	(89)	(45.2)
Net income (loss) adjusted for minority interest	**(2,278)**	**60**	**(2,338)**	

[1] prior year figures adjusted for current income and expenses from norisbank, Bank von Ernst, Bankhaus BethmannMaffei, the effect of the Contractual Trust Arrangement (CTA), and the non-scheduled items defined in the consolidated financial statements for 2003

BALANCE SHEET AT DECEMBER 31, 2004

Assets	Notes	2004	2003	Change	
		€ millions	€ millions	€ millions	in %
Cash reserve	(45)	7,481	5,708	+ 1,773	+ 31.1
Assets held for trading purposes	(6, 46)	91,726	80,462	+11,264	+ 14.0
Placements with, and loans and advances to, other banks	(7, 47)	47,479	52,842	(5,363)	(10.1)
Loans and advances to customers	(7, 48)	275,119	283,525	(8,406)	(3.0)
Allowances for losses on loans and advances	(8, 49)	(13,315)	(11,361)	(1,954)	(17.2)
Investments	(9, 51)	43,648	53,000	(9,352)	(17.6)
Property, plant and equipment	(10, 52)	2,855	3,001	(146)	(4.9)
Intangible assets	(12, 53)	2,799	2,721	+ 78	+ 2.9
Income tax assets	(54)	4,133	4,072	+ 61	+ 1.5
Other assets	(55)	5,483	5,485	(2)	0
Total assets		**467,408**	**479,455**	**(12,047)**	**(2.5)**

Shareholders' equity and liabilities	Notes	2004	2003		Change
		€ millions	€ millions	€ millions	in %
Deposits from other banks	(13, 59)	103,606	112,964	(9,358)	(8.3)
Amounts owed to other depositors	(13, 60)	144,451	140,312	+ 4,139	+ 2.9
Promissory notes and other liabilities evidenced by paper	(13, 61)	109,562	122,728	(13,166)	(10.7)
Liabilities held for trading purposes	(14, 62)	59,861	55,233	+ 4,628	+ 8.4
Provisions	(15, 63)	4,460	4,293	+ 167	+ 3.9
Income tax liabilities	(64)	3,010	2,554	+ 456	+ 17.9
Other liabilities	(16, 65)	10,004	9,400	+ 604	+ 6.4
Subordinated capital	(66)	18,454	19,183	(729)	+ (3.8)
Minority interest	(67)	2,515	2,476	+ 39	+ 1.6
Shareholders' equity	(68)	11,485	10,312	+ 1,173	+ 11.4
Subscribed capital		2,252	1,609	+ 643	+ 40.0
Additional paid-in capital		9,331	9,295	+ 36	+ 0.4
Retained earnings		—	—		
Reserve arising from currency and other changes		227	(40)	+ 267	
Change in valuation of financial instruments		(325)	(552)	+ 227	+ 41.1
AfS reserve		132	326	(194)	(59.5)
Hedge reserve		(457)	(878)	+ 421	+ 47.9
Consolidated profit		—	—		
Total shareholders' equity and liabilities		**467,408**	**479,455**	**(12,047)**	**(2.5)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ millions	Subscribed capital	Additional paid-in capital	Retained earnings	Reserve arising from currency and other changes	Change in valuation of financial instruments AfS reserve	Change in valuation of financial instruments Hedge reserve[1]	Consolida-ted profit	Share-holders' equity
Shareholders' equity at Jan. 1, 2003	**1,609**	**12,024**	**—**	**—**	**(1,531)**	**(849)**	**—**	**11,253**
Change in value of financial instruments not affecting income					239	(237)		2
Change in value of financial instruments affecting income					1,624	163		1,787
Change in net income (loss), excl. minority interest		(2,639)						(2,639)
Change in holdings of, and net income from, own equity instruments		31						31
Changes in group of consolidated companies		(121)		145	(6)	45		63
Reserve arising from currency and other changes				(185)				(185)
Shareholders' equity at Dec. 31, 2003	**1,609**	**9,295**	**—**	**(40)**	**326**	**(878)**	**—**	**10,312**
Shareholders' equity at Jan. 1, 2004	**1,609**	**9,295**	**—**	**(40)**	**326**	**(878)**	**—**	**10,312**
Change from capital increase against cash contribution	643	2,359						3,002
Transaction costs of capital increase		(62)						(62)
Change in value of financial instruments not affecting income					(51)	148		97
Change in value of financial instruments affecting income					(144)	273		129
Change in net income (loss), excl. minority interest		(2,278)						(2,278)
Change in holdings of, and net income from, own equity instruments		17						17
Changes in group of consolidated companies				122	1			123
Reserve arising from currency and other changes				145				145
Shareholders' equity at Dec. 31, 2004	**2,252**	**9,331**	**—**	**227**	**132**	**(457)**	**—**	**11,485**

[1] cf. detailed description in the Financial Review and Note 5

Changes in minority interests are shown in Note 67.

CASH FLOW STATEMENT[1]

	2004 € millions	2003 € millions
Net income (loss)	**(1,992)**	**(2,442)**
Write-downs, provisions for losses on, and write-ups of, loans and advances and additions to provisions for losses on guarantees and indemnities	4,386	2,440
Write-downs and depreciation less write-ups on long-term assets	830	3,852
Change in other non-cash positions	(629)	(185)
Profit from the sale of investments, property, plant and equipment	(216)	(504)
Other adjustments (mainly taxes on income paid and interest received less interest paid and dividends received)	(4,337)	(4,489)
Subtotal	**(1,958)**	**(1,328)**
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 (+)		
Assets held for trading purposes	(9,123)	8,253
Placements with, and loans and advances to, other banks	5,379	3,755
Loans and advances to customers	5,632	24,506
Other assets from operating activities	154	(776)
Deposits from other banks	(9,936)	(20,932)
Amounts owed to other depositors	(3,919)	(3,212)
Promissory notes and other liabilities evidenced by paper	(12,928)	(24,527)
Other liabilities from operating activities	4,295	325
Taxes on income paid	(143)	(254)
Interest received	16,690	17,834
Interest paid	(12,566)	(13,466)
Dividends received	234	188
Cash flows from operating activities	**(10,351)**	**(9,634)**
Proceeds from the sale of investments	14,172	17,732
Proceeds from the sale of property, plant and equipment	126	54
Payments for the acquisition of investments	(3,941)	(7,589)
Payments for the acquisition of property, plant and equipment	(742)	(665)
Effects of the change in the group of companies included in consolidation	(80)	(508)
Cash flows from investing activities	**9,535**	**9,024**
Change in additional paid-in capital	17	(2,729)
Proceeds from capital increase	2,940	—
Subordinated capital, net	(579)	(726)
Other financing activities, net	174	4,601
Cash flows from financing activities	**2,552**	**1,146**
Cash and cash equivalents at end of previous period	5,708	5,259
+/– Net cash provided/used by operating activities	(10,351)	(9,634)
+/– Net cash provided/used by investing activities	9,535	9,024
+/– Net cash provided/used by financing activities	2,552	1,146
+/– Effects of exchange rate changes on cash and cash equivalents	37	(87)
Cash and cash equivalents at end of period	**7,481**	**5,708**

[1] cf. detailed description in the notes

CONTENTS

Exempting consolidated financial statements in accordance with IFRS

As a globally active company, the Bayerische Hypo- und Vereinsbank Group (the "Bank" or "HVB Group") prepares its financial statements in accordance with the requirements of the International Accounting Standards Board (IASB).

This gives the Bank's shareholders and all other interested parties a reliable and internationally comparable basis for evaluating the Bank and its profitability. The Bank's value-oriented management is similarly based on these accounting principles.

The consolidated financial statements for 2004 prepared in accordance with International Financial Reporting Standards (IFRS) are published as exempting financial statements pursuant to Section 292a, German Commercial Code (HGB), in conjunction with Section 58 (3) 4, Introductory Act to the German Commercial Code (EGHGB). Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The financial statements comply with the applicable EU directives and have the same informative value as consolidated financial statements prepared in accordance with the German Commercial Code.

With only a few exceptions, compliance between the IFRS and the EU accounting regulations is normally provided. These exceptions were not of material significance for the consolidated group of HVB AG ("parent bank"), which means that the consolidated financial statements comply with the accounting policies set forth in the EU directives.

In contrast to the EU directives, the IFRS only require a few specific items to be included in the balance sheet and income statement. To ensure that the consolidated financial statements comply with the EU directives, the Bank has included the items requiring disclosure under the Bank Accounts Directive in the notes to the consolidated financial statements. The Bank has similarly provided disclosures required by EU law in the notes to the financial statements.

The statement regarding the Corporate Governance Code required by Section 161, German Stock Corporation Act, has been published on the Bank's website. The Bank's listed subsidiary DAB Bank AG has posted an equivalent statement on its website.

www.hvbgroup.com/compliance

In addition to the requirements of Section 315 (1,2), German Commercial Code, Management's Discussion and Analysis also meets the criteria for a Financial Review set forth in IAS 1. Also incorporated is a risk report pursuant to Section 315, German Commercial Code. Compliant with Section 264b (4) of the German Commercial Code, HVZ GmbH & Co. Objekt KG, Munich, Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich, Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich, and Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich, are exempted from the obligation to prepare notes to their annual financial statements and a management report.

The provisions of the German Balance Sheet Reform Act (Bilanzreformgesetz) that are obligatory for 2004 are applied for the first time in the present financial statements. In addition, IFRS 3 is used when accounting for company mergers with a closing date of March 31, 2004 or later. Company mergers with a closing date prior to March 31, 2004 are, however, still accounted for under IAS 22 in the 2004 financial statements. The revised IAS 32/39 and the other IAS revised as part of the Improvement Project together with the new IFRS 2, 4, and 5 have not been applied earlier than required in the present financial statements.

The exemption permitted under Section 292a, German Commercial Code, in conjunction with Section 58 (3) 4, Introductory Act to the German Commercial Code (EGHGB), requires the main differences between the IFRS accounting and consolidation policies and the German accounting legislation to be mentioned. These differences are as follows:

Prohibition to create reserves in a way that reduces income

In contrast to Section 340f and g of the German Commercial Code, IAS 30.44 does not allow reserves for general banking risks to be deducted from income.

Disclosure of financial instruments at fair value

Whereas Section 340c (1) in conjunction with Section 252 (1) 4, German Commercial Code, does not permit disclosure of unrealized gains, IAS 39.69 generally requires financial instruments to be carried at fair value at the balance sheet date. In contrast to German accounting practice, this results in reserves and charges included in these financial instruments being recognized as income or carried in a way that does not affect income.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in the fair value of a recognized asset or liability, or an identified portion of such an asset or liability, that is attributable to a particular risk and that will affect reported net income.

The general accounting principles set forth in the German Commercial Code require only the underlying hedged item to be disclosed. The compensating unrealized gains and losses attributable to the underlying hedged item and the hedging derivative receive different treatment in the way in which they are recognized in the income statement. According to the German Commercial Code, unrealized gains are not taken to the income statement. On the other hand, the method of accounting for fair value hedges set forth in IAS 39 requires the unrealized gains and losses attributable to the hedging instrument, which has to be stated with its fair value, to be taken to the income statement. The value of the underlying hedged item is adjusted by the changes in fair value, and these changes in fair value are taken to the income statement.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction and that will affect reported net income.

The German Commercial Code does not contain an equivalent view of cash flow hedges. Instead, the accounting principles set forth in the German Commercial Code do not require either the hedged items or the derivatives used to hedge interest rate risk to be measured. The German Commercial Code does not contain any specific regulations regarding the disclosure of the hedging of forecasted transactions in the balance sheet. On the other hand, the method of accounting for cash flow hedges set forth in IAS 39 requires the hedged item to be recognized at fair value. The changes in the fair value are split into an effective portion relating to the hedge and an ineffective portion not relating to the hedge (see also Note 5). The effective portions are recognized directly in shareholders' equity, while the ineffective portions of a hedging derivative are reported immediately in net income; in the case of other hedging financial instruments, they are included either in equity or net income depending on their classification. Depending on its classification, the hedged item is recognized at amortized cost or, in the case of available-for-sale assets, at fair value.

Capitalization of internally-generated intangible assets

IAS 38 requires intangible assets both obtained externally and generated internally to be shown under certain circumstances. Section 246 (1) in conjunction with Section 248 (2), German Commercial Code, on the other hand, prohibits the disclosure of internally-generated intangible assets.

Prohibition to deduct from retained earnings the excess of cost over net assets acquired when consolidating investments

Under IAS 22.41 ff., it is not permitted for goodwill to be deducted from retained earnings, whereas this is permitted under Section 309 (1) 3, German Commercial Code. Goodwill is capitalized under intangible assets and, where it relates to company mergers completed prior to March 31, 2004, amortized over its expected useful life, until the obligatory IFRS is initially applied in 2005.

Prohibition to take depreciation that does not correspond to actual loss of value

Under German accounting legislation, given the accounting principle that any particular method of treatment for tax purposes has to be reflected in the commercial accounts, as set forth in Section 5 (1), German Income Tax Act, depreciation is often taken more with tax considerations in mind, without taking the actual economic loss of value into account. Special depreciation and carrying amounts permitted under German tax regulations are not included in the consolidated financial statements prepared in accordance with IFRS, since amounts of depreciation and amortization are to be computed independently of tax considerations under IFRS.

Provisions

IFRS normally only allow provisions to be set aside for external obligations. Exceptions are permitted in the case of restructuring provisions, which are to be recorded as liabilities in certain circumstances. Section 249 of the German Commercial Code, on the other hand, lists broader requirements and options for the recognition of expense provisions.

Accruals

In contrast to the German Commercial Code, IAS 37 differentiates between provisions and accruals. In the case of accruals, the uncertainty with regard to the timing or amount of the future expenditures is generally lower than is the case with provisions.

Incorporation of future developments and plan assets when calculating pension provisions

In contrast to the generally static valuation method required by German law (tax-based discount value method compliant with Section 6a, German Income Tax Act), IAS 19 requires the factors determining the pension obligations to be adjusted constantly to reflect economic and demographic changes. Among other things, this includes taking into account future salary increases and career trends, together with a current capital market rate for discounting the obligations.

In contrast to the German Commercial Code, under IAS 19.54 the pension provisions shown in the balance sheet are to be netted with the fair values of plan assets designated or defined to meet the obligations. Unlike the treatment under the German Commercial Code, the expected income from plan assets reduces the pension expense shown in the income statement prepared in accordance with IFRS.

Recognition of deferred tax assets and liabilities

Under Sections 274 and 306 of the German Commercial Code, tax provisions are only set aside for differences which will probably be equalized in later fiscal years (timing concept) between net income shown in the financial statements and net income under tax regulations.

IAS 12, on the other hand, fundamentally requires deferred tax assets and liabilities to be recognized for every difference in the balance sheet prepared in accordance with IFRS and the taxable values (temporary differences), irrespective of when they arise and whether they are likely to be equalized (temporary concept). Under IAS 12, the requirement to disclose deferred tax assets also applies to the recognition of sufficiently likely benefits arising from tax losses carried forward.

1

Uniform Group accounting policies

The separate financial statements of the domestic and foreign subsidiaries are incorporated in the Bank's consolidated financial statements in accordance with uniform principles of accounting and valuation.

2

Consistency

In accordance with the IFRS Framework for the presentation of financial statements together with IAS 1, IAS 8 and SIC 18, the Bank applies the accounting and disclosure principles consistently from one period to the next. Where accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted against retained earnings. Where the Bank effects changes in its accounting policies, any resulting adjustments are recognized in the income statement. In comparison to the previous year, no changes in accounting policies were made in 2004. In addition, income tax assets and liabilities are now shown as separate items, and not under other assets and provisions, in order to achieve clearer disclosure in the balance sheet.

3

Companies included in consolidation

The group of companies included in consolidation encompasses 399 (2003: 402) companies. This total includes special purpose entities, which SIC 12 requires to be consolidated.

The group of companies included in consolidation has been defined taking into account materiality criteria. All fully consolidated companies prepared their annual financial statements for the period ending December 31, 2004. The group of consolidated companies does not include any companies that are not fully consolidated. In the year under review, 29 (2003: 26) companies are accounted for using the equity method.

The following companies (participations) are no longer in consolidation due to their being sold:

- Bankhaus BethmannMaffei OHG, Munich
- Górnoslaski Bank Gospodarczy – Spólka Akcyjna, Katowice
- HVB Alternative Investment AG, Vienna
- BACA American Corporation Inc., Greenwich

Bankhaus BethmannMaffei OHG (100%), Munich, was sold with effect from January 1, 2004, for €103 million. The sale gave rise to a gain on disposal of €56 million. The company contributed €1 million to consolidated net income before taxes in fiscal 2003.

Bank BPH Spólka Akcyjna, Cracow, sold its 71.2% stake in Górnoslaski Bank Gospodarczy – Spólka Akcyjna, Katowice, in January 2004 with effect from April 30, 2004, for PLN255 million. The sale gave rise to a gain on disposal for HVB Group of €12 million. Over the first four months of the year, the company contributed €6 million to consolidated net income before taxes (2003 as a whole: €12 million).

The commercial operations of HVB Alternative Investment AG, Vienna, were transferred to Ramius HVB Partners LLC, Delaware, at December 31, 2004. This transaction had no effect on consolidated net income. The company is accounted for using the equity method. HVB Alternative Investment AG, Vienna, was deconsolidated following the transaction as it no longer satisfied the Bank's materiality criteria. The net loss before taxes arising from the full consolidation of HVB Alternative Investment AG up to the transaction totaled €1 million.

BACA American Corporation Inc., Greenwich, was deconsolidated due to dissolution. This had no effect on consolidated net income.

The following companies, among others, have been fully consolidated for the first time in the 2004 financial statements:

- HVB Central profit banka d.d., Sarajevo
- Westfalenbank Aktiengesellschaft, Bochum
- BA-CA Administration Services GmbH, Vienna
- Dataline Zahlungsverkehrsabwicklungs GmbH, Vienna
- HVB Jelzálogbank Rt., Budapest

HVB-Banka Bosna i Hercegovina d.d., Sarajevo and Central profit banka, d.d., Sarajevo, in which Bank Austria Creditanstalt had acquired an 81.8% interest at year-end 2003 for a purchase price of €20 million, were added to the group of companies included in consolidation at January 1, 2004. The merger of the two banks in Bosnia and Herzegovina was completed during the second half of 2004, with the new entity operating as HVB Central profit banka d.d. The revaluation of the company's assets and liabilities performed as part of initial consolidation did not have any material effect. The merger gave rise to goodwill of €10 million, which was still amortized in 2004 on the basis of a 15-year useful life. The company contributed €4 million to consolidated net income before taxes in 2004.

At September 30, 2004, the Bank acquired a 100% interest in Westfalenbank Aktiengesellschaft, Bochum, for €115 million. The revaluation of the company's assets and liabilities performed as part of initial consolidation did not have any material effect. Non-scheduled amortization of goodwill was taken to the full amount of €1 million in 2004. The company contributed a loss of €1 million to consolidated net income before taxes in the fourth quarter of 2004.

BA-CA Administration Services GmbH, Vienna, and Dataline Zahlungsverkehrsabwicklungs GmbH, Vienna, commenced operations on November 1, 2004. Full consolidation had no effect on consolidated net income. The intention of forming these two wholly owned subsidiaries of Bank Austria Creditanstalt AG is to ease back-office functions in the branches by pooling them in specialist units.

Due to dynamic business growth, the 99.9% interest in Jelzálogbank, Budapest, held by HVB Bank Hungary Rt., Budapest, was fully consolidated for the first time at January 1, 2004. The company contributed €7 million to consolidated net income before taxes in 2004.

In 2004 the parent bank acquired the outstanding 23.5% stake in Vereins- und Westbank AG held by minority shareholders. This gave rise to goodwill of €107 million. Vereins- und Westbank AG was subsequently absorbed by the parent bank with effect from the merger date of July 1, 2004. The merger was filed in the Commercial Register maintained by Munich District Court on January 14, 2005, when it took legal effect. The merger had no effect on the consolidated income statement.

The Bank's largest subgroup is BA-CA AG, Vienna, which has been included in the consolidated financial statements with 344 (2003: 344) fully consolidated companies.

Of the Bank's 93 (2003: 81) associated companies and joint ventures, 29 (2003: 26) were included in the consolidated financial statements using the equity method. The remaining associated companies and joint ventures do not have a significant impact on the Bank's assets, financial position, or earnings, and are carried under available-for-sale investments. The income of €94 million from companies valued at equity is carried under net interest income.

Alongside the initial valuation at equity of Ramius HVB Partners LLC, Delaware, the following change has taken place in the group of companies valued at equity:

As of October 1, 2004, A&B Banken-Holding GmbH, Vienna, is no longer valued at equity. The interests in Oberbank AG, Linz, Bank für Kärnten und Steiermark AG, Klagenfurt, and Bank für Tirol und Vorarlberg AG, Innsbruck, held by Bank Austria Creditanstalt have been transferred to CABO Beteiligungsgesellschaft m.b.H., Vienna and are valued at equity. CABO Beteiligungsgesellschaft m.b.H. is a wholly owned subsidiary of CABET-Holding-Aktiengesellschaft, Vienna.

As in previous years, the real estate project companies are not included in consolidation. The business activities of these companies are built around exploiting their real estate portfolios to best possible advantage. Their results are incorporated in the financial statements of the parent bank.

In total, 766 subsidiaries, associated companies and joint ventures were neither fully consolidated nor accounted for using the equity method as they do not have a material impact on the Bank's assets or financial position, or earnings.

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 companies makes up around 1.8% of consolidated profit, while such companies provide around 2.2% of consolidated assets. The interests in these companies are carried as available-for-sale investments.

	2004	2003
Total number of subsidiaries	**1,101**	**1,166**
Consolidated companies	399	402
Non-consolidated companies	702	764
Joint ventures	**14**	**16**
of which:		
valued at equity	—	1
Associated companies	**79**	**65**
of which:		
valued at equity	29	25

The full list of holdings contains all subsidiaries, joint ventures and associated companies – broken down by whether they are included in the consolidated financial statements or not – together with other holdings. The list forms part of the present consolidated financial statements filed with the Commercial Register in Munich, and can be called up on our website.

www.hvbgroup.com/holdings

4

Principles of consolidation

Consolidation is performed by offsetting the purchase price of a subsidiary against the value of the interest held in the completely recalculated shareholders' equity of the consolidated subsidiary at the time of acquisition. This amount is the difference between the assets and liabilities of the acquired company, carried at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognized as goodwill under intangible assets in the balance sheet and amortized, in the case of company mergers with completion dates prior to March 31, 2004 until initial application of the new IFRS 3 in 2005, over the estimated useful life. The same principles are applied when consolidating associated companies and joint ventures using the equity method.

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

5

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. According to IAS 39, all financial instruments are to be recorded in the balance sheet, classified in specific categories, and measured in accordance with this classification.

- Instruments held for trading purposes are shown under assets and liabilities held for trading purposes. Any differences resulting from such instruments being valued with their fair value are taken to the income statement.
- Loans and receivables originated by the company are financial assets that are created by the company providing money, goods, or services directly to a debtor and that are not held for trading purposes. Loans and receivables originated by the company are measured at amortized cost and capitalized under placements with, and loans and advances to, other banks, and loans and advances to customers.
- Held-to-maturity (HtM) financial instruments are financial assets with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity. HtM financial instruments are measured at amortized cost, with premiums and discounts included on a pro rata basis. Write-downs are taken where there is a rating-related decline in value. If the reasons for the write-down 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 HtM financial instrument to a level in excess of the amortized cost. Held-to-maturity financial instruments are included under investments.
- All other financial assets are classified as available-for-sale (AfS) securities and receivables. They are measured at fair value. The changes in value arising from remeasurement are carried in a separate item under shareholders' equity (AfS reserve) in the balance sheet until the asset is sold or an impairment as defined in IAS 39.109 has occurred. The impairment is reversed in a way that affects reported net income when there is objective evidence that the fair value of the available-for-sale financial instrument has risen. Available-for-sale holdings are not divided into categories that are valued at amortized cost. Available-for-sale financial instruments are largely included in investments, and to a lesser extent also in placements with, and loans and advances to, other banks, and loans and advances to customers.

Purchases and sales of financial instruments are recognized at the trade date. Premiums and discounts are netted directly with the financial instruments. The fair value of the financial instruments can be reliably measured. Unlisted financial instruments for which the Bank cannot measure fair values are carried at amortized cost.

Embedded derivative financial instruments outside the portfolio held for trading purposes 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 recorded in a way that affects reported net income.

Hedges between financial instruments are recognized in accordance with the two forms described in IAS 39: the fair value hedge and the cash flow hedge.

A fair value hedge is a hedge of the exposure to changes in the fair value of a recognized asset or liability, or an identified portion of such an asset or liability, that is attributable to a particular risk and that will affect reported net income. The Bank applies the method of accounting for fair value hedges for derivatives used to hedge the fair value of recognized assets and liabilities.

Under this method, the hedging instrument is measured at fair value. Changes in value are recognized in the income statement. 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.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction and that will affect reported net income. The Bank applies the method of accounting for cash flow hedges for derivatives used to hedge future interest cash flows. The Bank recognizes derivatives in accordance with cash flow hedge accounting when they are used to hedge interest rate risk as part of the Bank's asset/liability management system. Future variable interest payments for variable receivables and liabilities are converted into fixed interest payments primarily by means of interest rate swaps. Hedging instruments are measured at fair value under this method of accounting. Changes in fair value are divided into an effective and an ineffective portion. A hedge is regarded as highly effective if, at inception and throughout the life of the hedge, the company can expect changes in the cash flows of the hedged item to be offset almost completely by changes in the cash flows of the hedging instrument. To demonstrate effectiveness, the future variable interest cash flows arising from variable receivables and liabilities being hedged at the end of each quarter or at the balance sheet date are shown alongside the variable interest rate payments arising from the interest rate derivatives in detailed maturity schedules. The effective portion of the hedging instrument is recognized in a separate equity item (hedge reserve) in the balance sheet. The changes in value of these derivatives are offset by future compensating effects arising from the hedge relationship, which must not be shown in the balance street. The hedge reserve is reversed and taken to the income statement in the periods during which the cash flows of the hedged financial instruments affect net income for the period. The ineffective portion is recognized in the income statement.

The IAS 39-specific equity items available-for-sale reserve and hedge reserve are not included when calculating the figures for profitability ratios.

6

Assets held for trading purposes

Besides securities held for trading purposes, this item includes the positive market values of traded derivatives and derivatives used to hedge currency risk arising from financial instruments that are not available-for-sale securities.

Provided they are held for trading purposes, note loans, registered bonds and Treasury bills are carried as other assets held for trading purposes.

Assets held for trading purposes are carried at fair value. The carrying value of derivative financial instruments not traded on the stock exchange is calculated using internal price models based on net present value computations and option price models. Gains and losses arising from the valuation and realization of assets held for trading purposes are taken to the income statement as gains less losses arising from trading securities.

7

Placements, loans and advances

Placements with, and loans and advances to, other banks and customers are carried at amortized cost, provided they are neither available-for-sale receivables nor hedged items of a recognized fair value hedge. Receivables are put on a non-accrual basis when – irrespective of the legal position – an inflow of interest is no longer expected.

8

Allowances for losses on loans and advances and for losses on guarantees and indemnities

Anticipated future loan losses, the structure and quality of the loan portfolios, and general economic factors are taken into account when calculating allowances for losses on loans and advances.

Specific loan-loss allowances to the amount of the anticipated loss have been made to cover all identifiable risks arising from lending operations. Specific loan-loss allowances are reversed as soon as the loan default risk has ceased, or used if the receivable is classified as irrecoverable and written off.

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

Latent lending risks are covered by general provisions measured on the basis of historic loan-loss rates taking into account the economic environment and current events. Loan losses for which no or inadequate specific provisions have been set aside are treated as consumption of general provisions.

9

Investments

Investments comprise held-to-maturity financial instruments and available-for-sale financial instruments, investment property and companies valued at equity.

Available-for-sale investments that are effective hedges against market risk are recorded as part of fair value hedge accounting.

Compliant with IAS 40, land and buildings held by the Bank as investments with a view to generating rental income and/or capital gains are carried at amortized cost. Scheduled depreciation is taken on investment property over its economic useful life of 25–50 years using the straight-line method. The rental income arising from these investments is recorded in net interest income alongside the funding expense. All other income and expenses arising from land and buildings not used by the Bank are included in net income from investments.

Material 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 valued at equity are normally carried at their fair value.

10

Property, plant and equipment

Property, plant and equipment is valued at acquisition or production cost less scheduled 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

Non-scheduled depreciation is taken on property, plant and equipment whose value is additionally reduced. Should the reasons for the non-scheduled depreciation 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 amortized acquisition or production cost.

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

11

Lease operations

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

HVB Group as lessor

Under finance leases, the lessor recognizes in the balance sheet a receivable at an amount equal to the net investment in the lease and not the leased asset. Interest and similar income is recognized on the basis of a constant, periodic rate of return relating to the net investment outstanding. The term "net investment" is defined in detail in Note 48. HVB Group leases both movable property and real estate as a lessor under finance leases.

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

HVB Group as lessee

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

The lease payments are broken down into two components: the finance charge (treated as interest expense) and the redemption payment (which reduces the amount of the outstanding liability). Lease payments relating to operating leases are treated as rental expense and recognized in general administrative expenses. Contracts in which the Bank acts as lessee are comparatively insignificant.

12

Intangible assets

The main items included in intangible assets are goodwill and software. Until the new IFRS 3 becomes obligatory on January 1, 2005, goodwill arising from company mergers completed prior to March 31, 2004 is amortized over the assumed useful life of 15 to 20 years. Factors to be considered when estimating the useful life primarily include the strategic orientation and the anticipated future income from the subsidiary. Compliant with IAS 36, the value of goodwill is checked regularly, with non-scheduled amortization being taken where necessary. Scheduled amortization is no longer taken on company mergers completed on or after March 31, 2004 in the present financial statements. Software is valued at amortized cost, and written down over an expected useful life of three to five years.

13

Liabilities

Liabilities that are not hedged items of an effective fair value hedge are reported at amortized cost, taking into account deferred premiums and discounts on a pro rata basis. Non-interest-bearing liabilities, such as zero bonds and other discounted paper, are shown at present value.

14

Liabilities held for trading purposes

Liabilities held for trading purposes include traded derivatives and derivatives used to hedge foreign currency risk arising from financial instruments that are not available for sale. Warrants and certificates issued by the Bank's trading department are also stated under this item.

15

Provisions

When assessing provisions for uncertain liabilities and anticipated losses on pending transactions, the Bank uses a best estimate compliant with IAS 37.36 ff. Long-term provisions are discounted.

In accordance with IAS 19, the Bank uses actuarial principles to determine the provisions for pension and similar commitments. The amounts are calculated using the projected unit credit method, taking into account the present value of the defined benefit obligations and unrealized 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.

Actuarial gains and losses are recognized in accordance with the corridor method compliant with IAS 19.92. Under this approach, gains and losses are not recognized as income or expense in subsequent years unless the cumulative gains or losses at the balance sheet date exceed the higher of the following two items: 10% of the present value of the defined benefit obligations or the assets of an external retirement benefit scheme.

The discount rate is based on the long-term interest rate for first-class, fixed-yield corporate bonds at the balance sheet date. The amount of the provisions recognized in the balance sheet is calculated essentially using the provisions recognized in the prior year plus the pension expense determined at the beginning of the fiscal year less payments for the current fiscal year affecting liquidity. The plan assets set up by the parent bank in 2003 to fund pension obligations are described in detail in Note 63.

16

Other liabilities

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

17

Foreign currency translation

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 euros and cash transactions not completed at the reporting date to be translated into euros at the reporting date using current market rates. Non-monetary items carried at cost are translated using the rate applicable at the time of acquisition.

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

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

18

Taxes on income

Taxes on income are accounted for in accordance with the principles set forth in IAS 12. Apart from a few exceptions allowed for in the standard, deferred tax assets and liabilities are recognized for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes. 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 presumption 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.

19

Effect of applying revised and new IFRS from 2005

Beginning in fiscal 2005, the Bank will be obliged to apply numerous revised and new IFRS regulations for the first time. The present financial statements for 2004 have not been prepared on the basis of early application of these regulations. Starting in 2005, the following main IFRS revisions and additions are expected to have an impact on the Bank's financial statements:

– Minority interest is to be shown separately from proprietary equity as an element of shareholders' equity.

– The option of translating differences arising from the acquisition of a company denominated in foreign currency will be discontinued. In the future, goodwill must be maintained in the currency of the international enterprise and translated using the rate applicable at each closing date.

– Scheduled amortization is no longer to be taken on goodwill. Its value should, however, continue to be checked at least once a year and written down, if appropriate.

– All financial assets may be carried at fair value through profit or loss when first stated. The Bank intends to make use of this option.

– The objective indications for a write-down are being expanded, especially for AfS equity instruments.

– Any subsequent increases in the value of AfS equity instruments which have previously been written down may not be recorded in a way that affects reported net income. Instead, they must be carried in the AfS reserve until the asset has been disposed of.

– A method has been provided for calculating impairment on account of inherent risks in financial assets that are carried at amortized cost.

With the exception of the regulations affecting amortization of goodwill, most of the revised or new regulations will be applied retrospectively. Consequently, the Bank intends to adjust the comparative figures for the prior year shown in the interim reports during 2005 and the consolidated financial statements for 2005. The most significant adjustments are likely to be as follows:

– Shareholders' equity will increase by the amount of minority interest. This change will, however, have no impact on the calculation of return on equity.

– As a result of the stricter objective indications for writing down AfS equity instruments, the Bank will write down its shareholdings by a total of €182 million to the current market rates at December 31, 2004.

– The Bank will reverse write-ups of AfS equity instruments affecting reported net income, recording them in the AfS reserve instead and taking them to the income statement when they are sold.

– As a result of the method for calculating impairment on account of inherent risks included in IAS 39, allowances for losses on loans and advances will rise retrospectively at December 31, 2003 by €113 million. Of this total, €19 million will be retrospectively released in 2004.

20

Notes to segment reporting by business segment (primary segmentation)

The Bank is managed in operational business segments, which is why they are defined as primary segments. A detailed description of the strategies and products is provided in the reports on the Germany, Austria and CEE, and Corporate & Markets business segments. The results of the business units within the business segments are covered in detail in Management's Discussion and Analysis. The primary Real Estate Workout segment is shown alongside the business segments.

The Bank's segment reporting is based on its segment controlling instrument, which is prepared in accordance with IFRS. The segments operate as autonomous companies with their own equity resources and responsibility for profits and losses. The business segments are delimited by responsibility for serving customers. Net interest income is broken down using the market interest calculation method. General administrative expenses are allocated to the correct segment according to causation. The Group Services Business, Core IT, and Group Corporate Center are treated as external service providers charging fair market prices for their services.

Goodwill is allocated to the business segments. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the contribution to results at the time of acquisition.

In accordance with the rules set forth in the Capital Accord introduced by the Basel Committee on Banking Supervision (BIS), core capital of 7% in relation to risk assets, and of 50% in relation to the market risks to be covered is allocated to the individual business segments and business units. One exception to this rule involves the international units of the CEE business unit within the Austria and CEE business segment, which are allocated core capital of 10% of risk assets. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. In this context, the Bank applies a rate of interest which, according to its empirical observations, represents the average long-term rate of return of a risk-free asset on the capital market. The average tied core capital forms the basis for computing return on equity. When calculating return on equity after taxes, the Bank uses net income (loss) excluding minority interest. Taxes on income are normally allocated to the business segments in accordance with causation.

The Other/consolidation column reflects amounts that do not fall under the sphere of responsibility of the business segments as well as cross-segment consolidations. This includes consolidated service companies, and net income from non-consolidated subsidiaries not assigned to the business segments. It also includes net income from the strategic securities portfolio, which is the responsibility of the Management Board. Also incorporated in this segment are the amounts resulting from decisions taken with regard to asset/liability management.

Key management parameters (allocation of core capital to business segments, and interest rates used to calculate the return on investment) were modified at the start of 2004. In addition, adjustments under the market interest rate method affecting segmented net interest income were made in the third quarter of 2004.

Structural shifts took place in the Bank's reporting on business unit results within the Germany and Corporates & Markets business segments in the second quarter of 2004. In the Germany business segment, the customer group covering "Investors under €5 million" was transferred from the Commercial Real Estate Finance business unit to the Corporate Customers and Professionals business unit; the "construction finance business brokered via the Internet" customer group is now shown under the Private Customers business unit instead of the Commercial Real Estate Finance business unit. In the Corporates & Markets business segment, the "Financial Institutions" customer group has been assigned to the Markets business unit instead of Corporates since the second quarter of 2004.

Regarding all of the changes described, the comparison figures for 2003 and, where necessary, the first two quarters of 2004, have been adjusted accordingly.

21

Income statement, broken down by business segment

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout	Other/ consolidation	HVB Group
Net interest income						
2004	2,712	2,178	853	(12)	(75)	5,656
2003	2,936	1,940	1,334	(11)	(318)	5,881
Provisions for losses on loans and advances						
2004	1,361	413	(72)	100	11	1,813
2003	1,455	461	330	58	9	2,313
Net commission income						
2004	1,198	1,206	434	—	7	2,845
2003	1,236	1,109	451	—	(1)	2,795
Trading profit (loss)						
2004	2	76	613	—	27	718
2003	5	105	652	—	58	820
General administrative expenses						
2004	2,628	2,270	1,158	9	53	6,118
2003	2,943	2,285	1,086	13	44	6,371
Balance of other operating income and expenses						
2004	95	(34)	13	(12)	39	101
2003	524	37	6	(3)	56	620
Operating profit (loss)						
2004	18	743	827	(133)	(66)	1,389
2003	303	445	1,027	(85)	(258)	1,432
Net income from investments						
2004	(31)	(33)	(49)	—	215	102
2003	(26)	63	7	—	(1,850)	(1,806)
Amortization of goodwill						
2004	33	84	40	—	8	165
2003	19	721	389	—	5	1,134
Addition to restructuring provisions						
2004	—	—	—	—	250	250
2003	—	—	—	—	—	—
Allocation to special provisions for bad debts						
2004	2,015	—	—	485	—	2,500
2003	—	—	—	—	—	—

Income statement, broken down by business segment (contd.)

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout	Other/ consolidation	HVB Group
Balance of other income and expenses						
2004	(7)	(4)	(1)	(210)	(135)	(357)
2003	(9)	(7)	(1)	(152)	(469)	(638)
Profit (loss) from ordinary activities/ net income (loss) before taxes						
2004	(2,068)	622	737	(828)	(244)	(1,781)
2003	249	(220)	644	(237)	(2,582)	(2,146)
including:						
Bank Austria Creditanstalt Group						
2004	—	622	103	—	(55)	670
2003	—	(220)	(155)	—	16	(359)

Operating performance, broken down by business unit Germany business segment

€ millions	Private Customers	Corporate Customers and Professionals	Real Estate	Consolidation	Total
Operating revenues					
2004	1,856	1,657	483	2	4,007
2003	2,624	1,609	469	(1)	4,701
2003 (adjusted)[1]	1,799	1,593	468	(1)	3,859
Provisions for losses on loans and advances					
2004	285	560	516	—	1,361
2003	338	714	403	—	1,455
2003 (adjusted)[1]	294	714	403	—	1,411
General administrative expenses					
2004	1,609	807	209	3	2,628
2003	1,894	802	248	(1)	2,943
2003 (adjusted)[1]	1,649	786	247	(1)	2,681
Operating profit (loss)					
2004	(29)	290	(242)	(1)	18
2003	392	93	(182)	—	303
2003 (adjusted)[1]	(144)	93	(182)	—	(233)
Cost-income ratio					
2004	86.3%	48.7%	43.3%	—	65.6%
2003	72.2%	49.8%	52.9%	—	62.6%
2003 (adjusted)[1]	91.7%	49.3%	52.8%	—	69.5%

[1] prior year figures adjusted for the gains on disposal of norisbank and Bank von Ernst, current income and expenses from norisbank, Bank von Ernst, Bankhaus BethmannMaffei, and the effect of the Contractual Trust Arrangement (CTA)

Austria and CEE business segment

€ millions	Private Customers Austria	Corporate Customers Austria	CEE	Consolidation	Total
Operating revenues					
2004	1,244	1,015	1,167	—	3,426
2003	1,272	979	940	—	3,191
Provisions for losses on loans and advances					
2004	124	203	86	—	413
2003	139	232	90	—	461
General administrative expenses					
2004	1,014	564	692	—	2,270
2003	1,019	576	690	—	2,285
Operating profit (loss)					
2004	106	248	389	—	743
2003	114	171	160	—	445
Cost-income ratio					
2004	81.5%	55.6%	59.3%	—	66.3%
2003	80.1%	58.8%	73.4%	—	71.6%

Corporates & Markets business segment

€ millions	Markets	Corporates	Consolidation	Total
Operating revenues				
2004	1,008	913	(8)	1,913
2003	1,493	960	(10)	2,443
Provisions for losses on loans and advances				
2004	—	(72)	—	(72)
2003	—	330	—	330
General administrative expenses				
2004	712	453	(7)	1,158
2003	685	411	(10)	1,086
Operating profit (loss)				
2004	296	532	(1)	827
2003	808	219	—	1,027
Cost-income ratio				
2004	70.6%	49.6%	—	60.5%
2003	45.9%	42.8%	—	44.5%

Income statement, broken down by business segment quarterly overview 2004

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout	Other/ consolidation	HVB Group
Net interest income						
Q1 2004	690	500	166	(3)	(68)	1,285
Q2 2004	668	546	260	(6)	(15)	1,453
Q3 2004	685	533	242	(2)	(15)	1,443
Q4 2004	669	599	185	(1)	23	1,475
Provisions for losses on loans and advances						
Q1 2004	281	107	85	12	—	485
Q2 2004	290	106	6	18	(1)	419
Q3 2004	345	106	(42)	50	—	459
Q4 2004	445	94	(121)	20	12	450
Net commission income						
Q1 2004	310	290	101	—	—	701
Q2 2004	285	312	94	—	1	692
Q3 2004	289	309	87	—	6	691
Q4 2004	314	295	152	—	—	761
Trading profit (loss)						
Q1 2004	—	11	242	—	9	262
Q2 2004	—	16	166	—	—	182
Q3 2004	1	16	87	—	7	111
Q4 2004	1	33	118	—	11	163
General administrative expenses						
Q1 2004	689	555	295	2	1	1,542
Q2 2004	688	561	302	2	18	1,571
Q3 2004	680	562	316	2	3	1,563
Q4 2004	571	592	245	3	31	1,442
Balance of other operating income and expenses						
Q1 2004	62	1	7	(2)	1	69
Q2 2004	21	(1)	8	—	(6)	22
Q3 2004	29	(2)	8	—	(9)	26
Q4 2004	(17)	(32)	(10)	(10)	53	(16)
Operating profit (loss)						
Q1 2004	92	140	136	(19)	(59)	290
Q2 2004	(4)	206	220	(26)	(37)	359
Q3 2004	(21)	188	150	(54)	(14)	249
Q4 2004	(49)	209	321	(34)	44	491

Income statement, broken down by business segment quarterly overview 2004 (contd.)

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout	Other/ consolidation	HVB Group
Net income from investments						
Q1 2004	(2)	(1)	(11)	—	33	19
Q2 2004	(5)	(12)	4	—	133	120
Q3 2004	(4)	(11)	(20)	—	19	(16)
Q4 2004	(20)	(9)	(22)	—	30	(21)
Amortization of goodwill						
Q1 2004	4	21	10	—	3	38
Q2 2004	6	21	10	—	2	39
Q3 2004	6	21	10	—	2	39
Q4 2004	17	21	10	—	1	49
Addition to restructuring provisions						
Q1 2004	—	—	—	—	—	—
Q2 2004	—	—	—	—	—	—
Q3 2004	—	—	—	—	—	—
Q4 2004	—	—	—	—	250	250
Allocation to special provisions for bad debts						
Q1 2004	—	—	—	—	—	—
Q2 2004	—	—	—	—	—	—
Q3 2004	—	—	—	—	—	—
Q4 2004	2,015	—	—	485	—	2,500
Balance of other income and expenses						
Q1 2004	(1)	(1)	—	(37)	(33)	(72)
Q2 2004	(3)	—	(1)	(67)	(33)	(104)
Q3 2004	(2)	(1)	—	(52)	(31)	(86)
Q4 2004	(1)	(2)	—	(54)	(38)	(95)
Profit (loss) from ordinary activities/ net income (loss) before taxes						
Q1 2004	85	117	115	(56)	(62)	199
Q2 2004	(18)	173	213	(93)	61	336
Q3 2004	(33)	155	120	(106)	(28)	108
Q4 2004	(2,102)	177	289	(573)	(215)	(2,424)
including:						
Bank Austria Creditanstalt Group						
Q1 2004	—	117	19	—	21	157
Q2 2004	—	173	20	—	(26)	167
Q3 2004	—	155	38	—	(18)	175
Q4 2004	—	177	26	—	(32)	171

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Key ratios, broken down by business segment

in %	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout[1]	Other/ consolidation[1]	HVB Group
Cost-income ratio						
(based on operating revenues)						
2004	65.6	66.3	60.5	—	—	65.6
2003	62.6	71.6	44.5	—	—	63.0
Return on equity before taxes						
(adjusted)[2, 3]						
2004	(0.3)	16.2	21.4	—	—	7.3
2003	(4.1)	14.9	24.9	—	—	5.3
Return on equity before taxes[2]						
2004	(31.3)	14.3	20.3	—	—	(11.5)
2003	3.9	(7.3)	15.2	—	—	(14.6)
Return on equity after taxes						
(adjusted)[3, 4]						
2004	(0.7)	10.0	21.5	—	—	4.9
2003	(5.4)	6.4	23.5	—	—	2.1
Return on equity after taxes[4]						
2004	(37.6)	7.7	20.2	—	—	(17.6)
2003	3.3	(17.9)	12.8	—	—	(19.7)

1 figures have no informative value

2 net income before taxes as a proportion of average shareholders' equity (excluding change in valuation of financial instruments) including minority interest

3 2004 figures adjusted for amortization of goodwill, addition to restructuring provisions, and allocation to special provisions for bad debts
2003 figures adjusted for amortization of goodwill, current income and expenses from norisbank, Bank von Ernst, Bankhaus BethmannMaffei, and the non-scheduled items defined in the consolidated financial statements for 2003

4 net income (loss) as a proportion of average shareholders' equity (excluding change in valuation of financial instruments)

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Balance sheet figures, broken down by business segment

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout	Other/ consolidation	HVB Group
Assets held for trading purposes						
2004	51	2,022	88,733	—	920	91,726
2003	40	2,892	77,164	—	366	80,462
Total volume of lending						
2004	159,286	92,321	63,931	2,627	6,428	324,593
2003	166,658	80,542	78,369	3,025	9,750	338,344
Deposits from other banks						
2004	1,197	20,750	91,628	—	(9,969)	103,606
2003	1,054	6,415	112,304	—	(6,809)	112,964
Amounts owed to other depositors						
2004	60,802	54,097	28,186	238	1,128	144,451
2003	58,480	52,603	29,109	355	(235)	140,312
Promissory notes and other liabilities evidenced by paper						
2004	76	7,836	101,934	—	(284)	109,562
2003	92	6,429	116,449	—	(242)	122,728

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Risk provision rates, broken down by business segment

	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout	Other/ consolidation	HVB Group
Net addition rate (%)						
2004	0.85	0.45	(0.11)	3.81	—	0.56
2003	0.87	0.57	0.42	1.92		0.68
Loan-loss rate (%)						
2004	0.77	0.74	0.71	7.92	—	0.81
2003	0.60	0.51	0.78	20.63	—	0.80
Total allowances for losses on loans and advances (€ millions)						
2004	7,765	3,297	1,251	1,234	273	13,820
2003	5,611	3,523	1,757	854	138	11,883
Provision rate (%)						
2004	4.87	3.57	1.96	46.97	—	4.26
2003	3.37	4,37	2.24	28.23	—	3.51

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Loans put on a non-accrual basis, broken down by business segment

	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout	Other/ consolidation	HVB Group
Loans put on a non-accrual basis (€ millions)						
2004	7,050	3,311	1,678	1,116	228	13,383
2003	6,434	3,458	2,391	1,554	49	13,886
Coverage ratio (%)						
2004	110	100	75	111	—	103
2003	87	102	73	55	—	86

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Capital, broken down by business segment

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Workout	Other/ consolidation	HVB Group
Average tied core capital (BIS)						
2004	7,701	5,078	4,241	113	865	17,998
2003	8,385	3,997	5,599	133	1,256	19,370
Average equity capital[1]						
2004	5,547	3,658	3,055	81	623	12,964
2003	5,805	2,767	3,876	92	870	13,410

[1] equity capital used to calculate return on equity after taxes (excluding revaluation measures on financial instruments)

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Employees, broken down by business segment and service division

	2004	2003[1]
Germany	12,097	12,368
Austria and CEE	24,727	25,722
Corporates & Markets	2,623	2,923
Real Estate Workout	86	86
Group Services	9,022	9,574
Core IT	2,595	2,662
Group Corporate Center	6,396	6,879
Other	260	—
Total	**57,806**	**60,214**

[1] prior year figures adjusted for modified assignments in 2004

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Segment reporting by region (secondary segmentation)

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	Austria	Other Western Europe	Central and Eastern Europe	Americas	Asia	Consolida-tion	Group
Operating revenues								
2004	4,924	2,607	689	1,340	264	55	(559)	9,320
2003	5,449	2,519	983	1,045	366	67	(313)	10,116
Provisions for losses on loans and advances								
2004	1,377	331	31	87	(9)	(4)	—	1,813
2003	1,584	373	151	90	127	(12)	—	2,313
General administrative expenses								
2004	3,250	1,804	243	707	123	57	(66)	6,118
2003	3,447	1,837	304	647	133	72	(69)	6,371
Operating profit (loss)								
2004	296	473	414	547	150	3	(494)	1,389
2003	418	309	528	308	106	7	(244)	1,432
Profit (loss) from ordinary activities/net income (loss) before taxes								
2004	(2,698)	372	409	502	114	13	(493)	(1,781)
2003	(2,229)	(539)	493	275	67	31	(244)	(2,146)

Cost-income ratio (based on operating revenues), broken down by region

in %	2004	2003
Germany	66.0	63.3
Austria	69.2	72.9
Other Western Europe	35.3	30.9
Central and Eastern Europe	52.8	61.9
Americas	46.6	36.3
Asia	103.6	107.5
Group	**65.6**	**63.0**

Total volume of lending, broken down by region

€ millions	2004	2003
Germany	186,579	196,967
Austria	78,301	75,705
Other Western Europe	34,974	40,600
Central and Eastern Europe	20,768	17,488
Americas	8,988	12,649
Asia	4,230	5,811
Consolidation	(9,247)	(10,876)
Group	**324,593**	**338,344**

Employees, broken down by region

	2004	2003
Germany	26,259	27,359
Austria	12,414	13,038
Other Western Europe	1,034	1,045
Central and Eastern Europe	17,496	18,107
Africa	1	1
Americas	322	364
Asia	277	297
Australia	3	3
Group	**57,806**	**60,214**

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Net interest income

€ millions	2004	2003
Interest and similar income from		
lending and money market transactions	14,957	17,356
fixed-income securities and government-inscribed debt	1,403	1,531
equity securities and other variable-yield securities	166	159
subsidiaries	178	112
companies valued at equity	94	65
participating interests	65	69
investment property	34	31
Interest expense and similar charges for		
deposits	5,733	7,200
promissory notes and other liabilities evidenced by paper	4,702	5,338
subordinated capital	963	1,061
Net income from lease operations	**157**	**157**
Total	**5,656**	**5,881**

Interest margin

in %	2004	2003
Based on average risk assets (BIS)[1]	2.63	2.44
Based on average volume of business	1.45	1.38

[1] relating to on-balance-sheet transactions

30

Provisions for losses on loans and advances

€ millions	2004	2003
Additions	3,149	3,788
Allowances for losses on loans and advances	3,026	3,597
Allowances for losses on guarantees and indemnities	123	191
Releases	(1,263)	(1,348)
Allowances for losses on loans and advances	(1,124)	(1,157)
Allowances for losses on guarantees and indemnities	(139)	(191)
Recoveries from write-offs of loans and advances	(73)	(127)
Total	**1,813**	**2,313**

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Net commission income

€ millions	2004	2003
Securities and custodial services	1,105	1,099
Foreign trade operations/ money transfer operations	992	983
Lending operations	466	457
Other service operations	282	256
Total	**2,845**	**2,795**

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Gains less losses arising from trading securities (trading profit)

€ millions	2004	2003
Equity contracts	238	237
Interest rate and currency contracts	480	583
Total	**718**	**820**

This item includes interest and dividend income totaling €791 million and refinancing costs totaling a negative item of €499 million resulting from the balance of assets and liabilities held for trading purposes.

33

General administrative expenses

€ millions	2004	2003
Personnel expense	**3,514**	**3,631**
Wages and salaries	2,624	2,666
Social security costs	477	509
Pension and other employee benefit costs	413	456
Other administrative expenses	**2,029**	**2,108**
Depreciation and amortization	**575**	**632**
on property, plant and equipment	316	397
on software and other intangible assets, excluding goodwill	259	235
Total	**6,118**	**6,371**

In 2004, the Bank did not grant any substantial stock option schemes involving shares of the parent bank or shares issued by dependent or majority-owned companies of the parent bank.

34 Balance of other operating income and expenses

€ millions	2004	2003
Other operating income	422	939
Other operating expenses	321	319
Balance of other operating income and expenses	**101**	**620**

The largest items under other operating income relate to gains on the sale and deconsolidation of subsidiaries, notably Bankhaus BethmannMaffei OHG and Górnoslaski Bank Gospodarczy S.A., totaling €78 million. Income from the reversal of accruals and provisions other than loan-loss provisions amounts to €93 million. The sale of property, plant and equipment, placements, loans and advances, intangible assets, and other assets gave rise to income totaling €25 million and expenses totaling €20 million.The expenses arising from additions to accruals and provisions other than loan-loss provisions total €145 million.

Apart from this, there are no substantial individual items included in other operating income and expenses.

35 Operating revenues

€ millions	2004	2003
Net interest income	5,656	5,881
Net commission income	2,845	2,795
Gains less losses arising from trading securities (trading profit)	718	820
Balance of other operating income and expenses	101	620
Total	**9,320**	**10,116**

36 Effects of changes in foreign exchange rates

	Year-on-year change in income statement	Currency effects included in change	Year-on-year change adjusted for currency effects	
	€ millions	€ millions	€ millions	in %
Net interest income	(225)	5	(230)	(3.9)
Net commission income	50	9	41	1.5
Gains less losses arising from trading securities (trading profit)	(102)	3	(105)	(12.8)
General administrative expenses	(253)	11	(264)	(4.1)

37 Net income from investments

Net income from the sale of, and changes in valuation of, held-to-maturity and available-for-sale investments to be recognized in the income statement are shown in this item. Also stated here are gains on the sale of companies valued at equity, as well as expenses arising from, and gains on the realization of, investment property.

€ millions	2004	2003
Net income from investments		
Available-for-sale investments	92	(1,901)
Held-to-maturity investments	2	17
Companies valued at equity	(2)	39
Investment property	10	39

The largest individual items under net income from available-for-sale investments are the gains on the disposal of the Bank's holdings in E.ON AG (€112 million). Apart from this, net income from investments contains no significant individual items.

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Amortization of goodwill

Scheduled amortization of €153 million and non-scheduled amortization of €12 million was taken on goodwill in 2004.

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Addition to restructuring provisions

It will be necessary to make payments for severance agreements and part-time working pre-retirement as well as associated administrative expenses to implement a package of measures under the Bank's PRO (Process Redesign and Optimization) efficiency program. Consequently, provisions have been set aside compliant with IAS 37 and are shown separately. The provisions will for the most part be consumed in 2005 and 2006.

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Allocation to special provisions for bad debts

The workout portfolios from the entire German real estate finance business of the parent bank are being transferred to the new Real Estate Restructuring segment together with the remaining portfolios of the Real Estate Workout segment. This segment will include a volume of €15.4 billion. The aim is to completely eliminate the portfolios allocated to this segment without disrupting the market, by exploiting various options and the opportunities arising from the development of the real estate markets. To facilitate the rapid reduction of these portfolios, it is necessary to change the valuation method for the real estate collaterals associated with these portfolios. In contrast to the previous approach, which in many instances aimed to restructure the individual commitments – sometimes over the long run – before returning them to regular treatment, the valuation is now made at liquidation value. As a consequence, an allocation to special provisions for bad debts amounting to €2.5 billion was necessary.

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Balance of other income and expenses

€ millions	2004	2003
Other income	**—**	**—**
Other expenses	**357**	**638**
of which:		
Other taxes	7	14
Absorbed losses	220	164
Risk shield	130	460
Balance of other income and expenses	**(357)**	**(638)**

Risk-shield expenses totaling €130 million accrued in 2004 in conjunction with the spin-off of the commercial real estate business to Hypo Real Estate Holding AG. This sum arose from the commitment to absorb net losses of Hypo Real Estate Bank AG up to a maximum amount of €590 million (€460 million in 2003 and €130 million in 2004), provided such losses were caused by the setting aside of specific loan-loss provisions.

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Taxes on income

€ millions	2004	2003
Current taxes	210	107
Deferred taxes	1	189
Total	**211**	**296**

The near-balanced income and expenses arising from deferred taxes are primarily attributable to temporary differences originating or being reversed (deferred tax expense of €166 million), changes in tax rates (deferred tax expense of €76 million), and the origination or use of tax losses carried forward (deferred tax income of €180 million).

The differences between computed taxes on income and recognized taxes on income are shown in the following reconciliation.

€ millions	2004	2003
Net income (loss) before taxes	(1,781)	(2,146)
Applicable tax rate	26.4%	28.0%
Computed taxes on income	(470)	(601)
Tax effects		
arising from prior years and changes in tax rates	81	1
arising from foreign income	(85)	32
arising from non-taxable income	(172)	(343)
arising from different tax laws	13	14
arising from non-deductible expenses	71	604
arising from valuation adjustments and the non-application of deferred taxes	765	260
arising from amortization of goodwill	43	320
arising from other differences	(9)	9
Recognized taxes on income	**211**	**296**

The tax rate applicable in the year under review decreased from 28.0% to 26.4%, as the higher rate of corporate income tax of 26.5% as a result of the German Flood Victim Solidarity Act was only applicable for 2003. The applicable tax rate comprises the current rate of corporate income tax in Germany of 25.0% (2003: 26.5%) and the solidarity surcharge of 5.5% of corporate income tax.

The effect on tax of foreign income results from different tax rates applicable in other countries.

The item tax effects arising from different tax laws comprises primarily the application of non-uniform tax rates for the calculation of current and deferred trade tax in Germany, and a reduction in corporate income tax and the solidarity surcharge resulting from the deductibility of trade tax.

Alongside the effects arising from the reduction and increase of deferred tax assets compliant with IAS 12.56 and IAS 12.37, the item effects on taxes arising from valuation adjustments and the non-application of deferred taxes contains the effects arising from the non-application of deferred tax assets due to tax losses carried forward and temporary differences in the current fiscal year. In addition, this item includes the effects of temporary differences associated with subsidiaries for which, compliant with IAS 12.39 and 12.44, no deferred tax assets or liabilities may be recognized.

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

€ millions	2004	2003
Deferred tax liabilities		
Placements with, and loans and advances to, other banks and customers, incl. loan-loss provisions	202	142
Assets/liabilities held for trading purposes	643	565
Investments	581	508
Property, plant and equipment/ intangible assets	102	131
Other assets/liabilities	671	294
Deposits from other banks/ amounts owed to other depositors	27	43
Other	370	407
Recognized deferred tax liabilities	**2,596**	**2,090**
Deferred tax assets		
Assets/liabilities held for trading purposes	997	921
Investments	259	277
Property, plant and equipment/ intangible assets	71	69
Provisions	616	497
Other assets/liabilities	1,085	1,323
Placements with, and loans and advances to, other banks and customers, incl. loan-loss provisions	117	164
Losses carried forward	595	432
Other	172	102
Recognized deferred tax assets	**3,912**	**3,785**

German corporations are generally charged a definitive corporate income tax rate of 25.0%, irrespective of whether the earnings are distributed or not. The rate of corporate income tax applicable in 2004 is 25.0% (2003: 26.5%). Deferred taxes were measured for the Bank's domestic companies using a uniform rate of corporate income tax, including the solidarity surcharge, of 26.4%, and a rate of municipal trade tax dependent on the respective multiplier. Given the deductibility of municipal trade tax when calculating corporate income tax, this results in an unchanged total assessment rate for deferred taxes of 39.8% at the parent bank.

The available-for-sale reserve was reduced by €67 million due to deferred taxes in the year under review. Deferred tax assets of €241 million were offset against the hedge reserve in 2004. In each case, the deferred tax items offset directly against reserves are amounts before adjustment for minority interest.

Compliant with IAS 12, no deferred tax assets have been recognized for tax losses carried forward totaling €6,492 million (2003: €3,142 million) and deductible temporary differences of €401 million (2003: €606 million).

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Earnings per share

	2004	2003
Net income (loss) adjusted for minority interest (€ millions)	(2,278)	(2,639)
Net income (loss) adjusted for minority interest (adjusted), € millions[1]	637	292
Average number of shares	697,096,530	536,288,701
Earnings per share (adjusted), €[1]	**0.91**	**0.54**
Earnings per share, €	**(3.27)**	**(4.92)**

[1] 2004 figures adjusted for amortization of goodwill, addition to restructuring provisions, and allocation to special provisions for bad debts

2003 figures adjusted for amortization of goodwill, current income and expenses from norisbank, Bank von Ernst, Bankhaus Bethmann-Maffei, and the non-scheduled items defined in the consolidated financial statements for 2003

When calculating the earnings per share for 2004, the Bank includes the new shares arising from the capital increase of April 2004 in the average value in the denominator for the ratio.

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Statement of value added

Creation:

€ millions	2004	2003
Operating revenues	9,320	10,116
Net income from investments	102	(1,806)
Total income	9,422	8,310
Provisions for losses on loans and advances	1,813	2,313
Other administrative expenses	2,029	2,108
Depreciation and amortization on property, plant and equipment, and intangible assets	740	1,766
Addition to restructuring provisions, allocation to special provisions for bad debts and other expenses (excl. taxes)	3,100	624
Value added	**1,740**	**1,499**

Use:

€ millions	2004	2003
Value added	**1,740**	**1,499**
Employees (personnel expense)	3,514	3,631
Public authorities (taxes)	218	310
HVB AG shareholders (dividend)	—	—
Minority interest	286	197
Companies	(2,278)	(2,639)

NOTES TO THE CONSOLIDATED BALANCE SHEET

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Cash reserve

€ millions	2004	2003
Cash on hand and balances with central banks	6,644	5,099
Treasury bills and other bills eligible for refinancing with central banks	837	609
Treasury bills, zero-interest Treasury notes and similar instruments of public-sector entities	599	164
Bills of exchange	238	445
Total	**7,481**	**5,708**

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Assets held for trading purposes

€ millions	2004	2003
Debt securities and other fixed-income securities	37,398	30,798
Money market instruments	959	2,017
Bonds and notes	36,439	28,781
issued by public-sector borrowers	8,149	6,992
issued by other borrowers	28,290	21,789
of which:		
Marketable securities	36,931	29,784
listed	33,212	26,310
unlisted	3,719	3,474
Equity securities and other variable-yield securities	5,481	3,660
Equity securities	4,097	2,839
Investment securities	913	414
Other	471	407
of which:		
Marketable securities	4,707	3,152
listed	4,530	3,119
unlisted	177	33
Positive fair values from derivative financial instruments	44,973	44,147
Other assets held for trading purposes	3,874	1,857
Total	**91,726**	**80,462**

Assets held for trading purposes are carried at fair value. The difference between the cost of acquisition and fair value of listed securities totals €461 million.

Debt securities and other fixed-income securities receivable from non-consolidated subsidiaries and companies in which a participating interest is held

€ millions	2004	2003
Non-consolidated subsidiaries	18	47
Companies in which a participating interest is held	205	72
Total	**223**	**119**

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Placements with, and loans and advances to, other banks

Placements with, and loans and advances to, other banks, broken down by type of business

€ millions	2004	2003
Placements, loans and advances	**22,299**	**24,457**
Municipal loans	874	1,213
Real estate loans	1	9
Other placements, loans and advances	21,424	23,235
Investments	**25,180**	**28,385**
Total	**47,479**	**52,842**

Placements with, and loans and advances to, other banks in Germany and other regions

€ millions	2004	2003
Banks in Germany	10,613	14,524
Banks in other regions	36,866	38,318
Total	**47,479**	**52,842**

Placements with, and loans and advances to, other banks, broken down by maturity

€ millions	2004	2003
Repayable on demand	10,352	12,482
With agreed maturities	37,127	40,360
up to 3 months	21,999	21,920
from 3 months to 1 year	4,319	5,853
from 1 year to 5 years	5,379	6,418
from 5 years and over	5,430	6,169
Total	**47,479**	**52,842**

Placements with, and loans and advances to, non-consolidated subsidiaries and companies in which a participating interest is held

€ millions	2004	2003
Non-consolidated subsidiaries	358	375
Companies in which a participating interest is held	1,005	1,387
Total	**1,363**	**1,762**

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Loans and advances to customers

Loans and advances to customers, broken down by type of business

€ millions	2004	2003
Loans and advances	**270,979**	**280,850**
Municipal loans	21,357	24,998
Real estate loans	118,905	126,787
Other loans and advances	130,717	129,065
Investments	**4,140**	**2,675**
Total	**275,119**	**283,525**

Loans and advances to customers in Germany and other regions

€ millions	2004	2003
Customers in Germany	166,041	175,622
Customers in other regions	109,078	107,903
Total	**275,119**	**283,525**

Loans and advances to customers, broken down by maturity

€ millions	2004	2003
Repayable on demand	25,623	25,659
With agreed maturities	249,496	257,866
up to 3 months	33,282	31,338
from 3 months to 1 year	18,961	20,906
from 1 year to 5 years	55,669	56,616
from 5 years and over	141,584	149,006
Total	**275,119**	**283,525**

Loans and advances to non-consolidated subsidiaries and companies in which a participating interest is held

€ millions	2004	2003
Non-consolidated subsidiaries	2,558	2,745
Companies in which a participating interest is held	2,887	3,526
Total	**5,445**	**6,271**

Amounts receivable from lease operations (finance lease)

€ millions	2004	2003
Gross investment value (by remaining maturity)		
up to 3 months	443	361
from 3 months to 1 year	930	758
from 1 year to 5 years	2,575	2,207
from 5 years and over	3,293	2,735
Total gross investment value	**7,241**	**6,061**
of which:		
Unguaranteed residual values	1,047	1,013
Unrealized finance income (by remaining maturity)		
up to 3 months	(103)	(51)
from 3 months to 1 year	(156)	(137)
from 1 year to 5 years	(489)	(381)
from 5 years and over	(856)	(627)
Total unrealized finance income	**(1,604)**	**(1,196)**
Net investment (by remaining maturity)		
up to 3 months	340	310
from 3 months to 1 year	774	621
from 1 year to 5 years	2,086	1,826
from 5 years and over	2,437	2,108
Total net investment	**5,637**	**4,865**

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

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

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

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Allowances for losses on loans and advances

Analysis of allowances for losses on loans and advances

€ millions	Counterparty risk		Country risk		Special provisions for bad debts		Latent risk		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Balance at January 1	**10,914**	**11,723**	**61**	**87**	**—**	**—**	**386**	**396**	**11,361**	**12,206**
Changes affecting income										
Gross additions	2,633	3,218	7	13	2,500	—	386	366	5,526	3,597
Releases	(1,105)	(1,103)	(14)	(14)	—	—	(5)	(40)	(1,124)	(1,157)
Changes not affecting income										
Changes due to make-up of group of consolidated companies	95	(178)	1	—	—	—	—	(34)	96	(212)
Use of existing loan-loss allowances	(2,316)	(2,477)	(1)	(25)	—	—	(366)	(326)	(2,683)	(2,828)
Effects of currency translation and other changes not affecting income	167	(269)	—	—	—	—	(28)	24	139	(245)
Balance at December 31	**10,388**	**10,914**	**54**	**61**	**2,500**	**—**	**373**	**386**	**13,315**	**11,361**

Breakdown of allowances for losses on loans and advances

€ millions	2004	2003
Placements with, and loans and advances to, other banks	177	196
Loans and advances to customers	12,765	10,779
General loan-loss allowances	373	386
Total	**13,315**	**11,361**

Loans put on a non-accrual basis and proportion of total volume of lending

	2004	2003
Loans put on a non-accrual basis (€ millions)	13,383	13,886
Total volume of lending (€ millions)	324,593	338,344
Proportion of loans put on a non-accrual basis to total volume of lending[1] (%)	4.12	4.10

[1] loans put on a non-accrual basis divided by total volume of lending

The loss of interest on loans put on a non-accrual basis totaled €644 million (2003: €581 million).

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Analysis of loan default risk

Total volume of lending

€ millions	2004	2003
Placements with, and loans and advances to, other banks	22,299	24,457
Loans and advances to customers	270,979	280,850
Contingent liabilities	31,315	33,037
Total	**324,593**	**338,344**

Coverage ratio

	2004	2003
Total allowances for losses on loans and advances (€ millions)	13,820	11,883
Allowances for losses on loans and advances (€ millions)	13,315	11,361
Allowances for losses on guarantees and indemnities (€ millions)	505	522
Loans put on a non-accrual basis (€ millions)	13,383	13,886
Coverage ratio[1] (%)	**103**	**86**

[1] total allowances for losses on loans and advances divided by loans put on a non-accrual basis

Ratio of allowances to total lendings

	2004	2003
Total allowances for losses on loans and advances (€ millions)	13,820	11,883
Allowances for losses on loans and advances (€ millions)	13,315	11,361
Allowances for losses on guarantees and indemnities (€ millions)	505	522
Total volume of lending (€ millions)	324,593	338,344
Provision rate[1] (%)	**4.26**	**3.51**

[1] total allowances divided by total volume of lending

Net addition rate

	2004	2003
Provisions for losses on loans and advances (€ millions)	1,813	2,313
Total volume of lending (€ millions)	324,593	338,344
Net addition rate[1] (%)	**0.56**	**0.68**

[1] provisions for losses on loans and advances divided by total volume of lending

Loan-loss rate

	2004	2003
Use of existing loan-loss allowances (€ millions)	2,683	2,828
+ Use of allowances for losses on guarantees and indemnities (€ millions)	4	3
– Recoveries from written-off loans and advances (€ millions)	73	127
Loan losses (€ millions)	2,614	2,704
Total volume of lending (€ millions)	324,593	338,344
Loan-loss rate[1] (%)	**0.81**	**0.80**

[1] loan losses divided by total volume of lending

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Investments

Analysis of investments

€ millions	2004	2003
Held-to-maturity investments		
Debt securities and other fixed-income securities	8,677	9,065
Available-for-sale investments	33,554	42,737
Non-consolidated subsidiaries	1,777	1,763
Participating interests	1,475	2,115
Debt securities and other fixed-income securities	23,083	28,431
Equity securities and other variable-yield securities	7,219	10,428
of which: long-term securities	4,895	6,860
Companies valued at equity	985	780
Investment property	432	418
Total	**43,648**	**53,000**

Breakdown of carrying amounts at December 31, 2004

€ millions	Non-consolidated subsidiaries	Companies valued at equity	Participating interests	Debt securities and other fixed-income securities	Equity securities and other variable-yield securities	Total
Marketable securities	87	534	677	34,551	6,173	42,022
listed securities	15	534	509	31,324	2,840	35,222
unlisted securities	72	—	168	3,227	3,333	6,800

There were no restrictions on disposal or collection of income from investments.

€7,117 million of the debt securities and other fixed-income securities mature in 2005.

Statement of changes in held-to-maturity and long-term investments, and investment property

€ millions	Held-to-maturity investments	Non-consolidated subsidiaries	Partici-pating interests	Long-term investments in equity securi-ties and other variable-yield securities	Companies valued at equity	Investment property	Total
Acquisition cost							
Balance at Jan. 1, 2004	9,119	2,564	2,881	8,561	767	659	24,551
Changes in consolidated group	6	(3)	(2)	87	(63)	4	29
Changes arising from foreign currency translation	(85)	(19)	1	—	—	2	(101)
Additions	2,423	532	299	727	8	34	4,023
Reclassifications	—	(159)	(124)	1	224	48	(10)
Disposals	(2,713)	(357)	(919)	(3,291)	—	(79)	(7,359)
Balance at Dec. 31, 2004	8,750	2,558	2,136	6,085	936	668	21,133
Changes in valuation not affecting income							
Balance at Jan. 1, 2004	—	7	165	66	—	—	238
Changes in consolidated group	—	—	—	—	—	—	—
Changes arising from foreign currency translation	—	—	—	—	—	—	—
Changes in value not affecting income	—	—	(26)	(121)	—	—	(147)
Reclassifications	—	—	—	—	—	—	—
Disposals	—	(7)	—	26	—	—	19
Balance at Dec. 31, 2004	—	—	139	(29)	—	—	110
Cumulative change arising from accounting using the equity method	**—**	**—**	**—**	**—**	**54**	**—**	**54**
Write-downs and write-ups							
Balance at Jan. 1, 2004	(54)	(808)	(931)	(1,767)	—	(241)	(3,801)
Changes in consolidated group	—	—	3	(1)	—	(1)	1
Changes arising from foreign currency translation	(4)	5	—	—	—	—	1
Write-downs	—	(94)	(24)	(4)	—	(23)	(145)
Reversal of premiums and discounts	(23)	—	—	—	—	—	(23)
Write-ups	—	10	22	5	—	—	37
Reclassifications	—	7	(9)	—	(5)	(16)	(23)
Disposals	8	99	139	606	—	45	897
Balance at Dec. 31, 2004	(73)	(781)	(800)	(1,161)	(5)	(236)	(3,056)
Carrying amounts							
Balance at Dec. 31, 2004	8,677	1,777	1,475	4,895	985	432	18,421
Balance at Dec. 31, 2003	9,065	1,763	2,115	6,860	780	418	21,001

The disposals of held-to-maturity investments relate to redemptions at maturity.

The following table shows the breakdown of debt securities and other fixed-income securities, as well as equity securities and other variable-yield securities:

€ millions	2004	2003
Debt securities and other fixed-income securities	31,760	37,496
Money market instruments	1,027	631
Bonds and notes	30,733	36,865
issued by public-sector borrowers	13,217	14,387
issued by other borrowers	17,516	22,478
own debt securities		2,095
Equity securities and other variable-yield securities	7,219	10,428
of which:		
Equities	3,364	6,099
Investment certificates	2,244	1,984

Debt securities and other fixed-income securities payable to non-consolidated subsidiaries and companies in which a participating interest is held

€ millions	2004	2003
Non-consolidated subsidiaries	—	55
Companies in which a participating interest is held	268	422
Total	**268**	**477**

Fair value of investments

The fair value of investment property totaled €527 million (2003: €527 million) at the balance sheet date. The appraisals prepared to calculate the fair values are based on recognized appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. The fair value of major investments in listed non-banks totals €3.2 billion. When compared with the carrying amounts, there was no material difference.

The Bank does not have any entrepreneurial objectives with regard to the interests listed below and does not exercise any influence over financial or operational decisions.

Major investments in listed non-banks

	2004 Interest[1] in %	2004 Market value € millions	2003 Interest in %	2003 Market value € millions
Agrob AG	52.7	17	52.7	20
Aktienbrauerei Kaufbeuren AG	—	—	65.7	7
Allianz AG	—	—	3.2	1,229
Babcock & Brown Ltd.	8.4	119	—	—
Brau und Brunnen AG	—	—	61.7	180
ERGO Versicherungsgruppe Aktiengesellschaft	< 5.0	267	< 5.0	320
KWS Saat AG	—	—	15.0	56
Münchener Rückversicherungs-Gesellschaft AG	< 10.0	2,068	13.2	2,905
Rhön-Klinikum AG	18.5	217	18.5	213
Unternehmens Invest AG	13.0	5	13.0	6
Wienerberger AG	15.2	395	31.9	441
Wüstenrot & Württembergische AG	7.5	97	7.5	111
Total		**3,185**		**5,488**

[1] aggregate total

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Property, plant and equipment

€ millions	Land and buildings	Plant and operating equipment	Leased assets from operating leases	Construction in progress	Total
Acquisition/production cost					
Balance at Jan 1, 2004	3,189	2,999	39	59	6,286
Changes in consolidated group	21	5	—	2	28
Changes arising from foreign currency translation	33	34	—	2	69
Additions	33	132	39	41	245
Reclassifications	10	(18)	(15)	(12)	(35)
Disposals	(31)	(756)	(18)	(16)	(821)
Balance at Dec. 31, 2004	3,255	2,396	45	76	5,772
Depreciation and write-ups					
Balance at Jan. 1, 2004	(1,072)	(2,201)	(12)	—	(3,285)
Changes in consolidated group	(1)	(5)	—	—	(6)
Changes arising from foreign currency translation	(10)	(27)	—	—	(37)
Scheduled depreciation	(76)	(235)	(8)	—	(319)
Non-scheduled depreciation	(2)	(3)	—	—	(5)
Write-ups	—	—	—	—	—
Reclassifications	2	9	—	—	11
Disposals	10	712	2	—	724
Balance at Dec. 31, 2004	(1,149)	(1,750)	(18)	—	(2,917)
Carrying amounts					
Balance at Dec. 31, 2004	2,106	646	27	76	2,855
Balance at Dec. 31, 2003	2,117	798	27	59	3,001

Obligations for the acquisition of items of property, plant and equipment are stated at €93 million.

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Intangible assets

Amortization of goodwill is shown in a separate item in the income statement. Amortization of software and other intangible assets is stated under depreciation and amortization on intangible assets under general administrative expenses.

Analysis of intangible assets

€ millions	Goodwill of which: from subsidiaries	Goodwill of which: companies valued at equity	Software of which: acquired	Software of which: internally-generated	Other intangible assets	Advance payments for intangible assets
Acquisition/production cost						
Balance at Jan. 1, 2004	3,801	83	717	500	125	149
Changes in consolidated group	5	77	25	1	—	—
Changes arising from foreign currency translation	10	—	4	2	8	2
Additions	130	11	72	53	22	135
Reclassifications	—	—	45	9	—	(6)
Disposals	(1)	—	(99)	(32)	(2)	(23)
Balance at Dec. 31, 2004	3,945	171	764	533	153	257
Amortization and write-ups						
Balance at Jan. 1, 2004	(1,941)	(2)	(480)	(165)	(66)	—
Changes in consolidated group	—	7	(19)	—	—	—
Changes arising from foreign currency translation	(5)	—	(4)	(1)	(7)	—
Scheduled amortization	(149)	(4)	(117)	(111)	(27)	—
Non-scheduled amortization	(12)	—	(2)	(2)	—	—
Write-ups	—	—	—	—	—	—
Reclassifications	—	—	(29)	2	(1)	—
Disposals	1	—	83	25	2	—
Balance at Dec. 31, 2004	(2,106)	1	(568)	(252)	(99)	—
Carrying amounts						
Balance at Dec. 31, 2004	1,839	172	196	281	54	257
Balance at Dec. 31, 2003	1,860	81	237	335	59	149

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Income tax assets

€ millions	2004	2003
Current tax assets	221	287
Deferred tax assets	3,912	3,785
Total	**4,133**	**4,072**

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Other assets

€ millions	2004	2003
Positive fair values arising from derivative financial instruments	3,249	2,967
Miscellaneous other assets	1,826	2,097
Prepaid expenses	408	421
Total	**5,483**	**5,485**

Positive fair values arising from derivative financial instruments

This item mostly reflects derivatives used to hedge market interest rate risk.

Miscellaneous other assets

This item includes non-banking receivables, among other things.

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Subordinated assets

The following asset items include subordinated assets:

€ millions	2004	2003
Placements with, and loans and advances to, other banks	**2,717**	**2,748**
of which:		
to non-consolidated subsidiaries	29	21
to companies in which a participating interest is held	21	4
Loans and advances to customers	**906**	**1,140**
of which:		
to non-consolidated subsidiaries	4	78
to companies in which a participating interest is held	—	148
Assets held for trading purposes	**1,283**	**683**
Investments	**791**	**1,320**
Total	**5,697**	**5,891**

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Repurchase agreements

As a seller under repurchase agreements, the Bank entered into sales and repurchase transactions for securities with a carrying amount of €35.1 billion. These securities continue to be shown under the Bank's assets, and the consideration received in return is stated under liabilities. They comprise mainly repo transactions on international money markets and open-market transactions with Deutsche Bundesbank.

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Securitization

Securitization involves passing on to the capital market, either in part or in full, loan default risks associated with selected loan portfolios defined precisely in advance. The prime motivation for the Bank's securitization programs is the desire to reduce the risk in the Bank's loan portfolio. The transfer of risk and the ensuing reduction in capital requirements is achieved by collateralization in the form of guarantees or credit derivatives (credit default swaps, credit-linked notes, and so on) in the case of synthetic securitization, and by selling balance sheet assets (true sale) in the case of traditional securitization.

In 2004, HVB Group slightly expanded its securitization activities, with one new securitization transaction (Wolfgang). The corresponding volume of lending outplaced totaled €0.4 billion at year-end, serving to deduct €0.3 billion from risk-weighted assets in accordance with BIS rules.

At December 31, 2004, the total volume of lending in the Bank's full set of ongoing securitization programs totaled €23.9 billion (2003: €28.4 billion), serving to deduct €15.5 billion (2003: €18.9 billion) from risk-weighted assets in accordance with BIS rules.

As a rule, the originator of securitization programs retains a small slice of the risk in the form of a first loss piece or an interest subparticipation.

In the programs listed below, the first loss pieces total €251 million and the interest subparticipations €118 million.

Issuer	Transaction name	Maturity, years	Type of asset securitized	Total volume of lending € millions	Reduction in risk-weighted assets, as per BIS rules € millions
Bayerische Hypo- und Vereinsbank AG	Amadeus	40	Securities portfolio	253	118
Bayerische Hypo- und Vereinsbank AG	PROMISE-A 2000-1	8	Corporate loans	524	482
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2001-1	36	Private mortgage loans	602	542
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2002-1	50	Private mortgage loans	3,814	1,494
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2003-1	50	Private mortgage loans	3,826	1,492
Bayerische Hypo- und Vereinsbank AG	PROMISE-A 2002-1	8	Corporate loans	464	427
HVB Banque Luxembourg S. A.	GELDILUX 2001-1	3	Euroloans		expired in 2004
HVB Banque Luxembourg S. A.	GELDILUX 2002-1	3	Euroloans	3,000	2,259
Bank Austria Creditanstalt AG	PROMISE Austria-2002	8	Corporate loans	636	476
Total for 1998–2002 HVB Group				**13,119**	**7,290**
Bayerische Hypo- und Vereinsbank AG	LOMBARD[1] Securities No. 1	7	Corporate loans	802	802
Bayerische Hypo- und Vereinsbank AG	PROMISE COLOR 2003-1	11	Corporate loans	805	786
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2003-1	50	Private mortgage loans	2,689	1,704
Bayerische Hypo- und Vereinsbank AG	PROMISE-XXS 2003-1	10	Corporate loans	1,560	1,430
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2004-1	40	Private mortgage loans	3,132	1,874
HVB Banque Luxembourg S. A.	GELDILUX-TS-2003	3	Euroloans	1,400	1,319
Total for 2003 HVB Group				**10,388**	**7,915**
Bayerische Hypo- und Vereinsbank AG	Wolfgang	36	Securities portfolio	424	306
Total for HVB Group 2004				**424**	**306**
Total				**23,931**	**15,511**

[1] since the first loss pieces and hence the main risks of the Lombard Securities transaction were transferred to third parties, the loan portfolio has been derecognized in accordance with IFRS

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Deposits from other banks

Deposits from other banks in Germany and other regions

€ millions	2004	2003
Banks in Germany	35,835	41,310
Banks in other regions	67,771	71,654
Total	**103,606**	**112,964**

Deposits from other banks, broken down by maturity

€ millions	2004	2003
Repayable on demand	10,249	13,619
With agreed maturities	93,357	99,345
up to 3 months	60,565	61,021
from 3 months to 1 year	6,745	13,700
from 1 year to 5 years	9,418	8,709
from 5 years and over	16,629	15,915
Total	**103,606**	**112,964**

Amounts owed to non-consolidated subsidiaries and companies in which a participating interest is held

€ millions	2004	2003
Non-consolidated subsidiaries	337	327
Companies in which a participating interest is held	11,335	11,629
Total	**11,672**	**11,956**

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Amounts owed to other depositors

Amounts owed to other depositors in Germany and other regions

€ millions	2004	2003
Customers in Germany	72,272	72,526
Customers in other regions	72,179	67,786
Total	**144,451**	**140,312**

Amounts owed to depositors, broken down by maturity – Savings deposits and home-loan savings deposits

€ millions	2004	2003
With agreed maturities		
up to 3 months	21,070	18,766
from 3 months to 1 year	3,528	3,005
from 1 year to 5 years	4,822	5,770
from 5 years and over	7,088	6,998
Total	**36,508**	**34,539**

Other liabilities

€ millions	2004	2003
Repayable on demand	52,721	48,379
With agreed maturities	55,222	57,394
up to 3 months	35,781	38,106
from 3 months to 1 year	5,084	5,784
from 1 year to 5 years	7,204	4,790
from 5 years and over	7,153	8,714
Total	**107,943**	**105,773**

Amounts owed to non-consolidated subsidiaries and companies in which a participating interest is held

€ millions	2004	2003
Non-consolidated subsidiaries	955	1,122
Companies in which a participating interest is held	1,631	1,176
Total	**2,586**	**2,298**

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Promissory notes and other liabilities evidenced by paper

Promissory notes and other liabilities evidenced by paper, broken down by type of business

€ millions	2004	2003
Debt securities in issue	85,015	94,767
Mortgage bonds	32,149	37,164
Public-sector bonds	9,703	10,700
Other debt securities	42,999	46,893
Money market instruments	164	10
Registered notes in issue	23,159	24,378
Mortgage bonds	17,269	18,217
Public-sector bonds	5,827	6,078
Other debt securities	63	83
Other promissory notes and liabilities evidenced by paper	1,388	3,583
Total	**109,562**	**122,728**

Promissory notes and other liabilities evidenced by paper, broken down by maturity

€ millions	2004	2003
With agreed maturities		
up to 3 months	10,103	11,176
from 3 months to 1 year	20,406	15,984
from 1 year to 5 years	47,914	64,899
from 5 years and over	31,139	30,669
Total	**109,562**	**122,728**

Promissory notes and other liabilities evidenced by paper payable to non-consolidated subsidiaries and companies in which a participating interest is held

€ millions	2004	2003
Non-consolidated subsidiaries	1,621	1,674
Companies in which a participating interest is held	194	312
Total	**1,815**	**1,986**

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Liabilities held for trading purposes

The negative fair values arising from derivative financial instruments are carried as liabilities held for trading purposes. This item also includes warrants and certificates issued by the Bank's trading department.

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Provisions

€ millions	2004	2003
Provisions for pensions and similar obligations	2,881	2,927
Restructuring provisions	299	142
Allowances for losses on guarantees and indemnities	505	522
Other provisions	775	702
including:		
long-term liabilities to employees	173	111
Total	**4,460**	**4,293**

Provisions for pensions

The provisions for pensions and similar obligations include the direct commitments to Bank employees under company pension plans.

The direct commitments are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. In addition, Group companies make contributions for commitments made by independent pension organizations. The pension obligations funded through pension funds or retirement benefit corporations with matching cover are recognized as defined contribution plans or treated materially as defined contribution obligations in compliance with IAS 19.58 and IAS 19.104. The cost of such plans totaled €82 million (2003: €88 million).

For the purpose of calculating the amounts of these commitments, the discount rate and the expected return on plan assets were decreased compared with the prior year; the other parameters were retained unchanged. The following table shows the parameters used by the parent bank:

in %	Dec. 31, 2004/ Jan. 1, 2005	Dec. 31, 2003/ Jan. 1, 2004
Discount rate	5.0	5.5
Expected return on plan assets	5.0	5.5
Rate of increase in pension obligations	1.5	1.5
Rate of increase in future compensation and vested rights	2.5	2.5
Rate of increase over career	0 – 1.5	0 – 1.5

Funding status:

€ millions	
Present value of unfunded pension commitments	3,132
Present value of funded pension commitments	1,909
Fair value of plan assets	(1,751)
Outstanding actuarial loss	(413)
Capitalized excess cover of plan assets	4
Recognized pension provisions	**2,881**

The 10% corridors for the maximum of the present value of the pension commitments and the fair value of the plan assets were not exceeded.

Movements in provisions for pension plans shown in the balance sheet are as follows:

€ millions	
Balance at Jan. 1, 2004	2,927
Pension expense	293
Payments affecting liquidity	(187)
Allocations to plan assets	(164)
Changes in consolidated group	10
Changes arising from foreign currency translation	2
Balance at Dec. 31, 2004	2,881

The following table shows the breakdown of pension expense

€ millions	
Present value of the pension claims vested in the year under review	86
Interest expense	253
Expense for retroactive improvements to pension commitments	41
Expected income from plan assets	(87)
Total	**293**

At December 31, 2003, the parent bank set up plan assets in the form of a so-called contractual trust arrangement (CTA). This involved transferring the assets required to fund its pension commitments to a legally independent trustee – HVB Trust e.V. IAS 19.54 requires the asset transferred to be offset against the pension provisions, with the amount of the pension provisions in the corporate group declining accordingly. The plan assets were increased in 2004 primarily to cover the pension commitments of the former Vereins- und Westbank AG.

The following table shows the breakdown of the plan assets of HVB Trust e.V. used to fund the pension commitments:

€ millions	
Receivables from (secured by) parent bank	1,191
Investment fund shares	532
Fixed-income securities	28
Total	**1,751**

The following table shows the development of the plan assets in the year under review:

€ millions	
Balance at January 1, 2004	1,613
Allocations to plan assets	164
Actual income from plan assets	55
Disbursements to beneficiaries	(81)
Balance at December 31, 2004	1,751

Restructuring and other provisions

€ millions	Restructuring provisions	Allowances for losses on guarantees and indemnities	Other provisions
Balance at Jan. 1, 2004	142	522	702
Changes in consolidated group	(5)	3	(2)
Changes arising from foreign currency translation	—	(4)	1
Transfers to provisions	250	123	285
Reversals	—	(139)	(63)
Reclassifications	—	4	5
Amounts used	(88)	(4)	(153)
Balance at Dec. 31, 2004	299	505	775

The allowances for losses on guarantees and indemnities primarily include allowances for guarantee risks, documentary credits, irrevocable credit commitments, and litigation risks in the lending business.

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

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Income tax liabilities

€ millions	2004	2003
Current tax liabilities	414	464
Deferred tax liabilities	2,596	2,090
Total	**3,010**	**2,554**

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Other liabilities

€ millions	2004	2003
Negative fair values arising from derivative financial instruments	5,117	5,084
Miscellaneous other liabilities	4,535	3,966
Deferred income	352	350
Total	**10,004**	**9,400**

Negative fair values arising from derivative financial instruments
This item mostly reflects derivatives used to hedge market interest rate risk.

Miscellaneous other liabilities
This item includes mostly absorbed losses, offsetting balances, 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.

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Subordinated capital

€ millions	2004	2003
Subordinated liabilities	12,802	13,155
Participating certificates outstanding	1,987	1,952
Hybrid capital instruments	3,665	4,076
Total	**18,454**	**19,183**

Subordinated capital, broken down by maturity

€ millions	2004	2003
With agreed maturities		
up to 3 months	626	332
from 3 months to 1 year	753	392
from 1 year to 5 years	5,521	3,453
from 5 years and over	11,554	15,006
Total	**18,454**	**19,183**

Pursuant to Section 10 (4, 5, 5a and 7) of the German Banking Act and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities, participating certificates oustanding, and hybrid capital instruments) is carried as core capital, supplementary capital and tier III capital.

Subordinated liabilities
Subordinated liabilities include no individual items exceeding 10% of the total amount.

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

The Bank incurred interests expenses of €647 million in connection with subordinated liabilities. This item includes prorated interest of €284 million.

There were no subordinated liabilities payable to non-consolidated subsidiaries and companies in which a participating interest is held in 2004.

Participating certificates outstanding
The participating certificates outstanding comprise the following major issues:

Issuer	Year of issue	Type	Nominal amount, € millions	Interest rate	Maturity
Bank Austria AG	1997	Bearer participating certificates	73	6.25	2008
Bank Austria AG	2000	Bearer participating certificates	100	variable	2007
Bank Austria AG	2000	Bearer participating certificates	73	variable	2009
Bank Austria AG	2000	Bearer participating certificates	145	variable	2009
Bank Austria AG	2000	Bearer participating certificates	154	variable	2009
Bank Austria AG	2000	Bearer participating certificates	307	variable	2009
Bayerische Hypo- und Vereinsbank AG	1997	Bearer participating certificates	409	6.75	2007
Vereins- und Westbank AG	1995	Bearer participating certificates	102	8.50	2005
Vereins- und Westbank AG	2001	Bearer participating certificates	85	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.

Except in the case of the participating certificates of Bank Austria AG, the shortfall is, in the event of the interest payment being reduced, to be repaid in the subsequent fiscal 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 fiscal 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 following arrangement applies for 2004 to holders of participating certificates outstanding issued by the parent bank. The parent bank currently assumes that it will report profits in subsequent years allowing repayment to be made at the nominal amount. Consequently the amount disclosed in 2004 has not been modified. The interest payable for fiscal 2004 will be disbursed on May 12, 2005.

Hybrid capital instruments

At December 31, 2004, the Bank had hybrid core capital of €3,570 million to bolster its capital base.

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

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

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

Both the German Banking Supervisory Authority and the Basel Committee on Banking Supervision have expressly confirmed the recognition of hybrid capital for banking supervisory purposes. However, the recognition of repayable, hybrid core capital for supervisory purposes is limited to 15% of total core capital.

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Minority interest

€ millions	
Balance at Jan. 1, 2004	2,476
Changes in valuation of financial instruments not affecting income	49
Available-for-sale reserve	29
Hedge reserve	20
Changes in value of financial instruments affecting income	(4)
Addition from capital increases	118
Disposals from capital decreases	(6)
Transfer from net income	286
Dividend payments	(100)
Change in consolidated group	(346)
Changes arising from foreign currency translation and other changes	42
Balance at Dec. 31, 2004	2,515

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Shareholders’ equity

Analysis of subscribed capital, authorized capital increase, and conditional capital of the parent bank

Breakdown of subscribed capital

At December 31, 2004, the subscribed capital of HVB AG totaled €2,252 million (2003: €1,609 million) and consisted of the following:

	2004	2003
Shares of common bearer stock	736,145,540	521,735,100
Shares of registered non-voting preferred stock	14,553,600	14,553,600

Authorized capital increase

Year authorized	Available until	Original amount, € millions	Balance at Dec. 31, 2004 € millions
2001	May 22, 2006	780	137

Some of the authorized capital increase has been used for the capital increase for a cash contribution by way of issuing 214,410,440 new ordinary bearer shares (equivalent to €643 million).

In view of the objections filed by shareholders, the Register Court has not yet registered the resolution adopted by the Shareholders' Meeting with regard to the release of the remaining €137 million and the simultaneous approval of a new amount of €990 million. The resolution is accordingly not yet legally effective.

Conditional capital

Year authorized	End of period	Original amount, € millions	Balance at Dec. 31, 2004 € millions
2003	May 14, 2008	375	375

Breakdown of retained earnings

€ millions	2004	2003
Legal reserve	—	—
Reserve for treasury stock	—	—
Other retained earnings	—	—
Total	**—**	**—**

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Treasury stock

At December 31, 2004, neither the Bank nor any controlled companies nor any companies in which a majority interest is held had significant holdings of shares (treasury stock) or other equity instruments of HVB AG in their portfolios.

The option of purchasing treasury stock during the period under review was based on the authorization under resolutions adopted by the parent bank's Annual General Meeting of Shareholders on May 14, 2003 and April 29, 2004 compliant with Section 71 (1) No. 7 of the German Stock Corporation Act.

For the purposes of securities trading as permitted under Section 71 (1) No. 7 of the German Stock Corporation Act, a total of 110,716,167 shares of treasury stock were purchased by the Bank and controlled or majority-owned companies at the respective current market prices in accordance with the German Securities Trading Act, and a total of 110,674,365 shares of treasury stock were sold at the respective current market prices.

The treasury stock was purchased at an average price of €16.58 per share and resold at an average price of €16.63 per share. The shares purchased during the period under review amounted to an equivalent of €332 million, or 14.7% of capital stock.

The highest number of shares of treasury stock held by the Bank, including those earmarked for its employees, on any given day during the year under review was 2,516,755, equivalent to €8 million, or 0.3% of capital stock.

Within the scope of its lending operations, the Bank and its controlled or majority-owned companies had received a total of 4,815,908 shares of treasury stock as collateral in accordance with Section 71e (1) 2 of the German Stock Corporation Act at year-end. This represents €14 million, or 0.6% of capital stock.

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Foreign-currency assets and liabilities

€ millions	2004	2003
Foreign-currency assets	94,389	97,542
of which:		
US dollars	43,153	41,423
Japanese yen	4,992	8,863
Swiss francs	19,615	17,208
Foreign-currency liabilities (excl. equity capital)	87,050	96,871
of which:		
US dollars	34,629	43,271
Japanese yen	4,501	8,750
Swiss francs	18,536	16,810

The differences in amount between foreign-currency assets and liabilities arise because only on-balance-sheet items are shown in the list. Neither off-balance-sheet items nor transactions concluded for hedging purposes are included.

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Trust business

The following tables show the volume of trust business not stated in the consolidated balance sheet.

Trust assets

€ millions	2004	2003
Placements with, and loans and advances to, other banks	261	104
Loans and advances to customers	5,841	1,097
Equity securities and other variable-yield securities	54	2,780
Debt securities	9	9
Participating interests	136	38
Property, plant and equipment	143	153
Other assets	11	3
Remaining trust receivables	1	1
Total	**6,456**	**4,185**

Trust liabilities

€ millions	2004	2003
Deposits from other banks	219	243
Amounts owed to other depositors	5,313	3,436
Promissory notes and other liabilities evidenced by paper	583	282
Miscellaneous other liabilities	341	224
Total	**6,456**	**4,185**

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Assets assigned or pledged as security for own liabilities

Examples of own liabilities for which the Bank provides collateral are special credit facilities granted by KfW and similar institutions which the Bank has issued in compliance with their conditions. The own liabilities referred to here break down as follows:

€ millions	2004	2003
Deposits from other banks	39,113	38,689
Amounts owed to other depositors	5,435	6,409
Promissory notes and other liabilities evidenced by paper	2,907	2,993
Contingent liabilities	395	105
Total	**47,850**	**48,196**

The assets pledged as security for own liabilities can be broken down as follows:

€ millions	2004	2003
Assets held for trading purposes	13,484	14,504
Placements with, and loans and advances to, other banks	708	602
Loans and advances to customers	17,551	19,916
Investments	16,107	13,174
Property, plant and equipment		—
Total	**47,850**	**48,196**

NOTES TO THE CASH FLOW STATEMENT

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Notes to 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 reserve item in the balance sheet, and contain cash on hand, balances with central banks, and Treasury bills and other bills eligible for refinancing with central banks.

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

In fiscal 2004, investments in fully consolidated companies were acquired for a purchase price of €135 million, which resulted in an outflow of cash and cash equivalents totaling €135 million. At the same time, proceeds from the disposal of investments totaling €148 million were generated, €148 million of which was in cash. The following table shows the breakdown of assets and liabilities relating to fully consolidated companies acquired and sold:

€ millions	Acquired	Sold
Assets		
Cash reserve	118	115
Assets held for trading purposes	64	—
Placements with, and loans and advances to, other banks	314	527
Loans and advances to customers	969	571
Allowances for losses on loans and advances	(142)	(77)
Investments	554	210
Property, plant and equipment	18	14
Other assets	64	22
Liabilities		
Deposits from other banks	549	218
Amounts owed to other depositors	1,089	1,002
Provisions	31	31
Other liabilities	290	131

Changes in the balance of cash and cash equivalents arising from changes in the group of consolidated companies are shown separately in the cash flow statement.

INFORMATION ON FINANCIAL INSTRUMENTS COMPLIANT WITH IAS 32

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Fair value of financial instruments

The fair values stated for financial instruments as defined in IAS 32 are the amount for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values are calculated using the market information available at the reporting date and individual company valuation methods.

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include cash reserve 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.

Quoted market prices are used for exchange-traded securities and derivatives as well as listed debt instruments. The fair value of the remaining securities is calculated as the net present value of future anticipated 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, the Bank applies 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 acceptable 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 exotic 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 exotic instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations, and dividend expectations as parameters.

The fair values of irrevocable credit commitments and contingent liabilities are the same as their carrying amounts.

The difference between the fair values and carrying amounts totals €10.4 billion for assets and €4.7 billion for liabilities. The balance of these values is €5.7 billion (2003: €6.0 billion). This amount varies over the course of time as a result of changes in share prices and in the valuation parameters applied when calculating fair values – notably changes in interest rates – and also as a result of changes in the Bank's portfolio of financial instruments.

€ billions	2004	2004	2003	2003
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash reserve	7.5	7.5	5.7	5.7
Assets held for trading purposes	91.7	91.7	80.5	80.5
Placements with, and loans and advances to, other banks[1]	47.3	47.4	52.6	52.7
Loans and advances to customers[1]	262.0	272.1	272.3	281.9
Investments[2]	42.2	42.4	51.8	51.9
Other assets[3]	3.2	3.2	3.0	3.0
Liabilities				
Deposits from other banks	103.6	103.6	113.0	113.0
Amounts owed to other depositors	144.4	145.3	140.3	140.7
Promissory notes and other liabilities evidenced by paper	109.6	113.0	122.7	125.8
Liabilities held for trading purposes	59.9	59.9	55.2	55.2
Other liabilities[3]	5.1	5.1	5.1	5.1
Subordinated capital	18.5	18.9	19.2	19.5
Other items				
Irrevocable credit commitments	46.9	46.9	51.6	51.6

[1] less allowances for losses on loans and advances

[2] held-to-maturity and available-for-sale investments

[3] positive or negative fair values of derivative financial instruments

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Significant concentrations of assets and liabilities

The Bank's lending and deposit-taking operations have a balanced structure and contain no significant concentrations.

Share of loan portfolio, in %	2004	2003
Municipal loans	6.9	7.7
Mortgage loans	36.6	37.5
Other loans	46.9	45.0
Contingent liabilities	9.6	9.8
Total	**100.0**	**100.0**

The balanced maturity structure of the Bank's deposit-taking operations similarly does not give rise to any significant concentrations of risk.

The Risk Report contains detailed information about risks inherent in the Bank's operations.

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Key capital ratios (based on German Commercial Code)

In accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision (BIS) in July 1988, the core capital ratio (ratio of core capital to risk-weighted assets) must be at least 4.0% and the equity capital ratio (ratio of equity capital to risk-weighted assets) at least 8.0%. At the same time, the equity funds ratio must be at least 8.0%. The latter is calculated as the ratio of total equity funds to the sum of risk-weighted assets and eligible amounts for market risk positions, multiplied by 12.5.

Equity funds consist of core capital and supplementary capital (equity capital), plus tier III capital. Tier III capital comprises short-term subordinated liabilities used exclusively to cover market risk positions. The Bank uses internal models to measure market risk positions in the corporate group. Market risk positions were reduced sharply in 2004 thanks to the extension of the parent bank's internal model.

Based on financial statements approved by the Supervisory Board, equity funds in accordance with BIS rules, risk assets and market risk positions at December 31, 2004 were as follows:

	2004	2003
Equity funds[1] (€ millions)		
Tier I		
Shares of common stock	2,208	1,565
Additional paid-in capital, retained earnings, minority interest, treasury stock	9,560	9,552
Hybrid capital instruments (silent partnership certificates and trust preferred securities) excluding prorated interest	3,570	3,156
Other	383	92
Total core capital	**15,721**	**14,365**
Tier II		
Unrealized reserves in securities	313	308
Offsetting reserves for general banking risks	52	63
Cumulative shares of preferred stock	44	44
Participating certificates outstanding	1,723	1,841
Subordinated liabilities	7,861	7,182
Other	114	541
Total supplementary capital	**10,107**	**9,979**
Total equity capital	**25,828**	**24,344**
Tier III capital	1,262	1,240
Total equity funds	**27,090**	**25,584**

[1] group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

	2004	2003
Risk-weighted assets (€ billions)		
On-balance-sheet assets	209	212
Traditional off-balance-sheet assets	25	25
Banking-book derivatives	—	—
Counterparty risks in the trading book	5	5
Total risk-weighted assets	**239**	**242**
Total market risk positions (€ millions)	**1,768**	**1,736**

At December 31, 2004, the key capital ratios (based on financial statements approved by the Supervisory Board) compliant with the BIS Capital Accord were as follows:

in %	2004	2003
Core capital ratio (core capital/risk assets)	6.6	5.9
Core capital ratio including consolidation effects to be incorporated from the start of 2005	6.2	—
Equity capital ratio (equity capital/risk assets)	10.8	10.1
Equity funds ratio (equity funds/ [risk-weighted assets + 12.5 x market risk positions])	10.4	9.7

Pursuant to Sections 10 and 10a of the German Banking Act, the Bank's equity funds amount to €26,415 million. The liable equity, comprising core capital and supplementary capital less the deductible item, totals €25,049 million. Supplementary capital includes unrealized reserves of €601 million pursuant to Section 10 (2b) 1 No. 6 and 7 of the German Banking Act.

The Bank's equity funds compliant with BIS rules are calculated on the basis of the individual financial statements of the consolidated companies, taking into account the special provisions of German banking supervisory regulations. The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS to the equity funds compliant with BIS rules:

€ millions	Core capital	Supplementary capital	Tier III capital	Total equity funds
Shown in IFRS balance sheet				
Shareholders' equity	11,485			11,485
Minority interest	2,515			2,515
Subordinated capital (hybrid capital instruments, participating certificates outstanding, and subordinated liabilities)	3,665	14,789		18,454
Reconciliation to the equity funds compliant with BIS rules				
Available-for-sale reserve	(132)			(132)
Hedge reserve	457			457
Cumulative shares of preferred stock	(44)	44		—
Goodwill not yet amortized in balance sheet	(2,011)			(2,011)
Deductible items due to banking supervisory regulations (e.g. market-smoothing, residual maturity limitation, proportionate interest)	(45)	(2,932)		(2,977)
Reclassifications due to banking supervisory regulations	(50)	(2,223)	2,273	—
Eligible tier III capital unused			(1,011)	(1,011)
Unrealized reserves in securities		313		313
General reserves/loan-loss reserves		201		201
Other effects (e.g. differences in group of consolidated companies and principles of consolidation)	(119)	(85)		(204)
Equity funds compliant with BIS rules	**15,721**	**10,107**	**1,262**	**27,090**

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Contingent liabilities and other commitments

€ millions	2004	2003
Contingent liabilities[1]	**31,334**	**33,060**
Rediscounted bills of exchange	19	23
Guarantees and indemnities	31,315	33,037
Loan guarantees	7,432	9,409
Guarantees and indemnity agreements	20,989	21,231
Documentary credits	2,894	2,397
Other commitments	**55,742**	**58,422**
Commitments arising from sale option to resell transactions	787	771
Irrevocable credit commitments	46,865	51,575
Book credits	40,050	45 ,228
Guarantees	3,765	4,253
Mortgage and municipal loans	2,818	1,741
Bills of exchange	232	353
Delivery obligations from securities lending transactions	5,706	4,001
Other commitments	2,384	2,075
Total	**87,076**	**91,482**

[1] contingent liabilities are offset by contingent assets to the same amount

Neither contingent liabilities nor other commitments contain any significant items. Commitments under guarantee and indemnity agreements as well as irrevocable credit commitments to non-consolidated companies, amounted to €361 million (2003: €352 million) and €85 million (2003: €56 million), respectively.

The largest single item under other commitments is placement and transfer obligations totaling €507 million (2003: €487 million). Other commitments arising particularly from rental, leasing and maintenance agreements as well as from rental of office space and use of technical equipment amount to €473 million (2003: €490 million). The contracts run for standard market periods, and no charges have been put off to future years.

The Bank has declared its willingness to offset any losses incurred by hotel operating companies in which it holds an indirect majority stake, by means of income subsidies.

As part of real estate financing and development operations, the Bank has assumed rental obligations or issued rent guarantees on a case-by-case basis to make fund constructions more marketable – in particular for the lease funds and (closed) KG real estate funds offered by its H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been included. The Bank has provided performance guarantees for the holders of shares in bond/money market funds offered by some of its capital investment companies.

Other financial commitments arising from longer-term rental and leasing agreements exist at the non-consolidated HVB Immobilien AG and the latter’s non-consolidated subsidiaries.

Commitments for uncalled payments on shares not fully paid up amounted to €418 million at year-end 2004 (2003: €463 million), and similar liabilities for shares in cooperatives totaled €1 million (2003: €1million). Under Section 24 of the German Private Limited Companies Act, the Bank was also liable for such calls in respect of two private limited companies for an aggregate of €16 million (2003: €16 million).

Under Section 26 of the German Private Limited Companies Act and on the basis of its holding in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, the Bank was liable for calls for additional capital of €58 million (2003: €54 million), and of €22 million (2003: €30 million) with regard to CMP Fonds I GmbH.

In addition, under Section 5 (4) of the Articles of Association, the Bank is jointly and severally liable for any defaults on such calls by member banks of the Association of German Banks.

At the balance sheet date, the Bank had unlimited personal liability arising from shares in one partnership.

Under Section 5 (10) of the by-law of the Deposit Guarantee Fund, the Bank has undertaken to indemnify the Association of German Banks against any losses it might incur as a result of action taken on behalf of banks in which the Bank has a majority interest. The Bank has made a similar representation for Vereinsbank Victoria Bauspar AG in accordance with Section 3 (1) of the by-laws of the Deposit Guarantee Fund for Bank-Related Savings and Loan Associations.

Furthermore, in confirming and continuing the declaration of liability it has already provided for Hypo Real Estate Bank AG and Westfälische Hypothekenbank AG, with which the former has since merged, the Bank has 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 merged company in accordance with Section 2 (2) of the by-laws of the Deposit Guarantee Fund. This declaration expires on December 31, 2005.

In the same way as HVB AG and its affiliated banks assume liability in Germany, the Bank's subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

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Statement of responsibility

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

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen[1]
DAB Bank AG, Munich[2]
Financial Markets Service Bank GmbH, Munich
Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich
2. Banks in other regions
Bank Austria Creditanstalt Aktiengesellschaft, Vienna[2]
HVB Bank Latvia AS, Riga[1]
HVB Banque Luxembourg Société Anonyme, Luxembourg
HVB Singapore Limited, Singapore
Joint Stock Commercial Bank HVB Bank Ukraine, Kiev
3. Financial companies
Beteiligungs- und Handelsgesellschaft in Hamburg mit beschränkter Haftung, Hamburg[1]
HVB Alternative Financial Products AG, Vienna
HVB Risk Management Products Inc., New York
Vereins- und Westbank Beteiligungsgesellschaft S.A., Luxembourg[1]
4. Companies with bank-related auxiliary services
HypoVereinsFinance N.V., Amsterdam

[1] the company was added as part of the absorption of Vereins- und Westbank AG into the parent bank

[2] the company provides a Statement of Responsibility with the same wording for selected subsidiaries in its annual report

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

HVB AG no longer provides a Statement of Responsibility for companies which left HVB Group during fiscal 2004 or an earlier fiscal 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 covered neither by the above Statement of Responsibility nor by Statements of Responsibility provided earlier.

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Information on relationships with related parties

Transactions involving related parties are always conducted on an arm's length basis.

In the Statement of Compliance of December 13, 2004 with the German Corporate Governance Code compliant with Section 161, German Stock Corporation Act, the Management Board and Supervisory Board declared that the compensation paid to the Management Board Spokesman would be disclosed on an individual basis in the future.

Emoluments paid to members of the Supervisory Board and Management Board and to the first executive management level:

€ millions	Fixed compensation		Profit-related components		Long-term incentives		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Management Board of HVB AG	4	4	3	2	2	2	9[1]	8
of which compensation paid to Board spokesman for 2004	0.8		0.4		0.4		1.6	
Supervisory Board of HVB AG for Supervisory Board activities	1	1	—	—	—	—	1	1
Advisory Board and European Advisory Board							1	1
Former members of the Management Board of HVB AG and their surviving dependants							9	17
First executive management level							20	20

[1] including €1 million disbursed in 2004 but not included in the 2003 annual financial statements

Non-monetary compensation is granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed compensation shown.

Compensation paid to members of the Management Board or employees of the parent bank for positions on supervisory boards of Group companies is to be transferred to the parent bank.

No compensation was paid to members of the Supervisory Board in 2004 for services rendered.

At December 31, 2004, the Bank had pension provisions for members of the Management Board and their surviving dependants totaling €97 million.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2004, for which no dividend-dependent compensation accrued:

€	Fixed compensation	Compensation for committee work	Total (excl. sales tax)
Dr. Albrecht Schmidt, Chairman	30,000	100,000	130,000
Peter König, Deputy Chairman	22,500	20,000	42,500
Dr. Hans-Jürgen Schinzler, Deputy Chairman	22,500	20,000	42,500
Dr. Manfred Bischoff	15,000	—	15,000
Dr. Mathias Döpfner[1]	10,082	—	10,082
Volker Doppelfeld	15,000	—	15,000
Klaus Grünewald	15,000	—	15,000
Anton Hofer	15,000	20,000	35,000
Max Dietrich Kley[2]	5,943	7,924	13,867
Friedrich Koch	15,000	—	15,000
Hanns-Peter Kreuser	15,000	20,000	35,000
Dr. Lothar Meyer	15,000	40,000	55,000
Dr. Diether Münich[3]	4,426	—	4,426
Herbert Munker	15,000	20,000	35,000
Dr. Siegfried Sellitsch	15,000	20,000	(23,923)[4] 35,000
Professor Wilhelm Simson	15,000	20,000	35,000
Professor Hans-Werner Sinn	15,000	20,000	35,000
Maria-Magdalena Stadler	15,000	—	15,000
Ursula Titze	15,000	—	15,000
Jens-Uwe Wächter	15,000	20,000	35,000
Helmut Wunder	15,000	20,000	35,000
Total	**320,451**	**347,924**	**(657,298) 668,375**

1 since April 29, 2004
2 until March 25, 2004 and again since November 2, 2004
3 from January 13 to April 29, 2004
4 less 30% supervisory board tax and 5.5% solidarity surcharge

The total amount of loans and advances made to, and liabilities assumed for, members of the Supervisory Board and Management Board and the first executive management level at the balance sheet date was as follows:

€ millions	2004	2003
Management Board of HVB AG	9	9
Supervisory Board of HVB AG	2	2
First executive management level	6	7

Interest is payable on all loans and advances made to members of the Management Board and the Supervisory Board, and to the first executive management level at usual market rates.

The following table shows the shares and derivatives on shares issued by HVB AG that were purchased and sold by company executives and related parties in 2004 pursuant to section 15a, German Securities Trading Act (Directors' Dealings):

	Type of transaction	Name of security or derivative	German securities identification number/ ISIN number	Completion date	Price per share	Number	Nominal amount of security or derivative
Henning Giesecke division director	Sale	Common bearer stock of Bayerische Hypo- und Vereinsbank AG 80311 Munich	WKN: 802200 ISIN: DE0008022005	Nov. 8, 2004	€16.00	700	€3.00 per share totaling €2,100

At December 31, 2004, the members of the Management Board and the Supervisory Board held less than 1% of the entire stock issued by the parent bank.

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Employees

The average number of people employed by the Bank was as follows:

	2004	2003
Employees		
(excl. trainees)	57,134	61,864
Full-time	49,081	53,144
Part-time	8,053	8,720
Trainees	1,304	1,662

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Offices

Offices, broken down by region

	2003	Additions	Reductions		Change in consolidated group	2004
		New openings	Closures	Consolidations		
Germany						
Baden-Wuerttemberg	26				(1)	25
Bavaria	400		3	4	(3)	390
Berlin	7					7
Brandenburg	8					8
Bremen	8					8
Hamburg	38					38
Hesse	15				(1)	14
Lower Saxony	26				1	27
Mecklenburg-Western Pomerania	7				1	8
North Rhine-Westphalia	20				1	21
Rhineland-Palatinate	22					22
Saarland	9					9
Saxony	11		1			10
Saxony-Anhalt	11					11
Schleswig-Holstein	77		1		(2)	74
Thuringia	8	1				9
Subtotal	**693**	**1**	**5**	**4**	**(4)**	**681**
Other regions						
Austria	421			13	(3)	405
Other Western Europe	18		1		1	18
Central and Eastern Europe	895	69	47	9	(10)	898
Americas	17		1			16
Asia	15					15
Africa	2					2
Australia	1					1
Subtotal	**1,369**	**69**	**49**	**22**	**(12)**	**1,355**
Total	**2,062**	**70**	**54**	**26**	**(16)**	**2,036**

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Executive boards

Supervisory Board

Dr. Albrecht Schmidt
Chairman

Peter König
Deputy Chairman

Dr. Hans-Jürgen Schinzler
Deputy Chairman

Dr. Manfred Bischoff

Dr. Mathias Döpfner
since April 29, 2004

Volker Doppelfeld

Klaus Grünewald

Anton Hofer

Max Dietrich Kley
until May 25, 2004 and
again since November 2, 2004

Friedrich Koch

Hanns-Peter Kreuser

Dr. Lothar Meyer

Dr. Diether Münich
from January 13 to April 29, 2004

Herbert Munker

Dr. Siegfried Sellitsch

Professor Wilhelm Simson

Professor Hans-Werner Sinn

Maria-Magdalena Stadler

Ursula Titze

Jens-Uwe Wächter

Helmut Wunder

Management Board

Johann Berger
from April 1, 2005

Dr. Stefan Jentzsch

Dr. Michael Kemmer

Christine Licci
since January 17, 2005

Michael Mendel

Dieter Rampl
Board Spokesman

Gerhard Randa
until May 12, 2005

Dr. Wolfgang Sprissler

Munich, March 1, 2005

BAYERISCHE HYPO- UND VEREINSBANK
AKTIENGESELLSCHAFT

THE MANAGEMENT BOARD

Jentzsch Kemmer Licci Mendel

Rampl Randa Sprissler

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity, cash flows and financial review and risk report as well as the notes to the financial statements prepared by the Bayerische Hypo- und Vereinsbank AG for the business year from January 1, to December 31, 2004. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report (Financial Review and Risk Report) prepared by the Company's management for the business year from January 1, to December 31, 2004, has not led to any reservations. In our opinion on the whole the group management report (Financial Review and Risk Report) provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, March 4, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wiedmann	Pastor
Wirtschaftsprüfer	Wirtschaftsprüfer

Supervisory Board

Honorary Chairman of the Supervisory Board

Dr. Maximilian Hackl
† June 25, 2004
Former spokesman of the Board of Managing Directors and former Chairman of the Supervisory Board of Bayerische Vereinsbank Aktiengesellschaft, Krailling

Supervisory Board

Dr. Albrecht Schmidt
Former spokesman of the Management Board of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Grasbrunn
Chairman

Peter König
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich
Deputy Chairman

Dr. Hans-Jürgen Schinzler
Former Chairman of the Management Board of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft and Chairman of the Supervisory Board of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, Ottobrunn
Deputy Chairman

Dr. Manfred Bischoff
Chairman of the Board of EADS N.V., Starnberg

Dr. Mathias Döpfner
Chairman of the Management Board of Axel Springer AG, Potsdam
since April 29, 2004

Volker Doppelfeld
Former member of the Management Board and member of the Supervisory Board of BMW AG, Münsing

Klaus Grünewald
FB 1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft e.V., Gröbenzell

Anton Hofer
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Nuremberg

Max Dietrich Kley
Former Deputy Chairman of the Management Board of BASF AG and member of the Supervisory Board of BASF AG, Heidelberg
until March 25, 2004 and again since November 2, 2004

Friedrich Koch
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Kirchheim

Hanns-Peter Kreuser
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich

Dr. Lothar Meyer
Chairman of the Management Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach

Dr. Diether Münich
Attorney, Munich
from January 13 to April 29, 2004

Herbert Munker
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Leinburg

Dr. Siegfried Sellitsch
Chairman of the Management Board of Wiener Städtische Wechselseitige Versicherungsanstalt-Vermögensverwaltung, Vienna

Professor Wilhelm Simson
Former Chairman of the Management Board of E.ON AG
and member of the Supervisory Board of E.ON AG, Trostberg

Professor Hans-Werner Sinn
President of the Ifo Institute for Economic Research, Gauting

Maria-Magdalena Stadler
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Pullach

Ursula Titze
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Neusäß

Jens-Uwe Wächter
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Himmelpforten

Helmut Wunder
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Waischenfeld

Supervisory Board Committees*

Executive Committee
Dr. Albrecht Schmidt
Peter König
Dr. Hans-Jürgen Schinzler

Strategy and Business Development Committee
Dr. Albrecht Schmidt, Chairman
Peter König
Dr. Hans-Jürgen Schinzler
Professor Hans-Werner Sinn
Helmut Wunder

Audit Committee
Dr. Lothar Meyer, Chairman
Anton Hofer
Max Dietrich Kley,
until March 25, 2004 and again since November 2, 2004
Herbert Munker
Dr. Albrecht Schmidt

Risk Committee
Dr. Albrecht Schmidt, Chairman
Hanns-Peter Kreuser
Dr. Siegfried Sellitsch
Professor Wilhelm Simson
Jens-Uwe Wächter

Negotiating Committee
Dr. Albrecht Schmidt
Peter König
Hans-Jürgen Schinzler
Ursula Titze

Trustees

Trustees for mortgage banking operations pursuant to Section 29 of the German Mortgage Banking Act

Dr. Otto Beierl
Ministerialdirektor in the Bavarian State Ministry of Finance, Munich

Deputies

Dr. Michael Bauer
Ministerialdirigent in the Bavarian State Ministry of Finance, Munich
since September 1, 2004

Ulrich Exler
Senior financial president of the Munich Regional Revenue Office, Ministerialdirigent (retired), Munich

Erwin Horak
Ministerialrat (retired),
President of the State Lottery Administration, Munich,
until August 31, 2004

* See also Report of the Supervisory Board

Management Board

Johann Berger
born 1960
Germany business segment
Corporate Customers and Professionals, and Real Estate business units, from April 1, 2005

Dr. Stefan Jentzsch
born 1960
Corporates & Markets business segment

Dr. Michael Kemmer
born 1957
Chief Risk Officer (CRO)

Christine Licci
born 1964
Germany business segment
Private Customers business unit, since January 17, 2005

Michael Mendel
born 1957
Germany business segment
until May 12, 2005
Austria & Central and Eastern Europe business segment from May 12, 2005

Dieter Rampl
born 1947
Board Spokesman
Human Resources Management

Gerhard Randa
born 1944
Austria & Central and Eastern Europe business segment,
Chief Operating Officer (COO),
until May 12, 2005

Dr. Wolfgang Sprissler
born 1945
Chief Financial Officer (CFO)

As at March 1, 2005

First executive management level

Germany business segment
Private Customers:
Andreas Wölfer

Corporate Customers and Professionals:
Günther Berger

Real Estate:
Jürgen Cancik

Vereins- und Westbank AG:
Dr. Stefan Schmittmann

Austria&Central and Eastern Europe business segment
Board members of BA-CA

Chairman of the Managing Board:
Dr. Erich Hampel

Deputy Chairman of the Managing Board, Chief Operating Officer, Organization, IT and Human Resources:
Wolfgang Haller

Corporate Customers, Private Customers and Professionals, Asset Management:
Willibald Cernko

Chief Financial Officer, Group Finance and Equity Interest Management:
Stefan Ermisch

International Markets:
Wilhelm Hemetsberger

International Business and Real Estate, Central and Eastern Europe (CEE):
Dr. Regina Prehofer

Chief Risk Officer, Risk Management:
Dr. Johann Strobl

Corporates & Markets business segment
Corporates:
Ronald Seilheimer

Markets:
Jens-Peter Neumann

Group Corporate Center: spokesman units
Executive Office/
Corporate Communication:
Gunter Ernst
until December 31, 2004

Human Resources Management:
Heinz Laber

Chief Financial Officer units
Group Finance and Tax:
Rolf Friedhofen

Auditing:
Karl Limmer

Legal Department:
Dr. Andreas Früh

Group Controlling
(also reporting to the spokesman):
Dr. Burkhardt Pauluhn

Chief Risk Officer units
Chief Credit Risk Officer:
Henning Giesecke

Credit & Risk Management:
Michael Papenfuss

Group Credit Risk Control and Risk Control:
Thomas Gross
since March 1, 2005

Group COO: Chief Operating Officer (COO) units
Group Operations and IT,
COO Austria & Central and Eastern Europe business segment:
Wolfgang Haller
until February 28, 2005

Group IT:
Matthias Sohler
since March 1, 2005

COO Germany:
Christoph Wetzel

Group Transaction Banking and Group Services:
Hans Weiss

European Advisory Board

The function of the European Advisory Board set up in 2001 is to advise the Bank on important banking, economic and social developments in the individual regions where HVB Group is active, and to strengthen business ties in these regions. The Board held two meetings last year.

Dr. Theo Waigel
Former federal minister,
Gassner, Stockmann & Kollegen,
Munich, Chairman

Professor Henning Kagermann
CEO, SAP AG, Walldorf

Miklos Nemeth
Former Prime Minister of Hungary,
Budapest, Hungary

Janusz Reiter
President, Center for International Relations,
Warsaw, Poland

Kurt F. Viermetz
Chairman of the Supervisory Board of Hypo Real Estate Holding AG,
Munich

SUMMARY OF ANNUAL FINANCIAL DATA

	2004	2003	2002 new HVB Group	2002 old HVB Group	2001	2000
Operating performance (€ millions)						
Net interest income	5,656	5,881	5,936	6,649	7,331	5,150
Provisions for losses on loans and advances	1,813	2,313	3,292	3,797	2,074	1,186
Net interest income after provisions for losses on loans and advances	3,843	3,568	2,644	2,852	5,257	3,964
Net commission income	2,845	2,795	2,672	2,684	2,877	2,423
Trading profit	718	820	787	787	592	548
General administrative expenses	6,118	6,371	6,896	7,076	7,716	5,117
Balance of other operating income and expenses	101	620	180	115	485	55
Operating profit (loss)	**1,389**	**1,432**	**(613)**	**(638)**	**1,495**	**1,873**
Net income from investments	102	(1,806)	587	649	530	325
Amortization of goodwill	165	1,135	395	395	321	89
Addition to restructuring provisions	250	—	283	286	19	—
Allocation to special provisions for bad debts	2,500	—	—	—	—	—
Balance of other income and expenses	(357)	(638)	(149)	(151)	(136)	(131)
Profit (loss) from ordinary activities/						
net income (loss) before taxes	**(1,781)**	**(2,146)**	**(853)**	**(821)**	**1,549**	**1,978**
Balance of extraordinary income and expenses	—	—	—	—	—	(126)
Net income (loss) before taxes	**(1,781)**	**(2,146)**	**(853)**	**(821)**	**1,549**	**1,852**
Taxes on income	211	296	(3)	37	582	668
Net income (loss) after taxes	**(1,992)**	**(2,442)**	**(850)**	**(858)**	**967**	**1,184**
Minority interest in net income (loss)	(286)	(197)	41	29	(29)	(105)
Net income (loss) adjusted for minority interest	**(2,278)**	**(2,639)**	**(809)**	**(829)**	**938**	**1,079**
Dividend per share of common stock (€)	—	—	—	—	0.85	0.85
Earnings per share (excl. amortization of goodwill, €)[1]	0.91	0.54	(0.77)	(0.81)	2.35	2.71
Earnings per share (€)	(3.27)	(4.92)	(1.51)	(1.55)	1.75	2.50
Key indicators (%)						
Return on equity after taxes						
(excl. amortization of goodwill)[1]	4.9	2.1	(2.8)	(2.3)	6.5	9.2
Return on equity after taxes	(17.6)	(19.7)	(5.4)	(4.4)	4.9	8.5
Cost-income ratio (based on operating revenues)	65.6	63.0	72.0	69.1	68.4	62.6
Cost-income ratio (based on profit from						
ordinary activities)	68.7	97.4	73.9	70.4	68.0	61.8
Balance sheet figures (€ billions)						
Total assets	467.4	479.5	535.8	691.2	728.6	716.5
Total volume of lending	324.6	338.3	375.8	487.9	503.1	449.2
Shareholders' equity	11.5	10.3	11.3	14.2	25.1	19.6
Key capital ratios compliant with BIS rules[2]						
Core capital (€ billions)	15.7	14.4	14.6	19.1	21.7	19.3
Equity funds (€ billions)	27.1	25.6	25.9	33.4	41.5	39.6
Risk assets (€ billions)	238.6	241.8	285.6	340.6	365.1	355.0
Core capital ratio (%)	6.6	5.9	5.1	5.6	6.0	5.4
Core capital ratio including the effects of consolidation						
to be incorporated from the start of 2005 (%)	6.2	—	—	—	—	—
Equity funds ratio (%)	10.4	9.7	8.2	9.1	10.3	10.0
Share information						
Share price: Year-end (€)	16.70	17.62[3]	—	15.22	34.32	60.30
High (€)	21.13	19.26[3]	—	42.55	68.06	72.85
Low (€)	12.86	5.47[3]	—	11.75	27.40	55.30
Market capitalization (€ billions)	12.5	9.8[4]	—	8.2	18.4	32.3
Employees	57,806	60,214	64,254	65,926	69,520	72,867
Branch offices	2,036	2,062	2,073	2,104	2,238	2,421

[1] 2004 figures additionally adjusted for addition to restructuring provisions and allocation to special provisions for bad debts; 2003 figures additionally adjusted for current income and expenses from norisbank, Bank von Ernst, Bankhaus BethmannMaffei, and the nonscheduled items defined in the consolidated financial statements for 2003

[2] as per approved financial statements

[3] HVB share price adjusted for rights markdown

[4] before capital increase

SUMMARY OF QUARTERLY FINANCIAL DATA

	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Operating performance (€ millions)				
Net interest income	1,285	1,453	1,443	1,475
Provisions for losses on loans and advances	485	419	459	450
Net interest income after provisions for losses on loans and advances	800	1,034	984	1,025
Net commission income	701	692	691	761
Trading profit	262	182	111	163
General administrative expenses	1,542	1,571	1,563	1,442
Balance of other operating income and expenses	69	22	26	(16)
Operating profit (loss)	**290**	**359**	**249**	**491**
Net income from investments	19	120	(16)	(21)
Amortization of goodwill	38	39	39	49
Addition to restructuring provisions	—	—	—	250
Allocation to special provisions for bad debts	—	—	—	2,500
Balance of other income and expenses	(72)	(104)	(86)	(95)
Profit (loss) from ordinary activities/ net income (loss) before taxes	**199**	**336**	**108**	**(2,424)**
Taxes on income	88	111	38	(26)
Net income (loss) after taxes	**111**	**225**	**70**	**(2,398)**
Minority interest in net income (loss)	(58)	(70)	(64)	(94)
Consolidated profit (loss)	**53**	**155**	**6**	**(2,492)**
Earnings per share (excl. amortization of goodwill, €)[1]	0.17	0.27	0.05	0.42
Earnings per share (€)	0.10	0.22	0.00	(3.59)
	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Key indicators (%)				
Return on equity after taxes (excl. amortization of goodwill)[1]	3.3	4.3	3.4	4.9
Return on equity after taxes	1.9	3.2	2.2	(17.6)
Cost-income ratio (based on operating revenues)	66.6	66.7	67.4	65.6
Cost-income ratio (based on profit from ordinary activities)	69.3	68.4	70.0	68.7
Balance sheet figures (€ billions)				
Total assets	482.8	469.4	460.5	467.4
Total volume of lending	335.0	334.2	329.1	324.6
Shareholders' equity	11.1	13.4	13.2	11.5
Key capital ratios compliant with BIS rules				
Core capital (€ billions)	14.9	17.4	17.5	15.7
Equity funds (€ billions)	26.3	29.8	29.7	27.1
Risk assets (€ billions)	240.9	241.5	241.3	238.6
Core capital ratio (%)	6.2	7.2	7.2	6.6
Core capital ratio including the effects of consolidation: to be incorporated from the start of 2005 (%)	—	—	—	6.2
Equity funds ratio (%)	10.0	11.3	11.3	10.4
Share information				
Share price (€)	15.94[2]	14.62	15.46	16.70
Market capitalization (€ billions)	8.5[3]	11.0	11.6	12.5
Employees	59,575	57,874	57,973	57,806
Branch offices	2,091	2,055	2,055	2,036

[1] 4th quarter and figures at December 31, 2004 additionally adjusted for addition to restructuring provisions, and allocation to special provisions for bad debts

[2] HVB share price adjusted for rights markdown

[3] before capital increase

Important dates 2005

Preliminary annual results	February 24, 2005
Publication of the 2004 annual results	March 17, 2005
Annual General Meeting of Shareholders	May 12, 2005
ICM International Congress Center Munich	
Neue Messe Munich-Riem, 81823 Munich, Germany	
First-quarter earnings	May 11, 2005
Second-quarter earnings	July 28, 2005
Third-quarter earnings	October 27, 2005

Important dates 2006

Preliminary annual results	February 23, 2006
Publication of the 2005 annual results	March 16, 2006
Annual General Meeting of Shareholders	May 24, 2006
ICM International Congress Center Munich	
Neue Messe Munich-Riem, 81823 Munich, Germany	
First-quarter earnings	May 10, 2006
Second-quarter earnings	July 26, 2006
Third-quarter earnings	October 26, 2006

Contacts

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faxing +49 (0)89 378-2 40 83, or
e-mailing ir@hvbgroup.com

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Interim reports (English/German) for the first, second, and third quarters

Sustainability Report

You can obtain .pdf files of all reports on our website:
www.hvbgroup.com/annualreport
www.hvbgroup.com/interimreport
www.hvbgroup.com/sustainabilityreport

Annual Report Lexicon (available in German only)

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calling +49 (0)89 89 50 60 75, or
faxing +49 (0)89 89 50 60 30.

Disclaimer

The German abbreviation TEUR has no equivalent in the English language, except when used in a heading in a table, when it is equivalent to EUR x 1,000.
For example, the German TEUR 6.171 is a rounded figure. It is nevertheless translated into English as EUR 6,171,000.

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 aspects.

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