Annual Report
HVB Group

2005

HypoVereinsbank

Member of UniCredit Group

CONTENTS

On June 12, 2005, HVB and UniCredit announced their intention to form the first truly European bank. After the management boards of both financial institutions had indicated their approval, the vast majority of HypoVereinsbank and Bank Austria Creditanstalt shareholders decided to accept the offer to exchange their shares. Thus, by the end of 2005, a new force in the European banking market had come into being.

"Together UniCredit and HVB will be a strong new force rooted in the heart of Europe with three neighboring home markets straddling one of the continent's most dynamic regions. We will become a truly European bank combining our strengths to deliver enhanced service and innovation to our customers as well as increased value to our shareholders."

Alessandro Profumo
CEO UniCredit

"With this transaction, UniCredit and HVB are at the forefront of European banking consolidation. Each of us has chosen the best partner. We are creating new growth prospects for our shareholders, customers, and employees that neither of us would have been able to achieve on a stand-alone basis. Germany will continue to play an important role in this first transaction of such magnitude in Europe."

Dieter Rampl
Board Spokesman, HVB
(until December 31, 2005)

Dieter Rampl (at left)
and Alessandro Profumo

THE NEW HYPOVEREINSBANK

- HypoVereinsbank is one of the **leading financial institutions** in Germany. Our core competencies include retail and corporate banking, real estate finance, the capital markets, and asset management.

- 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 want to be the preferred bank for our customers as they enjoy a distinct **service culture.**

- HypoVereinsbank belongs to the new UniCredit Group. This Group holds a leading position in the wealthiest regions and fastest growing markets in Europe. It is the undisputed **number one** in the **new Europe** covering the emerging economies of Central and Eastern Europe.

- Besides its outstanding geographical position, the new UniCredit Group boasts a broadly diversified business profile. It taps **complementary strengths** and exploits **economies of scale**. This enables us to offer our customers the full range of services they expect from a leading European bank.

- Germany has an important role to play in the new Group. We are committed to our **regional origins**, but together with UniCredit we also want to develop a strong cultural identity as the first truly European bank. We are similarly committed to our **corporate citizenship**, promoting the common good in the countries where we operate.

- We offer our people excellent opportunities to further their careers. We give them a stake in our success through **performance-related systems** of remuneration. This helps to foster entrepreneurialism; at the same time, we ensure strict compliance with the principles set down in our new **Integrity Charter.**

- As part of the UniCredit Group, Hypo Vereinsbank seeks to constantly **increase its return on equity** for its shareholders, building on a systematic program of value-based management.

	2005	2004
Key indicators (%)		
Return on equity after taxes (adjusted)[1]	10.0	3.9
Return on equity after taxes	5.5	(19.3)
Return on equity before taxes (adjusted)[1]	13.7	6.7
Return on equity before taxes	8.9	(12.8)
Cost-income ratio (based on operating revenues)	66.4	66.1
Operating performance		
Operating profit (€ millions)	1,813	1,345
Profit (loss) from ordinary activities/net income (loss)		
before taxes (€ millions)	1,299	(1,913)
Net income (loss) (€ millions)	642	(2,425)
Cash dividend per share of common stock (€)	0.25	—
Earnings per share (adjusted, €)[1]	1.55	0.70
Earnings per share (€)	0.86	(3.48)
Balance sheet figures (€ billions)		
Total assets	493.5	467.4
Total volume of lending	332.6	324.6
Shareholders' equity	16.4	14.0
Key capital ratios compliant with BIS rules[2]		
Core capital (€ billions)	16.0	15.7
Equity funds (€ billions)	27.4	27.1
Risk assets (€ billions)	245.5	238.6
Core capital ratio (%)	6.5	6.6[3]
Core capital ratio (adjusted %)[1]	6.8	
Equity funds ratio (%)	10.9	10.4
Share information		
Share price: Year-end (€)	25.61	16.70
High (€)	26.85	21.13
Low (€)	16.30	12.86
Market capitalization (€ billions)	19.2	12.5
Employees	61,251	57,806
Branch offices	2,316	2,036

[1] 2005 figures adjusted for "restructuring costs and additional provisions for losses on loans and advances"; 2004 figures adjusted for amortization of goodwill, restructuring costs, and allocation to special provisions for bad debts
[2] as per approved financial statements
[3] 6.2% taking into account the effects of consolidation to be incorporated from the start of 2005

Ratings

	Long-term	Short-term	Outlook	Public Pfandbriefs	Mortgage Pfandbriefs
Moody's	A2	P–1	stable	Aa1	Aa1
S&P	A	A–1	negative	AAA	—
Fitch Ratings	A	F1	stable	AAA	AAA

SHAREHOLDER INFORMATION

Wolfgang Sprissler

LETTER TO OUR SHAREHOLDERS

Dear shareholders,
business partners, and friends of HVB,

Fiscal 2005 represents a turning point in the history of our Bank. The year's most important event by far was the business combination with UniCredit, which was very successfully concluded in November. The overwhelming majority of our shareholders voted to exchange their HVB stock for UniCredit share certificates, also reaping an attractive premium.

The result was the birth of a new force in the banking business: the first truly European banking group. And we're proud to be a part of it. For our shareholders, but also for our customers and employees, we've gained a new long-term vision and attractive new prospects as part of a strong corporate group. The new UniCredit Group's 28 million customers in 19 countries will be able to take advantage of the optimized range of products and services of a powerful, international network. And the new bank's 140,000 employees can now look forward to interesting new opportunities with a reach that extends beyond national boundaries.

The new UniCredit Group is founded on a leading position in a prosperous and closely intermeshed economic region: Germany, Austria, and Italy. This region is also the natural bridgehead for capital investments in the new Europe. As the region's largest banking group by far, the new UniCredit Group will be able to make the most of the opportunities offered by the rapidly expanding markets of Central and Eastern Europe. This kind of strategic match of stability and growth prospects is unique in the European banking environment to date. The new corporate group is typified by an exceptionally high degree of diversification in its business profile and regional presence.

Let me set the combination in a larger context. Both banks have clearly stated their commitment to Europe. Irrespective of the major political challenges that Europe currently faces, our decision makes one thing absolutely clear: Europe is rapidly developing into a single economic zone, and the banking business too is thus consolidating across borders. Through their combination, HVB and UniCredit intend to play an active role in shaping this process. For us, UniCredit definitely was an ideal partner – in part because of its outstanding financial performance, but also because of its strategic focus and proven abilities with integration. The new corporate group's goal will be to expand its already strong market position in Europe. This will place us in the forefront of the European consolidation process.

"The new corporate group's goal will be to expand its already strong market position in Europe. This will place us in the forefront of the European consolidation process."

The cooperatively developed corporate governance system will ensure that our own Bank's established identity will be preserved within the new UniCredit Group. HypoVereinsbank and Bank Austria Creditanstalt will be fairly represented within the future corporate structure. Given this structure and its import for the European banking landscape, the issue of who is the "senior" or "junior" partner loses a great deal of its significance.

Our combination will give both banks a long-term perspective that they would never have been able to achieve on their own. The new bank has financial potential and strategic alternatives that neither could have generated alone. In terms of market capitalization, the new corporate group is one of the five largest in the euro zone. It will be able to take further steps in the European market from a position of strength. (See also the special report on the new corporate group's focus, strategy, and objectives, later in this report.)

Ladies and gentlemen, our Bank's new situation has also led to major changes for me personally in the past few months. This is my first letter to you as spokesman for the Management Board of HypoVereinsbank.

It was the new corporate group's outstanding earnings potential and its many different organizational options that led me to accept the job. My mission is to integrate our Bank successfully into the UniCredit Group. And my goal is to position HypoVereinsbank as an increasingly important and profitable member of the new corporate group.

I want to extend my warmest thanks to my predecessor, Dieter Rampl. It was his leadership of HVB Group over the past three years, involving a profound transformation and successful, value-driven evolution, that laid the foundations for the Bank's codetermining role in the combination with UniCredit.

Permit me now to turn to the results of fiscal 2005. In all, we were able to build significantly on the operating upswing from the previous two years and succeeded in meeting our financial goals in full, prior to extraordinary expenses. At €1,163 million, adjusted net income clearly surpassed our target of €1 billion, while the 10.0% we recorded for adjusted return on equity after taxes was well above the target range we had set of 8–9%. And we managed to do so even though the German economy as a whole and the banking industry in particular represented quite a challenging environment once again.

As in previous years, economic growth projections had to be revised downward as the year went on. Though the capital markets revived significantly, the situation in the German real estate market remained sluggish, with no clear sign of a turnaround. The markets of Central and Eastern Europe, however, still enjoyed dynamic growth.

Despite these conditions, we improved operating revenues considerably. In part this was because net interest income performed well, despite slow demand for credit. Trading profit improved appreciably. But the most influential factor was the sharp pick-up in commission-based business, producing a rise in core operating revenues that even exceeded our high expectations.

We were able to significantly reduce our loan-loss provisions. With consistently rigorous cost management, and by implementing our PRO capacity optimization program, we were able to keep the rise in administrative costs to around the level planned, despite our forward-looking capital investments.

As a result of the strong performance on the operational side, we succeeded in increasing our operating profit by an impressive 45% compared with last year, at the same time as almost doubling our net income before taxes and boosting our consolidated profit by a factor of nearly 2.5, on an adjusted basis in each case. In operating terms, HVB Group again earned the cost of its capital in full during 2005, and laid a good foundation for future tangible increases in profitability.

We want you, our shareholders, to participate in our financial success. For that reason, the Management Board will propose to the Annual General Meeting of Shareholders a dividend of €0.25 per share for fiscal 2005. I'm particularly pleased about this because you have lived without dividends for the past few years.

I personally am very satisfied with how our Bank performed last year. And that goes for more than our financial results. We laid the groundwork to reinforce our capital base and further optimized our risk profile in both market and lending operations. This involved the systematic disposal of more non-strategic investments and significant reductions in our portfolio of non-performing loans. These changes are visibly reflected in the improvement in the price of our share, which clearly outperformed the DAX and most other financial stocks as well.

"Our aim is to make a substantial contribution toward the overall earnings of the new UniCredit Group while building lasting value for our shareholders' benefit."

Strategically, the changes of the past few years have left us well positioned, and we have proven that we can achieve steady sales advances at the customer interface even in today's challenging environment. In the future, our customers will benefit from an even broader range of services and a more widespread regional presence. Our aim is to make a substantial contribution toward the overall earnings of the new UniCredit Group while building lasting value for our shareholders' benefit.

What's ahead, specifically? The task of integrating HVB into the new UniCredit Group is already in full swing in order to promptly realize the large potential synergies inherent in the business combination. In this process, HVB codetermined the new group's groundrules. The principles of corporate policy adopted by the new UniCredit Group lay the foundation for the actions of every unit in the new corporate group. HVB will also take its lead from these principles within the specific context it operates in. One reason why we support this approach is that only sharply focused corporate management and a consistent focus on shared objectives can bring success for the corporate group as a whole.

But all this will be founded on a flexible combination of local and international structures. The new UniCredit Group is based on established brands in regional markets. Yet the new corporate group's ambitions and focus reach beyond national borders, because all its banks work on a foundation of shared rules, management systems, and conceptions of value. Within the new constellation, and within these defined "platform planks," HypoVereinsbank will thus be preserved as an independently operating financial institution, and as a strong brand for its customers.

In this respect, I also want to make something quite clear about the role of the Germany business within the corporate group. Germany has a major role to play in the new corporate group. Still more, I'm entirely convinced that we have a good chance of becoming Germany's leading bank within our core areas of competence.

Ladies and gentlemen, beyond a doubt, HVB is facing major challenges. After all, we're aiming for nothing less than to help build one of Europe's leading banking groups. We're determined to develop a strong cultural identity in tandem with UniCredit, achieve operating synergies, and develop something truly new – a European powerhouse with outstanding service and attractive products for its customers, excellent development opportunities for its employees, and high value potential for its shareholders. For the tasks ahead of us, I'll be able to count on a dedicated team in top management that combines skill, experience, and new ideas. In the vast majority of cases, our employees have also welcomed the new challenge. So I'm very confident about the future.

"We're determined to develop a strong cultural identity in tandem with UniCredit, achieve operating synergies, and develop something truly new."

A partnership as extraordinary as the one that connects us with UniCredit definitely depends on trust, as well. I have confidence in Alessandro Profumo and his colleagues. I also want to thank the employees on both sides; they have advanced this great project very effectively over the past few months. Of course, that hardly means that our work is done. In fact, it's only beginning. But I'm certain that we've laid the best possible foundation for future success together. So allow me to ask you to give us your trust, too.

Sincerely,

Wolfgang Sprissler

Management Board members (from left):
Ronald Seilheimer
Johann Berger
Andreas Wölfer
Heinz Laber
Dr. Wolfgang Sprissler
Willibald Cernko
Andrea Umberto Varese
Rolf Friedhofen
Dr. Stefan Schmittmann
(deputy Board member)
Matthias Sohler

Alessandro Profumo

REPORT OF THE SUPERVISORY BOARD

The work of the Supervisory Board focused on two main issues in 2005. Firstly, it involved the high market expectations for a sustained increase in the earnings power of the Bank after the special provision of €2.5 billion for bad debts was included in the 2004 annual financial statements in connection with workout portfolios from the German real estate business. Secondly, it dealt with the tender offer made by UniCredito Italiano S.p.A. (UniCredit) and the related business combination to create the first truly European bank. The significance of these events for the future performance of HVB Group necessitated four additional extraordinary meetings of the Supervisory Board during the period under review on top of its six regular sessions. It also adopted two resolutions by circular.

Focus of discussion during the plenary sessions of the Supervisory Board

The Supervisory Board met at ten plenary sessions last year, one of which was without the Management Board. The outset of 2005 was marked by the reports from the Management Board and intensive discussion of the special provision for bad debts and restructuring provisions which had been included in the 2004 financial statements. The Management Board informed the Supervisory Board that, in order to relieve future income statements, it intended to pool the workout portfolios from the entire German real estate finance business of HVB AG and the remaining holdings of the Real Estate Workout segment, with a total volume of €15.4 billion, in a new segment to be called Real Estate Restructuring (RER). 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 the above-mentioned special provision in the 2004 financial statements for bad debts of €2.5 billion; in addition to this, a restructuring provision of €250 million was set up for the PRO efficiency enhancement program in back offices, which serves to streamline processes and reduce general administrative expenses. In a very open, intensive dialogue with the Management Board, at two meetings in January and February 2005 the Supervisory Board discussed both of these measures and then examined the adjusted plans for 2005 and future years. During the year the Supervisory Board solicited regular reports on the state of the company together with several reports on the status of the efficiency enhancement program and the gradual reduction of the RER portfolio. By year-end 2005, the RER portfolio had been reduced by approximately €4 billion through our own workout measures and by a further €1.8 billion from a first sale. At the outset of 2006, another transaction involving exposures pooled in the RER segment was agreed with a total volume of around €2.17 billion.

In the summer of last year, Bayerische Hypo- und Vereinsbank (HVB) faced one of the biggest turning points in its long history. The Management Board informed the Supervisory Board at the end of May that HVB and UniCredit were planning to combine their two organizations on the basis of a Business Combination Agreement (BCA). At an extraordinary Supervisory Board meeting then convened on June 12, 2005, both of the investment banks commissioned by the Management Board presented their analyses of the transaction and the possible alternatives to the Supervisory Board. The Management Board explained to the Supervisory Board the main points of the BCA, which was available in both English and German, and the results of an economic and legal due diligence performed by UniCredit with the aid of external advisors. During this phase, the Supervisory Board received advice from an external legal expert with experience of such transactions regarding its rights and obligations in the course of the planned acquisition process. After a lengthy exchange of views, during which the pros and cons of combining the two companies and the possible alternatives were debated in depth, the Supervisory Board consented to the combination with UniCredit and approved the conclusion of the Business Combination Agreement (BCA) by the Management Board. At the following Supervisory Board meeting on July 26, 2005, the Supervisory Board was informed of the status of the combination, in which connection it was informed particularly of the time schedule and of reactions by customers and executives at the Bank to the announcement of the combination.

The tender offer was announced on August 26, 2005. To prepare the substantiated opinion of the Supervisory Board required by law compliant with Section 27 of the German Securities Acquisition and Takeover Act (WpÜG), the Supervisory Board created a subcommittee comprising the Remuneration & Nomination Committee by way of a circular resolution. In accordance with the recommendation given by the legal advisor, the Supervisory Board also called in an investment bank as a financial advisor to check the appropriateness of the consideration offered and a prestigious legal firm to examine the legal issues arising in connection with the acquisition offer and the substantiated opinion. At an extraordinary meeting on August 30, 2005, the Supervisory Board then discussed its opinion on the acquisition offer in great depth without the participation of the Management Board. For this purpose, the Supervisory Board had received an analysis from the financial advisor on the appropriateness of the consideration provided in the tender offer, a draft fairness opinion on the financial appropriateness of the consideration, and a draft opinion which was the outcome of an intensive debate at two subcommittee meetings. At this meeting, the financial advisor presented his analysis to the Supervisory Board, and the legal advisor explained the key points and the main conditions of the tender offer. After thorough discussion, the opinion of the Supervisory Board was approved by a majority on August 31, 2005. In this opinion, which was published on the internet and printed in full in a German national daily paper, the Supervisory Board declared that it supported the offer, that it believed that the exchange ratio was within a reasonable margin, and that it viewed the consideration offered as appropriate. On October 8, 2005, UniCredit published an amendment to its offer, according to which it waived all suspensive conditions in relation to clearances not yet granted by antitrust and supervisory authorities, with the exception of the clearance under antitrust laws by the EU Commission. The Supervisory Board also submitted an opinion on this amendment in accordance with Section 27 of the German Securities Acquisition and Takeover Act (WpÜG) which, after being prepared by the subcommittee, was approved by circular. At the other meetings during the year, the Supervisory Board several times considered the changes to the Management Board and Supervisory Board initiated by the successful tender offer. Further details are given in the section entitled "Personnel changes" below.

The Supervisory Board also received a report on the development in the Austria & Central and Eastern Europe and Corporates & Markets business segments as well as an extensive risk report during 2005. The Supervisory Board paid special attention to the development of risk provisioning for the new "Sofortkredit" (personal loan) product. Reports were given on this at several meetings as well as committee meetings. On account of the explanations given in this connection by the Management Board on the continual adjustment of loan-loss provisions to cater for the trend in business volume and the adjustment of the customary practice of extending loans by sharpening the scorecard, the Supervisory Board satisfied itself that adequate loan-loss provisions had been created for this profitable transaction. In addition, the Supervisory Board was also informed about the status of the sales initiative started last year in the Germany business segment and of the new "Mobile Sales Force" channel which will supplement the range at branches. Moreover, the Supervisory Board received a report on the performance of the assets managed by the Group. Finally, the situation of the real estate fund issued by a subsidiary of HVB AG was the subject of extensive discussions. In this connection, the Management Board decided to take supportive measures in order to achieve a significant improvement in performance in the long term through asset reallocation. The Supervisory Board believes that the Management Board carefully deliberated alternative courses of action and took its decision to purchase real estate through HVB, which was associated with the measure, after considering the facts and circumstances of the case. Furthermore, the Supervisory Board received a report on the decision by the European Court of Justice on the revocation of door-to-door dealings; it sees no reason to differ from the Management Board's assessment that this decision will not entail additional risks for the Bank. Finally, the Supervisory Board examined changes and measures in the area of participating interests and various legal actions for revocation and annulment taken by shareholders.

Corporate governance

As in previous years, the Supervisory Board addressed the topic of corporate governance in depth. The new regulations of the German Corporate Governance Code as amended on June 2, 2005 were explained to the Supervisory Board. As part of the annual efficiency review, the Supervisory Board specifically discussed whether it believed it had a sufficient number of independent members. The Supervisory Board answered this question in the affirmative whereby, for its assessment of this independence, it also consulted recommendations issued by the EU Commission on October 6, 2004 on the tasks of non-executive directors/supervisory board members. Conflicts of interest requiring disclosure based on the Corporate Governance Code did not occur in the past fiscal year. As agreed last year during the efficiency review, regular preliminary discussions before the plenary meetings took place on the shareholder and employee representative side.

Compliant with the Corporate Governance Code, the Supervisory Board discussed and examined the structure of the remuneration system for the Management Board. Changes will occur in future to components with long-term incentives; please see the Compensation Report for further details on this issue.

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. In the light of the major changes on the Supervisory Board on account of the combination with UniCredit, the Supervisory Board adopted the section dealing with past events in its composition until November 27, 2005 and the forward-looking section in its new composition. In the case of the section dealing with past events, one of the Code's recommendations is not followed and another only applied in part. The forward-looking section differs to the Code's recommendations in two respects. Further details on this issue are contained in the joint Corporate Governance Report of the Management Board and the Supervisory Board as well as in the Compensation Report (see the section of this Annual Report headed "Corporate Governance and Compensation Report").

A total of nine meetings of the Supervisory Board had been held by the end of November 2005, when eight shareholder representatives resigned their seats on the Supervisory Board (see the section entitled “Personnel changes” below). Due to a short term of office, one member of the Supervisory Board was only able to attend in person less than half of the Supervisory Board meetings held during this period. Only one Supervisory Board meeting was held in December 2005, that is after the court’s appointment of eight new shareholder representatives to the Supervisory Board. One new member of the Supervisory Board was only able to participate in the meeting by proxy.

Main focus of committee work

By the end of 2005, the Supervisory Board had set up five committees that supported its work. Due to the integration of Bayerische Hypo- und Vereinsbank AG into the UniCredit Group, the Supervisory Board dissolved two committees with effect from December 31, 2005: the Strategy and Business Development Committee and the Risk Committee. Their tasks have been performed by the plenary meetings and the Audit Committee to ensure compact, aggregated reporting since the beginning of 2006. A description of tasks performed by committees is given in the Corporate Governance report. The composition of the committees is shown in the list “Supervisory Board” elsewhere in this Annual Report.

The Remuneration & Nomination Committee met seven times in 2005. At its meetings, it discussed executive appointments. It also considered the remuneration structure and stipulated the detailed remuneration levels for the Management Board. Moreover, the Remuneration & Nomination Committee granted its approval to members of the Management Board who wished to accept seats on supervisory boards of other companies and considered loans requiring approval by circular. To prepare the opinion of the Supervisory Board required by law on the tender offer of UniCredit, the Remuneration & Nomination Committee appointed as a subcommittee examined the draft opinion and the extensive analysis of the financial advisor on the appropriateness of the consideration contained in the tender offer at two meetings with the support of the law firm and investment bank which had been called in for this purpose. Each point contained in the opinion and the presentation was discussed extensively. The Remuneration & Nomination Committee received an in-depth explanation of the methods applied to examine the appropriateness of the exchange ratio. Following an amendment to the terms of the offer, the Remuneration & Nomination Committee held another meeting to prepare the opinion of the Supervisory Board on this amendment. The Remuneration & Nomination Committee also consulted the external legal advisor to prepare this opinion.

The Strategy and Business Development Committee met twice last year. At a meeting held in February, the committee received detailed reports on the provisional consolidated financial statements, the annual plan, the multi-year plan, and the status of the efficiency enhancement program. At another meeting in March, the committee received further explanations on individual points of the plans for the years 2005 to 2007. Based on the documents presented and the explanations provided by the Management Board, the Supervisory Board satisfied itself that the Management Board had carefully established and defined the goals for 2005 and future years and that the targets could be achieved assuming that the markets would develop as shown. The issues planned for two further meetings of this committee were treated at plenary meetings for organizational reasons.

The Audit Committee had four meetings in 2005. 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. For this purpose it received a detailed statement from the auditors on facts which might limit their independence. Following this, the Audit Committee reached the conclusion that the facts presented are not detrimental to the auditors’ independence. Furthermore, the committee stipulated the type and scope of the 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 in the Audit Committee were the reports of the audit department on the internal auditing results from the first three quarters of the past year, which were in general satisfactory. In addition, the auditors' report on the annual audit of the securities account business was discussed in detail and did not lead to any objections requiring disclosure. The Management Board also informed the committee of an audit of foreign trade and payments by Deutsche Bundesbank, which was completed with a positive result overall. Moreover, the committee solicited information on compliance with financial sanctions and data protection regulations and the observance and development of regulatory capital ratios. Another topic of discussion was the amount and distribution of fees for auditing companies.

The Risk Committee met three times in 2005. At each meeting, the Chief Risk Officer (CRO) submitted a portfolio report to the committee. This served to inform the committee of 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 risks entailed in operations. Topics of discussion were also the development of loan-loss provisions for Sofortkredit loans and the situation concerning a fund issued by a subsidiary of HVB AG. Compliant with the Minimum Requirements for the Credit Business of Credit Institutions (MaK), the committee closely examined the MaK risk report at each meeting. Furthermore, the committee received a detailed explanation of the MaK risk strategy employed in the strategy process during the yearly report. Revised special credit policies for real estate finance and credit policies for structured real estate finance were also presented to the committee. The implementation of the minimum requirements for the credit business and credit processes in the Professional Real Estate Customers division was examined in the course of a special audit, the outcome of which was reported to the committee. Moreover, the committee received a report on the development of risk capital and risk-covering assets and a report on the liquidity and funding situation. In a report on market risks, the committee received an overview of changes to the limit system and to the measuring method. The committee was also informed of the very positive trend in the new product cross-asset derivatives. As a result of the reports made to the Risk Committee and the documents submitted in this connection, the committee is of the opinion that risks are identified extensively at an early stage and are adequately managed.

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 2005 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 2005 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 risk at an 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 confirm 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 Audit Committee attended the final discussion of the Management Board with the independent auditors.

The financial statements listed above were forwarded to the Supervisory Board, together with Management Board's proposal for the appropriation of profits and the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The auditors 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, management's discussion and analysis and proposal for the appropriation of profits, no objections were to be raised. At its meeting on March 21, 2006, the Supervisory Board therefore approved the annual financial statements and consolidated financial statements prepared by the Management Board. The Supervisory Board approves the proposal put forward by the Management Board concerning the appropriation of the profits.

With effect from November 17, 2005, UniCredit Italiano S.p.A. has held a majority interest in the share capital of HVB AG. Hence the Management Board issued a report on relationships with related parties for the period between November 17, 2005 to December 31, 2005 in accordance with Section 312 of the German Stock Corporation Act. The report contains the following concluding statement by the Management Board.

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

KPMG audited this report and issued the following opinion:

"On the basis of our statutory audit and assessment, we confirm that

1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high for the legal transactions mentioned in the report,
3. no circumstances speak in favor of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relationships with related parties and the related audit report by KPMG were also forwarded to the Supervisory Board. In the course of preliminary audit, the Audit Committee and then the Supervisory Board considered these documents in depth at the meeting devoted to the annual financial statements. KPMG took part in the meeting of the Supervisory Board and the preparatory meeting of the Audit Committee, gave a report on the principal findings of their audit, and answered questions by Supervisory Board members in depth. The Supervisory Board concurred with the results of the audit by KPMG. Based on the final outcome of its own examination of the report on relationships with related parties, which did not identify any deficiencies, no objections are to be made about the declaration of the Management Board at the end of the report on relationships with related parties.

Personnel changes

In the course of the successful acquisition of HVB by UniCredit, there was a change in leadership at the top level of the company at the end of 2005. This affected both the Supervisory Board and the Management Board.

At December 31, 2005, the previous Board spokesman, Dieter Rampl, resigned from the Management Board and was elected Chairman of the Board of Directors of UniCredit at its inaugural meeting on January 11, 2006. Dieter Rampl had served on the Bank's Management Board since 1995, and greatly influenced the development of HVB Group in a difficult phase, particularly since being appointed Board spokesman in 2003. The Supervisory Board would like to thank Mr. Rampl for his great dedication and achievements for the Group. After consulting the Remuneration & Nomination Committee of the Supervisory Board, the Management Board elected Dr. Wolfgang Sprissler, then serving as Chief Financial Officer (CFO), to succeed Dieter Rampl as Board spokesman. On April 1, 2005, Johann Berger was appointed to the Management

Board, where he is responsible for the Corporates and Commercial Real Estate divisions. He has been the member of the Management Board responsible for Austria & Central and Eastern Europe since January 1, 2006. In addition, Dr. Sprissler and Johann Berger were appointed to the Management Committee of UniCredit.

Due to the acquisition of HVB by UniCredit, the previous Management Board members Dr. Stefan Jentzsch, Dr. Michael Kemmer, Christine Novakovic, formerly Licci, and Michael Mendel have applied the change of control clause in their employment contracts and have resigned from the Management Board. Dr. Jentzsch was a member of the Management Board from May 1, 2001 to November 4, 2005, Dr. Kemmer from June 1, 2003 to December 22, 2005, Christine Novakovic from January 17 to November 4, 2005, and Michael Mendel from February 1, 2003 to November 18, 2005. To examine the legal consequences of applying the change of control clause, the Remuneration & Nomination Committee of the Supervisory Board has obtained three advisory opinions from external legal advisers. In the coming weeks, the Supervisory Board will discuss the consequences arising from this and the next steps to be taken. With effect from January 1, 2006, the following have been appointed to the Management Board: Jan-Christian Dreesen, Rolf Friedhofen, Heinz Laber, Ronald Seilheimer, Mathias Sohler, Andrea Umberto Varese, and Andreas Wölfer. Furthermore, Dr. Stefan Schmittmann was appointed deputy member of the Management Board with effect from January 1, 2006. Willibald Cernko joined the Management Board on February 23, 2006, after Jan-Christian Dreesen had resigned his duties for personal reasons with effect from February 9, 2006 by mutual consent.

Dr. Siegfried Sellitsch resigned from the Supervisory Board at the end of the Annual General Meeting of Shareholders on May 12, 2005, and Dr. Manfred Bischoff with effect from July 27, 2005, who was succeeded by Dr. Diether Münich as a deputy member. Furthermore, Herbert Munker resigned from the Supervisory Board with effect from March 8, 2006. Beate Dura-Kempf, who was elected a deputy member for Herbert Munker by the Bank's employees in accordance with the regulations of the German Co-Determination Act, has joined the Supervisory Board.

As provided for in the Business Combination Agreement between UniCredit and HVB, eight members of the Supervisory Board have resigned from office to allow UniCredit to fill the appropriate number of seats on the Supervisory Board with members it has proposed. Consequently, the following persons have resigned from the Supervisory Board: with effect from November 27, 2005, the previous Chairman of the Supervisory Board, Dr. Albrecht Schmidt, Volker Doppelfeld and Professor Wilhelm Simson, and with effect from November 28, 2005, the additional Deputy Chairman of the Supervisory Board Dr. Hans-Jürgen Schinzler, Dr. Mathias Döpfner, Max Dietrich Kley, Dr. Diether Münich and Gerhard Randa, who resigned from the Management Board at the end of the Annual General Meeting on May 12, 2005 and had been elected to the Supervisory Board. In their places, Alessandro Profumo, Chief Executive Officer of UniCredit, Carlo Salvatori, former Chairman of the Board of Directors of UniCredit, Aldo Bulgarelli, lawyer, Ranieri de Marchis, Chief Financial Officer of UniCredit, Paolo Fiorentino, Head of Global Banking Services of UniCredit, Dario Frigerio, Head of Private Banking and Asset Management of UniCredit, Roberto Nicastro, Head of Retail of UniCredit and Vittorio Ogliengo, Head of Corporates/SMEs of UniCredit were elected to the Supervisory Board under a resolution issued by Munich Registry Court on November 29, 2005. At the Supervisory Board meeting on December 2, 2005, Alessandro Profumo was elected Chairman and Dr. Lothar Meyer, Dr. Schinzler's successor, a further Deputy Chairman of the Supervisory Board.

The Supervisory Board has nominated eight of the shareholder representatives on the Supervisory Board appointed by the court for re-election at the Annual General Meeting of Shareholders on May 23, 2006 for the remaining term of office, i.e. until the end of the regular Annual General Meeting in 2008.

The Supervisory Board would like to thank the members who have resigned from the Supervisory Board for their successful, and in some cases, many years of service on this body. Their great personal commitment and extensive professional experience was a decisive gain for work on the Supervisory Board. We are especially grateful to the former Chairman of the Supervisory Board, Dr. Albrecht Schmidt, who shaped HVB Group decisively as Chairman of the Supervisory Board after 2003 and before that as a Management Board member from 1979, whereby from 1991 he acted in the capacity of its spokesman.

In its judgment passed on December 22, 2005, Munich Regional Court rejected a lawsuit filed by shareholders challenging resolutions passed at our Annual General Meeting of Shareholders on May 12, 2005 concerning the appointment of Supervisory Board members and the election of the auditors. However, it was held that the suit with respect to the discharge of the members of the Supervisory Board for the 2004 fiscal year is founded. The court declared the resolution granting formal discharge as invalid because the Supervisory Board report for the fiscal year 2004 does not contain any information on the final judgment passed in favor of the plaintiffs in the law suit challenging the block voting of Supervisory Board members at the Annual General Meeting on May 14, 2003 through the Bank's reversal of the appeal in July 2004. The Supervisory Board report is deficient in this respect.

The Management Board and the Supervisory Board have decided to refrain from appealing against the judgment and to re-submit a motion to approve the actions of the Supervisory Board in the 2004 fiscal year together with an appropriately amended Supervisory Board report to the Annual General Meeting on May 23, 2006 for voting.

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. Dr. Arno Puhlmann passed away on March 9, 2005. He served as a managing director of Bayerische Vereinsbank from 1975 to 1995 and remained closely connected with the Bank as a member of its Advisory Board. Wernher Dünnbier passed away on August 29, 2005. He served on the Management Board of Bayerische Hypotheken- und Wechsel-Bank from 1967 to 1984 and then as a member of the Bank's Advisory Board until 1993. With tireless commitment, great skill and sound judgment, the deceased gentlemen made an exemplary contribution to the expansion and development of the Bank.

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 challenging measures taken in recent years, we have succeeded in significantly bolstering the earnings power of HVB. The Supervisory Board is aware that the acquisition procedure last year may have led to uncertainty in some areas. However, the Supervisory Board wishes the Management Board and every employee every success on continuing along the road to create the first truly European bank.

Munich, March 21, 2006

The Supervisory Board

Alessandro Profumo
Chairman

CORPORATE GOVERNANCE AND COMPENSATION REPORT

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. Bayerische Hypo- und Vereinsbank (HVB AG) 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, HVB AG operates within the 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 and June 2, 2005, with two exceptions. 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 November 10, 2005 (section related to past events) and December 2, 2005 (forward-looking section) as stipulated in Section 161 of the German Stock Corporation Act. First, no deductibles are agreed for the directors & officers insurance (D & O); second, the compensation paid to the Board spokesman is shown individually under the compensation paid to members of the Management Board in the 2005 Annual Report as in the previous year. The compensation paid to the other Management Board members will be shown as an aggregate total. For future fiscal years, it is planned to propose a motion at the next Annual General Meeting of Shareholders on May 23, 2006 calling for the opt-out clause of the Act on Disclosure of Managing Directors' Remuneration to be invoked, and for a resolution be passed stating that the remuneration of each member of the Management Board will not be shown individually. The full text of the statement complete with comments on the deviations is printed on the following pages under the heading "2005 Statement of Compliance." The declaration has also been made permanently available to shareholders on the company's website. HVB AG also follows the numerous suggestions of the Code with only three 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 does not include any components linked to the company's long-term success. In view of the acquisition of HVB AG by UniCredito Italiano (UniCredit) and the change in the Supervisory Board entailed in this step, this issue is still under consideration.

– In the course of the tender offer of UniCredit, the Management Board refrained from convening an extraordinary meeting of shareholders. The Management Board and Supervisory Board did not consider this to be necessary.

The German Securities Trading Act as amended by the German Act on the Improvement of Investor Protection contains 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 Association, internal regulations, guidelines, compliance

Apart from defining legal principles regulating the management and monitoring of joint stock companies, other rules governing these matters at HVB AG are the Articles of Association adopted by the Annual General Meeting of Shareholders and the respective internal regulations adopted by the Management Board and the Supervisory Board. In particular, the Supervisory Board's by-laws contain statements on transactions requiring approval and details on disclosure and reporting obligations. 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 employees. Thus, no changes have been made as a result of the combination with UniCredit. An additional common set of values, UniCredit's Integrity Charter, connects all the companies in the UniCredit Group. The Integrity Charter embodies the common values which create the Group's identity and provide a further complementary guideline for the behavior of all employees at work.

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. 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. The members of the Supervisory Board are obligated to act in the interests of the company. Under the Supervisory Board's by-laws, any conflicts of interest must be disclosed to the Supervisory Board. No such conflicts occurred in the past fiscal year. 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 report of HVB AG. In view of the composition of the Supervisory Board, sworn interpreters have been present at Supervisory Board meetings since December 2, 2005, to ensure that the contributions made by each Supervisory Board member are understood by being simultaneously translated.

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 as 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 of HVB AG – to investments or disposals exceeding a certain amount. To support its work, the Supervisory Board has maintained five committees to date. Due to the integration of HVB AG into the UniCredit Group, the Supervisory Board dissolved two committees with effect from December 31, 2005: the Strategy and Business Development Committee and the Risk Committee. Their tasks will be performed in future by the plenary meetings and the Audit Committee to ensure compact, aggregated reporting. The composition and tasks of the committees are as follows:

– The Remuneration & Nomination Committee, comprised of the chairman of the Supervisory Board and the two deputy chairmen, is primarily concerned with succession planning for the Management Board, and determines the remuneration of its members, including the remuneration structure.

– 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 the approval of the annual financial statements and consolidated financial statements, for conducting a preliminary audit on the report on relationships with related parties, 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. The Audit Committee 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. Since January 1, 2006, this committee has also performed the tasks carried out previously by the Risk Committee.

– The Risk Committee, which had five members up until its dissolution on December 31, 2005, usually conducted four meetings each year at which it was informed of the company's risk situation and risk management. The tasks of this committee were transferred to the Audit Committee with effect from January 1, 2006, as provided for in the German Corporate Governance Code. The risk situation and the timely identification of risks are of fundamental importance for the company's continuing existence. The Minimum Requirements for the Credit Business of Credit Institutions laid down by the German Financial Supervisory Authority require, risk reports to be presented to the Management Board and the Supervisory Board each quarter. Moreover, a report on the risk strategy must also be submitted at least once a year. This ensures that the Supervisory Board is provided with detailed reports on a regular basis on the risk strategy, 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 Strategy and Business Development Committee, which consisted of five members at December 31, 2005, generally held four meetings a year and addressed important issues pertaining to the company's strategic orientation and optimal positioning within a continually changing environment. Other issues on which it held consultations or passed resolutions include annual and multi-year business plans, business trends within the Group, and major investments or disposals. The tasks of this committee will be carried out by the plenary sessions in the future, because the significance of the HVB AG's strategic orientation will differ due to the framework laid down by the Business Combination Agreement between HVB AG and UniCredit.

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

Management Board

The Management Board is the company's management body. Under the Business Combination Agreement between HVB and UniCredit, an arrangement was made to adapt the organizational structures of HVB to those of UniCredit in order to create clear leadership and management structures across the entire group. Based on the old organizational structure, the Group Management Board of HVB had seven members. These were the Board spokesman – who also acted as HR director and was responsible for Human Resources Management (HR) – the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the Chief Operating Officer (COO), and one Board member for the three business segments Germany, Austria and Central & Eastern Europe, and Corporates & Markets. Immediately below the HVB Group Board were the division directors, who were 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.

Since January 1, 2006, the Management Board of HVB has consisted of nine regular members and one deputy member. Alongside the Board spokesman and the four functional executives – the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Human Resources (HR, and simultaneously Director of Labor Relations), and the Chief Operating Officer (COO) responsible for Global Banking Services – the Management Board also consists of the heads of the five divisions Private Customers and Professionals, Wealth Management, Corporates, Commercial Real Estate, and Investment Banking. Thus the new structure and breakdown of responsibilities on the Management Board of HVB AG match the organizational structure of UniCredit, which is divided into customer groups (business divisions) and functions. The Board spokesman, Dr. Sprissler, and Johann Berger, head of the Corporates and Commercial Real Estate divisions, are also members of UniCredit's Management Committee, which supports the Chief Executive Officer of UniCredit in implementing management decisions.

The Management Board of HVB provides the Supervisory Board with regular, timely, and comprehensive reports on all issues relevant to corporate planning including budget deviations, strategic development, the course of business, and the state of the company, including the risk situation. The reports are generally submitted in text form; documents relevant for decision-making are made available to the Supervisory Board prior to the meeting. Given the composition of the Supervisory Board, presentations, reports, and other documents have been provided in two languages since the start of December 2005.

Directors' dealings and shares held by members of the Management Board and Supervisory Board

Compliant with Section 15a of the German Securities Trading Act, members of the Management Board and Supervisory Board, and certain people closely related to them, are required to disclose transactions involving shares of HVB AG or financial instruments based on such shares to the extent that such transactions exceed a figure of €5,000.00 in a calendar year.

The following transactions were notified to HVB AG for the 2005 fiscal year, whereby more than two-thirds of the transactions represent exchanges related to the tender offer:

Directors' dealings

Name, function	Type of transaction
Helmut Wunder, member of HVB Supervisory Board	Sale
Hanns-Peter Kreuser, member of HVB Supervisory Board	Sale
Peter König, Deputy Chairman of HVB Supervisory Board	Swap
Johann Berger, member of HVB Management Board	Swap
Dr. Michael Kemmer, member of HVB Management Board	Swap
Dr. Stefan Jentzsch, member of HVB Management Board	Swap
Ursula Titze, member of HVB Supervisory Board	Swap
Gerhard Titze, husband of Ursula Titze, member of HVB Supervisory Board	Swap
Elke Gomoll, wife of Anton Hofer, member of HVB Supervisory Board	Swap
Dieter Rampl, Spokesman of HVB Management Board	Swap
Jens-Uwe Wächter, member of HVB Supervisory Board	Swap
Jens-Uwe Wächter, member of HVB Supervisory Board	Sale
Anton Hofer, member of HVB Supervisory Board	Swap
Dr. Diether Münich, member of HVB Supervisory Board	Swap
Michael Mendel, member of HVB Management Board	Swap
Dr. Wolfgang Sprissler, member of HVB Management Board	Swap
Veronika Sprissler, wife of Dr. Wolfgang Sprissler, member of HVB Management Board	Swap
Helmut Wunder, member of HVB Supervisory Board	Sale
Elke Gomoll, wife of Anton Hofer, member of HVB Supervisory Board	Sale
Helmut Wunder, member of HVB Supervisory Board	Sale

All transactions have been published on the Bank's website under www.hvb.com/ir under the heading "Corporate Governance."

Name of security	German securities identification number/ ISIN number	Completion date	Number	Price per share	Transaction volume
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Nov. 11, 2005	200	€26.00	€5,200.00
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Nov. 1, 2005	2,500	€23.50	€58,750.00
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Oct. 4, 2005	370	5 new UniCredit ordinary shares	1,850 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 26, 2005	442	5 new UniCredit ordinary shares	2,210 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 17, 2005	13,127	5 new UniCredit ordinary shares	65,635 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 13, 2005	25,474	5 new UniCredit ordinary shares	127,370 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 9, 2005	562	5 new UniCredit ordinary shares	2,810 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 9, 2005	394	5 new UniCredit ordinary shares	1,970 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 9, 2005	350	5 new UniCredit ordinary shares	1,750 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 7, 2005	45,559	5 new UniCredit ordinary shares	227,795 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 6, 2005	521	5 new UniCredit ordinary shares	2,605 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Sept. 6, 2005	450	€23.20	€10,440.00
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Aug. 31, 2005	1,100	5 new UniCredit ordinary shares	5,500 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Aug. 30, 2005	1,758	5 new UniCredit ordinary shares	8,790 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Aug. 29, 2005	19,827	5 new UniCredit ordinary shares	99,135 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Aug. 29, 2005	35,903	5 new UniCredit ordinary shares	179,515 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Aug. 29, 2005	654	5 new UniCredit ordinary shares	3,270 new UniCredit ordinary shares
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Aug. 10, 2005	150	€22.83	€3,424.50
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 isin de 0008022005	Jul. 12, 2005	150	€21.79	€3,251.56
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	Jul. 6, 2005	223	€21.89	€4,881.47

Members of the Management Board did not hold any shares of HVB AG at December 31, 2005. At December 31, 2005, the members of the Supervisory Board held less than 1% of the entire stock issued by the HVB AG.

Shareholders, Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting of Shareholders. The ordinary Annual General Meeting of Shareholders, to which the annual financial statements are submitted, takes place in the first half of the fiscal year. The "one share, one vote" principle applies for all holders of shares vested with voting rights. All holders of shares vested with voting rights – which currently includes the holders of registered shares of preferred stock – can exercise their voting rights in person or through a proxy (such as a shareholder association or banks), or authorize a designated proxy of the company to carry out their instructions. Voting instructions for the proxy by the company can also be issued via the internet – and hence via electronic communications. Shareholders will receive details with the invitation to the Annual General Meeting of Shareholders. The Annual General Meeting 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 Association, and capital-raising measures.

Risk management

HVB AG conducts extensive risk monitoring and risk management, encompassing its subsidiaries. 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 – or the Audit Committee from January 1, 2006 – 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.

Statement of compliance

At the end of 2005, the Supervisory Board and Management Board submitted a Statement of Compliance in accordance with Section 161 of the German Stock Corporation Act. In view of the major changes to the Management Board and the Supervisory Board as a result of the acquisition of the Bank by UniCredit, the declaration was divided into a retrospective section dated November 10, 2005 and a forward-looking section dated December 2, 2005.

The declarations are worded as follows:

"Retrospective part of the 2005 statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act

In the course of the take-over by UniCredito Italiano S.p.A., Genoa (UniCredit), eight shareholder representatives on the Supervisory Board of Bayerische Hypo- und Vereinsbank Aktiengesellschaft (HVB) will leave the Supervisory Board at the latest by November 28, 2005. The successors to be nominated by UniCredit will probably be appointed as members of the Supervisory Board of HVB by the Munich Register Court at the beginning of December. Changes will also come about in the Management Board of HVB in the course of the take-over. The Management Board and the Supervisory Board of HVB have consequently resolved to divide the statement of compliance for 2005 into a section dealing with past events, approved by the Management Board and Supervisory Board in their former composition, and a forward-looking section, passed by the Management Board and Supervisory Board in their changed composition.

With regard to the section dealing with past events, the Management Board and Supervisory Board of HVB hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" as amended on May 21, 2003 and June 2, 2005 and announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette was complied with, apart from 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.

This recommendation was only partly complied with.

Remuneration for the spokesman of the Management Board was disclosed for the first time individually in the Notes to the Consolidated Financial Statements for 2004. For the other Management Board members, the previous practice of presenting only the total remuneration was continued. In the Notes to the Consolidated Financial Statements and in the Corporate Governance Report, the individual remuneration components, namely the fixed remuneration, performance bonuses, and long-term incentives were presented. In our view, the disadvantages would outweigh the advantages if we presented remuneration on a more individualized basis.

Munich, November 10, 2005"

"Forward-looking part of the 2005 statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act

In the course of the take-over by UniCredito Italiano S.p.A., Genoa (UniCredit), eight shareholder representatives on the Supervisory Board of Bayerische Hypo- und Vereinsbank Aktiengesellschaft (HVB) left the Supervisory Board at the end of November 2005. The successors to be nominated by UniCredit were appointed as members of the Supervisory Board of HVB under a ruling by the Munich Register Court on November 29, 2005. Changes have also come about in the Management Board of HVB in the course of the take-over. The Management Board and the Supervisory Board of HVB have consequently resolved to divide the statement of compliance for 2005 into a section dealing with past events, approved by the Management Board and Supervisory Board in their former composition on November 10, 2005, and a forward-looking section, passed by the Management Board and Supervisory Board in their changed composition.

With regard to the forward-looking section, the Management Board and Supervisory Board of HVB hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" as amended on June 2, 2005 and announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette are complied with, apart from 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.

In the 2005 fiscal year – as in the previous year – this recommendation was only partly complied with, because only the remuneration for the spokesman of the Management Board is disclosed individually in the Notes to the Consolidated Financial Statements for 2005. For the other Management Board members, the previous practice of presenting only the total remuneration will be continued. In the Notes to the Consolidated Financial Statements and in the Corporate Governance Report, the individual remuneration components, namely the fixed remuneration, performance bonuses and long-term incentives, will be presented. In our view, the disadvantages would outweigh the advantages if we presented remuneration on a more individualized basis.

With regard to reporting on future fiscal years – i.e. for the first time in 2006 – the Management Board and the Supervisory Board intend to put forward a motion at the next General Shareholders' Meeting of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, scheduled for May 2006, proposing that the opt-out clause of the Act on Disclosure of Managing Directors' Remuneration be invoked, and that a resolution be passed stating that the remuneration of each individual Management Board member will not be disclosed separately.

Munich, December 2, 2005"

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 (HVB AG) are explained below. In addition, the amount of compensation paid to members of the Supervisory Board is described in detail and shown individually, broken down into remuneration components.

Structure of compensation paid to members of the Management Board for fiscal 2005

The compensation paid to members of the Management Board is determined by the Remuneration & Nomination Committee of the Supervisory Board. It comprises fixed and variable components: fixed compensation, variable compensation featuring profit-related components (performance bonus), and a long-term incentive again taking the form of share-based compensation (phantom stocks) in 2005. The target amounts of these three compensation components have been weighted equally to date; 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 Remuneration & Nomination Committee of the Supervisory Board being met. Among the elements comprising the basis for assessment at present is the consolidated profit of HVB Group. In addition, individual targets are set in the area of responsibility of each member of the Management Board. The performance bonus is disbursed together with the compensation for April of the following year.

Phantom stocks (long-term incentive)

For fiscal 2005, the members of the Management Board were again allotted a sum of money equivalent to a certain number of HVB shares after the expiry of three years as a long-term incentive. 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, unless a different agreement is reached in conjunction with the premature termination of the position. 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 Remuneration & Nomination Committee of the Supervisory Board decided the composition of the benchmark at the beginning of 2005. 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 Remuneration & Nomination Committee of the Supervisory Board. If the average price of the HVB share outperforms or underperforms the benchmark, the euro amount is increased by 3% for each commenced 1% outperformance and is reduced by 3% for each commenced 1% underperformance. The equivalent amount of the allotted phantom stocks is capped; it may not exceed 200% of the target amount for this compensation component.

The Supervisory Board saw no reason to modify the parameters on account of the combination with UniCredit, as the price of the HVB share rose much faster than the price of the peer group stocks in the first half of 2005 and generally paralleled the peer group in the second half of the year. Consideration is being given to offering the members of the Management Board the option of switching their phantom stocks to UniCredit shares for the calculation base of this model.

The fair value of the phantom stocks is based on a formula built primarily on the average stock market price of the HVB share over the last ten trading days of 2005. A provision of €7 million was set aside in 2005 for the Phantom Stocks Program that replaced the Restricted Stocks Program in 2004.

Frozen stock bonuses of former Management Board members have been released permaturely on account of the changed circumstances.

Compensation paid to members of the Management Board for positions on supervisory boards of Group companies is surrendered to Bayerische Hypo- und Vereinsbank AG. For fiscal 2005, the compensation paid to members of the Management Board totaled €16 million.

In the Statement of Compliance with the German Corporate Governance Code dated November 10, 2005 (retrospective section) and December 2, 2005 (forward-looking section), the Management Board and Supervisory Board declared that the compensation paid to the Board spokesman would be disclosed on an individual basis, while the compensation paid to the other Management Board members would continue to be shown as an aggregate total as before.

Pension commitments

In addition to their regular compensation, the members of the Management Board have received pension commitments under a defined benefit plan, if they joined before the end of 2004. Since 2005, new members joining the Management Board are provided with a defined contribution plan. This means that they will additionally receive an individually agreed percentage of the compensation paid for the prior year as deferred compensation for future retirement benefits. By paying into a fund, pension capital is built up which is available when the benefits become payable. 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 no burden on future years through changes in the calculation of provisions is expected.

The compensation paid to former members of the Management Board and their surviving dependants amounted to €12 million in 2005. At December 31, 2005, the reserves in the Group for pension commitments to former members of the Management Board and their surviving dependants stood at €90 million.

Future structure of compensation paid to members of the Management Board

Due to the integration of HVB AG into the UniCredit Group, the Remuneration & Nomination Committee of the Supervisory Board has decided to align the structure and amount of compensation paid to the members of the Management Board of HVB AG to the general practice of the UniCredit Group. A basic principle of this structure is that the compensation paid to the individual members of the Supervisory Board be based on the responsibility and execution of the duties of respective member of the Management Board, taking into account the customary practice at companies that are comparable in terms of sector and size. The overall responsibility of the Management Board is taken into account at the same time. Compensation focuses on variable components (short-term and long-term incentives) which are linked to the achievement of performance targets defined in advance. Remunerating at competitive market levels and deferring disbursement until the medium or long term serves to strengthen senior executives' ties to the company. As before, the remuneration consists of three components: an individual basic salary, an annual bonus, and an annual long-term incentive.

The amount of individual fixed monthly salary paid is based on the fixed component of compensation for similar tasks and functions in comparable companies.

The maximum amount of the annual bonus (variable component) depends on the achievement of corporate goals and individual targets relating to a differing extent to both HVB AG itself and the UniCredit Group, as defined by the Remuneration & Nomination Committee of the Supervisory Board at the outset of each fiscal year. The bonus is paid on an annual basis in April of the following year at the latest.

Compensation paid to members of the Management Board

€ millions	Fixed compensation		Profit-related components		Long-term incentives		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Management Board of HVB AG	5	4	4	3	7	2	16	9[1]
of which compensation paid to Board spokesman for 2005	0.8	0.8	0.7	0.4	1.3	0.4	2.8	1.6
Former members of the Management Board of HVB AG and their surviving dependants							12	9
Severance packages/provisions for for severance packages for former members of the Management Board and the first executive management level							25	—

[1] including €1 million disbursed in 2004 but not included in the 2003 annual financial statements

The Long Term Incentive Plan for senior managers of the UniCredit Group currently consists of stock options and performance shares. The Plan is applicable for members of the Management Board of HVB AG in the future as well as other, selected senior HVB Group managers. After a waiting period of four years, the stock options can be exercised within a period of nine years. The subscription price of the UniCredit shares when the options are exercised is the market price of UniCredit shares when the resolution is passed to issue the options. The UniCredit performance shares are assigned after three years to the member of the Management Board or senior manager, without payment of a cash consideration, provided certain long-term performance targets defined in the respective strategic plan of the Group and the respective division have been achieved; the long-term profit targets are related to the results of the respective divisions and the profit the UniCredit Group with different weightings in each case.

With effect from January 1, 2006, two members of the Management Board, who also have a service contract with UniCredit, only receive a basic salary from HVB, which in one instance is used in part as a contribution to a deferred compensation plan; these people receive neither a bonus nor a long-term incentive from HVB AG. In addition to this, these two members of the Management Board receive a fixed basic salary from UniCredit on account of their functions with this company; further components of compensation to be provided to these two members of the Management Board by UniCredit are appropriate bonuses and involvement in the Long-Term Incentive Plan for senior managers of the UniCredit Group.

Compensation paid to the Supervisory Board

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Articles of Association of HVB AG. 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 each 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 each receive an annual compensation of €20,000 for fiscal 2005. The chairmen of the committees receive twice this amount. The members of the Remuneration & Nomination 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. Where they sit on the Management Committee of UniCredit, members of the Supervisory Board transfer to UniCredit the compensation they receive for Supervisory Board work, as the performance of Supervisory Board functions at subsidiaries is considered a typical management duty.

Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the fiscal year received pro rata compensation.

The following table shows the breakdown of compensation paid to members of the Supervisory Board for fiscal 2005:

Compensation paid to members of the Supervisory Board

€	Fixed compensation	Variable compensation	Compensation for committee work	Total (excl. sales tax)	
Alessandro Profumo[1]	2,712	940	—	3,652	(2,497)[9]
Dr. Albrecht Schmidt, Chairman[2]	27,206	9,431	90,684	127,321	
Peter König, Deputy Chairman	22,500	7,800	20,000	50,300	
Dr. Lothar Meyer, Deputy Chairman[3]	15,678	5,435	40,000	61,113	
Dr. Hans-Jürgen Schinzler, Deputy Chairman[4]	20,466	7,095	18,192	45,753	
Dr. Manfred Bischoff[5]	8,548	2,963	—	11,511	
Aldo Bulgarelli[1]	1,356	470	—	1,826	(1,248)[9]
Dr. Mathias Döpfner[4]	13,644	4,730	—	18,374	
Volker Doppelfeld[2]	13,603	4,716	—	18,319	
Paolo Fiorentino[1]	1,356	470	—	1,826	(1,248)[9]
Dario Frigerio[1]	1,356	470	—	1,826	(1,248)[9]
Klaus Grünewald	15,000	5,200	—	20,200	
Anton Hofer	15,000	5,200	20,000	40,200	
Max Dietrich Kley[4]	13,644	4,730	18,192	36,566	
Friedrich Koch	15,000	5,200	—	20,200	
Hanns-Peter Kreuser	15,000	5,200	20,000	40,200	
Ranieri de Marchis[1]	1,356	470	—	1,826	(1,248)[9]
Dr. Diether Münich[6]	5,096	1,767	—	6,863	
Herbert Munker	15,000	5,200	20,000	40,200	
Roberto Nicastro[1]	1,356	470	—	1,826	(1,248)[9]
Vittorio Ogliengo[1]	1,356	470	—	1,826	(1,248)[9]
Gerhard Randa[7]	8,219	2,849	10,959	22,027	(15,056)[9]
Carlo Salvatori[1]	1,356	470	—	1,826	(1,248)[9]
Dr. Siegfried Sellitsch[8]	5,425	1,881	7,233	14,539	(9,937)[9]
Professor Wilhelm Simson[2]	13,603	4,716	18,137	36,456	
Professor Hans-Werner Sinn	15,000	5,200	20,000	40,200	
Maria-Magdalena Stadler	15,000	5,200	—	20,200	
Ursula Titze	15,000	5,200	—	20,200	
Jens-Uwe Wächter	15,000	5,200	20,000	40,200	
Helmut Wunder	15,000	5,200	20,000	40,200	
Total	**329,836**	**114,343**	**343,397**	**787,576**	**(770,802)[9]**

[1] since Nov.29, 2005
[2] until Nov. 27, 2005
[3] Deputy Chairman since Dec. 2, 2005
[4] until November 28, 2005
[5] until July 27, 2005
[6] from July 28 to Nov. 28, 2005
[7] from May 12 to Nov. 28, 2005
[8] until May 12, 2005
[9] less 30% supervisory board tax and 5.5% solidarity surcharge

Munich, March 21, 2006

The Management Board — The Supervisory Board

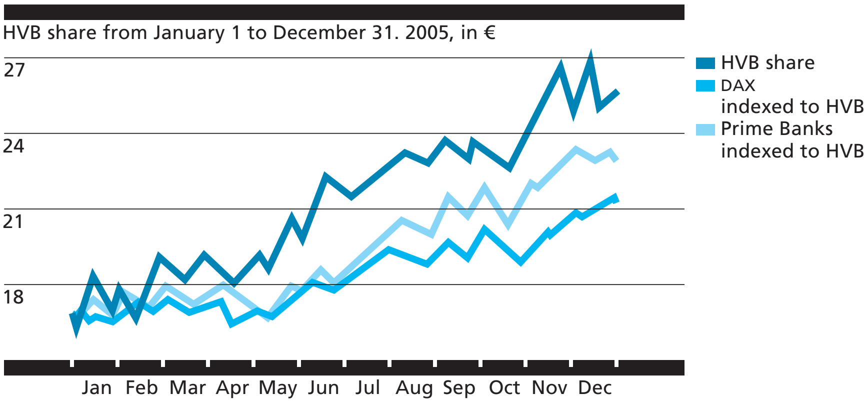
THE HVB SHARE

Summary

We are very happy with the performance of the HVB share during the course of 2005. Our stock outperformed our benchmark indexes, the DAX and the Prime Banks index, by 26.3% and 16.1% respectively. The strong financial gains made during the year under review together with the business combination with UniCredit helped the price of our share to rise by 53.4%, to €25.61, over 2005 as a whole.

Under the terms of the tender offer, UniCredit offered HVB shareholders five shares of UniCredit stock for every one share of HVB stock held. When the offer expired, the acceptance rate totaled 93.93% (share in capital stock). Deutsche Börse sets criteria of a free float in excess of 5% and a ranking of at least 45 in terms of market capitalization and stockmarket turnover for a stock to remain in the DAX. The HVB share no longer satisfied the latter criterion

HVB share relative to DAX and Prime Banks



as of the last working day in November. Consequently, it was removed from the DAX in accordance with the “fast exit” rule when the index was reweighted on December 19, and has been listed in the MDAX since then. At the end of December 2005, the HVB share had a weighting of 1.56% in the MDAX and 1.58% in the Prime Banks index.

Performance in detail

Our share made a weak start to the first quarter of 2005, reaching its low for the year of €16.30 on the third trading day of the year. Up until the restructuring of our real estate finance operations in the Germany business segment was announced on January 21, the HVB share performed far better than our benchmark indexes, the DAX and the Prime Banks. The price then fell back slightly, only to take up the positive trend from the start of the year again after the publication of the preliminary annual results at the end of February. The HVB share gained a total of 13.0% in value during the first quarter.

This pleasing rise continued on through the second quarter as well. The strong operating performance in the first quarter, coupled with the confirmation from UniCredit and HVB Group that the two banks were considering a business combination, gave the HVB share enormous impetus. The agreement was announced on June 12, 2005. Thus our share performed much better overall than the market as a whole during the second quarter, closing the period at €21.51, up 14.0% over the price at the end of the first quarter.

The performance of the HVB share in the third quarter was clearly influenced by the combination of HVB Group and UniCredit. The prices of both stocks largely paralleled each other from the time when the merger was announced through to November 11, 2005, when the further period allowed for accepting the tender offer closed. Even though it failed to match the market as a whole during the quarter, our share gained a further 9.0% in value.

The HVB share picked up pace again in the final quarter, reaching its high for the year of €26.85 on December 13. In all, the HVB share outperformed the DAX and the Prime Banks index by 2.1% and 3.2% respectively in the fourth quarter. Quarter-on-quarter, our share had risen by 9.3% to end the year at €25.61.

A good deal: five UniCredit shares for one HVB share

UniCredit offered HVB shareholders five UniCredit shares for one HVB share. During the period from August 26 to October 24, our shareholders had the opportunity to tender their shares for UniCredit shares. When the deadline expired, 88.14% of the shares had been tendered, meaning that the minimum acceptance rate of 65% for the merger to take effect had been surpassed. This in turn was a condition for the further period for acceptance to come into effect. From October 28 to November 11, HVB shareholders had a last chance to exchange their shares. The definitive acceptance rate of 93.93% (share in capital stock) was then announced on November 17.

Ratings

	Long-term	Short-term	Outlook	Public Pfandbriefs	Mortgage Pfandbriefs
Moody’s	A2	P–1	stable	Aa1	Aa1
S&P	A	A–1	negative	AAA	—
Fitch Ratings	A	F1	stable	AAA	AAA

Very strong performance during the course of the year

2005	HVB share price in €	Quarterly performance in %
Q1	18.87	+13.0
Q2	21.51	+14.0
Q3	23.44	+ 9.0
Q4	25.61	+ 9.3

Weightings

	Weighting	Ranking
MDAX	1.56%	26
Prime Banks index	1.58%	6

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

in €	2005	2004
Average number of shares in millions	750.7	697.1
Number of shares at Dec. 31, in millions	750.7	750.7
Operating profit per share	2.42	1.93
Net income (loss) before taxes per share	1.73	(2.74)
Earnings per share (adjusted)[1]	1.55	0.70
Earnings per share	0.86	(3.48)
Shareholders' equity per share[2]	16.31	16.61
Net asset value per share[3]	14.62	14.37
Dividend per share of common stock	0.25	—
Dividend per share of preferred stock	0.064	—
Share price at year-end	25.61	16.70
High	26.85	21.13
Low	16.30	12.86

[1] 2004 figures adjusted for amortization of goodwill, addition to restructuring provisions, and allocation to special provisions for bad debts
2005 figures adjusted for "restructing costs and additional provisions for losses on loans and advances"

[2] Calculation basis: subscribed capital, additional paid-in capital, and other reserves

[3] Calculation basis: subscribed capital, additional paid-in capital, and other reserves plus available-for-sale reserve less goodwill

On a subsequent road show in Europe and the United States, the management of HVB Group and UniCredit met with approximately 270 institutional investors to present to them the structure, business model, and goals of the new banking group. We set up a toll-free hotline for private HVB shareholders to find out about the tender offer and the new banking group. In addition, UniCredit gave our shareholders an information brochure outlining details on the merger of HVB Group and UniCredit. The response to the combination was very positive overall, as reflected in part in the high acceptance rate.

New shareholder structure …

The successful combination with UniCredit has resulted in a considerable change to our shareholder structure. Of our 750.7 million shares outstanding, UniCredit holds 690.5 million shares of common stock and 14.6 million shares of preferred stock. This represents a holding of 93.93% (share in capital stock). The remaining 6.07% of our shares are free float, held by institutional and private shareholders.

… changed analyst recommendations …

The small free float of 6.07% and the inclusion of the HVB share in the MDAX have resulted in a reduction in the number of analysts constantly monitoring our share. At the end of February 2006, our share was being tracked by 13 prestigious banks and securities firms. 23% of the analysts had issued a "sell" recommendation, 46% a "hold" recommendation, and 31% an "overweight" recommendation. The current recommendations are published on our Investor Relations homepage.

… and further professional investor relations work

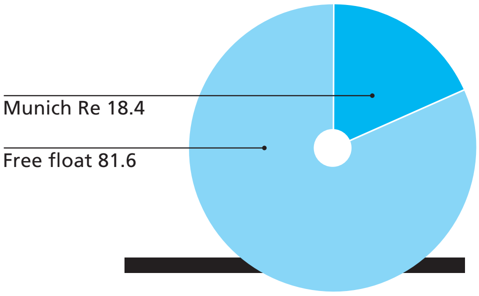
Our investor relations activities during the year under review were dominated by the business combination with UniCredit. We will continue to maintain open, ongoing communications with analysts and private and institutional investors in the future. We are also committed to expanding communications with our fixed-income investors. In the first quarter of 2006, we successfully placed a global-format mortgage Pfandbrief with a volume of €1.5 billion, with Investor Relations co-organizing the roadshow through Europe.

Volume of trading in the HVB share

The daily volume of trading in the HVB stock averaged 4.5 million shares during the year under review. The slight increase of 2.3% year-on-year (2004: 4.4 million shares) can be attributed among other things to the greater demand associated with the business combination with UniCredit.

Shareholder structure[1]

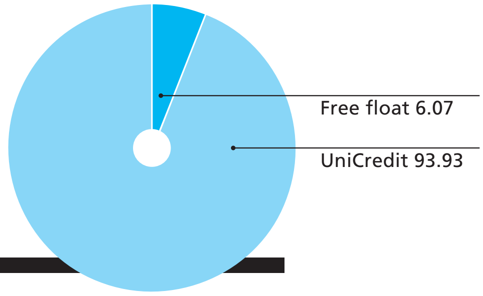
in %



[1] 750,699,140 outstanding shares, of which 14,553,600 held by Bayerische Landesstiftung

Shareholder structure since November 17, 2005[2]

in %



[2] 750,699,140 outstanding shares, of which 14,553,600 shares of preferred stock held by UniCredit

SPECIAL REPORT

- Combination to form the first truly European bank, building on the highly successful execution of the tender offer
- New UniCredit bank well positioned in its domestic markets of Italy, Germany, and Austria, and also market leader in the emerging markets of Central and Eastern Europe
- UniCredit and HVB Group represent a very good strategic fit
- Clearly defined corporate governance as part of the business combination

THE BUSINESS COMBINATION WITH UNICREDIT

The business combination to form the first truly European bank …

The European banking world is undergoing a process of profound change. In the past few years, many European countries have already seen consolidation in their domestic financial sector. With their business combination – the largest European cross-border deal among banks to date – HVB Group and Italy's UniCredit Group have set a major milestone.

On June 12, 2005, the two banks announced they would be joining forces to form the first truly European bank. The business combination was carried out through voluntary tender offers addressed to the shareholders of HypoVereinsbank and Bank Austria Creditanstalt. After closing of the tender offer of UniCredit for HypoVereinsbank on November 17, 2005, UniCredit holds 93.93% of the share capital and the voting rights in HypoVereinsbank. Most minority shareholders of Bank Austria Creditanstalt have also tendered their shares into the tender offer for Bank Austria Creditanstalt. Thus an overwhelming majority of shareholders of HypoVereinsbank and Bank Austria Creditanstalt shared the vision and economic benefit of the business combination. Since then, the two banks have been working together on the integration.

… with a persuasive economic rationale

Together, UniCredit and HVB Group are a new force in the European banking market. The new UniCredit Group has a presence in 19 countries, with 28 million customers, more than 7,000 branches, and some 140,000 employees. The new UniCredit Group enjoys leading positions in its three adjoining home markets – Italy, Germany, and Austria. In terms of total assets and number of branches, it is also the clear market leader in Central and Eastern Europe. The new UniCredit Group has a diversified business portfolio with a strategic focus on retail and private banking, asset management, corporate banking, international capital markets business, and commercial real estate finance. It has achieved critical mass in many different lines of business, where it can leverage economies of scale.

A strong market presence: at home in the heart of Europe …

The new UniCredit Group is one of the strongest banking groups in Europe with its roots in one of the most economically successful and most closely-knit regions on the continent – particularly northern-central Italy (UniCredit), Bavaria (HypoVereinsbank), and Austria (Bank Austria Creditanstalt).

A substantial part of Europe's goods traffic passes through this trans-Alpine area, and many of the continent's most important industries have their homes here. The region's gross domestic product per capital – an important indicator of wealth – is 117% of the EU-15 average. A high proportion of commerce is cross-border, so that clients need high-performance, up-to-date settlement and payment systems that can keep up with their needs. It is a highly developed and demanding market – a perfect operating field for a bank in Europe.

These core markets will continue to play a strategic role in the future and the new UniCredit Group will be highly focused in this area.

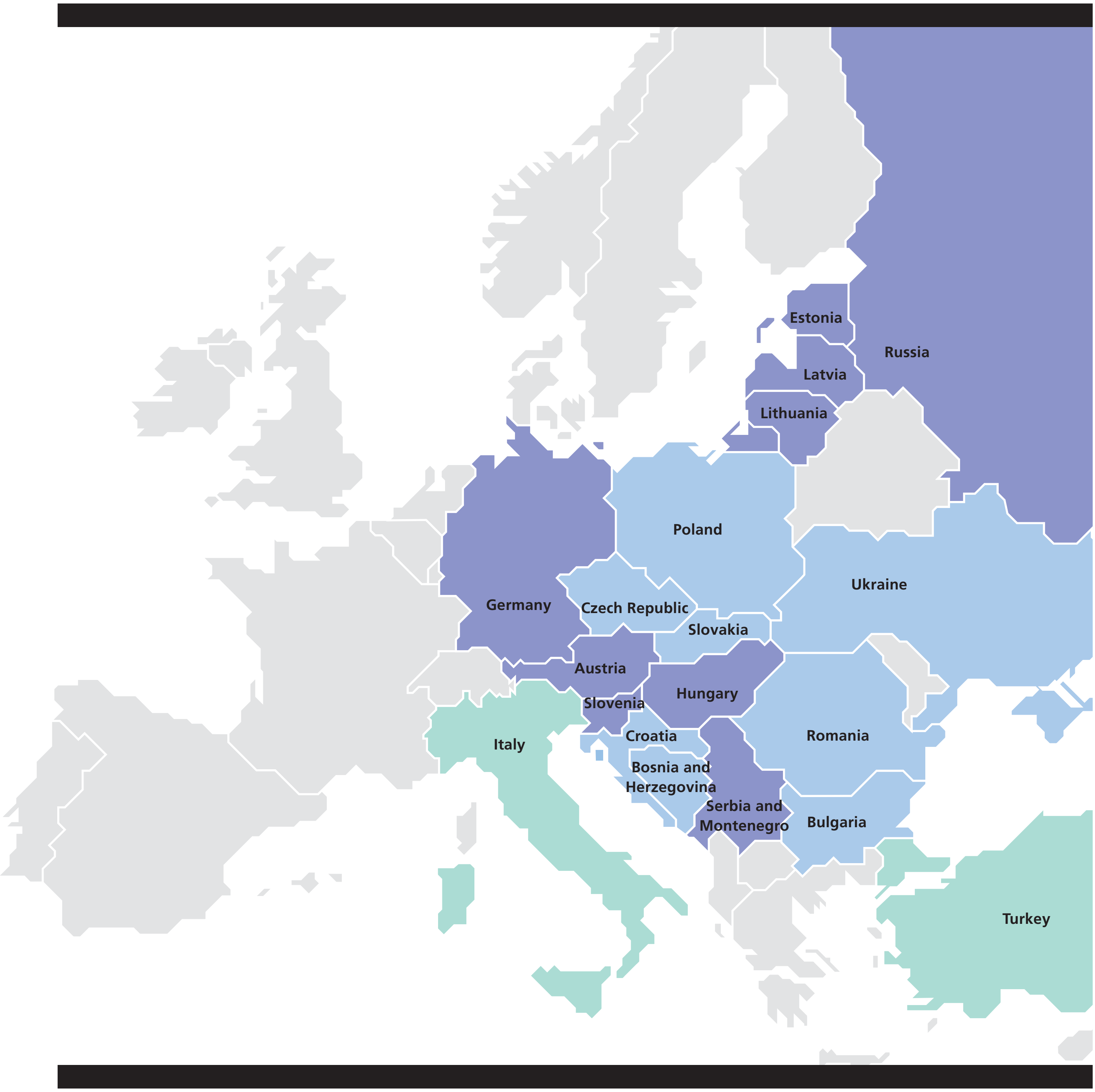
At the same time, the new UniCredit Group's three home territories are important trading and investment partners for the countries of Central and Eastern Europe. For example, Germany, Austria, and Italy's total exports and imports to and from the countries of Central and Eastern Europe represent some 14% of those countries' external trade. 15% of these total exports and imports aggregates of Central and Eastern Europe are directed to and from Germany, Austria, and Italy. The new UniCredit Group already has an outstanding market position here, enabling it to provide optimum assistance to its clients in the region.

… and a leader in the dynamic markets of the new Europe

The new UniCredit Group has a banking presence in 16 countries of Central and Eastern Europe (19 total[1]) excluding branches and representative offices. Even before they combined, both HVB and UniCredit were important players in new Europe's dynamic economies. Together, they are now the clear leaders in the region – with more than twice the total assets and twice as many branches as their nearest competitor. The new UniCredit Group holds leading positions in Poland, Bulgaria and Croatia, and an important position in countries such as Bosnia, Turkey, Slovakia, Serbia, Romania, and the Czech Republic. The Group also has a market presence in Russia, Ukraine, Hungary, Slovenia and the Baltic states.

[1] **Austria**, Bosnia, Bulgaria, Croatia, Czech Republic, Estonia, **Germany**, Hungary, **Italy**, Latvia, Lithuania, Poland, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia, Turkey, Ukraine

PRESENCE IN EUROPE



UniCredit
HVB
UniCredit + HVB

These countries' economies are growing at above-average rates of between 5 and 7% per year and income per capita in the region is rising fast. Even today, the substantial pent-up demand for banking, credit and savings products is giving rise to substantially greater demand for loan products, investment products, and other banking products. Assets under management are just 43% of income – compared with an average of 125% in the more advanced economies of the euro zone. These differences will shrink more and more as the Central and Eastern Europe region's economic structures – and thus the population's investment and spending patterns – move more into line with the patterns of spending and saving in a typical developed country. The UniCredit Group is looking to tap this potential, and is positioned to offer clients the full range of products and services of one of Europe's largest and most capable banking groups.

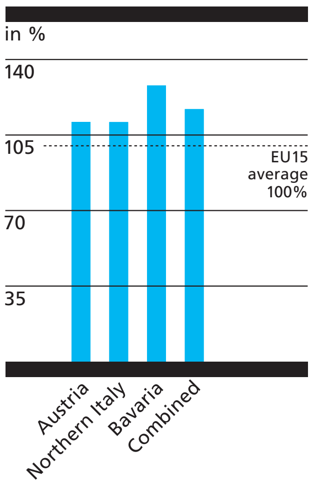
A more broadly diversified Group …

The new UniCredit Group's business operations and geographical positioning are now more broadly based, and they can count on a stronger diversification. As would be expected, the loan portfolios of UniCredit and HVB currently emphasize the two banks' respective home markets. The new UniCredit Group's lending portfolio will be more uniformly distributed across Italy, Germany, Austria, and Central and Eastern Europe. As a result, the new UniCredit Group aims to focus even more on its risk-return profile and will come to an efficient capital allocation.

… and complementary product ranges …

The two banks represent a very good fit. UniCredit's traditional strengths have been in retail and corporate banking, along with risk management solutions. These complement HVB Group's market position in the domestic customer business and on the international capital markets and multinationals side. Additionally, UniCredit's asset management subsidiary Pioneer has achieved an outstanding market position, which complements HVB Group's Activest, Nordinvest, and Capital Invest subsidiaries. Still more, HVB Group has extensive experience in structured

Per capita gross domestic product in UniCredit Group's core regions



finance, another important growth market. The new UniCredit Group will be able to leverage these strengths in applying the best processes and the most innovative products for customers throughout the organization.

... based on regional identities

The new UniCredit Group's management structure is founded on a well-conceived combination of global and local components. The new UniCredit Group's ambitions and focus reach beyond national borders and will achieve a group identity based on shared values. The new UniCredit Group's linguistic, legal, and cultural diversity will be considered as well. The new UniCredit Group is based on strong brands with an established identity in the various home markets. Responsibility for customer operations will still remain with local management.

Clearly structured corporate governance ...

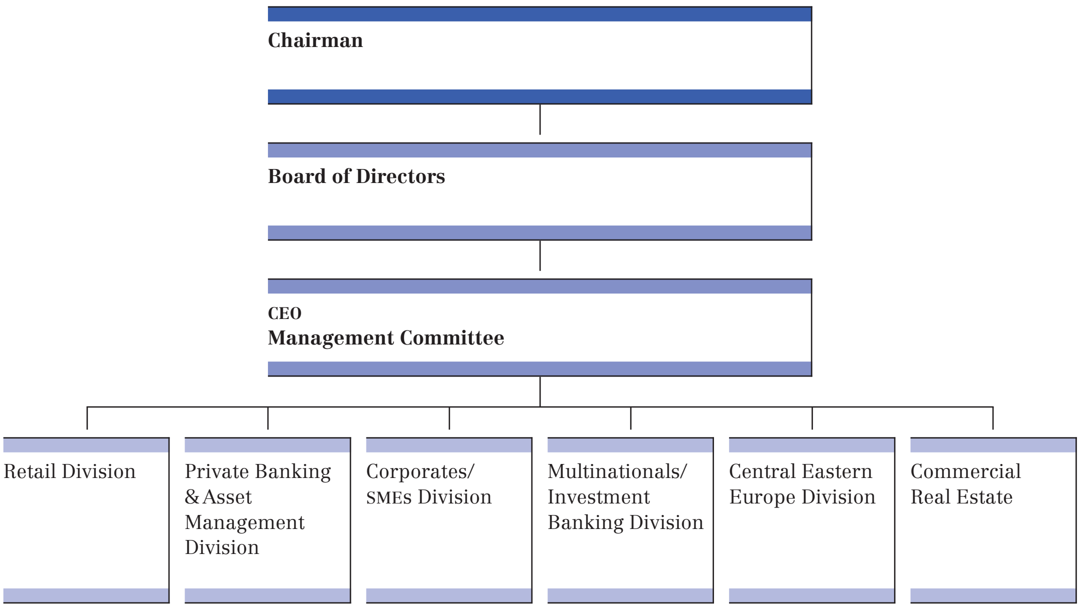
As part of their business combination agreement, HypoVereinsbank and UniCredit committed themselves to clear leadership and management structures from the very start. The new UniCredit holding company will be headed by a Board of Directors; in other words, it will have a single-tier governance structure consisting of 24 members. The new Board of Directors will be responsible for the Group's strategic orientation.

On November 18, 2005, UniCredit's Board of Directors appointed Mr. Alessandro Profumo as Chief Executive Officer (CEO) and established a Management Committee – which reports directly to the CEO – to advise and implement management decisions made by the CEO in consultation with the Management Committee members.

... with a divisional management structure

The divisional structure will enable the new UniCredit Group to optimize the value of each division and each regional company within their geographic regions, and to coordinate planning and business operations within the Group. This structure calls for UniCredit to be organized in five business divisions – Retail, Corporates/SMEs, Multinationals/Investment Banking, Private Banking/Asset Management, and Commercial Real Estate – each with full responsibility for their own customer segments in Italy, Germany, and Austria. A further division within UniCredit will be responsible for the management of activities in Central and Eastern Europe. The Board spokesman of HypoVereinsbank will represent the interests of the Germany region on the Management Committee. Finally, the Global Banking Services division will focus on global banking services for the entire Group. The Group-wide business divisions will be mirrored by business lines at the level of each regional company and Central and Eastern Europe. Likewise, the Global Banking Services division will be mirrored by banking services lines at the regional level.

Organization of UniCredit Group management



Outlook: completion of integration and sustainable value creation

The integration of HVB Group into the new UniCredit Group is already in full swing. The reorganization measures, such as business combinations of companies that operate in the same countries, are currently being examined from legal, tax, and organizational viewpoints, to optimize the corporate structure of the entire Group. Since UniCredit and HVB Group can demonstrate a good cultural fit, we believe that the integration process might proceed successfully. For us, culture is not just a buzzword but a real focal point for our activities. Cultural diversity yields complementary strengths that we want to apply to maximum advantage.

In the past, UniCredit and HypoVereinsbank have demonstrated their integration skills. The combination of the two banks may offer attractive prospects for clients, employees, and shareholders alike. The various customer groups may benefit from the new Bank's strong market position in Europe together with customized solutions and excellent service. In a multicultural group our employees may find challenging opportunities for personal development. Shareholders may benefit from the value potential of a growth-oriented and a profitable corporation. The new UniCredit Group has the declared goal of achieving sustainable value growth for its shareholders, and is very well equipped to achieve that goal.

BUSINESS SEGMENTS AND SERVICE DIVISIONS

- Germany business segment: Private Customers enjoys healthy operational growth; Corporate Customers demonstrates strong profitability; Real Estate records pleasing performance in new business
- Austria and CEE business segment: resegmentation boosts value creation in Austria; growth potential tapped in Central and Eastern Europe
- Corporates & Markets business segment: Leveraged & Structured Finance underpins growth in Corporates business unit; Markets business unit achieves further successful implementation of cross-asset approach
- Our people: focus on new sales culture and family-friendly policies
- Operations: optimized processes and capped costs in IT; greater volume of payments handled
- Sustainability and corporate citizenship: among the best banks for sustainability; combination with UniCredit opens new possibilities

Germany business segment:

Earnings performance

The entire workout portfolio in the German real estate finance business was transferred from the Germany business segment to the Real Estate Restructuring (RER) segment at the end of 2004, and the associated risk provisioning needs from 2004 were eliminated at the same time. Because these changes make it difficult to compare the figures for the year under review with the prior year figures, the present discussion relates to operating profit before loan-loss provisions, so as to make the segment's operating performance more transparent.

The Germany business segment made an operating profit of €1,375 million before loan-loss provisions, and provided a significant contribution toward HVB Group's total net income. The new figure is a gratifying 8.2% higher than the prior year's €1,271 million. Among the factors that helped here were a substantial 4.0% rise in operating revenues combined with a comparatively slight 1.9% increase in administrative expenses. (Please refer to the Financial Review for a detailed discussion of the results.)

Private customers and private banking: turnaround in operating figures

The operating profit before loan-loss provisions recorded by the Private Customers business unit improved a very significant 50.8% to €285 million. This clear turnaround in the operating figures stemmed from a combination of higher operating income (up 4.2%) and lower administrative expenses (down 1.3%) – the latter as the first fruits of the Process Redesign and Optimization (PRO) program.

Strategic objective: sustained improvement in profitability

The main focus for 2005 was on implementing and continuing the MOVE program, with its objective of an ongoing, sustained enhancement of profitability in the private customer business.

We will continue to concentrate on streamlining our product portfolio and developing innovative products that meet real needs, especially in financial planning and investment. The reorientation of the product range was completed by adding product combinations tailored to specific customer groups, thus rounding out the four existing product bundles (the StarterPaket, KompaktPaket, KomfortPaket, and PremiumPaket). We sold more than 145,000 bundles in 2005, gaining some 32,000 new customers in the process. This also increased our cross-selling rates.

Besides the full integration of the former Vereins- und Westbank, which gave us a uniform market presence in Germany, we also heightened our market profile by developing the Private Clients sales unit. This new unit concentrates on all-around support for our top private banking clients and started at a total of eight different locations in 2005. We will continue to push this strategic orientation in 2006 by setting up a separate division called Wealth Management incorporating the Family Office. This division will also include the subsidiaries DAB Bank, Activest, Nordinvest, and Private Banking Luxembourg. The move will create a center of excellence for the areas of asset management and asset gathering for the whole of HVB AG. We are looking to gain market share in this extremely lucrative segment by expanding our presence in Germany's most promising markets. To achieve this, we will provide exclusive customer solutions and special services to cater for the varied needs of this clientele.

We apply a multi-channel strategy that optimally integrates and coordinates branch offices, telebanking services, electronic banking, and mobile sales, so that we can offer our customers 24/7 availability. Another aspect of this strategy has been to expand the HVB Finanzberatung GmbH mobile sales unit. This unit supports branch-office sales in acquiring new customers, and providing optimum support for existing customers, irrespective of time or place.

Activest enjoys a successful 2005

2005 was the most successful year for Activest since the company was formed in 1999. The corporate strategy of enhancing efficiency and quality on an ongoing, sustainable basis, with a stable cost level, is continuing to pay dividends. A net inflow of more than €3.3 billion into retail funds was posted in 2005, representing a 7.3% share in the total inflow of funds in the sector (or fourth place in the BVI rankings).

A substantial rise in operating revenues was achieved compared with 2004, while net income before taxes more than doubled year-on-year. Consequently, the market share of 4.9% at the end of 2004 had risen to 5.3% by year-end 2005. This equated to a rise to fifth place in the German market for retail funds. With a 6.3% share of the market, Activest was able to defend the fifth place it has achieved in Germany in the market for special-purpose funds.

Sales successes with core products

- HVB Sofortkredit: Business expanded nearly 30% year-on-year, with new business at €845 million and an average total volume of €1,063 million. We also added more than 22,000 new customers, up 10% from 2004.
- Real assets business: We placed a total of nearly €400 million in real assets. This is a tremdendous sales achievement in the light of 2004's record figure, and especially given the difficult economic conditions of 2005.
- Financial planning: As expected, sales in life and pension policies receded in 2005, in the aftermath of the 2004 changes in the applicable laws. The total was €842 million. Among the particularly helpful factors were the introduction of a new family of fund insurance products at mid-year, and the Bank's business in "Riester" pension products, which were increasingly in demand in the second half. We expect private customers' demand for financial planning solutions to keep growing substantially over the next few years.
- Cooperation with Bayern Munich soccer club: This cooperative arrangement continues to be extremely successful, and had already gained us more than 34,000 new customers by the end of 2005. The volume of deposits with the FC Bayern Savings Card stands at nearly €1.8 billion. Customers have already signed well over 100,000 Savings Card agreements.
- Real estate: Real estate finance remains an anchor of the retail banking business. Regional tailoring of portfolio management in attractive markets has made it possible to expand new business at prices better adjusted to risk. We have signed nearly 15,000 contracts for a total volume of €1.55 billion.

Strong demand for innovative investment products

Professional advisory services for customers under the HVB VermögensKonzept investment concept, together with a mix of innovative investment products custom-fitted to client needs, helped increase income substantially for 2005.

Once again, the HVB Kombi-Anlage standardized fund investment management plan was a particular success. The portfolio for this product expanded by more than 35%. Our individualized investment management service, HVB Vermögensverwaltung, boosted assets under management by more than 16%.

Last year, HVB again offered attractive, innovative products for private customers. For example, it placed Germany's first certificate fund, known as NordDynamic.

The Bank's strong market position in certificates was expanded further, with a total sales volume of €884.6 million. We also sold structured bonds worth an additional €1.1 billion.

The Activest Total Return Fund also continued to perform very well in this environment. At a total of more than €6.3 billion, it is among the ten largest funds registered in Germany.

Corporate customers and professionals: earnings up again

This business unit's contribution to earnings continued to grow in 2005. The operating profit before loan-loss risk was up 7.6%, to €890 million. Operating income climbed a vigorous 6.4%, primarily on account of a very pleasing upswing in fee- and commission-based operations. At the same time, administrative expenses were up only 5.2%. The result was an improvement in the cost-income ratio to 47.8%. The adjusted pre-tax return on equity for the Corporate Customers and Professionals business unit has thus reached 20.0%.

Strategy refined

The key strategic factor for success in the corporate business is the use of efficient support models tailored to our individual customer segments and their specific needs. These models are backed with structured, tool-based consulting methods and both standardized and individualized product solutions.

In 2005, we consolidated our strategic guidelines and specific measures in a Balanced Scorecard, bringing further focus to the rules and parameters for action that apply to our sales force. This new management tool offers transparency and a clear orientation for the most important strategic thrusts in four key dimensions: risk and earnings; customers and the market; systems and standards; and employees and management.

The unit's growth in operating profits has proved that our systematic approach to the corporate customer business is the right one. And we met our ambitious goal, gaining more than 26,000 new customers.

In 2005, we also integrated Vereins- und Westbank as well as the corporate customer portfolio of BHF Bank. Taking over the corporate customer business of Bochum-based Westfalenbank during 2006 will yield another significant increase in our lead standing with small and mid-sized enterprises, the Mittelstand customers.

Sales successes demonstrate core expertise

We once again proved our broad-based expertise in products and advisory services, and enjoyed special success in the following areas:

– PREPS™: In PREPS™ (Preferred Pooled Shares), HVB Group and its Swiss partner CEG were innovation pioneers in what are known as profit-sharing rights platforms. PREPS™ is an entirely new way for mid-sized companies to obtain non-bank financing directly through the capital market. Though many competitors have now come up with their own imitations, PREPS™ is by far the leader in Germany. In the last transaction, PREPS™ 2005-2, additional European banks signed on to the idea, and marketed PREPS™ in their own home markets. Small and mid-sized companies in Italy, Belgium, Switzerland, and Austria have thus been able to join in. In all, nearly 200 Mittelstand firms have raised more than €1.5 billion in junior capital by way of the PREPS™ platform over the past two years. For our clients, this means maximum planning reliability for cash inflows, because it is easier for placements to achieve critical mass than in a purely national solution.

  As market leader in Germany and Austria, we are in an active position to expand the market for capital market products among Mittelstand businesses. Here we are relying on wider standardization in both financing and securitization.

– Financial risk management: Our local specialists in liquidity and investment advisory open up new options for interest-rate and foreign-exchange management for Mittelstand companies, along with ways of hedging commodity and weather exposures. In 2005, small and mid-sized corporate customers were especially able to use hedging strategies to cushion the extreme fluctuations on the international commodity markets. The challenges on the foreign-exchange and interest-rate markets in 2005 pushed growth rates well into the double digits in derivatives, foreign exchange, and securities management. The Bank was also able to meet new customer needs in rights issues. These were some of the many ways in which we demonstrated our innovative strength and the quality of our advisors.

– Public-sector customers: Our support for public-sector customers extends to local governments, municipal enterprises, nonprofit foundations, churches, charitable associations, social-security funds, and hospitals. Our special range of products and services for this customer group enabled us to reap double-digit gains in profits for the third time in a row. The highest growth rates were in deposits and derivatives.

Growing with Europe

As a leading provider of financial services in Austria and Central and Eastern Europe (CEE), in 2005 we further expanded the cooperative efforts between Germany and our extensive network of offices in the rest of Europe. Many of our Mittelstand customers have made the most of the vigorous economic growth in the region to invest in the new EU member states as well as the candidate countries Bulgaria and Romania. In 2005, we provided active advice and support for a wide range of new or expanded German-based investments in one or more CEE countries. We particularly support our customers with area-wide cash management products for finance management.
In all, we assisted some 1,000 customers with their business in CEE countries.

Real estate: consistent implementation of the value-based approach to business

With our regional support teams at six locations (Berlin, Düsseldorf, Frankfurt, Hamburg, Munich, and Nuremberg) and the structured finance specialists concentrated in Munich, the Real Estate business unit focuses primarily on business with professional real estate customers. Besides classic financial operations involving our target customers (investors, property developers, and housing development companies), we are increasingly supporting large-scale property investments with customized, innovative products.

For the Real Estate business unit, fiscal 2005 was marked by a comprehensive restructuring program. This included:

- completely integrating Vereins- und Westbank,
- concentrating our support teams at six major conurbations in Germany
- consistently focusing new business acquisition on attractive target customers in the professional real estate customer segment,
- applying strict, risk-adjusted margins and pricing,
- significantly stepping up service and cross-selling operations,
- easing the pressure on equity through synthetic outplacement measures,
- disposing of unprofitable portions of portfolios at a faster rate, and
- transferring impaired loans to the Real Estate Restructuring segment.

Implementation was started in 2005 and will be systematically continued during 2006.

Real estate markets stabilize

Following a decline that had lasted several years, the German real estate markets stabilized over the course of 2005. A number of different housing market indicators suggest that the market has now bottomed out almost nationwide, and that a slight recovery can be expected to start this year and next.

The upturn on the residential side is also reviving the market for commercial investment in residential properties. In the past, institutional investors have found residential real estate an unattractive investment because of the large administrative expenses and below-average returns involved. But over the past year or two, residential property has again become a lucrative investment option, especially for large foreign institutional investors and their German subsidiaries.

The market for office space, after a correction lasting several years, has also been showing clear signs of consolidation. Top rents in major markets have stabilized, and vacancy rates have recently leveled off.

Highly profitable new business

Irrespective of the signs of stabilization in each of the real estate market segments, we are continuing to maintain strict requirements for investors' and buyers' credit standing, and for the quality of the properties we finance. These quality standards coupled with risk-adjusted pricing enabled us to achieve a high level of profitability on our new business in the year under review and a marked increase in income from commission and derivatives compared with the prior year. Additionally, as part of our active approach to risk management, we made it a priority to render our loan products both transferable and marketable.

Strong market position in structured products

A business emphasis for 2005 included financing for housing portfolios, and structuring and process management for real estate portfolio sales and transactions associated with non-performing real estate loans.

One of the largest real estate portfolio financing projects of 2005 was successfully organized by an international syndicate of six big-name banks acting as the mandated lead arranger. HVB invested a substantial figure in the triple-digit millions in this transaction. We also acted as the arranger for the sale of the entire real estate portfolio of a major German retirement fund, and in the sale of €1.8 billion worth of HVB's sub-performing and non-performing real estate loan portfolios to Goldman Sachs. In all, we used portfolio and syndication operations to market some €2.4 billion in real estate financing, in some cases acting as the agent for third parties.

Earnings marked by restructuring

Despite the good profitability of new business, charges arising from our portfolio of business in force and sustained restructuring measures have led to a 21.6% decline in operating profit before loan-loss provisions, to €200 million. Operating revenues, which showed a healthy development in net interest income (up 1.6%) and particularly in fee and commission-based operations (up 21.4%), decreased as a result of non-scheduled items in our non-core business.

Austria and CEE business segment: Continued strong performance

Fiscal 2005 was the most successful year to date for the Austria and CEE business segment, which has constantly improved its performance over the last few years. Following the complete integration of HVB and Bank Austria subsidiaries in CEE and the realization of large-scale synergies arising from several mergers, the organic expansion initiated in 2004 began to pay off in 2005. Thus the Austria and CEE business segment again reported a strong year-on-year rise in income. Operating profit rose by a total of 23.4%, generated this time around by all business units together, although the CEE countries did contribute more proportionately. Net interest income in CEE and net commission income in all the business units were the main factors driving the increase in operating revenues.

General administrative expenses rose partially as a result of the expansion of business in CEE. The rise in loan-loss provisions was also caused by "additional provisions for losses on loans and advances" as a result of an increase in general provisions for losses on specific loans and advances totaling €70 million. The cost-income ratio decreased in total to a satisfactory 62.4%. Risk-weighted assets rose, again mainly in the CEE countries. (Please refer to the Financial Review for a detailed discussion of the results.)

Austrian business units: resegmentation increases transparency

The economic environment in Austria continued to be depressed by weak domestic demand in 2005. Exports were the main factor driving growth and hence industrial activity. The economy gained momentum during the course of the year, pushing growth ahead of the EU average.

As part of our value-based management concept, we divided our customer-related operations in Austria into new segments at the beginning of the year. The Private Customers Austria business unit now covers only retail operations. SMEs Austria encompasses both small commercial customers and small and mid-sized business customers. Major corporate customers, financial institutions, the public sector, and commercial real estate operations have been combined in the Large Corporates and Real Estate business unit.

The aim of resegmenting our operations was to enhance performance transparency in Austrian corporate banking. To further optimize capital allocation, we reduced risk assets in corporate banking through pro-active credit portfolio management. In the business units in Austria, operating revenues were up 3.7%, to €2,350 million, while general administrative expenses remained constant.

Progress in Private Customers Austria

Against a background of strong competition together with a stagnating market volume and a persistent decline in margins, we nevertheless managed a good performance on the back of a big increase in the volume of personal loans. Our mobile sales force made a major contribution to our success by selling housing and consumer loans. This was offset by a decline in margins on the deposit-taking side.

The securities business started to pick up again after years of investor restraint. The main focus here was on structured investment products. With guarantee bonds and guarantee funds leading the way, we managed to triple the sales of these products over last year. The sector and regional funds marketed by investment funds AMG and Capital Invest largely met investor requirements.

Today the Private Customers Austria business unit has almost 400 branches serving around 1.8 million customers. We hold down a share of around 18% of the retail market.

Restructuring of SMEs Austria

Corporate banking (covering both small commercial customers and small and mid-sized businesses) is the hardest fought market segment in Austria and yields below average profitability as a result. The provisions incurred for credit risk consumed almost one third of net interest income. But this was thoroughly compensated by fee and commission income generated primarily by sales of derivatives for interest, currency, and liquidity management, electronic banking for corporate customers, and securities activities.

This defined customer segment set up at the outset of the year is to be restructured using standardized solutions for day-to-day business and pro-active cross-selling together with risk-oriented pricing and the automatization over all electronic distribution channels. A restructuring provision totaling €90 million has been set aside for this purpose.

We can report a rise in earnings from issuing and deposit-taking operations. This underscores our success in expanding our leading position in value-added solutions that are unrelated to our classic product business.

Strong performance in Large Corporates and Real Estate

The Austrian corporate banking segment covering major corporate customers, financial institutions, the public sector, and commercial real estate was characterized by abundant corporate liquidity in 2005. This led to declining lending volumes, reflecting our planned, restrictive lending policies and not only the market trend as a whole.

At the same time, fixed-term deposits developed very favorably, but at extremely tight margins. In line with the cyclical trend, a healthy performance was recorded for investment and export finance and guarantees. Risk management for companies, notably through the use of derivatives, boosted net commission income.

We succeeded in further strengthening our leading market position in investment banking for corporate customers, especially in business combinations and restructurings as well as M&A. We acted as joint lead manager for two debut bonds in the first half of the year, as lead manager for three corporate bonds in the third quarter, and also as a provider of international banking services.

CA IB acted as an advisor in the privatization of steelworks in Turkey (Erdemir) and in Ukraine (Krivorish Steel) at a total volume of €6 billion. Our broad range of skills in this area is demonstrated by our involvement in the sale of Antenna Hungaria to Swisscom Broadcasting and the partial privatization of Postbus GmbH, our function as global coordinator and bookrunner for the €71 million IPO of Skyeurope, a further capital increase in Austria. We also advised Matáv on its acquisition of a 76.5% stake in Telekom Crne Gore worth €141 million.

It proved a particularly good year in commercial real estate finance, with strong growth in volumes and earnings alongside a satisfactory risk situation. BA-CA Leasing was able to entrench its leading position among domestic leasing companies in both Austria and the CEE countries in the first half of the year. Bank Austria Creditanstalt Leasing sold contracts from its Austrian equipment and vehicle leasing portfolio by means of securitization on the capital market. With a volume of €425 million, the first asset-backed securitization transaction by BA-CA Leasing – Success 2005 B.V. – met with a very positive response from the market.

Central and Eastern Europe: growth potential tapped

Our CEE subsidiaries succeeded in expanding their position faster than market growth. The strong showings in the CEE countries were undergirded by a very expansive environment, building on almost double the economic growth as well as a structured acceleration of the circulation of money (monetarization) in these countries. In addition, our subsidiaries helped to boost market penetration with modern banking products.

Pleasing figures for net interest income and net commission income in the CEE countries, which significantly boosted results in fiscal 2005 despite tighter economic policies and several interest rate cuts, were also proof of the rapid modernization. Net commission income in particular has already reached the high level, proportionately, of the business units in Austria. Overall, operating revenues in the CEE business unit rose by 29.1% to reach €1,499 million.

All the regions, the new members of the EU – most notably Poland – and southeastern Europe (SEE) contributed equally to the higher operating profit and expansion, even if the weightings differ in absolute terms. Particularly pleasing was the expansion in southeastern Europe, albeit from a low base. We continue to see plenty of potential here for banking products such as savings books, salary accounts, and loans, and for growth in the services business in this area.

Some changes in the consolidated group due to …

BPH Leasing was consolidated for the first time at the beginning of 2005. From April 1, 2005, Hebros Bank in Bulgaria was added to the consolidated group. Romania’s Banca Comerciala “Ion Tiriac” was consolidated for the first time on September 1, 2005, followed by the merged Serbia-based subsidiaries HVB Bank Serbia and Montenegro and Eksimbanka on October 1.

… acquisitions as well as …

Serbia’s Eksimbanka, which was acquired at the start of the year, merged with HVB Bank Serbia and Montenegro on October 1, 2005 to form the fifth-largest bank in the country. The closing for the acquisition of Hebros Bank in Bulgaria took place in March 2005, thus completing the deal. Integration of our new subsidiary into our existing HVB Bank Biochim subsidiary to create the third-biggest bank in Bulgaria is scheduled for 2006.

An agreement on the merger of HVB Bank Romania with Banca Comerciala “Ion Tiriac” was signed in June 2005. The banks were combined by means of a share swap and a purchase of shares. BA-CA now holds 50% plus one share in Banca Comerciala "Ion Tiriac." With total assets of €2 billion, 72 branches, and over 720,000 customers, the new bank will be a strong force in Romania, ranking fourth with a 7.5% share of the market.

… organic growth

General administrative expenses have risen by around 19.1% overall as our expansion has added 117 branch offices and almost 1,700 employees over the last nine months.

The Central and Eastern Europe business unit boosted net income by a healthy 45.7% in fiscal 2005. At just under 14%, the risk-earnings ratio is below the overall bank average in CEE despite the expansion and the strong showing of corporate banking. Thus, the results are good, both in total and across all units.

In 2005, the BPH Group in Poland earned over a billion zlotys, representing a rise of just over one-fifth. There was a healthy rise in operating profit, while the cost-income ratio of around 51% was below the sector average. Non-performing loans declined in response to the stable risk situation. After years of adjustment, BPH Group has expanded as a universal bank in every area. In 2005, it received an award for having the best website and the best IT in the country.

Our banks also succeeded in significantly expanding business in the other new EU member states.

We made good progress in leasing and real estate finance operations in every country. We have also introduced factoring in several countries. The Treasury Sales initiative in CEE is meeting with great success, as is the Cross-Border Client Group project involving cross-border corporate banking operations, which can be seen as one of the main drivers in this business, most notably in Slovakia.

Growth rates are particularly impressive in southeastern Europe (SEE), especially in Romania and Bulgaria. In absolute terms, we achieved a sharp boost in pre-tax net income in the SEE region in fiscal 2005; the contribution to higher net income is roughly equivalent to that from Poland.

Corporates & Markets business segment: Developments in C&M

The Corporates & Markets business segment (C&M) generated an operating profit of €902 million, thus matching last year's strong total of €912 million. An addition of €58 million was made to loan-loss provisions after net reversals of €72 million in the previous year. A more favorable capital market environment overall coupled with the application of our successful business model resulted in a healthy 13.3% rise in operating revenues. There was a slight improvement in the cost-income ratio, to 57.8% after 58.2% in 2004, while net income before taxes rose a substantial 16.6% to €946 million.

Strategic orientation as main cornerstone for leveraging cross-selling

Corporates & Markets was highly successful in fiscal 2005 with its integrated capital market bank concept. A key element in this involved further steps taken during the year to systematically align all activities with Corporates & Markets' "origination – structuring – trading – distribution" value chain with a view to optimizing the strategic orientation. As the healthy development during the course of the year demonstrates, this strategic approach does promote efficient cross-selling. By pooling our expertise across various asset classes and applying our marked product development and structuring skills, we have positioned C&M to provide the kind of innovative capital market products that meet the current strong demand. C&M thus acts as a powerful intermediary between issuers, capital markets, and investors.

C&M gives HVB Group customers access to tailor-made financial solutions and risk management products based on the capital market. C&M is a leading player in the acquisition and leveraged finance segment. Our wide range of products is rounded off by equity capital markets products and services in the area of mergers and acquisitions. Moreover, all of HVB Group's customers have been given the opportunity to tap our distinct capital market expertise. Our target groups are Mittelstand customers capable of tapping the capital markets, institutional and multinational customers, and public sector clients.

Within the framework of C&M's integrated capital market bank strategy, the focus will remain on our core competence in structured finance and structured derivatives. Based on an active management of our credit portfolio, the objective is to make even more efficient use of risk assets, thus improving the risk/return ratio.

Developments in the Corporates business unit

Operating profit in the Corporates business unit declined by €83 million, to €443 million, notably due to the higher loan-loss provisions which included a net reversal of €72 million in the prior year. The 12.4% rise in operating revenues, to reach €1,025 million, is largely a result of the increase in net interest income. With a 15.1% rise in general administrative expenses, we could not quite maintain the cost-income ratio, at 51.4%, at the prior year's level.

The Corporates business unit serves approximately 270 corporate customers. In line with our strategic approach, we are offering our corporate customers more capital market-oriented services in order to bolster our earnings power in fee and commission-based operations. This is based on our long-term customer relationships, subject to the functional separation of lending and relationship management, for which we consistently link traditional lending to the procurement of mandates for capital market transactions. With the support of our Active Credit Portfolio Management unit (ACPM), we are looking to simultaneously increase the risk/return ratio and minimize the volatility of risk costs. The range of services we offer comprises the full array of structured finance products, active management of credit portfolios for the purpose of balance-sheet management, and corporate finance.

C&M is also a leading player in the German market for structured finance. Our success is built on our ability to efficiently meet customer demands by applying our extensive expertise in tailored products and calling on our strong lending resources.

C&M benefits from growth in the Leveraged & Structured Finance unit

In acquisition and leveraged finance, C&M maintained its strong position in Germany and Europe in 2005. With a market share of around 20%, we are the top player in Germany – most notably in leveraged finance – and can thus benefit from the dynamic growth of this segment. In Europe, our primary goal is to focus on the expanding regions of Britain, France, and Italy. A strategic focus on our core customers (financial investors, global corporate customers) coupled with lucrative mandates help to make this unit one of the most profitable and largest of its kind in Europe. Last year alone, our Acquisition & Leveraged Finance team arranged and processed finance solutions worth in excess of €10 billion worldwide. At the same time, consistent portfolio management helped to boost the already high return on equity.

Its ideal strategical organization will enable Acquisition & Leveraged Finance to exploit further growth in the market.

HypoVereinsbank is also considered one of the top banks in Europe in the area of project and structured finance. Besides project finance, this area also includes commodity trade finance. In 2005, the contribution to profits continued to improve overall year-on-year, and there is huge growth potential waiting to be realized here in the coming years as well.

Active credit portfolio management gives C&M a leading position in the German market

Based on our strategic lending policies, our trend-setting active credit portfolio management (ACPM) has been actively utilized to optimize our risk/return profile since January 2005. Acting as an interface between the credit/capital market and the sales force, ACPM is expected to make an improvement to the overall profitability of the loan book. Loans are "purchased" by Sales at a market price and then actively managed by ACPM as the "owner." The traditional buy-and-hold lending model has thus made way for an approach similar to fund management in that it actively incorporates the credit/capital markets.

Utilizing credit/capital market products makes it possible to leverage the equity employed and consequently increase returns from the entire credit portfolio without affecting customer operations. A further improvement of the risk/return from the existing credit portfolio is achieved by making specific purchases of credit risks.

The credit exposure for which ACPM is accountable stood at around €20 billion at the end of 2005, about one-fourth of which is secured by credit derivatives. Specific hedging operations served to minimize cluster risks and hence risk costs and their volatility. The re-investment book, which mainly contains structured loan products and baskets, had grown to €2.8 billion by year-end, generating a return on equity well in excess of 20%.

Developments in the Markets business unit

With an increase of 18.9%, the operating result of €459 million reported by the Markets business unit was very pleasing in fiscal 2005. Operating revenues were boosted by 12.9% to €1,245 million, notably as a result of the sharp increase in trading profit of 39.2% and net commission income of 32.5%, which more than compensated for the decline in net interest income. Despite the 9.2% rise in general administrative expenses, this led to an improvement of 2.1 percentage points in the cost-income ratio to 62.9%.

The Markets business unit serves around 2,100 institutional customers, although the focus is placed on the 260 or so most important institutional customer groups.

The activities of the Markets business unit cover a wide range of Treasury and capital-market products and services. We see the main reason for our success in the systematic penetration of our wide customer base with innovative, new capital market products. This is complemented by the sale of products like covered bonds, for which our many years of experience have given us a leading market position in Germany and a strong presence in other European countries.

Cross-asset approach as key success factor

An important value lever in the Markets business unit is the way that all of its activities are systematically arranged along the entire value-added chain. This market-based alignment is an important success factor enabling us to both satisfy and actively structure the requirements of issuers and investors alike.

Our comprehensive approach to the customer relationship focuses on our cross-asset solution expertise. This requires an efficient interaction between origination, structuring, distribution, and relationship management. Our customers particularly appreciate the structuring expertise which permits us to develop tailored solutions across all asset classes. Bundling international sales under a single management team and introducing a Senior Relationship Management unit has enabled us to continue to expand our placing power and dramatically improve our results from cross-selling.

A good example stemming from our cross-asset approach is the annual C&M German Investment Conference, which has met with a very positive response from our customers. This event represents the second-biggest gathering of its type in Germany. Whereas 31 companies and a hundred investors attended the conference two years ago, almost 90 representatives of listed German companies and around 450 international institutional investors made their way to Munich in 2005.

C&M positions itself as the top structured derivatives boutique in Europe

C&M is the leading structured derivatives house in Germany. We have created value by combining complementary skills in the various product classes (such as equities, bonds, emerging markets, and commodities) in order to utilize our distinct expertise in financial derivatives and proactively offer our customers innovative solutions.

Issuing operations

The Debt Capital Markets unit more than doubled its underwriting volume in 2005, with the result that today's league tables show us in second place for Jumbo issues and first place for bonds issued by the public sector in Europe. Our success was reinforced by a consistent customer orientation in all our activities.

Equity Capital Markets

We can look back on a successful year in terms of initial public offerings and capital-raising measures. During the largest flotation of a media company in modern German history, HVB acted as joint bookrunner for the first IPO with a volume exceeding €1 billion since 2004. HVB likewise acted as joint bookrunner with a transaction volume of over €1 billion in the largest domestic rights issue of the year, while it successfully underscored the internationalization strategy as one of the five lead banks for the €2.6 billion capital increase of a European insurance group.

The domestic small and mid-cap market continues to be one of HVB's core competencies. The Bank furnished impressive proof of its placing power in this segment, among other things as lead manager, during successful placements for various small and mid-cap issuers.

Funding

2005 represented a year of continuity from 2004 in terms of funding activities. Our activities centered on two benchmark bonds: the Global 8 mortgage Pfandbrief for €1.5 billion and the Global 9 public-sector Pfandbrief for €1.0 billion. The high share of Pfandbriefs underscores our sustainable and permanent involvement on the Jumbo Pfandbrief market and demonstrates our commitment to our national and international investors as a regular issuer of benchmark bonds. Particularly pleasing was the development in the spread on our Jumbos in 2005.

As in previous years, we have also made use of unsecured fundings with low spreads by means of structured bonds and private placements. Issuing innovative retail products alone generated a volume of €1.6 billion.

HVB C&M joins top three in Jumbo Pfandbriefs

All Jumbo Pfandbriefs 2005 (December 31, 2005)

Lead manager	Amount $ m	No. of issues
1. Barclays Capital	16,826.80	36
2. HVB	**14,309.50**	**36**
3. ABN AMRO	14.256.30	28
4. DrKW	14,133.90	37
5. IXIS	11,238.90	24
6. HSBC	8,967.90	22
7. Deutsche Bank	8,073.40	25
8. Calyon	8,014.30	14
9. Citigroup	7,773.80	15
10. DZ Bank	6,730.50	23

All Jumbo Pfandbriefs 2005 (December 31, 2005)

Lead manager	Amount $ m	No. of issues
1. Deutsche Bank	11,200.40	39
2. Barclays Capital	10,007.50	39
3. DrKW	9,685.10	45
4. ABN AMRO	8,788.70	28
5. HVB	**8,562.60**	**36**
6. Citigroup	6 ,697.50	16
7. IXIS	6,325.80	24
8. HSBC	6,261.20	20
9. Morgan Stanley	4,538.60	12
10. DZ Bank	4,520.70	30

Source: IFR

New opportunities in a European context

For the employees of HVB Group, 2005 was both a promising and challenging year. The combination of our Bank with the UniCredit Group opened up new opportunities and areas of employment in Germany and abroad. At the same time, the integration process calls for costs to be reduced by realizing synergies. At year-end, the Bank had 61,251 employees on its payroll after 57,806 in 2004; 42% of these people worked in Germany and 58% in other countries.

Paving the way for a new sales culture

During the course of the last year, we permanently enhanced the efficiency of our sales force. Our efforts focused on a training and communications program known as MOVE. This initiative signifies a change from a predominantly product-oriented sales process to a comprehensive financial advisory service which makes customers' attitudes and goals the focal point of customer care.

The main components of the program are as follows:

- Leadership workshops, where our executives study our full advisory service business model and then convey this to their staff.
- Dialogue training, where all sales staff undergo practical training to improve their knowledge and professional application of the advisory service model.
- Systematic sales communication, which ensures the transfer of knowledge and the exchange of information across hierarchical lines, from the relationship manager at the branch through to the Management Board.

The guiding principle behind MOVE is to win customers through expertise and proximity. HVB relationship managers increasingly see themselves as developers of long-term finance plans. This requires employees to pursue comprehensive continuing professional development. In the year under review, 460 managers and 4,146 staff were trained under the MOVE program alone. Some 15,000 people completed training modules intended to improve their technical and methods skills. The completion of these modules is confirmed by a certificate. HVB AG invested around €25 million in continuing professional development during the year.

Innovative methods of personnel marketing and talent management

The skills and motivation of our employees are crucial to our business performance, and junior talent has a key role to play in this regard. In 2002, we pooled all our recruitment, supervision, and development activities for apprentices, trainees, students, and young professionals in our Talent Center.

The talent center has a wide range of tasks:

- It is responsible for providing advice on careers and development to our 148 trainees and 1,316 apprentices. It places trainees within the Bank from a pool of young people.
- It also supports alumni, i. e. former trainees. The advancement of selected high potentials is deliberately fostered through staff development seminars and mentoring.
- Particularly good student interns are tied to HypoVereinsbank through our HVB Student Network, which holds workshops and provides a range of advisory services; we also recruit trainees from this group.
- Advertising our credentials as an employer is intended to foster the Bank's image among potential junior talent, experts, and executives. We are setting new standards with our revamped personnel marketing. Our related campaign now focuses on successful employees and their career at HVB at trade fairs, in advertisements, and on the internet.

In promoting junior talent, our primary goals are to ensure quality and continuity in our vocational training and further development of talented young people. This is why we have arranged fixed company-wide quotas of 6% of our total workforce for apprentices and 1% for trainees.

Compatibility of working and family life re-certified

Enabling people to combine working life with family life has been an important concern of ours for years. We support our employees if they take leaves of absence for family reasons and advise them on ways in which they can maintain contact with the Bank. We expand the skill base of the people concerned and help them re-enter the workforce by holding events, training courses, annual reviews, and planning talks.

Our family-friendly personnel policies have received numerous awards. In 2005, HVB became the first company in Germany to receive the Work & Family Audit certificate for the third time. This award from the charitable Hertie Foundation recognizes a corporate commitment to balancing life inside and outside of the working environment. In addition to the tools used to harmonize work and family life, we support our employees through the advisory and intermediary work of our Family Service, vacation programs, a parent-child initiative closely related to the Bank, and the leisure activities offered by the HVB Club.

In 2004, we launched a broad-based Age Management project in the HR unit. This program considers the effects of demographic trends and their significance for HVB.

Flexible capacity management boosts efficiency

HypoVereinsbank has a broad array of tried and tested work-time models. These serve the Bank's interests as an employer and our employees' plans for the future. Efficient capacity utilization helps to reduce costs and enhance work processes, while employees can also have a say in their length of service at the Bank and their hours of work. At the same time, we are increasingly taking account of demographic trends and their consequences for the development of people's total working life.

Part-time work counts as one of the most important tools of capacity management. In recent years, we have increasingly tapped the potential of this tool, with the proportion of part-time workers at the parent company now standing at around 21%. We reduced staffing levels by means of 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.

At the end of 2004, we launched the Process Redesign and Optimization project (PRO). This is an efficiency-enhancement program aimed at optimizing our administration processes in the period between 2005 and 2007. PRO calls for around 2,120 positions to be eliminated from staff and service units in the Group. In the year under review, we succeeded in cutting back 800 jobs through voluntary termination agreements and partial retirement. In the process, we invariably reached amicable solutions together with the people concerned. The streamlining of our payroll benefited from natural staff fluctuation, which amounted to 7%. Where at all possible, the intention is for the continued reduction in staffing levels for the period 2006 – 2007 not to involve any compulsory redundancies.

Our in-house temporary employment agency, HVB Profil, has received many awards for the important role it plays both in capacity management and efficiency enhancement. HVB Profil currently maintains a pool of employees, which also includes apprentices for whom regular employment cannot be found upon completion of their vocational training.

In all, 2005 was a year that saw a high level of staff movements. This included transfers within HVB Group, which helped to transfer expertise and shift capacity. 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 cooperation built on a foundation of trust.

Performance-related pay optimized

HVB has operated a performance-related remuneration structure since 1995, with refinements being implemented continually. In 2004, we started to introduce what is known as the "12 + 2" performance-related remuneration structure. The final version of this model comprises twelve fixed monthly salaries and a variable component. We were the first bank in Germany to make use of the delegation clause in the collective bargaining agreement for the private banking sector.

To intermesh the Bank's performance more strongly with the personal success and performance of each individual employee, the degree to which each employee met his or her targets is assessed during the annual performance review. This degree of target achievement serves as the basis for the individual bonus payment. The level of the bonus budget is linked to the Bank's return on equity at an overall bank level. The appraisal interview was optimized and again validated by a company agreement in the year under review. From 2006, the appraisal interview will be documented electronically and added directly to the employee's digital file after the talk.

Outlook: the path to a truly European bank

At year-end 2005, the new UniCredit Group employed around 140,000 people in 19 countries. In the course of the integration process, positions will also be eliminated at HypoVereinsbank AG, mainly in service and administrative units. As in the case of PRO, we will consult closely with employee representatives to reach socially compatible solutions, and also make targeted use of natural staff fluctuation to ensure there is no need for compulsory redundancies.

At the same time, the UniCredit Group is undoubtedly already one of the largest banks in Europe today. It is on a path of strong growth and offers our employees a wealth of development opportunities.

The focal point of human resources work in the coming years will be to foster a distinct and successful corporate culture at this truly European bank. To accomplish this goal, the Group-wide Integrity Charter will also be introduced in Germany. The Integrity Charter and mission of the UniCredit Group define values that determine our conduct in our dealings with customers, employees, and investors, and define our public role on the ground locally. These values are fairness, respect, freedom, transparency, reciprocity, and trust. With these values, we will create a working environment that paves the way for us to become a truly European bank.

PRO: Process Redesign and Optimization right on target

An important part of the value-based further development of HVB is the Process Redesign and Optimization efficiency enhancement project initiated at the end of 2004. This program aims to streamline core processes in back offices and reduce complexity and interfaces for corporate center duties and management tasks. In 2005, we already reduced non-personnel costs as planned. These permanent cost reductions were based on over 200 individual measures.

In 2006, a wealth of further measures in non-personnel costs in the head office/staff units, lending processes, and transaction banking are expected to yield additional savings. These include the optimization of advertising budgets, the further centralization of purchasing functions within the Group, and the consolidation of facilities (see also the Risk Report).

Information technology: key projects advanced in 2005

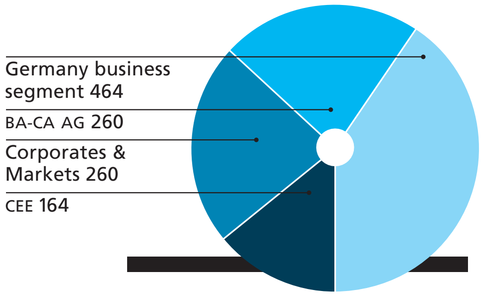
At €1.15 billion, IT spending in 2005 remained largely stable compared with 2004. An increase in CEE and Corporates & Markets has been compensated by consolidating expenditures on the retail side. In Corporates & Markets we invested in operations support by means of innovative capital market products. Information technology assisted in the expansion of branches in CEE.

Further consolidation in the Germany business segment was advanced by implementing optimized processes in retail operations. Providing a platform for trading with cross-asset derivatives lays a foundation for the Corporates & Markets business segment to provide innovative capital market products. We are supporting the expansion of our position as a provider of structured cross-asset derivatives in Corporates & Markets by means of IT.

In addition, change projects, such as preparations for capital adequacy requirements under Basel II and the introduction of "Bank Analyzer," our new SAP steering software, were the focus of attention in 2005 as they were in 2004. Moreover, the Group invested in the implementation of statutory measures to prevent payment flows between terrorist organizations and to identify and certify speculation gains.

Total IT spending 2005

€ millions



In Germany, reductions in costs were aided by efficiency gains of our internal project service provider, HVB Systems, which was able to reduce its internal charges by 4% in 2005, while a further 5% reduction is planned for 2006.

The combination of HVB and UniCredit is the trigger for HVBInfo and HVB Systems to pool their resources in a single company in the second quarter of 2006. The move will give IT customers a full range of services from a single source in the future. They will benefit from clear guidelines on architecture and security, covering everything from the implementation of new IT project concepts through to operation. The legal aspects of the merger are scheduled for completion by April 30, 2006. Uniform IT governance processes will be implemented gradually within the framework of group-adjusted corporate management in 2006.

Payments: lower costs despite higher volumes

HVB Group was again able to significantly expand its payment activities involving customers in 2005. Electronic customer payments in Germany increased by 23% compared with 2004. International payments also continued to grow, rising 16%. The strong rise in transaction volumes helped us record an 8.5% increase in earnings from this line of business compared with last year.

This means that HVB is moving contrary to the market, where margins are, if anything, declining on account of EU harmonization. Despite higher transaction volumes, we reduced the cost of processing payments by 10% over 2004, which also led to a significant improvement in unit costs overall. We offer a top payment solution allowing corporate customers in particular to process their entire payments simply, swiftly, and reliably using our systems.

Treasury and securities services: FX trading system goes live

We also succeeded in reducing the cost of securities handling despite a rise in transaction volumes and intensive support provided to the business segments. In money and foreign exchange handling, the FX trading system introduced last year ensured the desired cost neutrality for increases in volumes. We managed the growth in volumes in derivatives trading by providing system support and hiring more staff.

SUSTAINABILITY AND CORPORATE CITIZENSHIP

Sustainability: of great importance in a broader environment

For many years now, HypoVereinsbank has been committed to behaving in a responsible manner toward both the environment and society at large. 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. In addition, taking ecological and social risks and rewards into account strengthens our corporate value.

The merger with the UniCredit Group has opened up new opportunities. UniCredit takes sustainability very seriously; it is part of its corporate identity and thus an integral component of its entrepreneurial conduct.

The new sustainability report, detailing all our activities in the field of sustainability management, will appear in the summer of 2006. In particular, the report deals at length with the integrity charter which lays down rules of conduct for all employees of the UniCredit Group.

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

Sustainable banking products

We have a wealth of products and tools which serve to avoid risk on the one hand and exploit entrepreneurial opportunities on the other. We minimize 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.

HypoVereinsbank is 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 observance of ecological and social requirements. In the year under review, we used our own screening tool to examine projects. At the same time, we entered into an intensive dialogue with the International Finance Corporation and a series of non-government organizations (NGOs) in the course of reformulating the Safeguard Policies; we also helped to refine the original principles. In particular, the Safeguard Policies are intended to help protect the rights of the local population affected by projects. Moreover, we expanded our environmental risk training for employees of HypoVereinsbank, which took place as part of the new credit training program.

Sustainability ratings and rankings 2005

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		
Climate Leadership Index	Listed		
CoreRatings (2004)	B +		Best bank rating
oekom research	B	A + to D –	4th out of 60 banks
WWF/oekom Research: Environmental ranking for the protection of primeval forests	B +	A + to D –	3rd out of 11 banks
scoris DAX-30-Rating	69	1 to 10	8th out of 30 companies
Zürcher Kantonalbank	AA	AAA – C	
Bank Sarasin	Above average		
Storebrand	Above average		
Innovest	Above average		

We are one of the leading providers of finance for renewable energy in Germany. In 2004 we became the first bank to place a closed portfolio of windparks on the market in the form of a corporate bond. In the year under review, we financed Silicio Solar, a photo-voltaic factory in Spain, among other things, thus bolstering our image as a financier of solar energy plants.

We also focus on a range of products covering sustainable asset management, retail funds, and certificates. These target church institutions, charitable foundations, and concerned private individuals alike. Working in conjunction with oekom research, we developed the HVB Sustainability Index which tracks the price performance of 16 leading European companies. These companies rank highly, firstly on account of their financial performance and secondly because they are among the best-in-class in environmental and social issues. The Sustainability Index forms the basis for structured certificates like the HVB Yield Express Certificate on the HVB Sustainability Index, a long-term investment with full capital protection. We also cooperate with oekom research on our Activest EcoTech retail fund.

Sustainability management

Our Sustainability Management unit is responsible for coordinating and steering the sustainability action areas. This unit reports to the Management Board of HypoVereinsbank AG through the Executive Office and is also in close liaison with the people responsible at the UniCredit Group.

The sustainability team has been tasked with setting up and maintaining internal and external networks as well as controlling agreed targets and work plans. Annual strategy talks with senior management help to ensure that the work plans are implemented efficiently by work and project groups. A further task involves raising awareness levels both inside and outside the company. In 2005, this included holding the HVB Summer Academy for Sustainable Management for Small and Mid-Sized Companies at the National Garden Festival in Munich and staging training courses for trainees in Hamburg. We teamed up with Munich University of Applied Sciences to hold a series of events on entrepreneurial responsibility.

Sustainable banking operations

Priorities in this area include reducing the consumption of resources – notably energy, water, and paper – and limiting the amount of waste produced. We also endeavor to keep the emission of pollutants to a minimum. At the same time, we encourage our employees to act responsibly toward the environment.

In the year under review, we purchased 20 natural gas vehicles and several company bicycles as part of our drive to reduce the emission of pollutants; we also plan to expand our fleet to include other vehicles with environmentally friendly engines. Moreover, our measures won first prize in the Ecological Project for Integrated Environmental Technology (ÖkoProfit). This initiative recognizes companies that implement exemplary environmental measures. Our Vereinsbank Victoria Bauspar AG subsidiary likewise received an award – the environmental prize awarded by the City of Munich. With regard to in-house communications, we increased environmental awareness among our employees by issuing environmental guidelines and giving electronic environmental tips.

Corporate citizenship: culture, education, and social responsibility

For years now, HypoVereinsbank has been promoting a large number of institutions, projects, and initiatives which enrich the community. We have large art collections and also mount exhibitions in our gallery in Munich, which is one of leading exhibition halls in Germany. Our Hypo Foundation for Culture confers a preservation award each year, thereby supporting initiatives by private individuals repairing historic monuments. We have also co-sponsored the Corine, an international book prize awarded by the German book trade in Bavaria, for years.

In the year under review, we were among the sponsors of the festival performances in Munich, Passau, and Würzburg, the Richard Strauss Days in Garmisch-Partenkirchen, and the European Organ Festival. We organized a benefit concert at the Bayreuth Festival, the proceeds of which were given to a children's home. The Cultural Promotion Award for the Youth was awarded in the musical category this year. We supported the Bach Festival in Leipzig and were one of the main sponsors of the National Garden Festival in Munich.

In the field of education, we also continued our commitments to a series of establishments. This included the Stifterverband für die deutsche Wissenschaft, an association of donors to German science, and the Deutsches Museum. Not only are we among the patrons of the universities in Munich, we also function as treasurer to the societies of the Technical University and the Ludwig Maximilian University in Munich, providing staff and infrastructure as necessary.

On the social side, we have been supporting churches, schools, charitable facilities, and relief organizations for years. In 2005, our traditional Christmas donation went to the victims of the earthquake in Pakistan and to the Association for the Deaf. We also provide quick assistance in emergencies, for instance after the Asian tsunami disaster. Our employees donated almost €400,000 for this purpose; the Bank managed to more than double this amount to just under €1 million and thus promoted a series of initiatives, including a school project in Indonesia and a microfinance project in Sri Lanka.

Future prospects: integrating sustainability management and upholding corporate citizenship

One of the most important tasks for Sustainability Management in 2006 will be to integrate our corporate structures and processes into those of the UniCredit Group. This entails harmonizing systems and activities accordingly. Besides obtaining certification of HypoVereinsbank's environmental management system based on DIN EN ISO 14001 and EMAS, introducing the integrity charter is an important goal for us; our task in this connection is to create extensive awareness of the rules of conduct applicable throughout the corporate group. UniCredit is considered a sustainability leader in Italy, which means that the merger has further strengthened our profile as an exemplary financial service provider. We will remain fully engaged in corporate citizenship, focusing on long-term commitments such as the cooperation with the Deutsches Schauspielhaus theater in Hamburg, which we will be sponsoring over the next three years, and the Germanic National Museum in Nuremberg, which we will support with a donation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Corporate structure and business operations

Legal corporate structure and organizational structure

Bayerische Hypo- und Vereinsbank Aktiengesellschaft (HVB AG) was formed in 1998 through the merger of Bayerische Vereinsbank Aktiengesellschaft and Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft. It is the parent company of HVB Group, which is headquartered in Munich. Bank Austria Aktiengesellschaft (Bank Austria), which took over Creditanstalt AG in 1997 to combine the two largest banks in Austria (Bank Austria Creditanstalt), has been part of HVB Group since December 2000. HVB Group is one of Europe's leading providers of banking and financial services.

HVB AG has been an affiliated company of UniCredito Italiano S.p.A., Genoa, (UniCredit) since November 2005. Since the conclusion of the tender offer in Germany on November 17, 2005, UniCredit has held a 93.93% stake in HVB AG. HVB Group has been a sub-group and thus a major part of the UniCredit Group since then.

The ordinary shares of HVB AG are admitted to official trading on all German stock exchanges, as well as on the Vienna Stock Exchange, Euronext in Paris, and the SWX Swiss Exchange.

HVB Group offers a comprehensive range of banking and financial products and services to private and corporate customers as well as public-sector customers. Our range extends from mortgage loans and banking services for consumers, private banking, business loans, and foreign trade finance through to fund products, advisory and brokerage services, securities transactions, and asset management.

Business segments

In fiscal 2005, HVB Group was divided into three operational business segments – Germany, Austria & Central and Eastern Europe (CEE), and Corporates & Markets – and the Real Estate Restructuring business segment (RER).

The Germany business segment consists of HVB Group's banking business, including its asset management activities, in Germany with private customers, professionals, and companies. Excluded from this are large German or international corporations that require significant capital markets services and are therefore served by the Corporates & Markets business segment. To provide our customers with optimum services, the business segment is broken down into the business units Private Customers, Corporate Customers and Professionals, and Real Estate.

The Austria & Central and Eastern Europe business segment (Austria and CEE) consists of the business units Private Customers Austria, SMEs Austria, Large Corporates and Real Estate, and Central and Eastern Europe. The business segment comprises BA-CA Group's operations involving retail customers, asset management and private banking activities, its residential and commercial real estate financing activities in Austria and Central and Eastern Europe, and the vast majority of its corporate banking activities.

The Corporates & Markets business segment comprises the capital market-oriented business operations of HVB Group, and is responsible for selected corporate customers, many of which are listed on German or other European stock exchanges. The business segment's institutional customers include industrial enterprises, financial institutions, insurance companies, central banks, other large public institutions, and major investors.

The Real Estate Restructuring business segment (RER) was formed on January 1, 2005 by transferring the workout portfolios of the entire German real estate finance business of HVB AG previously assigned to the Germany business segment together with the remaining portfolios of the Real Estate Workout segment. The aim of the new RER segment is to completely eliminate the allocated portfolios, by exploiting various options and the opportunities arising from the development of the real estate markets.

Major sales markets, competitive position, and facilities

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, Austria, Poland, and other Central European countries. We also have a strong presence in Russia and the Baltics. We are the only large 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.

A breakdown of our offices by region is provided under "Offices" in Note 81 to the consolidated financial statements.

Organization of management and control

The Management Board of HVB AG is the managing body of HVB Group. The Management 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 HVB Group, including the risk situation.

The Supervisory Board of HVB AG is composed of equal numbers of representatives of shareholders and employees. The task of the Supervisory Board is to monitor and advise the Management Board as it conducts business. To support its work, the Supervisory Board maintained five committees in the year under review: the Remuneration & Nomination Committee, the Audit Committee, the Negotiating Committee, the Strategy and Business Development Committee, and the Risk Committee. The latter two were dissolved with effect from December 31, 2005.

HVB AG conducts risk monitoring and risk management on a groupwide basis. The monitoring systems are geared to identifying risks at an early stage. Controlling and risk management were combined under the area of responsibility of the Chief Risk Officer, who reported to the Risk Committee of the Supervisory Board on a regular basis, in 2005. Please refer to the Risk Report for further details.

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB AG is given in the consolidated financial statements under Note 82 "Members of the Supervisory Board and Management Board."

Basic features of the compensation system

The compensation paid to members of the Management Board is determined by the Remuneration & Nomination Committee of the Supervisory Board. In 2005, it comprised fixed and variable components: fixed compensation, variable compensation featuring profit-related components (performance bonus), and a long-term incentive again taking the form of share-based compensation (phantom stocks) in 2005. The target amounts of these three compensation components have been weighted equally to date; 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.

The size of the performance bonus depends on certain targets set at the beginning of each fiscal year by the Management Board and the Remuneration & Nomination Committee of the Supervisory Board being met. Among the elements comprising the basis for assessment at present is the consolidated profit. In addition, individual targets are set in the area of responsibility of each member of the Management Board. The performance bonus is disbursed together with the compensation for April of the following year.

For fiscal 2005, the members of the Management Board were again allotted a sum of money equivalent to a certain number of HVB shares after the expiry of three years as a long-term incentive. 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, unless a different agreement is reached in conjunction with the premature termination of the position. 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 HVB AG. None of the financial institutions involved is weighted at more than 20% within the basket. The Remuneration & Nomination Committee of the Supervisory Board decided on the composition of the benchmark at the outset of 2005. 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 Remuneration & Nomination Committee of the Supervisory Board. If the average price of the HVB share outperforms or underperforms the benchmark, the euro amount is increased by 3% for each commenced 1% outperformance, and is reduced by 3% for each commenced 1% underperformance. The equivalent amount of the allotted phantom stocks is capped; it may not exceed 200% of the target amount for this compensation component. The Supervisory Board saw no reason to modify the parameters on account of the combination with UniCredit, as the price of the HVB share rose much faster than the price of the peer group stocks in the first half of 2005 and generally paralleled the peer group in the second half of the year. Consideration is being given to offering the members of the Management Board the option of switching their phantom stocks to UniCredit shares for the calculation base of this model.

Information on the amount of compensation paid to members of the Management Board is provided in Note 78 entitled “Information on relationships with related parties” in the consolidated financial statements.

In addition to their regular compensation, the members of the Management Board have received pension commitments under a defined benefit plan, if they joined before the end of 2004. Since 2005, new members joining the Management Board are provided with a defined contribution plan. This means that they will additionally receive an individually agreed percentage of the compensation paid for the prior year as deferred compensation for future retirement benefits. By paying into a fund, pension capital is built up which is available for benefits when the benefits become payable. 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.

In the course of the combination with the UniCredit Group, a new compensation system was introduced that is applicable from 2006.

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Articles of Incorporation of HVB AG. 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 each receive an annual compensation of €20,000 for fiscal 2005. The chairmen of the committees receive twice this amount.

Information on the amount of compensation paid to members of the Supervisory Board is provided in Note 78 entitled “Information on relationships with related parties” in the consolidated financial statements.

Internal management

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. The overriding goal of value creation in the sense of shareholder value can thus be transferred to the operational business segments.

Essentially, this concept requires a return from two capital resources. One is the regulatory (or used core) capital and the other risk capital, in other words the economic capital actually required to cover risks identified on the basis of internal models. 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. A detailed description of this issue is given in the risk report under the section entitled "Overall bank management."

Economic conditions

General economic conditions in 2005

Although the global economy slackened during last year, it remained robust at an average annual growth rate of just under 3.5% after 4% in 2004. The growth engines in this connection were the United States, expanding 3.5% in 2005, China at just under 10%, and the emerging economies of Asia, up 6.75%. However, there was a noticeable slow-down during the year, primarily in the United States, which caused growth in the last quarter of 2005 to fall below 3.25% again. The reasons for this were the cessation of monetary and fiscal policy stimuli, the continued rise in the foreign trade deficit, and problems encountered in the automotive industry.

Following a rather moderate first six months, the euro area experienced a significant upturn in the second half of the year. The continuing steady demand for exports boosted growth in the euro zone. There was also a marked recovery in investment demand, notably in Germany. German investment picked up as much as it did on the average during previous upturns. Hence, the domestic growth rate matched the rest of the euro area for the first time in years.

- At an average of 0.9% in 2005, GDP growth in Germany was significantly lower than in the prior year (1.6%). A statistical effect is also responsible for this performance, in the form of a lower number of working days.
- Persistently high energy prices caused consumer prices to rise by 2% year-on-year after 1.75% in 2004.
- Unemployment averaged 4.86 million in 2005 after 4.39 million in the prior year. The rise is partly due to a change in the way statistics have been compiled, since welfare recipients were included in the statistics with the introduction of the Hartz IV reform.
- Current estimates put the current account surplus at 3.4% of GDP after 3.8% in 2004.
- The public-sector deficit fell slightly, from 3.7% of GDP to 3.5%.
- Long-term interest rates continued to decline, falling to 3.30% at the end of 2005 after 3.68% in 2004. The European Central Bank raised the refinancing rate from 2% to 2.25% in December 2005.

In 2005, growth in Austria was 1.8%, lower than the 2.4% recorded for 2004. The main factors causing this development were the weak first quarter, which saw a decline in investment (due to tax deductibles being brought forward to 2004 to take advantage of tax benefits before they expired in 2005) and exports. However, based on a significant increase in exports and a slight improvement in consumer demand, there was a clear rise in economic growth over the year as a whole. At 2.1%, inflation remained relatively moderate in spite of the rise in oil prices.

The economy of the CEE countries was in good shape again in 2005. The eight new EU member states and the three candidates Bulgaria, Croatia, and Romania grew by an average of about 4.25% last year.

Sector conditions in 2005

2005 can be viewed as a year of change in the German banking sector. While discussions often focused on the structural problems of the German banking system in recent years, the last fiscal year was marked by the first changes made in this respect. While various signs suggest that the German banking industry is facing lasting changes, the cross-border combination between HVB Group and the UniCredit Group is a clear indication that the consolidation of the European banking system is already underway. We assume that cross-border banking services, which are currently of minor significance overall, will become more significant in future.

In fiscal 2005, there was a noticeable improvement in the general economic climate in spite of several difficult economic indicators, such as a sharp rise in oil prices and a persistently weak trend in private consumption. The German financial services industry succeeded in achieving generally pleasing results not least for this reason. There was a rise notably in operating revenues.

Despite a weak second quarter, there was a further significant increase in activities on capital markets by both private and institutional investors compared with the prior year. In particular, the German stock market saw a clear upturn. Heavier demand for innovative capital market products and the repeated rise in trading volumes generally had a favorable impact on banks' trading profit and net commission income during the year. In addition, net commission income benefited especially from the fact that banks have consistently geared their range of services to tailor-made products in recent years as a response to the change in needs of companies capable of tapping the capital markets.

By contrast, there was no significant change in 2005 in the continuing very low level of yields on ten-year German Treasury bonds. The burden on earnings was nevertheless kept within bounds despite the resulting flat yield curve. The successful diversification of income sources in recent years and strict compliance with risk-adjusted pricing was an essential requirement in this connection.

The further slight improvement in general economic conditions helped to keep provisions for losses on loans and advances at a stable, or in some cases declining, level compared with last year. The efficient application of banks' risk management systems also contributed to this effect. Financial institutions profited from cost-cutting measures already initiated in previous years also in the area of general administrative expenses.

Important events impacting the course of business

On June 12, 2005, HVB Group and the UniCredit Group announced their intention to join forces to form the first truly European bank. Since the conclusion of the tender offer in Germany on November 17, 2005, UniCredit has held 93.93% of the capital stock and voting rights in HVB AG.

The business combination contains high synergy potential. Based on this synergy potential and the original business plans of the UniCredit Group and HVB Group, the new group is looking to increase the earnings per share of the UniCredit Group to €0.56 for 2007.

The integration of the existing HVB Group into the UniCredit Group is required to realize this synergy potential. The fourth quarter was marked by integration and restructuring measures which will continue in 2006.

Business situation and development of income

General statement on the business situation by management

The income statement for fiscal 2005 is marked by extraordinary expenses entailed in integrating HVB Group into the UniCredit Group, namely the restructuring costs of €546 million (reported as a separate item in the income statement). Moreover, higher general provisions for losses on specific loans and advances totaling €147 million were set aside. Hence the income statement of HVB Group has been depressed overall by non-recurring items totaling €693 million (referred to below as "restructuring costs and additional provisions for losses on loans and advances").

In 2004, non-recurrent charges totaling €2,915 million, consisting of the allocation to special provisions for bad debts (€2,500 million), an addition to restructuring provisions (€250 million), and amortization of goodwill (€165 million), impacted the income statement.

To facilitate comparison between the income statement for fiscal 2005 and the prior year figures, the following comments regarding the development of income relate to figures from which the above non-scheduled items have been removed.

In fiscal 2005, we succeeded in tangibly enhancing the positive trend on the operating side of the last two years.

In the year under review, we recorded an operating profit of €1,813 million. In adjusted terms, the operating profit amounts to €1,960 million or is 45.7% higher than the prior year's total of €1,345 million. At €1,299 million, we succeeded in almost doubling net income before taxes, adjusted for "restructuring costs and additional provisions for losses on loans and advances," to reach €1,992 million compared with the adjusted prior year figure of €1,002 million.

The Outlook in the Financial Review (2004 Annual Report, page 81) stated a target figure between eight and nine percent for the return on equity after taxes in 2005. We managed to significantly surpass this figure, adjusted for "restructuring costs and additional provisions for losses on loans and advances," achieving a rate of 10.0%. At €1,163 million, net income after taxes and after minority interest, adjusted for "restructuring costs and additional provisions for losses on loans and advances," is much higher than the target figure of around €1 billion.

Operating revenues

Operating revenues were up 7.0% over last year, an increase of €650 million. At the same time, a further improvement has become apparent in the quality of our income structure through revenue increases in all three main sources of income. In 2005, we achieved the highest profit contributions in the history of HVB Group for net commission income and trading profit. In the process, the share of net commission income (which has a beneficial impact on equity) in total operating revenues rose to 32.7% after 30.7% in the prior year.

Net interest income was 3.9% higher than last year and also rose slightly compared with the third quarter of 2005. Along with a rise in volume over last year, the interest margin increased 9 basis points, to 2.71%, based on the average risk-weighted assets shown in the balance sheet. Note 28 "Net interest income" in the notes to the consolidated financial statements includes a detailed breakdown of interest income and expense.

At €3,240 million, there was a significant 13.9% rise in net commission income. At the same time, the contribution to profits made by the securities and depositary business rose, primarily as a result of the very successful sale of innovative financial products also this year such as our "interest joker" bond, "interest collect" bond, and "interest master" bond. In addition, there was a rise in net commission income from international transactions, payments, and lending operations.

Trading profit developed very well, increasing 27.2% to €926 million year-on-year, although the anxious state of capital markets resulting from developments in the U.S. automotive market depressed our results in the second quarter of 2005.

A negative balance of €143 million accrued for other operating income and expenses. This aggregate expense results primarily from additions to provisions in non-lending operations, expense items arising from foreign currency translation compliant with IAS 21.28, and write-downs and realization losses on property, plant and equipment and other assets. These expenses were only partially compensated by income from the release of provisions in non-lending operations, gains on the disposal of property, plant and equipment, and income from external charges resulting from services.

General administrative expenses

At €6,582 million, the general administrative expenses of HVB Group were up 7.6% over the prior year. The first-time full consolidation of Closed Joint Stock Company International Moscow Bank (formerly International Moscow Bank) and the impact of exchange rates at our CEE banks increased our expenses. Adjusted for these effects, the rise in general administrative expenses stands at 5.7%. Continuing strict cost management coupled with the implementation of our PRO efficiency enhancement program have helped us limit the rise in costs in spite of forward-looking investments.

The cost-income ratio (percentage of total operating revenues made up by general administrative expenses) amounted to 66.4%, which reflects a slight increase over the prior year figure of 66.1%.

Provisions for losses on loans and advances

Provisions for losses on loans and advances declined by €282 million, to €1,513 million, in fiscal 2005. This includes the defined non-recurring items arising from higher general provisions for losses on specific loans and advances (€147 million). Without these non-recurring items, the provisions for losses on loans and advances of €1,366 million are slightly higher than the forecasted annual requirement of €1.3 billion, and 23.9% below the prior year total. The slight budget overrun results from the fact that, in the fourth quarter, we went to the upper limit of the assessment range when calculating loan-loss provisions for individual exposures.

Operating profit

Operating profit adjusted for additional "provisions for losses on loans and advances" stands at €1,960 million, which is equivalent to an increase of 45.7%, or €615 million, compared with the prior year. A key factor contributing to this favorable development is the 7%, or €650 million, growth in operating revenues. In unadjusted terms, operating profit was up €468 million, or 34.8%, to €1,813 million.

Net income from investments

At €321 million, net income from investments was €307 million higher than the prior year total of €14 million.

The largest individual items under net income from investments are the gains on the partial disposal of the Bank's holding in Münchener Rückversicherungs-Gesellschaft AG (€208 million), the disposal of a 28.2% interest in Investkredit Bank AG, Vienna (€130 million), the deconsolidation effect arising from a reduction in the Bank's interest in HVB Bank Romania S.A., Bucharest (€127 million), and the gains on the disposal of the our holdings in Premiere AG (€63 million) and Rhön-Klinikum AG (€36 million).

This is offset by various write-downs on holdings and non-recurrent expenditure in connection with the acquisition of real estate from the fund assets of a property fund managed by the Bank's Internationales Immobilien-Institut GmbH (iii-investments) subsidiary. In this connection the Management Board of HVB Group decided to support a restructuring measure at its iii-investments subsidiary within the framework of a business policy decision. HVB is acquiring several German properties from the fund's assets of EURO ImmoProfil via a subsidiary. A conservative revaluation of these properties resulted in a non-recurring charge of €225 million against net income from investments. iii-investments will invest the proceeds from this sale in properties located in other euro-zone countries in order to make the fund's profile more international over the medium term. The goal is to achieve a noticeable and sustained improvement in the performance of EURO ImmoProfil through a realignment as the EUROland fund. This measure will strengthen iii-investments' future contribution to the Bank's earnings and thus further enhance HVB's ability to create value.

Amortization of goodwill
In compliance with the IFRS 3, scheduled amortization is no longer taken on goodwill as of January 1, 2005. No non-scheduled amortization of goodwill was taken in the fiscal year. The 2004 income statement was still burdened overall by scheduled amortization of goodwill totaling €165 million.

Restructuring costs
Restructuring costs amount to €546 million in fiscal 2005. Restructuring costs reported for 2005 were incurred primarily in conjunction with the combination of HVB Group and the UniCredit Group. These costs mainly concern allocations to restructuring costs, depreciation charges on noncurrent assets, and fees. This item also includes restructuring costs of BA-CA AG totaling €90 million, connected with the restructuring of the SMEs Austria business unit.

Balance of other income and expenses
Other income and expenses essentially reflects losses absorbed for companies allocated to the Real Estate Restructuring segment. This absorption of losses has increased year-on-year. Last year, the balance of other income and expenses included the expense incurred for the risk shelter for Hypo Real Estate Group amounting to €130 million.

Net income before taxes
At €1,992 million, net income before taxes, adjusted for "restructuring costs and additional provisions for losses on loans and advances," is almost double the prior year's adjusted total of €1,002 million; unadjusted net income before taxes stands at €1,299 million whereas a net loss of €1,913 million was stated for this item in 2004.

Taxes on income
Due to the improvement in results, current taxes increased from €210 million to €442 million in the year under review. In particular, the origination or reversal of temporary differences resulted in deferred tax income of €180 million. Taxes on income rose €38 million to reach €262 million.

Minority interests in net income and profit
Minority interests account for €395 million of net income, which is equivalent to a €107 million increase of minority interests in net income. This rise in minority interests is largely a result of the first-time full consolidation of Closed Joint Stock Company International Moscow Bank, the partial sale of HVB Bank Romania, and higher profits from the BA-CA Group. After deducting the minority interests, we generated a profit of €642 million which, adjusted for "restructuring costs and additional provisions for losses on loans and advances" at €1,163 million, is almost two and a half times the amount of the adjusted prior year profit.

We allocated €451 million of the €642 million profit to reserves. The consolidated profit (which is the profit available for distribution of HVB AG) amounts to €191 million. We will propose to the Annual General Meeting of Shareholders on May 23, 2006 that, for fiscal 2005, a dividend of €0.25 be paid to our shareholders per share of common stock and an advance share of profits of €0.064 for each share of preferred stock; this equals a total dividend payout of €188 million. In addition, we propose that preferred shareholders be granted a retroactive payment on their advance share of profits totaling around €3 million for the years 2002 to 2004.

Trends in individual business segments
The business segments contributed to the net income before taxes totaling €1,299 million as follows:

Germany	€311 million
Austria and CEE	€1,113 million
Corporates & Markets	€946 million
Real Estate Restructuring	loss of €312 million
Other/consolidation	loss of €759 million

Based on the net income before taxes adjusted for "restructuring costs and additional provisions for losses on loans and advances" totaling €1,992 million, the business segments made the following profit contributions:

Germany	€509 million
Austria and CEE	€1,282 million
Corporates & Markets	€1,018 million
Real Estate Restructuring	loss of €273 million
Other/consolidation	loss of €544 million

As a result of the changes to the organizational structure of HVB Group implemented at the beginning of 2005 (see also Note 21 entitled "Notes to segment reporting by business segment"), the results of the business segments and business units disclosed in the prior year are no longer comparable with the figures calculated for fiscal 2005. The prior year figures have been adjusted to match the new structure used to present the segment information.

The effects of applying new and revised IFRSs, where they are to be applied retrospectively, have similarly been incorporated in the adjusted prior year values for segment reporting. In addition, we have adjusted the change in disclosure of gains on the disposal of deconsolidated companies in earlier periods carried out for the first time at September 30, 2005.

Trends in the Germany business segment

With operating profit of €446 million (€523 million adjusted for "additional provisions for losses on loans and advances"), the Germany business segment made a significant contribution to the total operating profit of HVB Group. The Germany business segment reported operating profit of only €18 million for last year (including the gain of €56 million on the disposal of BethmannMaffei) in the 2004 Annual Report before changes were made to the organizational structure (including Real Estate Restructuring).

The workout portfolios of the German real estate business managed by the Germany business segment until December 31, 2004 are no longer included in the adjusted prior year comparative figures of the Germany business segment because they have been allocated to the Real Estate Restructuring segment. In particular, the provisions for losses on loans and advances set aside for these portfolios in 2004 are no longer shown. Transferring all the workout portfolios of the German real estate business to the Real Estate Restructuring segment caused an atypical trend in provisions for losses on loans and advances in the Germany business segment compared with the adjusted prior year figures.

At the time when the portfolios were transferred to Real Estate Restructuring, the Germany business segment had no property portfolios in need of restructuring. Changes in credit ratings do, however, take place in every loan portfolio over the course of time and hence new loan-loss provisions are required as a result of the inevitable risks associated with the lending business.

From a static perspective, the elimination of risk provisioning requirements from the loan-loss provisions in 2004 for the workout portfolios transferred to the Real Estate Restructuring segment presents a distorted picture of the adjusted loan-loss provisions in the Germany business segment compared with the year under review. This is due to the fact that the 2005 portfolio is no longer comparable with that of the prior year in economic terms, due to the measure described above. Compliant with IAS 14.76, however, prior year figures presented for comparative purposes must be restated on the basis of the current identification of the segments.

To facilitate the comparison of business development, we have also stated the figures shown in the 2004 consolidated financial statements (see page 126 of the 2004 Annual Report) alongside the adjusted prior year figures for the Germany business segment in the notes of the segment report.

When providing an account of the operating performance of the individual business units in the Germany business segment below, we therefore describe the trend in operating profit before loan-loss provisions were made. This enables a transparent picture to be given of the development in the Germany business segment. A comparison with last year's figures for provisions for losses on loans and advances, which are only meaningful to a limited extent in an economic sense, would not accurately reflect the actual business development of the business segment.

At year-end 2005, the Germany business segment generated an operating profit before loan-loss provisions of €1,375 million, reflecting a year-on-year increase of €104 million, or 8.2%. Last year's gain of €56 million on the disposal of BethmannMaffei is not relevant when making a year-on-year comparison because it is included in net income from investments and is no longer reported under operating profit. The cost-income ratio improved by 1.3% points to reach 65.3%. In the year under review, provisions for losses on loans and advances amount to €929 million, including "additional provisions for losses on loans and advances" of €77 million.

The Private Customers business unit (including asset management and private banking activities) showed a healthy development, achieving an operating profit before loan-loss provisions totaling €285 million, 50.8% higher than the prior year. Operating revenues increased 4.2% to reach €1,857 million. At the same time, there was a 2.7% increase in net interest income. Among the factors contributing to this rise were the satisfactory development in volumes realized for the HVB Sofortkredit loan product with a 30% increase in the volume of new business to €845 million. Net commission income rose by 6.9%, partly as a result of the extremely successful selling of innovative investment products. The package of measures launched to optimize processes is having a favorable impact on the cost structure. It has enabled a 1.3% reduction in general administrative expenses in 2005 compared with 2004. As a result of this, and due to the boost in earnings, the cost-income ratio had improved by year-end 2005, falling 4.7 percentage points to 84.7%.

In the Corporate Customers and Professionals business unit we were able to boost operating revenues by 6.4%. This represents a constantly stable development at a high level, despite a difficult market environment. In addition to the improvement in interest-related operations, which were up 3.8%, net commission income also rose by 24.2%, notably as a result of increased sales in the derivatives business involving customers, higher income in the securities and depositary business, and the continued successful placement of innovative subordinated business (e.g. PREPS). This facilitated a 0.5-percentage point improvement in the cost-income ratio, which reached 47.8%, despite an increase in general administrative expenses. Operating profit before provisions for losses on loans and advances increased by 7.6% to €890 million. Net income before taxes stood at €508 million. Adjusted for "restructuring costs and additional provisions for losses on loans and advances," the total of €555 million is at the same level as last year. On this basis, adjusted return on equity before taxes amounts to 20.0%.

In the Real Estate business unit there was a 21.6% decline in operating profit before loan-loss provisions, to €200 million, largely as a result of non-recurring charges included in the balance of other operating income and expenses. Without these non-recurring charges, operating revenues would have been at the same level as last year. At the same time, despite the strategic streamlining of the portfolio, net interest income rose by 1.6%, while net commission income increased a sharp 21.4%, notably due to higher income from advisory services for structured loans and earnings growth in the derivatives business with customers.

Trends in the Austria and CEE business segment

In achieving an operating profit of €940 million, the Austria and CEE business segment continued its healthy business development in 2005. Adjusted for the non-recurring effect of "additional provisions for losses on loans and advances" (€70 million), operating profit stands at €1,010 million, which is around one third higher than last year's figure. Net income before taxes rose 69.7% to €1,113 million (adjusted up 73.2% to €1,282 million) partly as a result of the gains realized on the disposal of Investkredit Bank AG, Vienna, and the gains on the partial deconsolidation of HVB Bank Romania S.A., Bucharest, in connection with the acquisition of Banca Comerciala "Ion Tiriac" reported under net income from investments.

Due to the significant rise in operating revenues (up 12.3% or €422 million), the cost-income ratio improved to 62.4% (down 3.8 percentage points) while general administrative expenses increased by 5.8%. Despite the 28.6% increase in provisions for losses on loans and advances, or 10.9% in adjusted terms, operating profit climbed a healthy 23.4% (adjusted 32.5%).

In the Private Customers Austria business unit, operating revenues rose by a total of 4.2% as a result of a favorable trend in net commission income, notably from the securities and depositary business. Declining general administrative expenses helped to produce an improvement in the cost-income ratio by 4.9 percentage points to 75.4%. Despite the good operating performance, there was a decline in operating profit to €56 million due to higher provisions for losses on loans and advances of €234 million (prior year: €149 million). Loan-loss provisions include "additional provisions for losses on loans and advances" totaling €70 million. Operating profit before provisions for losses on loans and advances increased by 30.0% to €290 million.

Operating revenues in the SMEs Austria business unit rose by 4.4% to €611 million. At the same time, the decline in net interest income due to lower lending volumes was more than compensated by the rise in net commission income and other operating income and expenses. With general administrative expenses increasing by 4.7%, the cost-income ratio remained practically unchanged at 66.0%. On account of our strict lending policies, provisions for losses on loans and advances developed very well, falling 39% to €122 million, enabling the business unit to report an operating profit of €86 million in fiscal 2005 after breaking even in the prior year.

In the Large Corporates and Real Estate business unit the operating profit, at €240 million, is up 4.3% over the prior year figure. This boost in earnings is due to the 2.0% rise in operating revenues, while general administrative expenses stagnated and provisions for losses on loans and advances remained unchanged. This produced net commission income up around 13%. The cost-income ratio improved slightly, to 51.0%.

Our subsidiaries in the Central and Eastern Europe (CEE) business unit succeeded growing faster than the market. The positive development in net interest income and net commission income led to a rise in operating revenues by more than one quarter, to €1,499 million. Despite a 19.1% rise in general administrative expenses, the cost-income ratio improved by around 4.6 percentage points to 55.0%. In all, operating profit rose by 45.7% to €558 million despite a €31 million increase in provisions for losses on loans and advances. All the regions, the new members of the EU, most notably Poland, and southern Europe contributed to the increase in operating profit and expansion.

Including the results from Corporates & Markets and from the Other/consolidation segment, together with the Group-specific items such as the funding expense of goodwill, the Bank Austria Creditanstalt Group made an overall contribution of €1,179 million to the net income before taxes reported by HVB Group. The segment reporting structure 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 earnings contribution made by the Bank Austria Creditanstalt Group and all other Group companies with Group-specific items do not, from the Group point of view, match their primary earnings. The primary net income before taxes reported by the Bank Austria Creditanstalt Group of €1,301 million is published separately by Bank Austria Creditanstalt.

Trends in the Corporates & Markets business segment

The Corporates & Markets business segment generated operating profit of €902 million. Additions of €58 million were made to provisions for losses on loans and advances after net reversals of €72 million were made in the prior year. Operating profit before loan-loss provisions increased a significant 14.3%, or €120 million. This development was supported by the sharp increase of €267 million, or 13.3%, in operating revenues. All three main sources of income increased in the process. Net income before taxes increased a substantial 16.6%, to €946 million. This includes net income from investments totaling €118 million (prior year: net loss of €60 million) and restructuring expenses of €72 million. Adjusted for restructuring costs, net income before taxes stands at €1,018 million (adjusted prior year figure: €851 million).

At €459 million, operating profit in the Markets business unit, developed very well, rising 18.9%. Within this total, operating revenues rose by 12.9% to €1,245 million, notably as a result of the sharp increase in trading profit (up 39.2%) and net commission income (up 32.5%), which more than offset lower net interest income. Despite the 9.2% rise in general administrative expenses, this led to an improvement of 2.1 percentage points in the cost-income ratio to 62.9%. Overall, the Markets business unit managed to produce a significant improvement in return on equity before taxes, reaching 28.4% after adjustment for “restructuring costs” (prior year adjusted: 22.9%).

The Corporates business unit reported a decline in operating profit of €83 million, to €443 million, notably as a result of higher provisions for losses on loans and advances which contained a net reversal of €72 million in the prior year. The 12.4% rise in operating revenues to €1,025 million can be attributed mostly to the increase in net interest income. Increases in earnings were also posted for service operations and trading profit. With general administrative expenses up 15.1%, the cost-income ratio at 51.4% was not maintained at quite the same level as in 2004. At 28.9%, the return on equity before taxes (adjusted for “restructuring costs”) is higher than the adjusted prior year figure of 25.1%, largely as a result of the increase in net income from investments.

Trends in the Real Estate Restructuring business segment

The Real Estate Restructuriung (RER) business segment posted a decline in operating revenues compared with the adjusted prior year figure, while general administrative expenses increased. As no further loan-loss provisions were to be made in 2005 for the loan portfolios allocated to this segment, the segment reported a nearly balanced result, posting an operating loss of €16 million after a loss of €1,039 million last year.

Due to the losses absorbed from real estate subsidiaries in the HVB Immobilien AG subgroup and restructuring costs of €39 million reported under other income and expenses (net expenses of €257 million), a loss of €312 million is shown for net income before taxes.

Other/consolidation segment

The Other/consolidation segment contains the non-recurring expenditure of €225 million arising in conjunction with the acquisition of real estate from the assets of a real estate fund managed by our Internationales Immobilien-Institut GmbH (iii-investments) subsidiary and various write-downs on holdings reported under net income from investments. This is offset by gains realized on the disposal of participating interests, particularly from the sale of shares in Münchener Rückversicherungs-Gesellschaft AG totaling €208 million. The segment is also burdened by restructuring costs amounting to €215 million. In 2004, restructuring costs stood at €250 million, due to measures taken under the PRO efficiency enhancement program.

Financial situation

Total assets and lendings

The total assets of HVB Group amounted to €493.5 billion at December 31, 2005, which represents an increase of €26.1 billion, or 5.6%, over the 2004 year-end total. This increase includes €4.6 billion from Closed Joint Stock Company International Moscow Bank (IMB), which was fully consolidated for the first time in May 2005.

The combination of HVB Group and the UniCredit Group, and the associated indirect acquisition of BA-CA by UniCredit, is subject to a condition set by the Croatian banking regulators regarding the disposal of HVB Splitska banka d.d., Split. Consequently the Management Board of BA-CA has decided to dispose of the HVB Splitska banka assigned to the Austria and CEE business segment within a year. The finalization of the sale is subject to the prior approval of the Supervisory Board. Compliant with IFRS 5, at December 31, 2005 we have reported the assets of HVB Splitska banka separately under the balance sheet item "Disposal group held for sale" at a volume of €3.2 billion and the liabilities under the balance sheet item "Liabilities held for sale" at a volume of €1.9 billion.

The main factors contributing to the increase in the assets of HVB Group were the rise of €11.8 billion in assets held for trading purposes and of €9.8 billlion in placements with, and loans and advances to, other banks.

While we posted a decline of €13.8 billion in the total lending volume in 2004, this increased by €8.0 billion to reach €332.6 billion last fiscal year. The increase can be attributed exclusively to a rise of €8.2 billion in contingent liabilities. Placements with, and loans and advances to, other banks and customers remained at around the same level as last year.

Investments include fixed-income securities of €8.0 billion (down 4.8%) held-to-maturity and available-for-sale securities and other financial instruments of €15.0 billion (down 7.7%), fair-value-option investments (at fair value through profit or loss) of €21.1 billion (up 16.1%), participating interests in companies accounted for using the equity method of €1.0 billion (down 15.4%), and investment property of €0.5 billion (up 23.4%).

On the liabilities side, there was a rise particularly in amounts owed to other depositors (up €14.0 billion), deposits from other banks (up €10.1 billion), liabilities held for trading purposes (up €3.8 billion), and shareholders' equity (up €2.4 billion). By contrast, promissory notes and other liabilities evidenced paper were down by €3.6 billion.

The shareholders' equity shown in the balance sheet amounts to €16.4 billion, including minority interest of €3.2 billion. The €2.4 billion growth in shareholders' equity essentially stems from retained earnings of €0.5 billion, the rise of €0.8 billion in the valuation of financial instruments, and the increase of €0.7 billion in minority interest. Besides the allocation from net income, the rise in minority interest is also due to the first-time full consolidation of Closed Joint Stock Company International Moscow Bank, the partial deconsolidation of HVB Bank Romania S.A., and the first-time consolidation of Banca Comerciala "Ion Tiriac."

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 hedges 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 viewed 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, key capital ratios, and liquidity

Compared with the year-end total for 2004, risk assets in accordance with BIS rules increased by €6.9 billion, to €245.5 billion. A major factor contributing to this rise was business growth in the Austria and CEE and Corporates & Markets business segments, including the first-time consolidation of banks (such as IMB). This growth was partially offset by a decline in the Germany business segment.

The synthetic transaction GELDILUX 2002-1, which involved a lending volume of €3.0 billion and a reduction of €2.3 billion in risk assets, expired in the second quarter. The true sale transaction GELDILUX-TS-2005 was concluded at the same time. The volume of lending placed on the capital market in this connection stands at €5.5 billion, leading to a €5.2 billion decline in risk assets compliant with BIS rules.

In the fourth quarter, HVB Group expanded its securitization activities with two further transactions. The lending volume placed on the capital market by the true sale transaction Success-2005 B.V. amounts to €0.4 billion, with a decline in risk-weighted assets of €0.4 billion. Risk-weighted assets decreased by €2.9 billion as a result of the synthetic transaction Provide-A 2005-1 involving a lending volume of €4.7 billion.

The core capital of HVB Group at year-end 2005 totaled €16.0 billion. This gives rise to a core capital ratio of 6.5% and an equity funds ratio of 10.9%. Adjusted for "restructuring costs and additional provisions for losses on loans and advances," the core capital ratio stands at 6.8%.

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 2005 (2004: 1.2).

Corporate acquisitions and sales

Comments on changes in the group of companies included in the consolidated financial statements are provided under Note 4 called "Companies included in consolidation."

Events after December 31, 2005

HVB AG is transferring sub- and non-performing real-estate loans from the Real Estate Restructuring (RER) segment with a volume of around €2.1 billion to a financial investor. A corresponding agreement was concluded in January 2006. Transfer of the portfolio is scheduled for completion in the second half of 2006. The transfer is subject to the approval of the Annual General Meeting of Shareholders of HVB AG on May 23, 2006 and approval by the Federal Cartel Office.

After conducting proceedings in Austria as a test case, a decision passed by the Austrian Supreme Court (3 Ob 238/05d of December 21, 2005) on changes to interest rates for savings deposits was served on a competitor of BA-CA AG in January 2006. On account of the immediacy of the judgement passed by the Austrian Supreme Court and the complexity of the case, it is not possible from today's viewpoint to carry out a responsible and objectively justified assessment of the amount of interest that may have to be refunded. For this reason, no provisions have been made in the consolidated financial statements for possible claims.

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 plans and estimates that are supported by 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 competitive situation, developments on international capital markets, the possible default of borrowers or contracting parties in commercial transactions, the implementation of restructuring measures, amendments to national and international laws, notably to tax regulations, the reliability of our risk management procedures and methods as well as other risks, some of which are described in detail in the Risk Report. The statements made in the Outlook for HVB Group are based on the structure of HVB Group at the outset of 2006.

General economic outlook for 2006

The global economy will experience strong growth again this year, although this might not be quite as rapid as in 2005. In particular, the slower pace of the U.S. economy, initiated by the fading of the property boom, will dampen global growth. Growth will also slow down somewhat in the emerging economies of Asia (China and India).

The slackening pace of the global economy will lead to a slowdown in the growth of exports in the euro area. At the same time, though, more investment and moderate gains in consumer spending will stimulate growth. Consequently we anticipate 1.7% GDP growth for 2006, after 1.5% in 2005. In Germany the trend reversal in non-farm employment which has been observed since mid-2005 should lead to a further increase in consumer confidence. In addition, the effects will be felt of consumer spending brought forward due to the increase in value-added tax scheduled for 2007. Equipment spending will continue to rise as a result of the more favorable depreciation rules. The construction sector will also contribute moderately to growth, the first time since 1999. The better mood among German construction companies and the recent significant rise in new orders are indications of this. We therefore anticipate 1.4% GDP growth for 2006, after 0.9% in 2005.

Taking a slight recovery in investment demand and consumer demand as a basis, growth in Austria should also be somewhat stronger than last year's 1.8%, reaching 2.1% in 2006. Inflation will fall below 2% again.

The eight new EU member states plus the three candidates Bulgaria, Croatia, and Romania are expected to grow overall by 4.7% in 2006, after 4.25% in 2005. Thanks to the high level of growth, employment has also started to rise. The pressure on prices remained low, despite the stronger economy and high international crude oil prices.

Thus, the underlying data for the European banking sector should improve somewhat during 2006. Besides the cyclical tailwind, the declining number of company bankruptcies, notably in Germany, has become noticeable. Figures available by the fall of 2005 point to a decrease in the number of bankruptcies. Over 2005 as a whole, corporate bankruptcies are expected to amount to about 37,000 after 39,200 in 2004. Due to reductions in costs and restructuring in German companies, this favorable trend should also continue in 2006.

We expect the European Central Bank to raise key rates moderately during the year. This is suggested by the absence of second-tier effects in inflation, the restrained upturn in the euro area, and a stronger euro exchange rate. In the course of the slowdown in the U.S. economy, long-term interest rates should fall in the United States. German yields will not be able to escape the effects of this process. Concerns about the high U.S. current account deficit will cause the euro to appreciate against the dollar.

General economic outlook for 2007

The global economy will show the same robust growth the following year as in 2006. This applies particularly to the United States and the emerging economies in Asia. However, we anticipate less momentum in Germany. The effects of spending brought forward ahead of the increase in value-added tax will deplete purchasing power in 2007. This will depress consumer spending.

Sector development in 2006/2007

Our assessment indicates a continuing recovery in the economy during fiscal 2006. The financial services industry should also benefit from these positive growth prospects. We therefore assume that the continued rise in demand for banking services will stimulate revenue growth for banks on both the retail and corporate side. At the same time, we can assume that a more positive economic environment will have a favorable impact on the situation in provisions for losses on loans and advances. In the area of general administrative expenses, there might be a slight increase, driven mainly by investments to optimize the business models, after years of strict cost management. We expect that these trends will also continue in 2007, assuming that there will be a further slight recovery in the economy.

Future business policies, future sales markets and services

HVB AG launched its "Growing with Europe" strategy program in fiscal 2004 and continued it in fiscal 2005. This program and preparations for the combination with the UniCredit Group – the largest cross-border transaction in the European financial sector to date – impacted the value-based development of HVB Group in the year under review. Together, HVB Group and the UniCredit Group are a new force in the European banking market. The new UniCredit Group has a presence in 19 countries, with 28 million customers, more than 7,000 branches, and some 140,000 employees; it enjoys leading positions in the German, Austrian, and Italian markets. In terms of total assets and number of branches, the new banking group is also the clear market leader in Central and Eastern Europe.

These core markets will continue to play a strategic role in the future. In order to provide for clear regional responsibilities among the members of the UniCredit Group, BA-CA is to act as a sub-holding of the UniCredit Group with responsibility for operations in Eastern Europe, although activities in Poland will be managed directly by UniCredit. Consequently BA-CA is also to take over the banking subsidiaries of UniCredit and HVB Group in this region, where the new UniCredit Group already enjoys an outstanding position. In Germany we aim to be the leader in our core competencies. This will enable the UniCredit Group to provide its customers with the best possible support in every region.

The two banks are a good fit in terms of more than just geography. Their growth-oriented business model is built on a combination of complementary strengths. The new UniCredit Group has a diversified business portfolio with a strategic focus on retail and corporate banking, international capital markets, asset management, and the real estate business.

The UniCredit Group's traditional strengths have been in retail and corporate banking, along with risk management solutions. These complement HVB Group's market position in the domestic customer business and on the international investment and multinationals side. In addition, the UniCredit Group's Pioneer brand has an outstanding position in asset management, which complements HVB Group's Activest, Nordinvest, and Capital Invest subsidiaries; in order to provide customers in this segment with the best possible service, the asset management activities of the members of the UniCredit Group are to be pooled under a single roof. The same solution has been proposed for the investment banking activities of the entire UniCredit Group. HVB Group has extensive experience in structured finance, another important growth market. The new corporate group will be able to call upon these strengths in applying the best processes and the most innovative products for its customers throughout the new corporate group.

Key planning data

Our plans for Germany are based on the following conservative assumptions:

- the global upturn will lose some of its momentum
- growth in gross domestic product will be close to 1.5% in Germany
- the inflation rate will hover around 2%
- long-term interest rates will fluctuate in a range between 3% and 4%
- there will be a slight reduction in the number of company bankruptcies

Development of HVB Group

The combination with UniCredit Group contains high synergy potential, which will be realized gradually between 2006 and 2008 at the level of the new UniCredit Group. Around 90% of these synergies will come from lower administrative expenses, with the rest resulting from the higher revenues generated by applying best practices.

On the basis of these synergy factors and the original business plans of the UniCredit Group and HVB Group, the new Group has targeted challenging financial goals and is looking to create considerable value for its shareholders. A substantial rise in cash earnings per share, to €0.56, has been targeted for 2007 for the UniCredit Group as a whole.

As an integral part of this corporate group, HVB Group will provide important financial contributions to achieving these goals.

Based on our good operating performance in the year under review and the synergy potential arising from the combination with the UniCredit Group, we are planning an increase in return on equity after taxes next year, which should rise even further in 2007.

With almost unchanged general administrative expenses, we are budgeting a significant boost in operating revenues for fiscal 2006, which will lead to a substantial improvement in the cost-income ratio. Trading profit and higher net commission income from innovative products, such as PREPS or interest-rate structured products for private and corporate customers, are set to drive the increase in operating revenues.

The core capital ratio of HVB Group is to be stabilized at 7.0% in future.

Opportunities arising from the development of general conditions

Additional opportunities have arisen for HVB Group from the combination with the UniCredit Group:

- a wider capital base and greater financial strength as an important element for one of Europe's big banking groups
- HVB Group as part of a banking group with a unique competitive profile in the Central and Eastern European markets, with the prospect of a high level of value-generating potential and sustainable earnings growth
- innovative, new products for all customer segments through product factories with tailored solutions
- cross-border projects to support customer groups requiring financial services in Central and Eastern European markets
- cost and revenue synergies by optimizing production capacities and rationalizing overlapping functions: economies of scale enable reductions in costs from scale effects (leveraging critical mass)
- optimizing processes in the back-office areas processing loans, payments, and securities

The general conditions will naturally also be impacted by the economic trend in the core market of Germany. An economic recovery along with the associated lower unemployment rate and the favorable trend on the real estate market will provide opportunities for a positive development which surpasses the goals we have stated.

Opportunities in terms of corporate strategy, performance and other factors

Besides the opportunities arising from the combination with the UniCredit Group, other opportunities are available to HVB Group as a result of:

- a continued improvement in operating revenues, notably from higher net commission income stemming from innovative products such as PREPS or interest-rate structured products for private and corporate customers;
- the use of new innovative products from Corporates & Markets for small and mid-sized corporate customers to reduce risk;
- the leverage of cross-border transactions with Eastern Europe;
- a further reduction in general administrative expenses by means of strict cost management in Germany;
- a further bolstering of the capital base from sustainable earnings growth; and
- a noticeable increase in the product utilization rate, particularly in private banking.

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 as part of the UniCredit 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 a 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 and validation 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 Risk Control division.

The Group Asset Liability Committee makes decisions at its monthly meetings on asset/liability management of HVB AG 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 during the year under review were supported by the Risk Committee of the Supervisory Board, the Group Asset Liability Management division, the Group Finance and Tax division, and the Group Audit division.

In 2005, the Management Board provided the Risk Committee of the Supervisory Board with timely and comprehensive information on the Bank's overall risk situation and risk management. Thus the Supervisory Board received detailed reports on all risks relevant to the Bank and on the performance of the loan portfolios and credit strategies. The Risk Committee of the Supervisory Board, which has five members, takes into account the vital importance for the continuing existence of the company of comprehensive early recognition of all risks and the feasibility of achieving business development targets. As a result of the combination with the UniCredit Group, the Risk Committee was dissolved at the end of 2005; its functions will be performed by the Audit Committee of the Supervisory Board in the future.

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

- Group Risk Control deals with market risk, credit risk, operational risk, and business risk as well as risks arising from the Bank's own real estate portfolio together with its shareholdings and financial investments on a Groupwide basis. 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, the Group Board, and the Risk Committee of the Supervisory Board. In addition, Group 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 Credit & Risk Management division pools the credit processing units for normal business transactions for the credit business of the Germany segment as defined in the Minimum Requirements for Risk Management (MaRisk). 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 credit responsibility for the Americas and Asia, financial institutions and credit policy, as well as restructuring and workout. They also include loan-loss provision forecasting, detailed portfolio analysis, and the production of central policies or procedures for the entire credit business.

– 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.

Group Asset Liability Management controls the Groupwide 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 are coordinated operations on money markets and capital markets and the specification of liquidity profiles for the Group units. Group Asset Liability Management is responsible for the balance sheet structure and measures to optimize regulatory capital. The measures implemented in connection with these functions serve to support HVB Group's rating and return targets. During the 2005 calendar year, this unit reported to the Management Board member in charge of the Treasury division. The organizational structures were adjusted in the course of integration into the UniCredit Group, resulting in this unit being assigned to the Chief Financial Officer as of January 1, 2006.

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 1 (backing of risk assets and market risk positions with own funds) and Principle II (governing the liquidity of credit institutions), this specifically includes the evidence of large exposures, loans in excess of €1.5 million, and loans to directors.

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

Group Audit operates as an independent organizational unit. It reports directly to the Chief Financial Officer and acts on behalf of the Group Board. Although it primarily performs 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 Risk Management (MaRisk) 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.

In addition to the individual audit reports, an annual review is prepared to provide the Group Board with a comprehensive 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. At the beginning of 2006, the unit was transferred from the Chief Financial Officer organization and reports to the Chief Executive Officer.

The divisions and committees described here reflect the status of the organizational structure at December 31, 2005. It is apparent that further organizational changes will take place during the integration of HVB Group into the UniCredit Group.

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 values are then aggregated at the Group level as part of the risk capital calculation, applying a uniform one-year holding period and a 99.95% 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 measured separately. The methods applied to the measurement of these risk types are described in the relevant sections of this Risk Report.

3 **Development of risk measurement and monitoring methods**

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 more stringent statutory requirements and, to an even greater extent, the more stringent regulatory requirements (especially Basel II and the Minimum Requirements for Risk Management).

Overall bank management

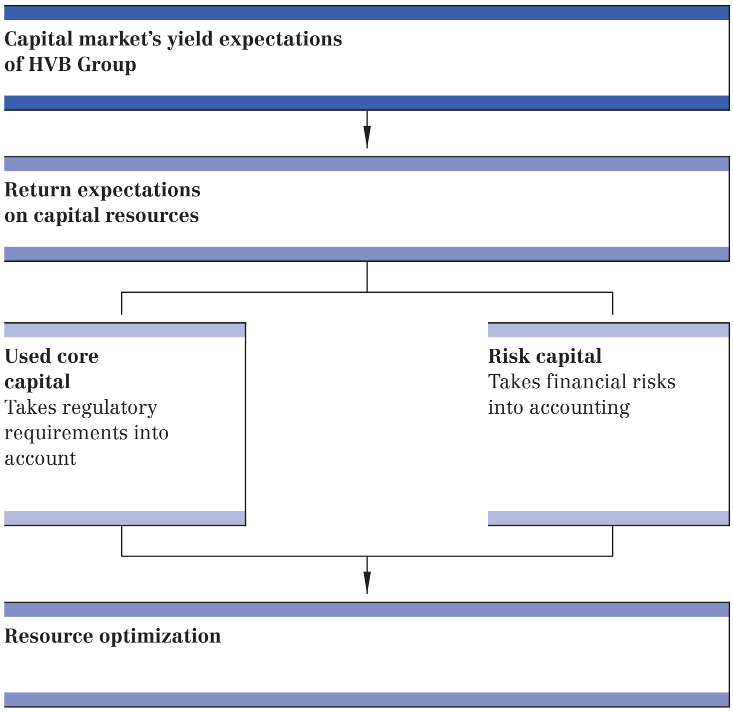
1 **Dual management principle for overall bank management**

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% of risk-weighted assets and 50% of the market risk positions 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% of risk-weighted assets. The average used core capital calculated in this way is used to compute the return on investment. 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 three capital ratios, which are managed on the basis of internally defined minimum levels:

- core capital ratio (ratio of core capital to risk-weighted assets)
- 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 2005 is contained in the Financial Review and in the notes to the consolidated financial statements (Note 75) in the present Annual Report.

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

- Based on our multi-year plan, we prepare a 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 Group Risk Control and the individual operating units. After approval by the Group Board, the risk capital values 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), amounted to €8.2 billion at December 31, 2005, after taking into account all risk-reducing portfolio effects. This is about the same level overall as last year.

During the year under review, the €0.5 billion rise in credit risk capital, resulting primarily from the expansion of business in the Austria and CEE business segment, is offset by a similar €0.5 billion decline in the risk capital in our shareholdings/financial investments. On balance, this can be attributed exclusively to the reduction of our holding in Münchener Rückversicherungs-Gesellschaft AG. As a consequence, the share of investment risk in the overall risk capital again fell sharply, to 26.5%, in fiscal 2005.

In a quarterly analysis of our ability to support risk, we measure our risk capital against the Group-level capital cushion available to us to cover risk. In addition, this sustainability analysis is carried out with a corresponding forecasting horizon for the purposes of our planning process.

According to our internal definition, the capital cushion is made up of IFRS capital components, participatory certificate and hybrid capital, reserves, and the planned or actual results. Minority interests are included and goodwill is deducted. The capital cushion amounted to €19.8 billion at the end of 2005 (comparable prior year figure: €18.1 billion). The significant year-on-year rise results primarily from transfers to reserves together with an increase in the AfS reserve and minority interest. With an aggregate risk capital of €8.2 billion, this representsa utilization of 42% of the cushion.

Moreover, overall stress-testing was performed at Group level during the year under review, based on stress scenarios specific to the various risk types. Incorporating the results of the stress tests, it becomes clear that the capital cushion available to cover risk is more than comfortable.

Risk capital after portfolio effects

Confidence level 99.95%

Broken down by risk type	2005	2005	2004	2004
	€ millions	in %	€ millions	in %
Market risk	278	3.4	270	3.2
Credit risk	3,273	39.8	2,821	33.9
Business risk	1,098	13.3	1,019	12.3
Operational risk	1,056	12.8	1,206	14.5
Risks arising from the Bank's own real estate portfolio	347	4.2	353	4.2
Risks arising from the Bank's shareholdings/financial investments	2,181	26.5	2,648	31.9
Total	**8,233**	**100.0**	**8,317**	**100.0**
Capital cushion to cover risks	**19,795**		**18,088**[1]	
Utilization, in %	**41.6**		**46.0**[1]	

Broken down by business segment	2005	2005	2004[2]	2004[2]
	€ millions	in %	€ millions	in %
Germany	2,147	26.1	2,246	27.0
Austria and CEE	2,787	33.8	2,164	26.0
Corporates & Markets	1,380	16.8	1,320	15.9
Real Estate Restructuring	40	0.5	92	1.1
Other (including shareholdings/financial investments not allocated to the business segments)	1,879	22.8	2,495	30.0
Total	**8,233**	**100.0**	**8,317**	**100.0**

[1] marginal adjustment of the prior year figures due to retroactive adjustment of IFRS disclosures
[2] prior year figures based on the 2005 business segment structure

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 provisions for losses on loans and advances.

– 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 credit 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 pooled 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 2005:

– Our credit risk strategy comprises both quality and quantity standards. In the course of 2005 we added new structural standards, including portfolio-based exposure limits and expected loss limits as well as concentration limits for individual customers, regions/countries and industries, to the existing quantitative limits such as risk-weighted assets and planned loan-loss provisions. These new standards were also implemented in our credit risk management activities.

– The processes which we developed and implemented in 2004 within "active credit portfolio management" proved their worth in 2005 as an integral component of our risk management.

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 problem 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, and unemployment, but also such events as extreme changes in the price of oil or political crises. The results of these scenario evaluations are 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. The related implications from Basel II are 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.

  In the context of Pillar 1, we continually improved the methods for risk assessment by using scoring and rating processes, particularly in the Germany segment, adjusting and streamlining the internal processes accordingly. In the area of validation and calibration, we defined and implemented Basel II-compliant standard processes in 2005. Another aspect involved the implementation of the so-called loss database for defining risk parameters. In the year under review we also finalized to a large extent the so-called Basel II calculation engine. In addition, the corresponding database was developed, particularly for treasury products.

  With regard to the requirements of Pillar 2 and Pillar 3 under to the Basel II regulations and the EU Directive, the divisions concerned carried out a comprehensive in-house audit. Essential aspects of Pillar 2 have already been implemented in our Bank. These include the treatment of concentration risk, stress-testing, and the calculation of the ability to bear risk.

  A further consideration is our Bank's involvement in the QIS 4.0 quantitative impact study. For this purpose we were able to use the operational risk systems and the Basel II calculation engine.

– 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 management. The use of an internal portfolio model 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 subsidiaries. For this purpose we use a Groupwide database encompassing all exposures to a given borrower within HVB Group worldwide. This ensures that information is regularly provided on concentrations of loan default risk and related limits.

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 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 an exposure management based on transaction potential. In addition, country risk management works with volume limits for each country, broken down by product risk group.

All credit risks are also monitored at portfolio level. Particular attention is paid to country, industry or regional concentrations and their impact on the Bank's ability to support risk.

Another instrument for risk monitoring, particularly at portfolio level, is internal reporting. In accordance with the Minimum Requirements for Risk Management (MaRisk), the Management Board and the Risk Committee of the Supervisory Board must receive a report on the credit portfolio on a quarterly basis. In addition, risk reports are produced with a special focus on specific divisions, products or industries.

Emphasis in 2005:
– The scoring and rating processes for private and business customers were refined and improved in 2005.
– The reporting system was further developed in 2005, and additional special-focus reports were added. A Pfandbrief limit system complying with the Pfandbrief Act was developed and implemented, and reporting on limit utilization was established.

Reporting on concentration risk was further optimized in 2005 as a basis for defining and successfully implementing risk reduction measures if required.

Quantification and specification

When the Real Estate Restructuring segment was set up in 2004, the loan default risk data of the business segments for 2004 were adjusted to facilitate comparison with the 2005 figures.

An increase of €7.2 billion (1.8%) was recorded in loan default and counterparty risk in the year under review. The main drivers of this rise were consolidation effects (e.g. Closed Joint Stock Company International Moscow Bank) and the expansion in transaction volumes.

Breakdown of loan default exposure and counterparty exposure by industry sector

Industry sector	2005	2004
	€ billions	€ billions
Banks and insurers	86.2	89.0
Retail customers	81.5	84.4
Construction	59.7	59.6
Food, consumer goods, services	50.2	46.8
Public sector	29.5	32.9
Utilities	15.0	13.8
Chemicals, health, pharmaceuticals	13.9	13.4
Transportation	13.4	10.8
Other	12.3	8.7
Mechanical engineering, steel	10.7	9.5
Electrical, IT, communications	8.1	7.6
Automotive	8.0	7.6
Media, printing, paper	6.7	6.4
Mineral oil	6.4	3.9
Total	**401.6**	**394.4**

Breakdown of loan default exposure and counterparty exposure by region

Region	2005	2004
	€ billions	€ billions
Germany	185.7	199.2
Austria	79.4	76.1
Central and Eastern Europe	39.5	28.6
Rest of Europe	53.6	57.1
North America	17.6	16.2
Asia	3.9	3.7
Japan	2.7	2.4
Other	19.2	11.1
Total	**401.6**	**394.4**

The structure of the loan portfolio in terms of industries is essentially unchanged. The trend in the regional distribution reflects the business strategy, with a slight decline in the exposure of the German region and greater exposure in Central and Eastern Europe.

The exposure in the Germany business segment declined by €4.3 billion (2.8%), while the Bank succeeded in increasing the volumes in the Austria and CEE and Corporates & Markets business segments. At the same time, the exposures placed in the new Real Estate Restructuring segment were reduced by a substantial €4.1 billion (26.6%) to €11.3 billion by means of organic growth. Moreover, agreement was reached on the sale of approximately €1.8 billion in sub-performing and non-performing loans from the Real Estate Restructuring portfolio in the fourth quarter of 2005, taking the total down to €9.5 billion, and a further €2.1 billion in the first quarter of 2006.

The quality of the core portfolio remained stable. The core portfolio is defined as the HVB Group portfolio excluding the RER-induced portfolios. The non-rated portfolios were reduced slightly. The exposures in risk classes 1–4 rose by €11.3 billion, with the percentage share of these loans in the total portfolio also rising slightly. The percentage shares of loans in risk classes 5–8 and 9–10 remained largely stable. We improved the quality of the portfolio, particularly in the Austria and CEE and Corporates & Markets business segments, as evidenced by the decrease in the proportion of loans in risk classes 9 and 10. In the Germany business segment, however, the proportion of loans in risk classes 9 and 10 increased. Among other things, this can be attributed to the fact that the allocation of a large portion of these loans from the Germany business segment to the new Real Estate Restructuring segment is included in the rate for 2004.

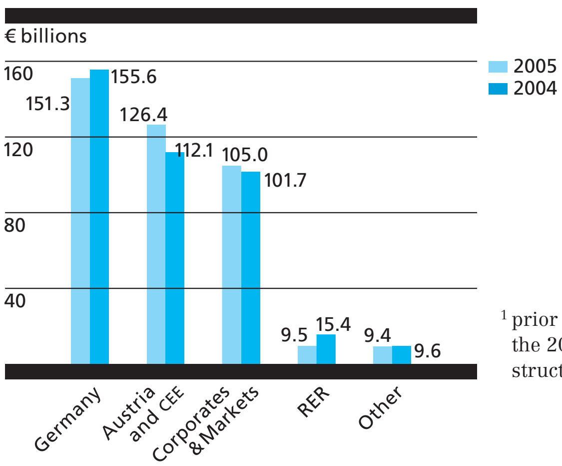
The distributions of expected loss and value-at-risk show a change in the risk inherent in the various business segments.

Our total loan-loss provisions, including allowances for losses on guarantees and indemnities, decreased by €0.9 billion to €13.0 billion in 2005, taking into account write-offs taken on the lending portfolio of €2.6 billion. Thus the risk cover for loans in risk classes 9 and 10 at HVB Group totals 56.3%.

More detailed information on loan-loss provisions is contained in the notes to the consolidated financial statements (Note 47) in the present Annual Report.

In addition, we created provisions for losses on loans and advances totaling €1.5 billion for loan default risks in 2005. The provision rate increased from 0.25% to 0.61% in the Germany business segment, due in part to the special effect arising from the formation of the Real Estate Restructuring segment. The provision rate in the Austria and CEE business segment rose slightly, from 0.35% to 0.40%. Loan-loss provisions were again set up for the Corporates & Markets business segment during the year under review, following the net reversal in 2004.

Breakdown of loan default exposure and counterparty exposure by business segment[1]



[1] prior year figures based on the 2005 business segment structure

Loan default exposure and counterparty exposure by rating class – core portfolio[1]

Rating	2005	2005	2004	2004
	€ billions	in %	€ billions	in %
Free of credit risk	13.5	3.5	16.7	4.4
Not rated	18.8	4.8	20.7	5.4
Rating 1 – 4	220.5	56.5	209.2	55.2
Rating 5 – 8	124.6	31.9	119.6	31.6
Rating 9 – 10	12.9	3.3	12.8	3.4
Total	**390.3**	**100.0**	**379.0**	**100.0**

Breakdown of expected loss, and of loan default risk and counterparty risk (value-at-risk) by business segment – core portfolio[1]

Business segment	Expected loss		Value-at-risk	
	2005	2004	2005	2004
	in %	in %	in %	in %
Germany	48	53	39	45
Austria and CEE	34	30	37	33
Corporates & Markets	17	15	23	19
Other	1	2	1	3
Total	**100**	**100**	**100**	**100**

[1] HVB Group excluding RER-induced portfolios; prior year figures based on 2005 business segment structure

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 2005, the total nominal amount of worldwide derivative transactions of HVB Group amounted to approximately €2,615 billion. Of this total, €1,952.5 billion (74.6%) relates to interest rate derivatives, €323.3 billion (12.4%) to foreign exchange derivatives, €197.6 billion (7.6%) to equity/index derivatives, €139.7 billion (5.3%) to credit derivatives, and €2.3 billion (0.1%) to other derivatives (precious metal derivatives, commodity derivatives, and weather derivatives).

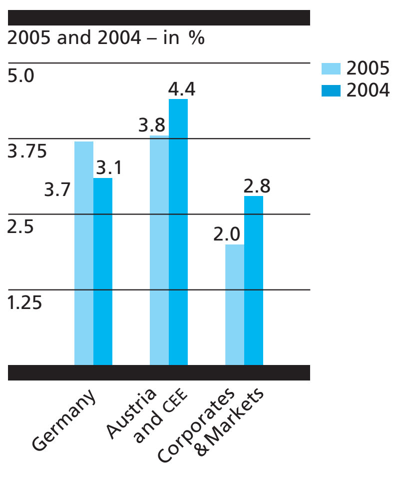
However, the nominal amounts do not reflect the potential risk inherent in derivative transactions, whereas the positive fair values are relevant for purposes of default risk as replacement values for the OTC derivatives. They represent the potential costs that HVB Group would incur to replace all of 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 2005 totaled €47.5 billion (December 31, 2004: €48.1 billion).

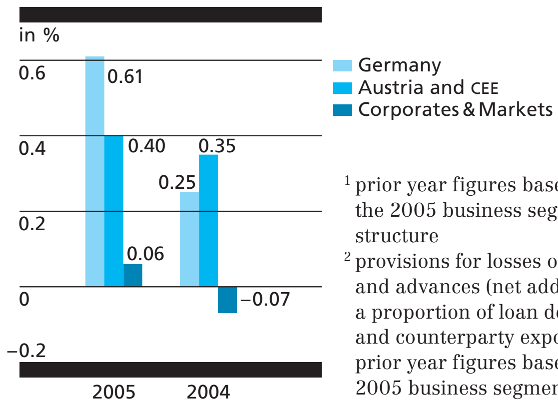
In accordance with Principle I of the banking supervisory regulations, and taking into account the risk-reducing effects of existing, legally enforceable bilateral netting agreements and the provision of collateral provided by borrowers, credit equivalents (counterparty risk including add-on) totaled €19.5 billion (December 31, 2004: €18.2 billion), and the remaining risk after risk weighting amounted to €5.4 billion (December 31, 2004: €4.7 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.

Share of rating classes 9 and 10 in loan default exposure and counterparty exposure by business segment [1]



Provisioning rate [1, 2] by business segment



[1] prior year figures based on the 2005 business segment structure
[2] provisions for losses on loans and advances (net additions as a proportion of loan default and counterparty exposure); prior year figures based on 2005 business segment structure

Derivatives transactions

€ millions	Nominal amount					Fair value			
	Residual maturity			Total	Total	Positive		Negative	
	up to 1 year	1–5 years	more than 5 years	2005	2004	2005	2004	2005	2004
Interest rate derivatives	**848,544**	**674,130**	**429,860**	**1,952,534**	**2,055,621**	**37,310**	**36,698**	**37,668**	**37,399**
OTC products									
Forward rate agreements	90,926	8,282	—	99,208	142,170	48	70	56	72
Interest rate swaps	565,231	587,025	389,313	1,541,569	1,588,417	34,239	34,600	34,429	35,083
Interest rate options									
– purchased	28,567	32,866	19,325	80,758	73,904	3,021	2,017	—	—
– written	28,421	31,508	20,790	80,719	74,655	—	—	3,177	2,242
Other interest rate derivatives	9,231	753	411	10,395	1,401	2	11	6	2
Exchange-traded products									
Interest rate futures	53,142	13,060	21	66,223	61,909	—	—	—	—
Interest rate options	73,026	636	—	73,662	113,165	—	—	—	—
Foreign exchange derivatives	**238,266**	**59,720**	**25,312**	**323,298**	**296,109**	**4,542**	**7,835**	**4,949**	**9,851**
OTC products									
Foreign exchange forwards	175,164	11,636	23	186,823	190,871	2,631	5,656	2,988	6,444
Cross-currency swaps	13,857	43,078	24,981	81,916	53,985	1,237	1,624	1,473	2,831
Foreign exchange options									
– purchased	26,500	2,552	150	29,202	25,051	674	555	—	—
– written	22,745	2,454	158	25,357	26,202	—	—	488	576
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	—	—	—	—	—	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Equity/index derivatives	**84,705**	**105,286**	**7,614**	**197,605**	**139,341**	**4,699**	**3,263**	**5,434**	**3,113**
OTC products									
Equity/index swaps	—	—	—	—	—	—	—	—	—
Equity/index options									
– purchased	27,474	31,416	1,411	60,301	39,960	4,669	3,235	—	—
– written	29,392	49,885	3,732	83,009	60,722	—	—	5,359	3,092
Other equity/index derivatives	366	486	356	1,208	4,321	30	28	75	21
Exchange-traded products									
Equity/index futures	10,118	—	—	10,118	4,494	—	—	—	—
Equity/index options	17,355	23,499	2,115	42,969	29,844	—	—	—	—
Credit derivatives[1]	**25,395**	**84,094**	**30,199**	**139,688**	**53,353**	**903**	**411**	**1,743**	**1,206**
Other transactions	**600**	**1,366**	**324**	**2,290**	**355**	**117**	**15**	**122**	**13**
Total	**1,197,510**	**924,596**	**493,309**	**2,615,415**	**2,544,779**	**47,571**	**48,222**	**49,916**	**51,582**

[1] for details of credit derivatives, please see the tables “Credit derivatives” and “Credit derivatives by reference asset” below

Derivatives transactions by counterparty type

€ millions	Fair value			
	Positive		Negative	
	2005	2004	2005	2004
OECD central governments (and central banks)	337	199	286	174
OECD banks	41,072	42,062	42,805	44,965
OECD financial institutions	3,598	3,365	5,496	4,284
Non- OECD central governments (and central banks)	76	1	—	8
Non-OECD banks	31	138	89	131
Non-OECD financial institutions	51	60	59	7
Other companies and private individuals	2,406	2,397	1,181	2,013
Total	**47,571**	**48,222**	**49,916**	**51,582**

Credit derivatives

€ millions	Nominal amount					Fair value			
	Residual maturity			Total	Total	Positive		Negative	
	up to 1 year	1–5 years	more than years	2005	2004	2005	2004	2005	2004
Banking book	**474**	**3,134**	**11,395**	**15,003**	**13,484**	**235**	**9**	**804**	**427**
Protection buyer									
Credit default swaps	372	1,207	8,560	10,139	9,883	163	8	10	13
Total return swaps	—	—	2,000	2,000	2,000	—	—	343	240
Credit-linked notes	44	126	91	261	174	—	—	254	172
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	58	1,787	705	2,550	1,427	19	1	197	2
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	14	39	53	—	53	—	—	—
Other	—	—	—	—	—	—	—	—	—
Trading book	**24,921**	**80,960**	**18,804**	**124,685**	**39,869**	**668**	**402**	**939**	**779**
Protection buyer									
Credit default swaps	3,843	39,956	10,413	54,212	17,112	248	6	236	175
Total return swaps	8,944	876	401	10,221	4,633	4	116	173	5
Credit-linked notes	—	153	—	153	477	—	—	153	478
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	3,539	39,154	7,790	50,483	13,263	221	180	374	6
Total return swaps	8,593	787	198	9,578	4,289	171	2	3	115
Credit-linked notes	2	34	2	38	95	24	98	—	—
Other	—	—	—	—	—	—	—	—	—
Total	**25,395**	**84,094**	**30,199**	**139,688**	**53,353**	**903**	**411**	**1,743**	**1,206**

Credit derivatives by reference asset

€ millions	Nominal amount					
	Credit default swaps	Total return swaps	Credit-linked notes	Other	Total 2005	Total 2004
Public-sector bonds	4,940	123	46	—	5,109	1,626
Corporate bonds	51,696	20,576	453	—	72,725	40,505
Equities	—	—	—	—	—	—
Other assets	60,749	1,100	5	—	61,854	11,222
Total	**117,385**	**21,799**	**504**	**—**	**139,688**	**53,353**

Issuer risk by rating class[1]

Rating	2005 € billions	2004 € billions
Free of credit risk	19.2	15.3
Not rated	4.7	3.8
Rating 1–4	55.6	43.3
Rating 5–8	1.8	0.9
Rating 9–10	< 0.1	< 0.1
Total	**81.4**	**63.3**

[1] usage

Country risk year-on-year

In the year under review, the exposures entailing country risk increased by €12 billion to €100.7 billion. Approximately €1.8 billion of this increase can be attributed to an increase in business in risk-free, highly developed countries (rating class 1) in western Europe and North America. Thus around 59% of the total exposures relate to these countries.

Some €10.2 billion of the increase is attributable to higher risk rating classes (worse than rating class 1), whereby more than half of the total (approx. €5.2 billion) is accounted for by the relatively low-risk Cayman Islands (rating class 2) assigned to the Central and South America region.

The conservative structure of the country risk portfolio was virtually unchanged compared with the prior year. Some 95.2% of the exposures entailing country risk are from countries in rating classes 1–4 (investment grade). Of the remaining 4.8%, totaling €4.8 billion, around €4 billion relate to countries in rating class 5.

In view of EU enlargement, HVB has continued to systematically implement its strategy of concentrating on core markets in Central and Eastern Europe. The Bank increased its exposure in Eastern Europe by €4.6 billion in view of the economic recovery in these countries.

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

Rating	Exposure 2005 € millions	Exposure 2004 € millions	Value-at-risk 2005 € millions	Value-at-risk 2004 € millions
Rating 1–4	95,850	85,398	115	67
Rating 5–8	4,771	3,170	76	39
Rating 9	51	70	8	9
Total	**100,672**	**88,638**	**199**	**115**

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

Country exposure[1] by region and product category

Region	Lending		Trading		Issuer risk		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Africa	755	502	203	48	8	33	966	583
Asia/Pacific	4,989	3,952	6,395	9,180	691	822	12,075	13,954
South and Central America	3,070	3,136	8,010	2,527	1,306	1,514	12,386	7,177
North America	5,054	5,076	6,934	5,555	2,891	2,580	14,879	13,211
Western Europe	14,551	11,731	26,148	26,517	1,709	2,087	42,408	40,335
Eastern Europe	11,885	8,284	5,372	3,840	701	1,254	17,958	13,378
Total	**40,304**	**32,681**	**53,062**	**47,667**	**7,306**	**8,290**	**100,672**	**88,638**

Top ten countries by exposure[1] across all rating classes

Country	Exposure	Exposure	Value-at-risk	Value-at-risk
	2005	2004	2005	2004
	€ millions	€ millions	€ millions	€ millions
UK	32,449	31,094	0.0	0.0
USA	12,078	10,290	0.0	0.0
Cayman Islands, off-shore	7,138	1,459	20.2	1.4
Switzerland	5,757	5,341	0.0	0.0
Cayman Islands, on-shore	3,700	4,202	4.1	5.0
Japan	3,055	5,545	0.0	0.0
Poland	2,473	2,149	7.7	5.4
Canada	2,337	1,891	0.0	0.0
Russia	1,989	1,060	9.8	3.0
Turkey	1,912	1,149	16.9	9.0
Total	**72,888**	**64,180**	**58.7**	**23.8**

[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. On account of the joint management of the trading and banking books, the value-at-risk has also been shown as an aggregate value since March 2005. The risks inherent in the trading books continue to be shown separately for regulatory purposes. 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 at HVB AG, we employ an internal model in full use that was given full regulatory approval at the end of the year. The model is based on a Monte Carlo simulation approach. We check the appropriateness of the methods used to measure market risk by means of periodic back-testing that compares the value-at-risk (VaR) calculations with the market value changes (hypothetical P/L) derived from the positions. At the level of HVB AG, back-testing was gradually expanded in the course of 2005 as additional risk categories were added. For the first time this model is now used to calculate foreign exchange risk (since April 2005) and equity risk (since August 2005). The results of this back-testing confirm the high quality of our internal risk model.

In addition, other appropriate methods are applied within the corporate group, such as a variance-covariance approach. In Bank Austria Creditanstalt Group we introduced an internal model for the calculation of value at risk in 2005. This is a simulation model (Monte Carlo and historical simulation) taking into account the correlation between risk categories as well as credit spreads.

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 major changes in interest, foreign exchange, and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered for HVB AG, including the widening of credit spreads and the distortion of 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 2005 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 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.

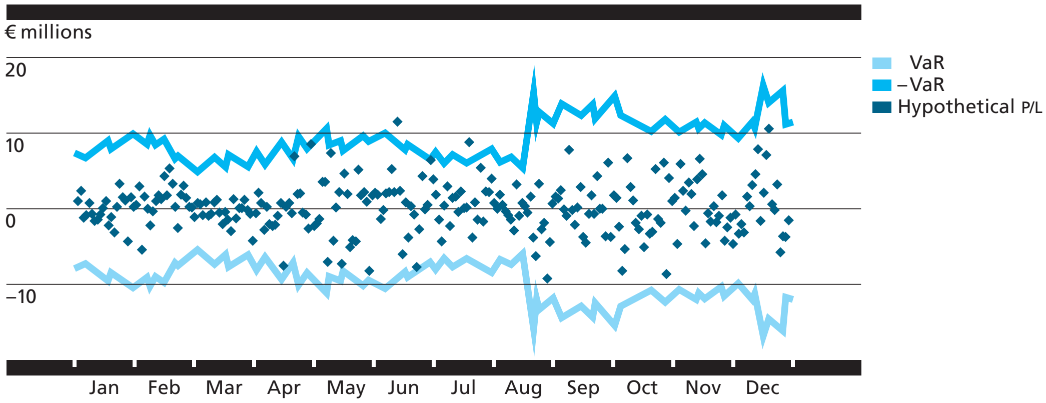
Quantification and specification

The table overleaf shows the aggregate market risks of our trading positions in HVB Group for last year. The reduction in the market risks results from the integration of foreign exchange and equity risks of HVB AG into the internal model.

However, the risk capital for market risks is unchanged year-on-year, at €0.28 billion, as the improvements to the internal model that have now also been approved for regulatory purposes have been incorporated in the internal calculation of the risk capital.

At year-end, the banking book contained market risks of €36 million (2004: €38 million; one-day holding period). The risk reduction from the value-at-risk calculation for HVB AG now based fully on a Monte Carlo approach was partially offset through the initial consolidation of Closed Joint Stock Company International Moscow Bank in the Group risk.

Back-testing of internal model: Trading activities HVB AG 2005



Market risk from trading positions

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

€ millions	Average 2005[1]	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	March 31, 2005	Dec. 31, 2004
Interest rate positions (incl. credit-spread risks)	20	23	21	22	15	13
Foreign exchange positions	15	9	7	13	29	25
Equity/index positions	42	14	15	73	66	74
Diversification effect[2]	(12)	(17)	(12)	(20)	—	—
Total	**65**	**29**	**31**	**88**	**110**	**112**

[1] arithmetic mean
[2] because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks

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 Group Asset Liability Management.

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 instruments listed for market risks.

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. On the basis of these two components, cumulative limits are determined 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. If necessary, the limits are adjusted accordingly. 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, taking the expected business development into consideration. This funding plan is 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 delegated 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 while optimizing costs.

The local treasury units are responsible for observing developments in the various local markets. These units are in regular contact with Group Asset Liability Management.

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 potential 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 remained favorable during the year under review. Risk premiums on capital markets for refinancing costs again declined slightly compared with 2004. The availability of liquidity on the money market can be termed satisfactory, especially in short maturities.

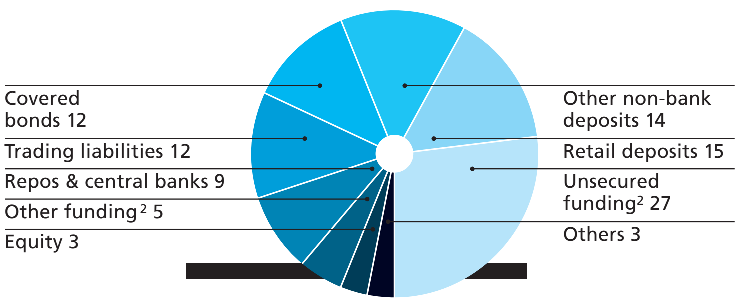
Within the framework of our short-term liquidity limit system, which operates under conservative assumptions, we showed an overall positive balance for the corporate group of €16.9 billion for the next banking day at the end of December 2005. The portfolio of highly liquid securities eligible as collateral for central bank transactions and available at short notice to compensate for unexpected outflows of liquidity amounted to €13.6 billion at year-end.

The requirements of the regulatory Liquidity Principle II were met at all times by the relevant Group units during the year under review. In 2005 the funds available to HVB AG exceeded its payment obligations for the following month by an average of €18.9 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 €18.5 billion on the capital market during 2005. With their high credit quality and liquidity, our Pfandbrief mortgage bonds still remain one of the most important funding instruments.

Liability diversification of HVB Group[1]

in %



[1] total assets of €494 billion; covered bonds and unsecured funding as per tables below

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

Breakdown of covered bonds

	€ billions
Mortgage Pfandbriefs	22.5
Jumbo Pfandbriefs	24.7
Public Pfandbriefs	7.6
Public Jumbos	2.7
Total	**57.5**

Breakdown of unsecured funding

	€ billions
Promissory notes	23.4
Bank deposits	45.7
Certificates of deposit and commercial papers	7.2
Other liabilities evidenced by paper (capital market)	41.3
Subordinated liabilities (capital market)	17.6
Total	**135.2**

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. Under Basel II, this definition also includes legal risks.

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,which has been implemented Groupwide since 2004. These will also 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, analysis, evaluation 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 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 at HVB AG. Our quantification model for this purpose uses internal and external loss data to determine the loss distributions. We compensate for the shortage of data in some areas through scenario analysis. A Monte Carlo simulation is used to calculate the value-at-risk figures, taking into account risk-reducing measures such as insurance. By taking into account factors related to internal control and the business environment, we adapt the risk distributions and/or the measurements to the current risk profile.

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 HVB AG and supplemented by the values obtained on the basis of similar methods from the Bank Austria Creditanstalt Group.

When determining capital adequacy in HVB Group for regulatory purposes within the Basel II framework, we will implement the partial use of the Advanced Measurement Approach with all related requirements for HVB AG, Bank Austria Creditanstalt AG, and selected Group companies. The final decision on the extent of partial use and the launch date will be made jointly with the UniCredit Group.

Risk monitoring
As part of regular reporting, the Chief Risk Officer, the Group Board, and the Risk Committee of the Supervisory Board are kept informed by Group 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 was implemented for monitoring important risks during 2005.

Quantification and specification
The risk capital for operational risks of HVB Group amounted to €1.1 billion at the end of 2005.

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:
- In the Corporates & Markets segment, measures included the restructuring of the entire settlement interface in the area of securities processes and a significant increase in the degree of automation. In addition, the new product process for trading activities was standardized worldwide. Process optimizations in the active management of the credit portfolio led to a significant reduction in potential operational risk in that area. Other risk-reducing measures were carried out in the area of settlement and liquidity management in the foreign exchange business, among other areas.
- In the Germany segment, self-assessments were carried out, including a survey of measures for risk reduction in relevant product groups (including securities transactions, payments).
- Within the Bank Austria Creditanstalt Group, a newly structured security organization for data security and personal security with a Security Management Board and a Group Security Office was established.

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.
- In addition, a new emergency and crisis manual was developed and updated as a standardized basis for business continuity management.
- The emergency management process in the Germany business segment was further optimized in 2005. Based on the two-location concept for central servers, client/server applications were crisis-enabled. Breakdown management was implemented for the entire business segment, and the risk management was certified by TÜV Management Service GmbH with regard to operational risk and business continuity management.

IT risks:
- Despite the increasing frequency of computer viruses, no incidents were reported in HVB Group. Consequently, the selected strategy of working with two independent providers of virus scanners and performing multilevel scans continues to prove its worth.
- The Computer Emergency Response Team also made major contributions to IT security with its prompt analysis of reports on weak points and the security patches provided particularly in the Microsoft environment.

Legal risks:
<u>Real estate finance/financing of purchases of shares in real estate funds</u>
- HVB AG will not suffer negative legal consequences if customers cancel their property loan agreements under the Doorstep Transactions Act. According to the law and the opinion on this subject expressed in the ruling by the German Supreme Court, the customer must repay the loan to the Bank, including interest at customary market rates, even after cancellation of the loan agreement. The ruling of October 25, 2005 by the European Court of Justice does not change this state of affairs. According to the ruling, the applicable laws in Germany regarding the obligation to repay the loans with interest immediately after canceling the loan agreement are not in violation of European law. The European Court of Justice also called for the investment risk to be assumed by the Bank in certain cases because of a failure to explain the right to cancel the contract. In our view, however, this demand cannot be enforced retroactively through a court decision because of the lack of statutory regulations in Germany, so that there is no reason for concern about negative effects from cases in the past. The Bank's claim to repayment remains in effect even if the borrower issued an invalid proxy to a third party and the Bank could rely on the validity of the proxy.

– From the standpoint of HVB AG, 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 the financing of shares in real estate funds, the ineffectiveness of an issued proxy does not affect the loan agreement either, if the Bank had confidence in the legitimacy of the proxy.

Court proceedings of HVB AG shareholders

– In a ruling in November 2002, the German Supreme Court nullified the resolutions of HVB AG's Annual General Meeting concerning the appointment of the auditor of the 1999 financial statements on grounds of bias. Lawsuits filed for this reason by shareholders challenging the validity of the Bank's financial statements for 1999 – 2002 have failed at all levels of appeal.

– A suit was filed challenging the election of shareholder representatives to the Supervisory Board at the Annual General Meeting of our Bank on May 14, 2003, stating that the "block voting" procedure used at that time was inadmissible. Munich Regional Court I sustained the legal challenge in a ruling dated April 15, 2004. After the shareholder representatives were appointed by the Munich Local Court and re-elected as individual candidates for the remainder of their term of office at the Annual General Meeting on April 29, 2004, the Bank withdrew its appeal against the ruling of April 15, 2004. Consequently, the court ruling stating that the election of the shareholder representatives to the Supervisory Board of HVB AG of May 14, 2003 was null and void is now final. Because the Supervisory Board repeated and confirmed the resolutions passed since May 14, 2003 at its meeting on February 25, 2004, this has no impact on the resolutions passed by the Supervisory Board in the period subsequent to May 14, 2003.

– Shareholders have filed suit against the approval of actions of the Supervisory Board for the 2003 fiscal year, the re-election of the shareholder representatives to the Supervisory Board, and the election of the auditor for the 2004 fiscal year at the Annual General Meeting of our Bank on April 29, 2004. This suit was also rejected on second appeal by the Munich Higher Regional Court in a ruling dated January 18, 2006.

– In addition, a shareholder has filed a separate suit claiming that the annual financial statements for 2004 are null and void, claiming that the nomination and election of the auditor of the financial statements at the Annual General Meeting of Shareholders in 2004 was null and void. Because of the decision of January 18, 2006 of Munich Higher Regional Court mentioned above, we do not expect this suit to succeed.

– And finally, some of the parties who filed the legal challenge have filed a motion requesting the removal from the Commercial Register of the capital increase carried out in spring 2004, stating that the appointment of Supervisory Board members in the Commercial Register in 2004 and the annual financial statements are null and void. In view of the result of the proceedings described above, we expect Munich Registration Court to reject the motion.

– In addition, shareholders have filed a legal challenge against resolutions adopted by the Annual General Meeting of our Bank on May 12, 2005. In a ruling dated December 22, 2005, Munich Regional Court sustained the suit to the extent that it related to the approval of actions of Supervisory Board members for the 2004 fiscal year because the report of the Supervisory Board did not mention the withdrawal of the appeal against the ruling of Munich Regional Court I of April 15, 2004 and the fact, resulting from that ruling, that the election in 2003 was null and void; in this respect, the ruling is final. The failure to ratify the actions of the Supervisory Board members at the Annual General Meeting of May 12, 2005 has no material effect for the Bank. In a ruling dated December 22, 2005, Regional Court I dismissed the suit contesting the election of the Supervisory Board members and the auditor of the financial statements; the plaintiffs have appealed against the ruling.

Squeeze-out of Vereins- und Westbank AG shareholders

– The extraordinary shareholders' meeting of Vereins- und Westbank AG on June 24, 2004 approved the transfer of shares of minority shareholders of Vereins- und Westbank AG to HVB AG in exchange for a cash payment of €25.00 per share. Although we are convinced that the shareholders' meeting was conducted properly with no breaches of procedural rules, in the interest of rapid integration we undertook in a court settlement to pay cash compensation of €26.65 per share (the "26.65 settlement") as soon as the legal challenges of the minority shareholders of Vereins- und Westbank AG are settled, and to pay interest on this compensation as of the date on which the transfer resolution is entered in the commercial register for Vereins- und Westbank AG. Notwithstanding this arrangement, numerous minority shareholders have utilized their right to have the €26.65 settlement reviewed in special judicial proceedings pursuant to Section 1 (3) of the Act on the Procedure Regarding the Compensation of Minority Shareholders. In a decision dated March 2, 2006, Hamburg Regional Court fixed the compensation at €37.20 per no par share, whereby the court made a deviant assessment of important parameters. We intend to appeal against this decision and assume that, if anything, much lower additional payments will need to be made to the excluded shareholders of Vereins- und Westbank AG.

Claims asserted by the liquidator of a corporate customer

- In 2002 a corporate customer of HVB AG filed for bankruptcy. The liquidator subsequently asserted claims out of court against a consortium made up of several banks. HVB AG had a share in this consortium amounting to approximately 9.25% of the outstanding credit facilities. The banks participating in the consortium have appointed a bankruptcy law specialist to review the related issues. The expert does not believe that the liquidator is in a particularly strong position and advises the banks in the consortium to reject the out-of-court claims. At present the outcome of the out-of-court claims is uncertain. Although we are of the opinion that the above-mentioned claims are unfounded, a successful lawsuit on the part of the liquidator would result in a claim against HVB AG in the low nine-figure range (in euros).

EU antitrust proceedings

- In December 2001 the European Commission fined HVB AG and its Vereins- und Westbank AG subsidiary a total of about €31 million for alleged illegal price-fixing of currency exchange fees for exchanging the national currencies of future member states of the European Monetary Union. This ruling was lifted in November 2004 in a first appeal filed with the European Court of Justice. The European Commission in turn appealed this decision. Because the reasons given in the ruling by the European Court of Justice show that the underlying reasons for the decision by the European Commission were not sufficient to impose a fine, we assume that this decision will come into force.
- In June 2002 the European Commission imposed a €30 million fine on Bank Austria Creditanstalt AG for alleged illegal collusion in connection with interest rates, prices of various banking products for retail customers, and other terms. In the same connection, fines totaling approximately €94 million were imposed on seven other Austrian banks. Bank Austria Creditanstalt AG filed a first-level appeal with the European Court against the fine itself and the amount. At present, the outcome of these proceedings is uncertain.
- Austrian consumer protection associations and politicians have announced their intention of possibly asserting damage claims against the banks involved in the above-mentioned proceedings, including Bank Austria Creditanstalt AG. In our view, it is uncertain from a legal standpoint whether a violation of Article 81 of the EC Treaty provides grounds for damage claims of individual customers under civil law, and we also regard such lawsuits as unfounded for a number of reasons. Furthermore, Austrian consumer protection associations have alleged that banks in Austria have been charging their customers excessive interest and fees in contravention of Austrian consumer protection laws. Whether and to what extent such claims are justified depends on the individual circumstances and various legal issues which to date have not been finally resolved by the Austrian courts. We believe that the declaration by Bank Austria Creditanstalt AG that it will comply with the settlement arrangements entered into by the Austrian Savings Banks Association with the Austrian consumer protection associations will largely avert detrimental consequences for HVB Group.

Deferred prosecution agreement USA

- In the period from 1996 to 2002, the New York office of HVB AG had brokered for clients tax-optimization models devised by external advisors, including KPMG LLP. However, the responsible U.S. authorities deemed this as tax evasion by the clients. Under a deferred prosecution agreement, HVB admitted its involvement and agreed to pay a fine and compensation totaling $29.6 million; in return, the U.S. public prosecutors will drop the case after 18 months, given good behavior on the part of HVB AG, and infer no additional allegations from the acts examined.

Treuhandanstalt litigation

– A pending lawsuit against Bank Austria Creditanstalt AG is related to alleged claims of the Treuhandanstalt, the predecessor of the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ("BvS"), against Bank Austria (Schweiz) AG, a former subsidiary of Bank Austria Creditanstalt AG. One of the claims in the proceedings, which were initiated in 1993, is that the former subsidiary participated in the embezzlement of funds by companies in the former East Germany. BvS is seeking damages in the amount of approximately €128 million plus interest. However, we believe that these claims are unfounded.

Constellation 3D

– In December 2002, Bank Austria Creditanstalt AG was named (among others) as defendant in an action brought by Constellation 3D, Inc. (a debtor in Chapter 11 proceedings) in the U.S. Bankruptcy Court for the Southern District of New York. The plaintiff is claiming from Bank Austria Creditanstalt AG an amount of up to $45 million as compensation for offenses allegedly committed in connection with a loan contract between the pre-petition principal shareholder of the plaintiff and a prospective investor. The charges include, among others, negligent misrepresentation and fraud. We are convinced that these claims are unfounded.

Preliminary investigations on tax prosecution in Russia

– Two criminal investigations are under way in Russia concerning alleged tax evasion and illegal entrepreneurial activity purportedly engaged in by a former indirect subsidiary of Bank Austria Creditanstalt AG. The investigations also concern another company in which Bank Austria Creditanstalt AG's subsidiary held a participating interest of approximately 25%. We cannot exclude the possibility that an attempt would be made by the relevant tax authorities or the buyer of the subsidiary to claim that Bank Austria Creditanstalt AG's intermediate subsidiary or Bank Austria Creditanstalt AG should bear all or part of the alleged overdue taxes, interest, and penalties, although we do not believe that Bank Austria Creditanstalt AG should have any liability in this regard.

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 company value associated with business risk.

Risk monitoring

Risk capital arising from business risk is calculated and analyzed by the Group Risk Control division and reported to the Chief Risk Officer and the Risk Committee of the Supervisory Board.

Within the framework of monthly reporting by the Group Accounting division, interim revenues and costs of the business units are tracked as levers of business risk by comparing the actual figures with the budgeted targets.

Quantification and specification

The calculated risk capital for business risks amounted to €1.1 billion at year-end 2005.

The PRO efficiency program launched at the end of 2004 is still being implemented according to plan. The program is intended to optimize the structure of HVB Group's cost base in the long term through comprehensive improvements in efficiency in the areas headquarters/staff units, lending processes, and transaction banking. The measures scheduled to take effect in 2005 were achieved in full. The measures for the medium to long term are still being pushed ahead. However, it is possible that, in the course of integration into the UniCredit Group, individual measures – especially those of a strategic nature – may be modified in terms of content or scheduling to optimize the overall impact. As a result, some measures may be delayed or restructured when seen in isolation, with the result that the corresponding synergies will be achieved later than planned.

In general, however, we are confident that we will achieve the expected synergies and financial targets as a new banking group. The detailed integration plan developed jointly by HVB Group and the UniCredit Group provides for significant optimization of the cost base and earning power in the individual business segments.

Despite continual reassessment, however, there may be a risk that the implementation of the planned strategy at HVB Group level will not be entirely successful, and that this will have detrimental effects on the Bank's revenue situation.

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 HVB AG 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, property management, restructuring, project development, land development, 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 Group Risk Control division and reported to the Chief Risk Officer and the Risk Committee of the Supervisory Board. 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, measure, analyze, and monitor real estate risks as well as the known external and internal risks associated with the company. A risk inventory was also carried out in 2005, and these inventories and regular reporting will be continued in the future. This will ensure comprehensive risk transparency and 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 2005. Our real estate portfolio is located primarily in Munich and Vienna, with 30% and 24% 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, whose 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, which, in the case of investments in listed companies, are determined using the share price fluctuations. 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 Group Risk Control division calculates and analyzes the risk capital for shareholdings and financial investments, and reports it to the Chief Risk Officer and the Risk Committee of the Supervisory Board.

The task of investment controlling is under 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 specification

In 2005, we continued to actively manage our investments with a view to further reducing both market and especially cluster risks. In this connection, a further reduction of our stake in Münchener Rückversicherungs-Gesellschaft AG and the disposal of our holding in Rhön-Klinikum AG are worth special note.

As a result of our efforts to streamline our portfolio, there was a €0.5 billion decrease in risk capital to €2.2 billion. Although our stake in Münchener Rückversicherungs-Gesellschaft AG is still our largest financial investment, the reduction in our holding has significantly decreased the potential impact of any major or sustained decline in the share price of this equity position on the revenues of our Bank as compared with the previous year.

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, management of 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

<u>Risk from overall economic trends</u>

A particular risk that could impede the strategic direction taken by HVB Group stems from the overall economic trend. The economy developed in a non-uniform pattern across our home markets during the year under review. However, growth has remained very moderate in Germany in particular. The environment in which HVB Group does business is difficult at the present time, especially in Germany, on the back of a persistently high unemployment rate, bankruptcy levels that show no sign of falling, and continuing stagnation in the real estate sector. Economic growth is projected to pick up in Germany in 2006, which would benefit the revenue situation of our Bank, but it is uncertain whether this will actually come about. In addition there are uncertainties arising from the impact of price trends in foreign exchange and commodities markets on the economies of our home markets. Consequently, 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. The business environment described above has repeatedly led to increases in loan defaults and provisions for losses on loans and advances in the past. If economic growth does not improve as we hope, especially in Germany, we cannot preclude the possibility that provisions for losses on loans and advances will remain at a high level.

Risks associated with the business combination of HVB Group and the UniCredit Group

The business combination of HVB Group and the UniCredit Group initiated in the year under review may result in unforeseen difficulties that may also have a negative impact on the net asset, financial and earnings position of our Bank. The combination of the two banks is a complex integration process whose success will depend on numerous factors. For example, we assume that the synergy effects determined by the merger can be achieved. Nevertheless, this assumption is tied to inherent uncertainties as to whether these effects can actually be achieved fully and/or within the planned timeframe. The same statement applies to the efforts to move ahead with the harmonization and integration of the data processing systems and risk management systems of the two banks. Finally, the success of the merger will depend to a decisive degree on key staff members remaining with the merged group. If HVB Group loses key employees in the further course of the combination, this could impede the rapid integration of HVB Group into the UniCredit Group.
The possible difficulties listed above could individually or cumulatively have negative effects on the financial situation of our Bank. In addition, the combination with the UniCredit Group and the associated integration projects could lead to the departure of customers from our Bank in the short term.

Hard-fought marketplace

There is fierce competition in commercial banking in HVB Group's core markets, in particular due to excess capacity in the retail banking business. In these markets, HVB Group is competing against public-sector banks and cooperative banks as well as other private-sector German and international banks, some of which – as in the case of certain public-sector banks – are backed by state guarantees. Through the combination with the UniCredit Group, HVB Group intends to further improve its market position and profit situation. Nevertheless, it is possible that an increase in the intensity of competition – triggered, for instance, through further national or cross-border bank mergers – could have negative effects on the net asset, financial and profit situation of HVB Group.

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT AND APPROPRIATION OF NET INCOME FOR THE YEAR ENDED DECEMBER 31, 2005

Income/expenses	Notes	2005	2004		Change
		€ millions	€ millions	€ millions	in %
Interest and similar income		17,067	17,268	(201)	(1.2)
Interest expense and similar charges		11,182	11,606	(424)	(3.7)
Net interest income	(28)	5,885	5,662	+ 223	+ 3.9
Provisions for losses on loans and advances	(29)	1,513	1,795	(282)	(15.7)
Net interest income after provisions for losses on loans and advances		4,372	3,867	+ 505	+ 13.1
Fee and commission income		3,859	3,472	+ 387	+ 11.1
Fee and commission expenses		619	627	(8)	(1.3)
Net commission income	(30)	3,240	2,845	+ 395	+ 13.9
Gains less losses arising from trading securities (trading profit)	(31)	926	728	+ 198	+ 27.2
General administrative expenses	(32)	6,582	6,118	+ 464	+ 7.6
Balance of other operating income and expenses	(33)	(143)	23	(166)	
Operating profit (loss)		**1,813**	**1,345**	**+ 468**	**+ 34.8**
Net income from investments	(36)	321	14	+ 307	>+100.0
Amortization of goodwill	(37)	0	165	(165)	(100.0)
Restructuring costs	(38)	546	250	+ 296	>+100.0
Allocation to special provisions for bad debts		0	2,500	(2,500)	(100.0)
Balance of other income and expenses	(39)	(289)	(357)	+ 68	+ 19.0
Profit (loss) from ordinary activities/ net income (loss) before taxes		**1,299**	**(1,913)**	**+ 3,212**	
Taxes on income	(20, 40)	262	224	+ 38	+ 17.0
Net income (loss)		**1,037**	**(2,137)**	**+ 3,174**	
Minority interest in net income (loss)		(395)	(288)	(107)	(37.2)
Net income (loss) adjusted for minority interest		**642**	**(2,425)**	**+ 3,067**	
Transfers to (from) retained earnings		451	(2,425)	+ 2,876	
Consolidated profit (loss)		**191**	**—**	**+ 191**	**+ 100.0**

The income statement for fiscal 2005 is marked by extraordinary expenses entailed in integrating HVB Group into the UniCredit Group, namely the restructuring costs of €546 million (reported as a separate item in the income statement). Moreover, higher general provisions for losses on specific loans and advances totaling €147 million were set aside. Hence the income statement of HVB Group has been depressed overall by non-recurring items totaling €693 million (referred to below as "restructuring costs and additional provisions for losses on loans and advances").

In 2004, non-recurrent charges totaling €2,915 million, consisting of the allocation to special provisions for bad debts (€2,500 million), an addition to restructuring provisions (€250 million), and amortization of goodwill (€165 million), impacted the income statement.

The consolidated profit (profit of HVB AG available for distribution) amounts to €191 million. We will propose to the Annual General Meeting of Shareholders on May 23, 2006 that an advance dividend of €0.064 be paid per share of non-voting preferred stock and a dividend of €0.25 be paid per share of common stock and share of non-voting preferred stock. The corresponding total dividend payout amounts to €188 million. Under Article 6 of the Bank's Articles of Incorporation, a right of retroactive payment of the advance share in profits is granted to preferred stockholders as an independent right. Consequently a retroactive payment of €3 million will be paid for the years 2002 to 2004.

Earnings per share

in €	Notes	2005	2004
Earnings per share (adjusted)[1]	(41)	1.55	0.70
Earnings per share	(41)	0.86	(3.48)

[1] 2005 figures adjusted for "restructuring costs and additional provisions for losses on loans and advances" 2004 figures adjusted for amortization of goodwill, restructuring costs, and allocation to special provisions for bad debts

Since no conversion rights or option rights on conditional capital existed at the closing dates for 2005 and 2004, there is no calculation of diluted earnings per share.

BALANCE SHEET
AT DECEMBER 31, 2005

Assets	Notes	2005	2004	Change	
		€ millions	€ millions	€ millions	in %
Cash reserve	(43)	7,757	6,903	+ 854	+ 12.4
Assets held for trading purposes	(7, 44)	103,519	91,711	+ 11,808	+ 12.9
Placements with, and loans and advances to, other banks	(8, 45)	57,229	47,479	+ 9,750	+ 20.5
Loans and advances to customers	(8, 46)	274,643	275,119	(476)	(0.2)
Allowances for losses on loans and advances	(9, 47)	(12,511)	(13,404)	+ 893	+ 6.7
Investments	(10, 49)	45,683	44,483	+ 1,200	+ 2.7
Property, plant and equipment	(11, 50)	2,723	2,855	(132)	(4.6)
Intangible assets	(13, 51)	2,776	2,627	+ 149	+ 5.7
Income tax assets	(52)	2,891	4,157	(1,266)	(30.5)
Other assets	(53)	5,573	5,455	+ 118	+ 2.2
Disposal group held for sale	(54)	3,240	—	+ 3,240	+ 100.0
Total assets		**493,523**	**467,385**	**+ 26,138**	**+ 5.6**

Shareholders' equity and liabilities	Notes	2005	2004		Change
		€ millions	€ millions	€ millions	in %
Deposits from other banks	(15, 58)	113,739	103,606	+ 10,133	+ 9.8
Amounts owed to other depositors	(15, 59)	158,421	144,451	+ 13,970	+ 9.7
Promissory notes and other liabilities evidenced by paper	(15, 60)	105,982	109,562	(3,580)	(3.3)
Liabilities held for trading purposes	(16, 61)	63,638	59,831	+ 3,807	+ 6.4
Provisions	(17, 62)	4,564	4,460	+ 104	+ 2.3
Income tax liabilities	(63)	1,891	3,030	(1,139)	(37.6)
Other liabilities	(18, 64)	9,406	10,015	(609)	(6.1)
Subordinated capital	(65)	17,612	18,454	(842)	(4.6)
Liabilities held for sale[1]	(66)	1,887	—	+ 1,887	+ 100.0
Shareholders' equity	(67)	16,383	13,976	+ 2,407	+ 17.2
Shareholders' equity attributable					
to shareholders of HVB AG		13,164	11,467	+ 1,697	+ 14.8
Subscribed capital		2,252	2,252	0	0
Additional paid-in capital		9,128	9,103	+ 25	+ 0.3
Other reserves		864	227	+ 637	>+ 100.0
Reserve arising from currency and other changes		729	(115)	+ 844	
AfS reserve		871	354	+ 517	>+ 100.0
Hedge reserve		(142)	(469)	+ 327	+ 69.7
Consolidated profit		191	—	+ 191	+ 100.0
Minority interest		3,219	2,509	+ 710	+ 28.3
Total shareholders' equity and liabilities		**493,523**	**467,385**	**+ 26,138**	**+ 5.6**

[1] excluding internal funding

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ millions	Subscribed capital	Additional paid-in capital
Shareholders' equity at Jan. 1, 2004		
before initial application of new and revised IFRSs	**1,609**	**9,295**
Effect of initial application of new and revised IFRSs		(81)
Shareholders' equity at Jan. 1, 2004		
after initial application of new and revised IFRSs	**1,609**	**9,214**
Change from capital increase against cash contribution	643	2,359
Transaction costs of capital increase		(62)
Change from capital reductions		
Change in valuation of financial instruments not affecting income		
Change in valuation of financial instruments affecting income		
Change in net income (loss), excl. minority interest		(2,425)
Change in holdings of, and net income from, own equity instruments		17
Dividend payouts		
Changes in group of consolidated companies		
Reserve arising from foreign currency translation and other changes		
Shareholders' equity at Dec. 31, 2004	**2,252**	**9,103**
Shareholders' equity at Jan. 1, 2005	**2,252**	**9,103**
Change from capital increase against cash contribution		
Transaction costs of capital increase		
Change from capital reductions		
Change in value of financial instruments not affecting income		
Change in value of financial instruments affecting income		
Change in net income (loss), excl. minority interest		
Change in holdings of, and net income from, own equity instruments		25
Dividend payouts		
Changes in group of consolidated companies		
Reserve arising from foreign currency translation and other changes		
Shareholders' equity at Dec. 31, 2005	**2,252**	**9,128**
including:		
shareholders' equity of disposal group held for sale		
(HVB Splitska banka)		

[1] cf. detailed description in the Financial Review and Note 6 "Financial instruments"

Other reserves	Change in valuation of financial instruments: AfS reserve	Change in valuation of financial instruments: Hedge reserve[1]	Consolidated profit	Total shareholders' equity attributable to shareholders of HVB AG	Minority interest	Shareholders' equity
(40)	**326**	**(878)**	**—**	**10,312**	**2,476**	**12,788**
	71	3		(7)	(10)	(17)
(40)	**397**	**(875)**	**—**	**10,305**	**2,466**	**12,771**
				3,002	118	3,120
				(62)		(62)
					(6)	(6)
	(23)	148		125	51	176
	(21)	258		237	(4)	233
				(2,425)	288	(2,137)
				17		17
					(100)	(100)
122	1			123	(346)	(223)
145				145	42	187
227	**354**	**(469)**	**—**	**11,467**	**2,509**	**13,976**
227	**354**	**(469)**	**—**	**11,467**	**2,509**	**13,976**
					9	9
	771	189		960	20	980
	(256)	140		(116)		(116)
451			191	642	395	1,037
				25		25
					(118)	(118)
83				83	201	284
103	2	(2)		103	203	306
864	**871**	**(142)**	**191**	**13,164**	**3,219**	**16,383**
51	1			52	58	110

CASH FLOW STATEMENT[1]

	2005	2004
	€ millions	€ millions
Net income (loss)	**1,037**	**(2,137)**
Write-downs, provisions for losses on, and write-ups of, loans and advances and		
additions to provisions for losses on guarantees and indemnities	1,600	1,868
Write-downs and depreciation less write-ups on long-term assets	1,077	1,012
Change in other non-cash positions	(2,231)	(711)
Profit from the sale of investments, property, plant and equipment	(392)	(216)
Other adjustments adjustments (mainly taxes on income paid and interest received		
less interest paid and dividends received)	(5,728)	(4,337)
Subtotal	**(4,637)**	**(4,521)**
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	(9,692)	(9,098)
Placements with, and loans and advances to, other banks	(7,846)	5,379
Loans and advances to customers	45	8 242
Other assets from operating activities	220	157
Deposits from other banks	8,912	(9,936)
Amounts owed to other depositors	9,892	3,919
Promissory notes and other liabilities evidenced by paper	(3,645)	(12,928)
Other liabilities from operating activities	3,008	4,298
Taxes on income paid	(207)	(143)
Interest received	17,271	16,690
Interest paid	(12,331)	(12,566)
Dividends received	544	234
Cash flows from operating activities	**1,534**	**(10,273)**
Proceeds from the sale of investments	5,750	13,696
Proceeds from the sale of property, plant and equipment	8	126
Payments for the acquisition of investments	(4,357)	(4,024)
Payments for the acquisition of property, plant and equipment	(902)	(742)
Effects of the change in the group of companies included in consolidation	537	(80)
Cash flows from investing activities	**1,036**	**8,976**
Change in additional paid-in capital	25	17
Proceeds from capital increase	—	2 940
Subordinated capital, net	(1,301)	(579)
Other financing activities, net	86	87
Cash flows from financing activities	**(1,190)**	**2,465**
Cash and cash equivalents at end of previous period	6,903	5,708
+/– Net cash provided/used by operating activities	1,534	(10,273)
+/– Net cash provided/used by investing activities	1,036	8,976
+/– Net cash provided/used by financing activities	(1,190)	2,465
+/– Effects of exchange rate changes	71	27
Less disposal group held for sale	(597)	—
Cash and cash equivalents at end of period	**7,757**	**6,903**

[1] cf.detailed description in the notes

CONTENTS

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-based management is similarly based on these accounting principles.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 1606/2002 of the European Parliament and of the Council of July 19, 2002 within the framework of the EU endorsement, in conjunction with Section 315a of the German Commercial Code (HGB). Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). Section 315 a of the German Commercial Code also contains national regulations to be applied by companies active on the capital market alongside the IFRS.

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

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 264 b (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 a management report.

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. Where options have been exercised, the details are explained under the balance sheet items concerned.

2

Consistency

In accordance with the IFRS Framework for the presentation of financial statements together with IAS 1 and IAS 8, 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 similarly recognized retrospectively. With the exception of the new and revised IFRSs and the changes to figures reported for the gains realized on the sale of deconsolidated companies, we have applied the same accounting and valuation principles in 2005 as in the consolidated financial statements for 2004.

Deconsolidation effects affecting reported net income, which generally arise through the complete or partial sale of fully consolidated companies, are no longer reported as other operating income under operating profit. As of the Interim Report at September 30, 2005, these are shown separately from operating profit and are included in net income from investments. The corresponding effects in the comparative periods have been adjusted.

Numerous new and revised IFRSs were to be applied for the first time at January 1, 2005. The initial use is generally applicable retrospectively, meaning the standards are applied as if they had always been in use. We have adjusted the comparative figures for fiscal 2004 to reflect the new accounting standards. The new and revised IFRSs mainly have an impact on the following items in the balance sheet and income statement for 2004:

- Minority interest is to be shown as a separate sub-item under shareholders' equity. Thus the amount involved is disclosed within shareholders' equity separately from the shareholders' equity attributable to shareholders of HVB AG. Consequently, total shareholders' equity at December 31, 2004 increased by minority interests totaling €2,509 million.
- Financial assets are to be divided into four categories and measured in accordance with this classification. The "at fair value through profit or loss" category is divided into two subcategories. Under certain circumstances, it is possible to designate financial assets as at fair value through profit or loss (fair value option) upon initial recognition as well as financial assets held for trading. Such assets are measured at fair value and any changes in value disclosed in profit or loss in the income statement. Although a designation made in the past is normally irrevocable, the revised IAS 39 permits reclassification when it is first applied. HVB Group has essentially only classified financial assets using the fair value option for hedges. The changes in fair value of the reclassified investments and associated derivatives are recorded under net income from investments. The Bank used the changes in the area of IAS 39 as an occasion to revise the definition of cash and cash equivalents under IAS 7. For this reason, the cash reserve has declined by €578 million as treasury bills of Bank BPH have been redesignated under the fair value option. In this context, Bank BPH has reclassified the treasury bills as investments. Thus the reduction in the cash reserve is matched by a rise in investments of the same amount.
- The definition of objective evidence of impairment has been expanded, primarily for available-for-sale (AfS) equity instruments (essentially shares). Among other things, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. By way of contrast with the previous approach, the two criteria are now to be evaluated separately from each other. Due to the retrospective application of this new regulation, we have written down shareholdings, primarily in Münchener Rückversicherungs-Gesellschaft AG, by a total of €182 million for 2004. This results in a reduction of €182 million in net income from investments and an increase in the AfS reserve by this amount for 2004.

– Under the revised IFRS rules, reversals of impairment losses on AfS equity instruments must be recognized in the AfS reserve under shareholders' equity without affecting reported profit or loss. The AfS reserve is to be reversed as profit or loss when the asset is derecognized, enabling the correspondingly adjusted gain or loss on disposal to be reflected in the income statement. Write-ups totaling €36 million recognized in profit or loss only in 2004 have been reversed accordingly and the corresponding amount has been included in the AfS reserve. At the same time, there was an increase in net income from invest-ments on account of the disposal of our investment in Brau und Brunnen AG in 2004, after write-ups taken in profit and loss in previous years had to be eliminated to reflect the new rule as mentioned above. As a result of the revision of this standard, net income from investments increased by an aggregate of €23 million and the AfS reserve by an aggregate of €42 million.

– Where there is no evidence of impairment of financial assets carried at cost examined individually, such assets are to be combined to form groups with the same credit risk characteristics. The impairment must then be assessed at portfolio level. A method for calculating impairment due to these risks inherent in financial assets carried at amortized cost is prescribed in IAS 39. According to this method, future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historic loss experience. This historic loss experience is to be used to record an impairment in a portfolio for incurred but not reported losses. This change served to increase loan-loss provisions at our Bank Austria Creditanstalt AG subsidiary by €113 million retrospectively at December 31, 2003. Of this total, €18 million has been reversed retrospectively for 2004.

– Under the revised IAS 28, the financial statements of companies valued at equity are, without exception, to be adjusted to reflect uniform Group accounting policies. The adjustments result in an increase of €69 million in investments in companies valued at equity and consolidated shareholders' equity at December 31, 2004. The goodwill of €83 million on companies valued at equity is now carried under investments in the balance sheet instead of intangible assets.

As a result of these changes, we have adjusted our income statement for the year ended December 31, 2004 and our balance sheet at December 31, 2004 as follows:

Income statement for the year ended December 31, 2004

Income/expenses	Jan. 1–Dec. 31, 2004[1]	Jan. 1–Dec. 31, 2004
	after adjustment	before adjustment
	€ millions	€ millions
Net interest income	5,662	5,656
Provisions for losses on loans and advances	1,795	1,813
Net interest income after provisions for losses on loans and advances	3,867	3,843
Net commission income	2,845	2,845
Trading profit	728	718
General administrative expenses	6,118	6,118
Balance of other operating income and expenses	23	101
Operating profit (loss)	**1,345**	**1,389**
Net income from investments	14	102
Amortization of goodwill	165	165
Restructuring costs	250	250
Allocation to special provisions for bad debts	2,500	2,500
Balance of other income and expenses	(357)	(357)
Profit (loss) from ordinary activities/net income (loss) before taxes	**(1,913)**	**(1,781)**
Taxes on income	224	211
Net income (loss)	**(2,137)**	**(1,992)**
Minority interest in net income (loss)	(288)	(286)
Change in net income (loss) adjusted for minority interest	**(2,425)**	**(2,278)**
Earnings per share in €	**(3.48)**	**(3.27)**

[1] including change in disclosure of sales revenues of deconsolidated companies

Balance sheet at December 31, 2004

Assets	Dec. 31, 2004 after adjustment € millions	Dec. 31, 2004 before adjustment € millions
Cash reserve	6,903	7,481
Assets held for trading purposes	91,711	91,726
Placements with, and loans and advances to, other banks	47,479	47,479
Loans and advances to customers	275,119	275,119
Allowances for losses on loans and advances	(13,404)	(13,315)
Investments	44,483	43,648
Property, plant and equipment	2,855	2,855
Intangible assets	2,627	2,799
Income tax assets	4,157	4,133
Other assets	5,455	5,483
Total assets	**467,385**	**467,408**

Shareholders' equity and liabilities	Dec. 31, 2004 after adjustment € millions	Dec. 31, 2004 before adjustment € millions
Deposits from other banks	103,606	103,606
Amounts owed to other depositors	144,451	144,451
Promissory notes and other liabilities evidenced by paper	109,562	109,562
Liabilities held for trading purposes	59,831	59,861
Provisions	4,460	4,460
Income tax liabilities	3,030	3,010
Other liabilities	10,015	10,004
Subordinated capital	18,454	18,454
Minority interest	—	2,515
Shareholders' equity	13,976	11,485
Shareholders' equity attributable to shareholders of HVB AG	11,467	11,485
Subscribed capital	2,252	2,252
Additional paid-in capital	9,103	9,331
Retained earnings	—	—
Reserve arising from currency and other changes	227	227
Change in valuation of financial instruments	(115)	(325)
AfS reserve	354	132
Hedge reserve	(469)	(457)
Consolidated profit	—	—
Minority interest	2,509	—
Total shareholders' equity and liabilities	**467,385**	**467,408**

IFRS 3 and IFRS 5 to be applied prospectively were applicable for the first time in 2005. As a result of the new IFRS 3, amortization is no longer taken on goodwill (see also Note 37 "Amortization of goodwill"). The new IFRS 5 was applicable with regard to the planned disposal of HVB Splitska banka (see also Note 54 "Disposal group held for sale"). The prior year figures have not been adjusted on account of the prospective application of these standards.

3

Published, not yet operative IFRSs that have not been applied early

The following standards newly published or revised by the IASB which become operative after the end of the 2005 fiscal year, have not been applied early.

The revised IAS 19 (2004) "Employee Benefits" applicable from January 1, 2006 contains an option for recording actuarial gains or losses in shareholders' equity immediately in the year of accrual without affecting the income statement.

Under the amendment to IAS 39/IFRS 4 for financial guarantee contracts applicable as of January 1, 2006, financial guarantee contracts issues will come under the scope of IAS 39.

In the case of the modification to IAS 21 "The Effects of Changes in Foreign Exchange Rates" applicable from January 1, 2006, monetary assets and liabilities of a parent company or one of its subsidiaries relating to a foreign operation are to be carried under net investment in a foreign operation, irrespective of the underlying currency. Consequently, resulting exchange differences are recorded in the consolidated financial statements under shareholders' equity (at first) in a way that does not affect reported net income.

The disclosure of financial instruments will be modified when IFRS 7 becomes obligatory as of January 1, 2007. IFRS 7 will replace IAS 30 in full and IAS 32 in part. This will result in changes to the structure of the income statement, the balance sheet, and the notes.

With effect from January 1, 2007, IAS 1 (revised 2005) will introduce disclosure rules covering the management of shareholders' equity.

4

Companies included in consolidation

The group of companies included in consolidation encompasses 421 (2004: 399) 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 ended December 31, 2005. The group of consolidated companies does not include any companies that are not fully consolidated. In the year under review, 28 (2004: 29) companies are accounted for using the equity method.

The following companies (participations) are no longer in consolidation:

- Austria Finanza S.p.A., Treviso
- Austrolease S.p.A., Bolzano
- Vereins- und Westbank Beteiligungsgesellschaft S.A., Luxembourg
- HVB America LLC, Wilmington
- Bank Austria Creditanstalt Corporate Finance LLC, Wilmington
- HVB LMP Inc., Wilmington

Austria Finanza S.p.A., Treviso and Austrolease S.p.A., Bolzano, were deconsolidated at the end of February. These two companies were sold by Bank Austria Creditanstalt Leasing GmbH to Fortis Lease Group S.A. for a cash payment of €32 million. The transaction gives rise to one-off gains of €17 million in the Bank Austria Creditanstalt Group (BA-CA Group).

The companies HVB America LLC, Wilmington, Bank Austria Creditanstalt Corporate Finance LLC, Wilmington, HVB LMP Inc., Wilmington, and Vereins- und Westbank Beteiligungsgesellschaft S.A., Luxembourg were deconsolidated during the year due to discontinuation of commercial operations. This had no effect on consolidated net income.

The following companies, among others, have been fully consolidated for the first time in the 2005 financial statements:

- BPH Leasing S.A., Warsaw
- Hebros Bank, Plovdiv
- Banca Comerciala "Ion Tiriac" S.A., Bucharest
- HVB Banka Srbija i Crna Gora A.D., Belgrade
- Hypo Stavebni Sporitelna, Prague
- HVB Capital Asia, Tokyo
- Bayerische Wohnungsgesellschaft für Handel und Industrie mbH, Munich

BPH Leasing S.A., Warsaw, was added to the group of companies included in consolidation on January 1, 2005, to reflect the dynamic development of the leasing business in Poland and the increasing significance for the leasing profits of Bank BPH S.A., Cracow

The closing for the purchase of Hebros Bank, Plovdiv, took place on March 1, 2005. The Bank Austria Creditanstalt Group purchased 99.91% of Hebros Bank. Of this share, Bank Austria Creditanstalt acquired 89.9% and Biochim Bank, Sofia (a 99.7% subsidiary of Bank Austria Creditanstalt AG) 10.0% of Hebros Bank. The purchase price of €124 million was paid in cash.

The purchase of Hebros Bank, Plovdiv, has led to the BA-CA Group reporting goodwill of €82 million.

Effective September 1, 2005, the acquisition of Banca Comerciala "Ion Tiriac" S.A., Bucharest, was concluded through a purchase of shares and a share swap. This bank was subsequently to be combined with HVB Bank Romania. Bank Austria Creditanstalt acquired a 9.1% interest in Banca Comerciala "Ion Tiriac". The provisional purchase price of €43 million for this stake – depending on the balance sheet at the time of closing to be confirmed by the independent auditor – was paid in cash. At the same time, Bank Austria Creditanstalt acquired an interest of 40.9% in Banca Comerciala "Ion Tiriac" through a share swap involving 50% less one share in HVB Bank Romania S.A., Bucharest.

In connection with this transaction, Bank Austria Creditanstalt made a payment to a company operated jointly with Mr. Tiriac in which it holds a 30% share. This payment is basically tantamount to a non-repayable shareholder contribution of €40 million. After conclusion of the transaction, Bank Austria Creditanstalt holds an interest of 50% of the capital stock plus one share in Banca Comerciala "Ion Tiriac" S.A.

In total, this results in a provisional purchase price of €253 million for the entire transaction including the incidental transaction costs. The valuation of the assets and liabilities, together with the identification of intangible assets, gives rise to a difference between the purchase price and net assets of Banca Comerciala "Ion Tiriac" S.A. totaling €179 million. This amount has provisionally been posted to goodwill. Besides the intrinsic value of Banca Comerciala "Ion Tiriac" and the achievable synergies, the transaction price mostly reflects the potential inherent in the Romanian market.

Eksimbanka, Belgrade, was merged with HVB Bank Serbia on October 1, 2005 and simultaneously added to the group of companies included in consolidation. Since this date, the new bank has been known as "HVB Banka Srbija i Crna Gora A.D." The difference of €25 million arising in the BA-CA Group between the acquisition cost and net assets of the merged bank has been provisionally posted to goodwill.

Hypo Stavebni Sporitelna, Prague, the mortgage bank of HVB Czech Republic, was added to the group of companies included in consolidation at the end of December. HVB Capital Asia and Bayerische Wohnungsgesellschaft für Handel und Industrie mbH have been consolidated on account of exceeding the materiality threshold.

The Bank's largest subgroup is BA-CA AG Vienna, which has been included in the consolidated financial statements with 360 (2004: 344) fully consolidated companies.

Of the Bank's 86 (2004: 93) associated companies and joint ventures, 28 (2004: 29) 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 €101 million from companies accounted for using the equity method is carried under net interest income.

The following change has taken place in the group of companies accounted for using the equity method.

The capital increase performed by Closed Joint Stock Company International Moscow Bank (IMB), Moscow, increased the Bank's share of voting rights from 46.5% to 52.9%. Consequently, IMB was fully consolidated with effect from May 1, 2005. Until that date, IMB was a company accounted for using the equity method.

Compared with the prior year, the initial full consolidation of IMB served to increase operating revenues by €127 million, general administrative expenses by €63 million, and operating profit by €54 million.

The BA-CA Group sold its 28.2% holding in Investkredit Bank AG, Vienna, in mid-August 2005.

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 HVB AG. With effect from January 1, 2006, the HVB Immobilien AG will be included in the consolidated financial statements of HVB Group together with the main companies of the subgroup by way of full consolidation.

In total, 741 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, or are prohibited from consolidation.

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 4.3% of consolidated profit, while such companies provide around 1.9% of consolidated assets. The interests in these companies are carried as available-for-sale investments.

	2005	2004
Total number of subsidiaries	**1,104**	**1,101**
Consolidated companies	421	399
Non-consolidated companies	683	702
Joint ventures	**15**	**14**
of which:		
accounted for using		
the equity method	—	—
Associated companies	**71**	**79**
of which:		
accounted for using		
the equity method	28	29

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 at www.hvb.com/holdings.

Bank PBH S.A., Cracow, and HVB Splitska banka, Split, are included in consolidation. The combination of HVB with UniCredit triggered certain regulatory approval and notification procedures. The voting rights in Bank PBH S.A., Cracow, held by BA-CA AG have been frozen since November 17, 2005, as the requisite approval of the National Bank of Poland for UniCredit to indirectly acquire voting rights in Bank BPH had not been forthcoming by this date. BA-CA is not permitted to exercise these voting rights again until the regulatory approval procedure in Poland is completed with a positive outcome. In advance of these decisions, the Polish government called upon UniCredit to dispose of the interest in Bank BPH. UniCredit, HVB, and BA-CA believe that the chances are slight of Poland being able to successfully use the ongoing regulatory procedure to achieve domestic competition and industrial policy objectives. For this reason, it is assumed that UniCredit will eventually receive the requisite approval in Poland. Despite the frozen voting rights, HVB still exercises control, and hence dominating influence, over Bank BPH through BA-CA.

In Croatia, the indirect acquisition of a majority interest in HVB Splitska banka by UniCredit was rejected by the Croatian banking regulators, in their function as antitrust authority for Croatian banks, for antitrust reasons. As a result of a condition set down by the Croatian banking regulators, the Bank intends to dispose of HVB Splitska banka. For this reason, this bank is classified at December 31, 2005 as a disposal group held for sale compliant with IFRS 5.

5

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. Goodwill on companies accounted for using the equity method is carried under investments. Compliant with IAS 36, scheduled amortization is no longer taken on goodwill. Instead the goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the business units. 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. The goodwill is checked for impairment at least once a year at business unit level. This involves comparing the carrying amount of the business unit with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell. Since the value in use far exceeds the carrying amount for the business units to which goodwill is allocated, the values in use have been used as the recoverable amount. When the values in use are calculated, a uniform rate of 8.5% for the cost of capital is used for discounting. The cash flows have been budgeted for the next three years. No growth factor has been assumed for the government perpetuals.

The same principles are applied when consolidating associated companies and joint ventures accounted for using the equity method.

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

6

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.

- The "at fair value through profit or loss" category is divided into
  - financial assets and liabilities held for trading purposes, and
  - all financial instruments designated as financial instruments measured at fair value through profit or loss upon initial recognition (fair value option).

  Such financial instruments are measured at fair value and recognized in profit or loss in the income statement. Instruments held for trading purposes are shown under assets and liabilities held for trading purposes. The fair value option is essentially only applied for hedges of financial assets. These financial instruments are carried under investments or receivables. At the same time, the fair value option has also been used for some liabilities evidenced by paper with embedded derivatives.

- The category "loans and receivables" includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, unless they are classified as at fair value through profit or loss or available for sale. Loans and receivables are measured at amortized cost and shown under placements with, and loans and advances to, other banks, and loans and advances to customers.

- Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss or available for sale, or they meet the definition of loans and receivables. 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 impairment. If the reasons for the write-down no longer apply, a subsequent write-up is taken to the income statement up to, but no more than, the amortized cost; held-to-maturity financial investments 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 difference between the fair value and amortized cost is carried in a separate item under shareholders' equity (AfS reserve) in the balance sheet until the asset is sold or an impairment to be recognized in profit or loss as defined in IAS 39.67 has occurred. The impairment of an AfS non-equity instrument 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. Impairments of AfS equity instruments may only be reversed against the AfS reserve in a way that does not affect reported net income. 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.

  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 normally be reliably measured. It is not possible to determine the fair value of some unlisted investments and a very few derivatives. These are carried at amortized cost.

  Outside the portfolio held for trading purposes, embedded derivative financial instruments within a structured product are detached from the underlying contract and recorded as separate derivative financial instruments. The underlying contract is then accounted for in accordance with the classification made. The change in value arising from the derivatives that are detached and carried at fair value is 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 unrecognized firm commitment – or an identified portion thereof – that is attributable to a particular risk and that might affect net income for the period. In this respect, a high level of effectiveness is required, with the changes in the fair value of the hedged item with regard to the hedged risk and hedging derivative compensating each other within a range of 80–125%. 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 expected future variable interest cash flows arising from variable receivables and liabilities (including rolling short-term positions) 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 sheet. 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. These reversals affecting future reported net income are offset in the income statement by the cash flows from the hedged items. The ineffective portion is recognized in the income statement. Depending on its classification, the hedged item is recognized at amortized cost or, in the case of available-for-sale assets, at fair value.

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

7

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 or fair-value option 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.

8

Placements, loans and advances

Placements with, and loans and advances to, other banks and loans and advances to customers are carried at amortized cost, provided they are neither fair-value-option receivables nor hedged items of a recognized fair value hedge.

9

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

Estimates of loan losses already incurred, 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 uncollectable and written off. Acute country-specific transfer risks are included in this process.

Portfolio allowances are formed 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 portfolio allowances.

10

Investments

Investments comprise held-to-maturity financial instruments, available-for-sale financial instruments, fair-value-option financial instruments, investment property and companies accounted for using the equity method.

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

Compliant with IAS 40.30 in conjunction with IAS 40.56, 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 and funding expense arising from these investments are recorded in net interest income. 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 accounted for using the equity method are normally carried at their fair value.

11

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

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

12

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 the leased asset in the balance sheet as a receivable at an amount equal to the net investment in the lease. 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 46 "Loans and advances to customers." 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.

13

Intangible assets

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

14

Disposal group held for sale

Under IFRS 5, a disposal group classified as held for sale is carried at the lower of the carrying amount or fair value less costs to sell at the balance sheet date.

15

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. The fair value option has been applied for some liabilities evidenced by paper with embedded derivatives.

16

Liabilities held for trading purposes

This item includes the negative market values of traded derivatives and derivatives used to hedge currency risk arising from financial instruments that are not available-for-sale or fair-value option securities. Also included here are warrants, certificates and bonds issued by the Bank's trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

Liabilities 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 liabilities held for trading purposes are taken to the income statement as gains less losses arising from trading securities.

17

Provisions

Present legal or constructive obligations as a result of past events involving a probable outflow of resources and whose amount can be reliably estimated are recognized as 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, the fair value of the plan assets, 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 fair values of the assets of external retirement benefit schemes.

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 and less payments to the plan assets of the current fiscal year. The plan assets set up by HVB AG and a number of subsidiaries to fund pension obligations are described in detail in Note 62 "Provisions."

18

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. In addition, the negative fair values of derivatives outside the trading book, which are used primarily to hedge market interest risk, are shown here.

19

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 the respective functional currency (generally the local currency in each case) and cash transactions not completed at the reporting date to be translated into euros using current market rates. Non-monetary items carried at fair value are similarly translated into euros using current market rates at the reporting date. 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. Transaction rates are used to translate the income and expenses of these subsidiaries.

20

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.

21

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 segments and their respective business units are covered in detail in Management's Discussion and Analysis. The primary Real Estate Restructuring segment has been shown alongside the operational business segments since January 1, 2005.

The following changes to the organizational structure of HVB Group were made at the start of the 2005 fiscal year:

- The Real Estate Restructuring business segment (RER) was formed by transferring the workout portfolios of the entire German real estate finance business of HVB AG previously assigned to the Germany business segment together with the remaining portfolios of the Real Estate Workout segment. The aim of the new Real Estate Restructuring segment is to completely eliminate the portfolios allocated to the segment by exploiting various options and the opportunities arising from the development of the real estate markets.
- In the Austria and CEE business segment, the Bank decided to increase transparency in both internal and external reporting with a view to enhancing management of the business units. Consequently, starting from the first quarter of 2005, the SMEs Austria business unit has been shown separately from the Private Customers, and Large Corporates and Real Estate business units.
- The optimization of the Bank's interest management, which is based on the market interest calculation method, and the adjustment of its funding structure to the opportunities offered by the market had various implications for segment-allocated net interest income. In this context, the planning responsibility for transactions not relating to the trading book was transferred from the Markets business unit to the Other segment in order to create a clearer division of responsibilities. Changes were also made to the intragroup settlement arrangements, which had an effect on segmented net commission income.

The prior year figures have been adjusted to match the new structure used to present the segment information. In addition, the effects of applying new and revised IFRSs, where they were applicable retrospectively, and the change in disclosure of deconsolidation effects affecting reported net income as described in in Note 2 "Consistency" have similarly been included in the adjusted prior year figures for segment reporting.

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, Core IT, and Group Corporate Center are treated as external service providers charging fair market prices for their services.

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 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.

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Income statement, broken down by business segment

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Restructuring	Other/ consolidation	HVB Group
Net interest income						
2005	2,622	2,379	1,025	117	(258)	5,885
2004	2,547	2,185	989	121	(180)	5,662
Provisions for losses on loans and advances						
2005	929	508	58	—	18	1,513
2004	391	395	(72)	1,070	11	1,795
Net commission income						
2005	1,385	1,412	444	4	(5)	3,240
2004	1,230	1,206	392	9	8	2,845
Trading profit (loss)						
2005	3	49	859	—	15	926
2004	2	86	613	—	27	728
General administrative expenses						
2005	2,588	2,401	1,315	104	174	6,582
2004	2,540	2,270	1,168	87	53	6,118
Balance of other operating income and expenses						
2005	(47)	9	(53)	(33)	(19)	(143)
2004	32	(50)	14	(12)	39	23
Operating profit (loss)						
2005	446	940	902	(16)	(459)	1,813
2004	880	762	912	(1,039)	(170)	1,345
Net income from investments						
2005	(8)	283	118	—	(72)	321
2004	31	(18)	(60)	—	61	14
Amortization of goodwill						
2005	—	—	—	—	—	—
2004	33	84	40	—	8	165
Restructuring costs						
2005	121	99	72	39	215	546
2004	—	—	—	—	250	250
Allocation to special provisions for bad debts						
2005	—	—	—	—	—	—
2004	—	—	—	2,500	—	2,500
Balance of other income and expenses						
2005	(6)	(11)	(2)	(257)	(13)	(289)
2004	(7)	(4)	(1)	(210)	(135)	(357)
Profit (loss) from ordinary activities/ net income (loss) before taxes						
2005	311	1,113	946	(312)	(759)	1,299
2004	871	656	811	(3,749)	(502)	(1,913)
including:						
Bank Austria Creditanstalt Group						
2005	—	1,113	138	—	(72)	1,179
2004	—	656	102	—	(65)	693

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

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Restructuring	Other/ consolidation	HVB Group
Profit (loss) from ordinary activities/ net income (loss) before taxes, adjusted[1]						
2005	509	1,282	1,018	(273)	(544)	1,992
2004	904	740	851	(1,249)	(244)	1,002
including: Bank Austria Creditanstalt Group, adjusted[1]						
2005	—	1,282	138	—	(64)	1,356
2004	—	740	124	—	(57)	807

[1] 2005 figures adjusted for "restructuring costs and additional provisions for losses on loans and advances" 2004 figures adjusted for amortization of goodwill, restructuring costs, and allocation to special provisions for bad debts

Operating performance, broken down by business unit Germany business segment

€ millions	Private Customers	Corporate Customers and Professionals	Real Estate	Consolidation	Total
Operating revenues					
2005	1,857	1,704	389	13	3,963
2004 (reorganized)[1]	1,782	1,601	426	2	3,811
2004 (before reorganization)	1,865[3]	1,657	483	2	4.007[2]
Provisions for losses on loans and advances					
2005	257	347	325	—	929
2004 (reorganized)[1]	121	267	3	—	391
2004 (before reorganization)	285	560	516	—	1,361[2]
General administrative expenses					
2005	1,572	814	189	13	2,588
2004 (reorganized)[1]	1,593	774	171	2	2,540
2004 (before reorganization)	1,609	807	209	3	2,628[2]
Operating profit (loss)					
2005	28	543	(125)	—	446
2004 (reorganized)[1]	68	560	252	—	880
2004 (before reorganization)	(29)[3]	290	(242)	(1)	18[2]
for information: Operating profit (loss) before provisions for losses on loans and advances					
2005	285	890	200	—	1,375
2004 (reorganized)[1]	189	827	255	—	1,271
2004 (before reorganization)	256[3]	850	274	(1)	1,379
Cost-income ratio					
2005	84.7%	47.8%	48.6%	—	65.3%
2004 (reorganized)[1]	89.4%	48.3%	40.1%	—	66.6%
2004 (before reorganization)	86.3%[3]	48.7%	43.3%	—	65.6%

[1] reorganized for initial application of revised IFRS, organizational changes, and the changes to figures reported for the gains on the sale of deconsolidated companies

[2] as disclosed in 2004 Annual Report

[3] including gains of €56 million on the disposal of BethmannMaffei

Austria and CEE business segment

€ millions	Private Customers Austria	SMEs Austria	Large Corporates and Real Estate	CEE	Consolidation	Total
Operating revenues						
2005	1,178	611	561	1,499	—	3,849
2004	1,131	585	550	1,161	—	3,427
Provisions for losses on loans and advances						
2005	234	122	35	117	—	508
2004	74	200	35	86	—	395
General administrative expenses						
2005	888	403	286	824	—	2,401
2004	908	385	285	692	—	2,270
Operating profit (loss)						
2005	56	86	240	558	—	940
2004	149	—	230	383	—	762
Cost-income ratio						
2005	75.4%	66.0%	51.0%	55.0%	—	62.4%
2004	80.3%	65.8%	51.8%	59.6%	—	66.2%

Corporates & Markets business segment

€ millions	Markets	Corporates	Consolidation	Total
Operating revenues				
2005	1,245	1,025	5	2,275
2004	1,103	912	(7)	2,008
Provisions for losses on loans and advances				
2005	3	55	—	58
2004	—	(72)	—	(72)
General administrative expenses				
2005	783	527	5	1,315
2004	717	458	(7)	1,168
Operating profit (loss)				
2005	459	443	—	902
2004	386	526	—	912
Cost-income ratio				
2005	62.9%	51.4%	—	57.8%
2004	65.0%	50.2%	—	58.2%

Income statement, broken down by business segment quarterly overview 2005

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Restructuring	Other/ consolidation	HVB Group
Net interest income						
Q1 2005	663	548	224	32	(63)	1,404
Q2 2005	682	590	238	41	(58)	1,493
Q3 2005	640	594	243	17	(26)	1,468
Q4 2005	637	647	320	27	(111)	1,520
Provisions for losses on loans and advances						
Q1 2005	164	110	47	—	2	323
Q2 2005	227	107	(16)	—	8	326
Q3 2005	216	114	(6)	—	3	327
Q4 2005	322	177	33	—	5	537
Net commission income						
Q1 2005	364	322	68	2	1	757
Q2 2005	341	327	98	—	(2)	764
Q3 2005	349	376	133	1	1	860
Q4 2005	331	387	145	1	(5)	859
Trading profit (loss)						
Q1 2005	—	18	304	—	—	322
Q2 2005	1	10	91	—	(1)	101
Q3 2005	1	3	267	—	7	278
Q4 2005	1	18	197	—	9	225
General administrative expenses						
Q1 2005	654	575	309	23	39	1,600
Q2 2005	653	582	304	31	53	1,623
Q3 2005	627	591	327	25	53	1,623
Q4 2005	654	653	375	25	29	1,736
Balance of other operating income and expenses						
Q1 2005	(6)	—	(18)	(1)	(7)	(32)
Q2 2005	12	5	—	(1)	(14)	2
Q3 2005	7	(1)	(11)	(1)	26	20
Q4 2005	(60)	5	(24)	(30)	(24)	(133)
Operating profit (loss)						
Q1 2005	203	203	222	10	(110)	528
Q2 2005	156	243	139	9	(136)	411
Q3 2005	154	267	311	(8)	(48)	676
Q4 2005	(67)	227	230	(27)	(165)	198

Income statement, broken down by business segment quarterly overview 2005 (contd.)

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Restructuring	Other/ consolidation	HVB Group
Net income from investments						
Q1 2005	—	13	41	—	20	74
Q2 2005	(3)	(5)	38	—	1	31
Q3 2005	(4)	243	42	—	(258)	23
Q4 2005	(1)	32	(3)	—	165	193
Amortization of goodwill						
Q1 2005	—	—	—	—	—	—
Q2 2005	—	—	—	—	—	—
Q3 2005	—	—	—	—	—	—
Q4 2005	—	—	—	—	—	—
Restructuring costs						
Q1 2005	—	—	—	—	—	—
Q2 2005	—	—	—	—	—	—
Q3 2005	—	60	—	—	—	60
Q4 2005	121	39	72	39	215	486
Balance of other income and expenses						
Q1 2005	(1)	—	—	(33)	(3)	(37)
Q2 2005	(2)	(2)	—	(34)	2	(36)
Q3 2005	—	(1)	—	(33)	(2)	(36)
Q4 2005	(3)	(8)	(2)	(157)	(10)	(180)
Profit (loss) from ordinary activities/ net income (loss) before taxes						
Q1 2005	202	216	263	(23)	(93)	565
Q2 2005	151	236	177	(25)	(133)	406
Q3 2005	150	449	353	(41)	(308)	603
Q4 2005	(192)	212	153	(223)	(225)	(275)
Q4 2005 ajusted[1]	6	321	225	(184)	(10)	358
including:						
Bank Austria Creditanstalt Group						
Q1 2005	—	216	42	—	(14)	244
Q2 2005	—	236	34	—	17	287
Q3 2005	—	449	39	—	(2)	486
Q4 2005	—	212	23	—	(73)	162
Q4 2005 ajusted[1]	—	321	23	—	(65)	279

[1] adjusted for "restructuring costs and additional provisions for losses on loans and advances"

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Shareholders' equity and return on equity, broken down by business segment

in %	Germany	Austria and CEE	Corporates & Markets	Real Estate Restructuring[1]	Other/ consolidation[1]	HVB Group
Return on equity before taxes (adjusted, %)[2, 3, 4]						
2005	9.1	28.8	28.7	—	—	13.7
2004	15.3[5]	17.5	24.1	—	—	6.7
Return on equity before taxes (%)[2]						
2005	5.6	25.0	26.6	—	—	8.9
2004	14.8[5]	15.5	23.0	—	—	(12.8)
Average tied core capital (BIS, € millions)						
2005	7,186	5,725	4,576	418	817	18,722
2004	7,081	5,078	4,240	748	851	17,998
Average shareholders' equity (€ millions)[6]						
2005	5,578	4,445	3,553	325	634	14,535
2004	5,901	4,232	3,534	623	710	15,000

1 figures not shown as they have no informative value
2 net income before taxes as a proportion of average shareholders' equity allocated in accordance with the structure of average tied core capital (excluding change in valuation of financial instruments) including segmented minority interest
3 2005 figures adjusted for "restructuring costs and additional provisions for losses on loans and advances"
4 2004 figures adjusted for amortization of goodwill, restructuring costs, and allocation to special provisions for bad debts
5 Germany business segment as per figures shown before reorganization in 2004 Annual Report: –31.3%, –0.3% (adjusted)
6 shareholders' equity used to calculate return on equity before taxes (excluding change in valuation of financial instruments), including minority interest

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Balance sheet figures, broken down by business segment[1]

€ millions	Germany	Austria and CEE	Corporates & Markets	Real Estate Restructuring	Other/ consolidation	HVB Group
Assets held for trading purposes						
2005	43	1,007	101,658	—	811	103,519
2004	51	2,007	88,733	—	920	91,711
Total volume of lending						
2005	142,591	101,282	73,317	9,581	5,848	332,619
2004	146,766	92,321	63,931	15,382	6,193	324,593
Deposits from other banks						
2005	1,409	30,975	96,245	—	(14,890)	113,739
2004	1,197	25,498	91,628	—	(14,717)	103,606
Amounts owed to other depositors						
2005	60,930	58,124	36,448	308	2,611	158,421
2004	60,677	54,097	28,186	363	1,128	144,451
Promissory notes and other liabilities evidenced by paper						
2005	67	9,226	26,664	—	70,025	105,982
2004	76	7,836	18,029	—	83,621	109,562

[1] balance sheet figures are shown by segment to the extent that they can be directly assigned or can be allocated to segments on a reasonable basis

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Risk provision rates, broken down by operational business segment

	Germany	Austria and CEE	Corporates & Markets
Net addition rate (%)			
2005	0.65	0.50	0.08
2004 (reorganized)[1]	0.27[2]	0.43	(0.11)
Loan-loss rate (%)			
2005	0.45	0.47	0.59
2004 (reorganized)[1]	0.72	0.74	0.71
Total allowances for losses on loans and advances (€ millions)			
2005	3,023	3,439	937
2004 (reorganized)[1]	2,733	3,387	1,251
Provision rate (%)			
2005	2.12	3.40	1.28
2004 (reorganized)[1]	1.86	3.67	1.96

[1] reorganized for the initial application of modified IFRSs and changes to the organizational structure

[2] net addition rate for 2004 before reorganization: 0.85%

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Employees, broken down by business segment and service division

	2005	2004
Germany	12,303	12,203
Austria and CEE	27,508	24,727
Corporates & Markets	4,136	2,568
Group Services	8,284	8,925
Core IT	2,563	2,595
Group Corporate Center[1]	6,224	6,528
Other	233	260
Total	**61,251**	**57,806**

[1] Group Corporate Center includes employees who perform services for the Real Estate Restructuring segment

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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	HVB Group
Operating revenues								
2005	5,024	2,807	709	1,777	139	85	(633)	9,908
2004	4,862	2,614	688	1,334	264	56	(560)	9,258
Provisions for losses on loans and advances								
2005	1,038	379	46	126	(74)	(2)	—	1,513
2004	1,377	313	31	87	(9)	(4)	—	1,795
General administrative expenses								
2005	3,456	1,818	276	908	94	67	(37)	6,582
2004	3,250	1,804	243	707	123	57	(66)	6,118
Operating profit (loss)								
2005	530	610	387	743	119	20	(596)	1,813
2004	235	497	414	540	150	3	(494)	1,345
Profit (loss) from ordinary activities/net income (loss) before taxes								
2005	(170)	657	415	838	135	24	(600)	1,299
2004	(2,847)	391	404	506	114	13	(494)	(1,913)

Cost-income ratio (based on operating revenues), broken down by region

in %	2005	2004
Germany	68.8	66.8
Austria	64.8	69.0
Other Western Europe	38.9	35.3
Central and Eastern Europe	51.1	53.0
Americas	67.6	46.6
Asia	78.8	101.8
Group	**66.4**	**66.1**

Total volume of lending, broken down by region

€ millions	2005	2004
Germany	180,134	186,579
Austria	79,797	78,301
Other Western Europe	37,989	34,974
Central and Eastern Europe	29,703	20,768
Americas	11,753	8,988
Asia	4,994	4,230
Consolidation	(11,751)	(9,247)
Group	**332,619**	**324,593**

Employees, broken down by region

	2005	2004
Germany	25,688	26,259
Austria	11,490	12,414
Other Western Europe	1,009	1,034
Central and Eastern Europe	22,452	17,496
Africa	2	1
Americas	323	322
Asia	287	277
Australia	—	3
Group	**61,251**	**57,806**

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Net interest income

€ millions	2005	2004
Interest and similar income from		
lending and money market transactions	14,709	15,010
fixed-income securities and government-inscribed debt	1,413	1,402
equity securities and other variable-yield securities	189	166
subsidiaries	137	178
companies accounted for using the equity method	101	105
participating interests	117	65
investment property	29	34
Interest expense and similar charges for		
deposits	5,783	5,787
promissory notes and other liabilities evidenced by paper	4,252	4,702
subordinated capital	950	963
Income from hedges as a result of		
hedge accounting	(6)	(3)
Net income from lease operations	**181**	**157**
Total	**5,885**	**5,662**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totaled €16,229 million and €10,968 million, respectively.

Interest margin

in %	2005	2004
Based on average risk assets (BIS)[1]	2.71	2.62
Based on average volume of business	1.53	1.45

[1] relating to on-balance-sheet transactions

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Provisions for losses on loans and advances

€ millions	2005	2004
Additions	3,402	3,152
Allowances for losses on loans and advances	3,207	3,027
Allowances for losses on guarantees and indemnities	195	125
Releases	(1,802)	(1,284)
Allowances for losses on loans and advances	(1,748)	(1,144)
Allowances for losses on guarantees and indemnities	(54)	(140)
Recoveries from write-offs of loans and advances	(87)	(73)
Total	**1,513**	**1,795**

Allowances to related entities for losses on loans and advances

€ millions	2005	2004
Non-consolidated subsidiaries	4	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**4**	**—**

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Net commission income

€ millions	2005	2004
Securities and custodial services	1,319	1,105
Foreign trade operations/ money transfer operations	1,148	992
Lending operations	517	466
Brokerage of third-party products	124	124
Other service operations	132	158
Total	**3,240**	**2,845**

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Gains less losses arising from trading securities (trading profit)

€ millions	2005	2004
Equity contracts	303	238
Interest rate and currency contracts	623	490
Total	**926**	**728**

This item includes interest and dividend income totaling €925 million and refinancing costs totaling a negative item of €561 million resulting from the balance of assets and liabilities held for trading purposes.

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General administrative expenses

€ millions	2005	2004
Personnel expense	**3,734**	**3,514**
Wages and salaries	2,868	2,624
Social security costs	492	477
Pension and other employee benefit costs	374	413
Other administrative expenses	**2,185**	**2,029**
Depreciation and amortization	**663**	**575**
on property, plant and equipment	399	316
on software and other intangible assets, excluding goodwill	264	259
Total	**6,582**	**6,118**

The Management Board contracts in force until December 31, 2005 contain the promise of so-called phantom stocks alongside fixed compensation and the performance bonus. Stock option schemes and stocks are not included, however.

The Management Board contracts in force from January 1, 2006, on the other hand, include a long-term incentive among other components.

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Balance of other operating income and expenses

€ millions	2005	2004
Other operating income	349	344
Other operating expenses	492	321
Balance of other operating income and expenses	**(143)**	**23**

Other operating income and expenses no longer includes any deconsolidation effects caused by the complete or partial disposal of fully consolidated companies. Starting with the interim report for the third quarter of 2005, such amounts are now carried under net income from investments.

The largest items on the income side relates to the reversal of accruals and provisions other than loan-loss provisions amounting to €111 million. The disposal of property, plant and equipment netted gains of €43 million; income from external charges totaled €36 million. This is offset by other operating expenses arising among other things from additions of €177 million to provisions other than loan-loss provisions, expenses of €45 million arising from currency translation under IAS 21.28, and write-downs and losses of €40 million on the disposal of property, plant and equipment, and other assets.

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Operating revenues

€ millions	2005	2004
Net interest income	5,885	5,662
Net commission income	3,240	2,845
Gains less losses arising from trading securities (trading profit)	926	728
Balance of other operating income and expenses	(143)	23
Total	**9,908**	**9,258**

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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	223	80	143	2.5
Net commission income	395	41	354	12.4
Gains less losses arising from trading securities (trading profit)	198	4	194	26.6
General administrative expenses	464	69	395	6.5

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Net income from investments

€ millions	2005	2004
Net income from investments	321	14
Available-for-sale investments	318	(57)
Held-to-maturity investments	20	2
Fair-value-option investments	(10)	(17)
Companies accounted for using the equity method	88	(2)
Subsidiaries held for sale	156	78
Investment property	(251)	10

The largest individual items under net income from investments are the gains on disposal of the Bank's holding in Münchener Rückversicherungs-Gesellschaft AG (+€208 million), the disposal of the 28.2% interest in Investkredit Bank AG, Vienna (+€130 milion), the deconsolidation gain arising from a reduction in the Bank's interest in HVB Bank Romania S.A., Bucharest (+€127 million) in conjunction with the acquisition of Banca Comerciala "Ion Tiriac" S.A., Bucharest, and the gains on the disposal of the Bank's holdings in Premiere AG (+€63 million) and Rhön-Klinikum (+€36 million). This is offset by non-recurrent expenditure in connection with the acquisition of real estate from the fund assets of a property fund managed by the Bank's Internationales Immobilien-Institut GmbH (iii-investments) subsidiary (–€225 million) and various write-downs on shareholdings. Apart from this, net income from investments contains no significant individual items.

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Amortization of goodwill

In contrast to previous years, compliant with IFRS 3 in conjunction with IAS 36, scheduled amortization is no longer taken on goodwill. The Bank tested for impairment of goodwill at business unit level.

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Restructuring costs

The restructuring costs of €546 million accruing in 2005 essentially relate to the business combination of HVB Group with the UniCredit Group. Most of the total can be attributed to transfers to restructuring provisions, depreciation, amortization and write-downs of noncurrent assets, and fees. The restructuring provisions are earmarked primarily for severance packages. For the most part, the restructuring provision will be consumed in 2006 and 2007. This item also includes a restructuring provision of €90 million at BA-CA AG relating to the restructuring of the SMEs Austria segment in the course of the combination with the UniCredit Group. This provision is planned for use in 2006 and 2007.

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Balance of other income and expenses

€ millions	2005	2004
Other income	**—**	**—**
Other expenses	**289**	**357**
of which:		
Other taxes	17	7
Absorbed losses	272	220
Risk shield	—	130
Balance of other income and expenses	**(289)**	**(357)**

Of the total losses absorbed in 2005, €256 million relate to HVB Immobilien AG due to the existing profit-and-loss transfer agreement with HVB AG. These include the losses of real estate subsidiaries of the HVB Immobilien AG subgroup, which is not consolidated in fiscal 2005. The profits and losses of the companies allocated to this subgroup are included in the consolidated financial statements as a result of the profit-and-loss transfer agreement between HVB Immobilien AG and HVB AG. The HVB Immobilien AG subgroup will be fully consolidated in the consolidated financial statements of HVB Group with effect from January 1, 2006.

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Taxes on income

€ millions	2005	2004
Current taxes	442	210
Deferred taxes	(180)	14
Total	**262**	**224**

The income arising from deferred taxes is primarily attributable to temporary differences originating or being reversed (deferred tax income of €207 million) and the origination or use of tax losses carried forward (deferred tax expense of €73 million).

The differences between computed taxes on income and recognized taxes on income are shown in the following reconciliation.

€ millions	2005	2004
Net income (loss) before taxes	1,299	(1,913)
Applicable tax rate	26.4%	26.4%
Computed taxes on income	343	(505)
Tax effects		
arising from prior years and changes in tax rates	(35)	91
arising from foreign income	(95)	(86)
arising from non-taxable income	(211)	(181)
arising from different tax laws	(139)	(13)
arising from non-deductible expenses	97	119
arising from valuation adjustments and the non-recognition of deferred taxes	299	764
arising from amortization of goodwill	—	43
arising from other differences	3	(8)
Recognized taxes on income	**262**	**224**

The tax rate applicable in the year under review remained unchanged at 26.4%. It comprises the current rate of corporate income tax in Germany of 25.0% 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 current and deferred trade tax in Germany calculated using non-uniform tax rates, and a reduction in corporate income tax and the solidarity surcharge arising from the deductibility of municipal trade tax.

Alongside the effects arising from the reduction and increase in deferred tax assets compliant with IAS 12.56 and IAS 12.37, the item effects on taxes arising from valuation adjustments and the non-recognition of deferred taxes comprises the effects due to the non-recognition 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 IAS 12.44, no deferred tax assets or liabilities may be recognized.

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

€ millions	2005	2004
Deferred tax liabilities		
Placements with, and loans and advances to, other banks and customers, incl. provisions for losses on loans and advances	79	202
Assets/liabilities held for trading purposes	221	643
Investments	601	601
Property, plant and equipment/ intangible assets	86	102
Other assets/liabilities	261	671
Deposits from other banks/ amounts owed to other depositors	6	27
Other	74	370
Recognized deferred tax liabilities	**1,328**	**2,616**
Deferred tax assets		
Assets/liabilities held for trading purposes	588	997
Investments	262	259
Property, plant and equipment/ intangible assets	53	71
Provisions	445	616
Other assets/liabilities	432	1,085
Placements with, and loans advances to, other banks and customers, incl. provisions for losses on loans and advances	95	140
Losses carried forward	556	595
Other	236	173
Recognized deferred tax assets	**2,667**	**3,936**

German corporations are generally charged a definitive corporate income tax rate of 25.0% (2004: 25.0%), irrespective of whether the earnings are distributed or not. 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 assessment rate for deferred taxes of 39.8% at the parent bank.

The available-for-sale reserve was reduced by €77 million due to deferred taxes in the year under review. Deferred tax assets of €26 million were offset against the hedge reserve in 2005. In each case, the deferred tax items offset directly against reserves are amounts before adjustment of minority interest.

Compliant with IAS 12, no deferred tax assets have been recognized for tax losses carried forward totaling €5,937 million (2004: €6,492 million) and deductible temporary differences of €1,104 million (€401 million).

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Earnings per share

	2005	2004
Net income (loss) adjusted for minority interest (adjusted, € millions)[1]	1,163	490
Net income (loss) adjusted for minority interest (€ millions)	642	(2,425)
Average number of shares	750,699,140	697,096,530
Earnings per share (adjusted, €)[1]	**1.55**	**0.70**
Earnings per share (€)	**0.86**	**(3.48)**

[1] 2005 figures adjusted for "restructuring costs and additional provisions for losses on loans and advances"; 2004 figures adjusted for amortization of goodwill, restructuring costs, and allocation to special provisions for bad debts

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Statement of value added

Creation:

€ millions	2005	2004
Operating revenues	9,908	9,258
Net income from investments	321	14
Total income	10,229	9,272
Provisions for losses on loans and advances	1,513	1,795
Other administrative expenses	2,185	2,029
Depreciation and amortization on property, plant and equipment, and intangible assets	663	740
Addition to restructuring provisions, allocation to special provisions for bad debts and other expenses (excl. taxes)	818	3,100
Value added	**5,050**	**1,608**

Use:

€ millions	2005	2004
Value added	**5,050**	**1,608**
Employees (personnel expense)	3,734	3,514
Public authorities (taxes)	279	231
HVB AG shareholders (dividend)	191	—
Minority interest	395	288
Companies	451	(2,425)

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Cash reserve [1]

€ millions	2005	2004
Cash on hand and balances with central banks	7,269	6,644
Treasury bills and other bills eligible for refinancing with central banks	488	259
Treasury bills, zero-interest		
Treasury notes and similar instruments of public-sector entities	322	21
Bills of exchange	166	238
Total	**7,757**	**6,903**

[1] cash and cash equivalents

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Assets held for trading purposes

€ millions	2005	2004
Debt securities and other fixed income securities	41,838	37,398
Money market instruments	1,594	959
Bonds and notes	40,244	36,439
issued by public-sector borrowers	7,651	8,149
issued by other borrowers	32,593	28,290
of which:		
Marketable securities	41,692	36,931
listed	36,387	33,212
unlisted	5,305	3,719
Equity securities and other variable-yield securities	11,663	5,481
Equity securities	9,833	4,097
Investment securities	1,697	913
Other	133	471
of which:		
Marketable securities	10,986	4,707
listed	10,899	4,530
unlisted	87	177
Positive fair values from derivative financial instruments	44,371	44,958
Other assets held for trading purposes	5,647	3,874
Total	**103,519**	**91,711**

Debt securities and other fixed income securities receivable from related entities

€ millions	2005	2004
Non-consolidated subsidiaries	1	18
Joint ventures	—	—
Associated companies	53	155
Other participating interests	20	50
Total	**74**	**223**

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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	2005	2004
Placements, loans and advances		
Municipal loans	1,436	874
Real estate loans	24	1
Other placements, loans and advances	21,035	21,424
Investments	**34,734**	**25,180**
Total	**57,229**	**47,479**

Placements with, and loans and advances to, other banks in Germany and other regions

€ millions	2005	2004
Banks in Germany	16,235	10,613
Banks in other regions	40,994	36,866
Total	**57,229**	**47,479**

Placements with, and loans and advances to, other banks, broken down by maturity

€ millions	2005	2004
Repayable on demand	13,459	10,352
With agreed maturities	43,770	37,127
up to 3 months	27,516	21,999
from 3 months to 1 year	7,331	4,319
from 1 year to 5 years	5,939	5,379
from 5 years and over	2,984	5,430
Total	**57,229**	**47,479**

The carrying amount of the placements with, and loans and advances to, other banks designated as at fair value through profit or loss at initial recognition (fair-value option) totals €598 million.

Placements with, and loans and advances to, related entities

€ millions	2005	2004
Non-consolidated subsidiaries	399	358
Joint ventures	—	—
Associated companies	791	956
Other participating interests	73	49
Total	**1,263**	**1,363**

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Loans and advances to customers

Loans and advances to customers, broken down by type of business

€ millions	2005	2004
Loans and advances		
Municipal loans	19,004	21,357
Real estate loans	111,514	118,905
Other loans and advances	140,093	130,717
Investments	**4,032**	**4,140**
Total	**274,643**	**275,119**

This item includes a portfolio with a nominal volume of €2.1 billion which is intended for sale. In the light of contractual confidentiality clauses, assets allocated to this portfolio cannot be shown separately.

Loans and advances to customers in Germany and other regions

€ millions	2005	2004
Customers in Germany	154,175	166,041
Customers in other regions	120,468	109,078
Total	**274,643**	**275,119**

Loans and advances to customers, broken down by maturity

€ millions	2005	2004
Repayable on demand	23,423	25,623
With agreed maturities	251,220	249,496
up to 3 months	35,679	33,282
from 3 months to 1 year	18,774	18,961
from 1 year to 5 years	55,602	55,669
from 5 years and over	141,165	141,584
Total	**274,643**	**275,119**

The carrying amount of the loans and advances to customers designated as at fair value through profit or loss at initial recognition (fair-value option) totals €2,384 million.

Loans and advances to related entities

€ millions	2005	2004
Non-consolidated subsidiaries	2,559	2,558
Joint ventures	10	87
Associated companies	254	257
Other participating interests	3,072	2,543
Total	**5,895**	**5,445**

Amounts receivable from lease operations (finance lease)

€ millions	2005	2004
Gross investment		
(by remaining maturity)		
up to 3 months	470	443
from 3 months to 1 year	1,059	930
from 1 year to 5 years	3,116	2,575
from 5 years and over	3,309	3,293
Total gross investment	**7,954**	**7,241**
of which:		
Unguaranteed residual values	1,147	1,047
Unrealized finance income		
(by remaining maturity)		
up to 3 months	(45)	(103)
from 3 months to 1 year	(139)	(156)
from 1 year to 5 years	(438)	(489)
from 5 years and over	(747)	(856)
Total unrealized finance income	**(1,369)**	**(1,604)**
Net investment (by remaining maturity)		
up to 3 months	425	340
from 3 months to 1 year	920	774
from 1 year to 5 years	2,678	2,086
from 5 years and over	2,562	2,437
Total net investment	**6,585**	**5,637**

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 provisions for losses on loans and advances

€ millions	Counterparty risk		Portfolio allowances		Total	
	2005	2004	2005	2004	2005	2004
Balance at January 1	**12,924**	**10,958**	**480**	**513**	**13,404**	**11,471**
Changes affecting income						
Gross additions	2,705	5,141	502	386	3,207	5,527
Releases	(1,651)	(1,119)	(97)	(25)	(1,748)	(1,144)
Changes not affecting income						
Changes due to make-up of group of consolidated companies	53	95	37	(1)	90	94
Use of existing loan-loss allowances	(2,328)	(2,317)	(306)	(366)	(2,634)	(2,683)
Effects of currency translation and other changes not affecting income	275	166	(24)	(27)	251	139
Disposal group held for sale	(59)	—	—	—	(59)	—
Balance at December 31	**11,919**	**12,924**	**592**	**480**	**12,511**	**13,404**

Breakdown of allowances for losses on loans and advances

€ millions	2005	2004
Placements with, and loans and advances to, other banks	169	177
Loans and advances to customers	11,750	12,747
Portfolio allowances	592	480
Total	**12,511**	**13,404**

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Analysis of total volume of lending and loan-loss provision ratios

Total volume of lending

€ millions	2005	2004
Placements with, and loans and advances to, other banks	22,495	22,299
Loans and advances to customers	270,611	270,979
Contingent liabilities	39,513	31,315
Total	**332,619**	**324,593**

Ratio of allowances to total lendings

	2005	2004
Total allowances for losses on loans and advances (€ millions)	12,993	13,909
Allowances for losses on loans and advances (€ millions)	12,511	13,404
Allowances for losses on guarantees and indemnities (€ millions)	482	505
Total volume of lending (€ millions)	332,619	324,593
Provision rate[1] (%)	**3.91**	**4.29**

[1] total allowances divided by total volume of lending

Net addition rate

	2005	2004
Provisions for losses on loans and advances (€ millions)	1,513	1,795
Total volume of lending (€ millions)	332,619	324,593
Net addition rate[1] (%)	**0.45**	**0.55**

[1] provisions for losses on loans and advances divided by total volume of lending

Loan-loss rate

	2005	2004
Use of existing loan-loss allowances (€ millions)	2,634	2,683
+ Use of allowances for losses on guarantees and indemnities (€ millions)	14	4
– Recoveries from written-off loans and advances (€ millions)	87	73
Loan losses (€ millions)	2,561	2,614
Total volume of lending (€ millions)	332,619	324,593
Loan-loss rate[1] (%)	**0.77**	**0.81**

[1] loan losses divided by total volume of lending

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Investments

Analysis of investments

€ millions	2005	2004
Held-to-maturity investments		
Debt securities and other fixed-income securities	8,017	8,417
Available-for-sale investments	14,961	16,207
Non-consolidated subsidiaries	1,149	1,777
Participating interests	1,693	1,475
Debt securities and other fixed-income securities	7,491	7,672
Equity securities and other variable-yield securities	4,628	5,283
of which: long-term securities	4,052	4,808
Fair-value-option investments	21,136	18,203
Debt securities and other fixed-income securities	19,134	16,266
Equity securities and other variable-yield securities	2,002	1,937
Companies accounted for using the equity method	1,036	1,224
of which: goodwill	83	83
Investment property	533	432
Total	**45,683**	**44,483**

Breakdown of carrying amounts at December 31, 2005

€ millions	Non-consolidated subsidiaries	Companies accounted for using the equity method	Participating interests	Debt securities and other fixed-income securities	Equity securities and other variable-yield securities	Total
Marketable securities	83	571	875	32,605	4,978	39,112
listed securities	15	571	724	29,123	1,807	32,240
unlisted securities	68	—	151	3,482	3,171	6,872

€5,738 million of the debt securities and other fixed-income securities mature in 2006.

Statement of changes in non-consolidated subsidiaries, participating interests, companies accounted for using the equity method, and investment property

€ millions	Non-consolidated subsidiaries	Participating interests	Companies accounted for using the equity method total	of which: goodwill[1]	Investment property	Total
Acquisition cost						
Balance at Jan. 1, 2005	2,558	2,121	1,107	83	669	6,455
Changes in consolidated group	4	1	(1)	—	1	5
Changes arising from foreign currency translation	58	(1)	1	—	(3)	55
Additions	566	242	40	—	529	1,377
Reclassifications	(359)	(25)	(113)	—	(46)	(543)
Disposals	(983)	(242)	(85)	—	(255)	(1,565)
Disposal group held for sale	—	(2)	—	—	—	(2)
Balance at Dec. 31, 2005	1,844	2,094	949	83	895	5,782
Changes in valuation not affecting income						
Balance at Jan. 1, 2005	11	219	—	—	—	230
Changes in consolidated groups	—	—	—	—	—	—
Changes arising from foreign currency translation	—	—	—	—	—	—
Changes in value not affecting income	—	216	—	—	—	216
Reclassifications	—	—	—	—	—	—
Disposals	—	(4)	—	—	—	(4)
Disposal group held for sale	—	—	—	—	—	—
Balance at Dec. 31, 2005	11	431	—	—	—	442
Cumulative change arising from accounting using the equity method	**—**	**—**	**159**	**—**	**—**	**159**
Write-downs and write-ups						
Balance at Jan. 1, 2005	(792)	(865)	(4)	—	(237)	(1,898)
Changes in consolidated group	—	—	—	—	—	—
Changes arising from foreign currency translation	(14)	—	—	—	—	(14)
Write-downs	(43)	(25)	(68)	—	(232)	(368)
Write-ups	—	—	—	—	—	—
Reclassifications	112	—	—	—	6	118
Disposals	31	57	—	—	101	189
Disposal group held for sale	—	1	—	—	—	1
Balance at Dec. 31, 2005	(706)	(832)	(72)	—	(362)	(1,972)
Carrying amounts						
Balance at Dec. 31, 2005	1,149	1,693	1,036	83	533	4,411
Balance at Dec. 31, 2004	1,777	1,475	1,224	83	432	4,908

[1] retroactive adjustment of prior year figures for BA-CA companies accounted for using the equity method compliant with IFRS 3

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	2005	2004
Debt securities and other fixed-income securities	34,642	32,355
Money market instruments	1,731	1,607
Bonds and notes	32,911	30,748
issued by public-sector borrowers	14,543	13,217
issued by other borrowers	18,368	17,531
Equity securities and other variable-yield securities	6,630	7,220
of which:		
Equity securities	2,109	3,364
Investment securities	2,839	2,244

Debt securities and other fixed-income securities receivable from related entities

€ millions	2005	2004
Non-consolidated subsidiaries	9	—
Joint ventures	—	—
Associated companies	131	171
Other participating interests	123	97
Total	**263**	**268**

Fair value of investments

The fair value of investment property totaled €562 million (2004: €527 million). 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 €2.2 billion. The comparison with the carrying amount gives rise to a price reserve of around €0.4 billion.

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

	2005 Interest[1] in %	2005 Market value € millions	2004 Interest[1] in %	2004 Market value € millions
Agrob AG	52.7	22	52.7	17
Babcock & Brown Ltd.	8.4	206	8.4	119
CA Immobilien Anlagen AG	1.4	13	1.8	13
ERGO Versicherungsgruppe Aktiengesellschaft	< 5.0	400	< 5.0	267
Münchener Rückversicherungs-Gesellschaft AG	4.9	1,281	< 10.0	2,068
Rhön-Klinikum AG[2]	—	—	18.5	217
Unternehmens Invest AG	13.0	6	13.0	5
Wienerberger AG	5.2	132	15.2	395
Wüstenrot & Württembergische AG	7.5	94	7.5	97
Total		**2,154**		**3,198**

[1] aggregate total
[2] sold in 2005

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Property, plant and equipment

€ millions	Land and buildings	Plant and office equipment	Leased assets from operating lease	Construction in progress	Total
Acquisition/production cost					
Balance at Jan. 1, 2005	3,255	2,396	42	76	5,769
Changes in consolidated group	(99)	62	—	4	(33)
Changes arising from foreign currency translation	13	24	3	1	41
Additions	113	157	35	57	362
Reclassifications	85	(5)	4	(46)	38
Disposals	(2)	(275)	(7)	(33)	(317)
Disposal group held for sale	(25)	(34)	—	(6)	(65)
Balance at Dec. 31, 2005	3,340	2,325	77	53	5,795
Depreciation and write-ups					
Balance at Jan. 1, 2005	(1,149)	(1,750)	(15)	—	(2,914)
Changes in consolidated group	66	(39)	—	(2)	25
Changes arising from foreign currency translation	(6)	(18)	(1)	—	(25)
Depreciation	(77)	(200)	(13)	—	(290)
Impairments	(126)	(11)	—	—	(137)
Write-ups	—	—	—	—	—
Reclassifications	(22)	3	(11)	—	(30)
Disposals	7	254	5	—	266
Disposal group held for sale	11	22	—	—	33
Balance at Dec. 31, 2005	(1,296)	(1,739)	(35)	(2)	(3,072)
Carrying amounts					
Balance at Dec. 31, 2005	2,044	586	42	51	2,723
Balance at Dec. 31, 2004	2,106	646	27	76	2,855

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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 from subsidiaries	of which: acquired	Software of which: internally-generated	Other intangible assets	Advance payments for intangible assets
Acquisition/production cost					
Balance at Jan. 1, 2005	3,945	764	533	153	257
Changes in consolidated group	206	44	4	5	1
Changes arising from foreign currency translation	(2)	6	1	6	2
Additions	6	83	40	57	140
Reclassifications	(6)	18	26	(6)	(44)
Disposals	(118)	(31)	(59)	(9)	(29)
Disposal group held for sale	(75)	—	(34)	—	—
Balance at Dec. 31, 2005	3,956	884	511	206	327
Amortization and write-ups					
Balance at Jan. 1, 2005	(2,106)	(568)	(252)	(99)	—
Changes in consolidated group	12	(25)	—	—	—
Changes arising from foreign currency translation	(2)	(6)	(1)	(5)	—
Amortization	—	(112)	(120)	(19)	—
Impairments	—	(7)	(10)	(7)	(101)
Write-ups	—	—	—	—	—
Reclassifications	53	3	—	1	—
Disposals	118	29	60	9	5
Disposal group held for sale	24	—	18	—	—
Balance at Dec. 31, 2005	(1,901)	(686)	(305)	(120)	(96)
Carrying amounts					
Balance at Dec. 31, 2005	2,055	198	206	86	231
Balance at Dec. 31, 2004	1,839	196	281	54	257

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Income tax assets

€ millions	2005	2004
Current tax assets	224	221
Deferred tax assets	2,667	3,936
Total	**2,891**	**4,157**

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Other assets

€ millions	2005	2004
Positive fair values arising from derivative financial instruments	3,118	3,250
Miscellaneous other assets	2,117	1,798
Prepaid expenses	338	407
Total	**5,573**	**5,455**

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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Disposal group held for sale

The business combination of HVB Group with UniCredit Group and the associated indirect acquisition of BA-CA by UniCredit is subject to a condition set by the Croatian banking regulatory authority regarding the sale of HVB Splitska banka d. d., Split. Consequently the Management Board of BA-CA has decided to dispose of HVB Splitska banka, which is assigned to the Austria and CEE business segment, within a year. The finalization of the sale is subject to the prior approval of the Supervisory Board.

Compliant with IFRS 5, the assets and liabilities of the disposal group held for sale at December 31, 2005 are shown separately in the balance sheet. As the offers received to date do not indicate a need for write-downs, the assets and liabilities (see also Note 66 "Liabilities held for sale") are disclosed at their carrying amount.

Breakdown of the assets of the disposal group held for sale

€ millions	2005
Cash reserve	598
Assets held for trading purposes	226
Placements with, and loans and advances to, other banks	169
Loans and advances to customers	1,913
Allowances for losses on loans and advances	(59)
Investments	267
Property, plant and equipment	32
Intangible assets	67
Income tax assets	7
Other assets	20
Total assets	**3,240**

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Subordinated assets

The following asset items include subordinated assets:

€ millions	2005	2004
Placements with, and loans and advances to, other banks	**2,690**	**2,717**
of which:		
to non-consolidated subsidiaries	26	29
to joint ventures	—	—
to associated companies	2	2
to other participating interests	—	19
Loans and advances to customers	**791**	**906**
of which:		
to non-consolidated subsidiaries	5	4
to joint ventures	—	—
to associated companies	—	—
to other participating interests	—	—
Assets held for trading purposes	**1,777**	**1,283**
Investments	**910**	**791**
Total	**6,168**	**5,697**

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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 €39.1 billion. These securities continue to be shown under the Bank’s assets, and the consideration received in return is stated under liabilities (see also Note 71 “Assets assigned or pledged as security for own liabilities”). They comprise mainly repo transactions on international money markets and open-market transactions with central banks.

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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 2005, HVB Group continued its securitization activities with three new securitization transactions (GELDILUX-TS-2005 S.A., Success-2005 B.V., and PROVIDE-A 2005-1). The corresponding volume of lending newly outplaced totaled €10.6 billion at year-end, serving to deduct €8.5 billion from risk-weighted assets in accordance with BIS rules. At the same time, the GELDILUX 2002-1 transaction involving a volume of lending of €3.0 billion expired in 2005. This reversed a reduction of €2.3 billion in risk-weighted assets in accordance with BIS rules.

At December 31, 2005, the total volume of lending in the Bank's full set of ongoing securitization programs totaled €28.9 billion (2004: €23.9 billion), serving to deduct €19.9 billion (2004: €15.5 billion) from risk-weighted assets in accordance with BIS rules.

In the case of both true sale transactions performed in 2005 – GELDILUX-TS-2005 S.A. and Success-2005 B.V. – the underlying receivables with a carrying amount of €5.9 billion are still, in accordance with the derecognition rules set forth in IAS 39, carried in full in the consolidated balance sheet prepared in accordance with IFRS. The carrying amount of the associated liabilities compliant with IAS 32.94 totals €5.9 billion.

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 €297 million and the interest subparticipations €117 million.

Issuer	Transaction name	Maturity in years	Type of asset securitized	Total volume of lending € millions	Reduction in risk-weighted assets, as defined by BIS rules[1] € millions
Bayerische Hypo- und Vereinsbank AG	Amadeus	40	Securities portfolio	171	44
Bayerische Hypo- und Vereinsbank AG	PROMISE-A 2000-1	8	Corporate loans	309	270
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2001-1	36	Private mortgage loans	500	444
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2002-1	50	Private mortgage loans	3,378	1,308
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2003-1	50	Private mortgage loans	3,385	1,308
Bayerische Hypo- und Vereinsbank AG	PROMISE-A 2002-1	8	Corporate loans	264	240
Bayerische Hypo- und Vereinsbank AG	LOMBARD Securities No. 1	7	Corporate loans	802	802[2]
Bayerische Hypo- und Vereinsbank AG	PROMISE COLOR 2003-1	11	Corporate loans	612	595
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2003-1	50	Private mortgage loans	2,440	1,532
Bayerische Hypo- und Vereinsbank AG	PROMISE-XXS 2003-1	10	Corporate loans	1,095	995
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2004-1	40	Private mortgage loans	2,803	1,668
HVB Banque Luxembourg S.A.	GELDILUX 2002-1	3	Euroloans	expired in June 2005	
HVB Banque Luxembourg S.A.	GELDILUX-TS-2003	3	Euroloans	1,400	1,334
Bank Austria Creditanstalt AG	PROMISE Austria-2002	8	Corporate loans	490	395
Total for 1998 – 2003 HVB Group				**17,649**	**10,935**
Bayerische Hypo- und Vereinsbank AG	Wolfgang	36	Securities portfolio	675	477
Total for 2004 HVB Group				**675**	**477**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2005-1	40	Private mortgage loans	4,680	2,891
HVB Banque Luxembourg S.A.	GELDILUX-TS-2005	Series 1: 3.1 Series 2: 3.6 Series 3: 5.1	Euroloans	5,496	5,148
Bank Austria Creditanstalt Leasing GmbH	Success-2005 B.V.	8	Leasing receivables	425	425
Total for 2005 HVB Group				**10,601**	**8,464**
Total				**28,925**	**19,876**

[1] does not include any retained risks in the form of first loss pieces or interest subparticipations. Other retained tranches are not listed

[2] the risk-weighted assets as of the date when the transaction was concluded are shown for the static true sale transaction "Lombard"

The values shown are carrying amounts relating to the respective closing date.

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Deposits from other banks

Deposits from other banks in Germany and other regions

€ millions	2005	2004
Banks in Germany	37,497	35,835
Banks in other regions	76,242	67,771
Total	**113,739**	**103,606**

Deposits from other banks, broken down by maturity

€ millions	2005	2004
Repayable on demand	16,394	10,249
With agreed maturities	97,345	93,357
up to 3 months	65,965	60,565
from 3 months to 1 year	7,304	6,745
from 1 year to 5 years	9,562	9,418
from 5 years and over	14,514	16,629
Total	**113,739**	**103,606**

Amounts owed to related entities

€ millions	2005	2004
Non-consolidated subsidiaries	2,699	337
Joint ventures	311	39
Associated companies	10,730	11,090
Other participating interests	136	206
Total	**13,876**	**11,672**

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Amounts owed to other depositors

Amounts owed to other depositors in Germany and other regions

€ millions	2005	2004
Customers in Germany	75,326	72,272
Customers in other regions	83,095	72,179
Total	**158,421**	**144,451**

Amounts owed to other depositors, broken down by maturity – Savings deposits and home-loan savings deposits

€ millions	2005	2004
With agreed maturities		
up to 3 months	21,102	21,070
from 3 months to 1 year	3,166	3,528
from 1 year to 5 years	5,576	4,822
from 5 years and over	6,867	7,088
Total	**36,711**	**36,508**

Other liabilities

€ millions	2005	2004
Repayable on demand	65,303	52,721
With agreed maturities	56,407	55,222
up to 3 months	37,117	35,781
from 3 months to 1 year	7,013	5,084
from 1 year to 5 years	4,781	7,204
from 5 years and over	7,496	7,153
Total	**121,710**	**107,943**

Amounts owed to related entities

€ millions	2005	2004
Non-consolidated subsidiaries	1,632	955
Joint ventures	3	—
Associated companies	138	154
Other participating interests	2,933	1,477
Total	**4,706**	**2,586**

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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	2005	2004
Debt securities in issue	83,305	85,015
Mortgage bonds	31,047	32,149
Public-sector bonds	5,042	9,703
Other debt securities	46,194	42,999
Money market instruments	1,022	164
Registered notes in issue	21,477	23,159
Mortgage bonds	16,201	17,269
Public-sector bonds	5,212	5,827
Other debt securities	64	63
Other promissory notes and liabilities evidenced by paper	1,200	1,388
Total	**105,982**	**109,562**

The fair value option has been applied for promissory notes and other liabilities evidenced by paper with embedded derivatives totaling €1.1 billion and the valuation result of €18 million has been taken to the income statement. The total includes a negative valuation effect of €4 million resulting from the change in the rating of the issuing company.

Promissory notes and other liabilities evidenced by paper, broken down by maturity

€ millions	2005	2004
With agreed maturities		
up to 3 months	14,487	10,103
from 3 months to 1 year	19,683	20,406
from 1 year to 5 years	42,956	47,914
from 5 years and over	28,856	31,139
Total	**105,982**	**109,562**

Promissory notes and other liabilities evidenced by paper, payable to related entities

€ millions	2005	2004
Non-consolidated subsidiaries	1,668	1,621
Joint ventures	0	0
Associated companies	52	90
Other participating interests	104	104
Total	**1,824**	**1,815**

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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. Also included here are warrants, certificates and bonds issued by the Bank's trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

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Provisions

€ millions	2005	2004
Provisions for pensions and similar commitments	2,797	2,881
Allowances for losses on guarantees and indemnities	482	505
Restructuring provisions	564	299
Other provisions	721	775
including:		
long-term liabilities to employees	126	173
Total	**4,564**	**4,460**

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. The pension obligations are reduced by the fair value of plan assets. 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 €98 million (2004: €82 million).

For the purpose of calculating the amounts of these commitments, the discount rate and the rate of increase in future compensation and vested rights were decreased compared with the prior year; the other valuation parameters were unchanged. The following table shows the parameters used by HVB Group:

in %	Dec. 31, 2005/ Jan. 1, 2006	Dec. 31, 2004/ Jan. 1, 2005
Discount rate	4.25	5.0
Expected return on plan assets	5.0	5.0
Rate of increase in pension obligations	1.5	1.5
Rate of increase in future compensation and vested rights	2.0	2.5
Rate of increase over career	0–1.5	0–1.5

Funding status:

	€ millions
Present value of unfunded pension commitments	3,798
Present value of funded pension commitments	2,362
Outstanding actuarial loss	(1,372)
Fair value of plan assets	(2,255)
Capitalized excess cover of plan assets	264
Recognized pension provisions	**2,797**

The 10% corridors for the maximum of the present value of the pension commitments and the fair value of the plan assets were exceeded for the first time at HVB AG and BA-CA AG in 2005. If the "corridor procedure" is retained, the excess amount is to be taken to the income statement in the subsequent years over the average expected remaining working life of the employees affected by the respective pension plans.

Movements in provisions for pension plans shown in the balance sheet are as follows:

	€ millions
Balance at Jan. 1, 2005	2,881
Pension expense	248
Payments affecting liquidity	(320)
Allocations to plan assets	(276)
Excess cover for plan assets	264
Changes in consolidated group	—
Changes arising from foreign currency translation	—
Balance at Dec. 31, 2005	2,797

The following table shows the breakdown of pension expense:

	€ millions
Present value of the pension claims vested in the year under review	99
Interest expense	259
Expected income from plan assets	(88)
Gains/losses from changes to plans	(22)
Total	**248**

HVB AG set up plan assets in the form of so-called contractual trust arrangements (CTA). This involved transferring the assets required to fund its pension commitments to legally independent trustees – including HVB Trust e.V. IAS 19.54 requires the assets transferred to be offset against the pension provisions, with the amount of the pension provisions in the corporate group declining accordingly.

The following table shows the breakdown of the plan assets of the trustees used to fund the pension commitments:

	€ millions
Receivables from (secured by) parent bank	5
Investment fund shares	2,250
Fixed-income securities	—
Total	**2,255**

The following table shows the development of the plan assets in the year under review:

	€ millions
Balance at Jan. 1, 2005	**1,751**
Plan assets of pension plans included for the first time	76
Allocations to plan assets	276
Actual income from plan assets	152
Disbursements to beneficiaries	(90)
Additional allocations in the form of benefits not taken	90
Balance at Dec. 31, 2005	2,255

Related party relationships with regard to pension plans

€ millions	2005
Funding body for pension plans in the form of defined contribution plans	
Placements, loans and advances	—
Allowances for losses on loans and advances	—
Liabilities	59
Provisions for losses on loans and advances	—
Funding body for pension plans in the form of defined benefit plans	
Placements, loans and advances	—
Allowances for losses on loans and advances	—
Liabilities	30
Provisions for losses on loans and advances	—

Allowances for losses on guarantees and indemnities, restructuring provisions, and other provisions

€ millions	Allowances for losses on guarantees and indemnities	Restructuring provisions	Other provisions
Balance at Jan. 1, 2005	**505**	**299**	**775**
Changes in consolidated group	1	6	(36)
Changes arising from foreign currency translation	9	—	2
Transfers to provisions	195	376	243
Reversals	(54)	(63)	(87)
Reclassifications	(160)	1	(5)
Amounts used	(14)	(55)	(148)
Disposal group held for sale	—	—	(23)
Balance at Dec. 31, 2005	**482**	**564**	**721**

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.

The restructuring provisions set up in 2004 and 2005 will essentially be used in 2006 and 2007.

Other provisions include provisions for litigation fees, damage payments, anticipated losses, and long-term liabilities to employees such as service anniversary awards, early retirement, and pre-retirement part-time working.

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Income tax liabilities

€ millions	2005	2004
Current tax liabilities	563	413
Deferred tax liabilities	1,328	2,617
Total	**1,891**	**3,030**

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Other liabilities

€ millions	2005	2004
Negative fair values arising from derivative financial instruments	3,783	5,148
Miscellaneous other liabilities	5,233	4,537
Deferred income	390	330
Total	**9,406**	**10,015**

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	2005	2004
Subordinated liabilities	11,990	12,802
Participating certificates outstanding	1,830	1,987
Hybrid capital instruments	3,792	3,665
Total	**17,612**	**18,454**

Subordinated capital, broken down by maturity

€ millions	2005	2004
With agreed maturities		
up to 3 months	459	626
from 3 months to 1 year	549	753
from 1 year to 5 years	7,661	5,521
from 5 years and over	8,943	11,554
Total	**17,612**	**18,454**

Pursuant to Section 10 (4, 5, and 5 a) and Section 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 outstanding 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 interest expenses of €757 million in connection with subordinated liabilities. This item includes proportionate interest of €267 million.

There were no subordinated liabilities payable to related entities in 2005.

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	2009
Bank Austria AG	2000	Bearer participating certificates	100	variable	2008
Bank Austria AG	2000	Bearer participating certificates	73	variable	2010
Bank Austria AG	2000	Bearer participating certificates	145	variable	2010
Bank Austria AG	2000	Bearer participating certificates	154	variable	2010
Bank Austria AG	2000	Bearer participating certificates	307	variable	2010
Bayerische Hypo- und Vereinsbank AG	1995	Bearer participating certificates	102	8.50	2005
Bayerische Hypo- und Vereinsbank AG	1997	Bearer participating certificates	409	6.75	2007
Bayerische Hypo- und Vereinsbank 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.

Hybrid capital instruments

At December 31, 2005, the Bank had hybrid core capital of €3,634 million (compliant with BIS rules) to bolster its capital base.

Hybrid capital instruments include issues issued 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 capital for supervisory purposes is limited to 15% of total core capital.

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Liabilities held for sale

The following table shows the breakdown of the liabilities of HVB Splitska banka, which is classified as held for sale (see also Note 54 "Disposal group held for sale"):

€ millions	2005
Deposits from other banks	444
Amounts owed to other depositors	1,360
Liabilities held for trading purposes	14
Provisions	23
Income tax liabilities	3
Other liabilities	43
Total liabilities	**1,887**

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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, 2005, the subscribed capital of HVB AG totaled €2,252 million (2004: €2,252 million) and consisted of the following:

	2005	2004
Shares of common bearer stock (no par shares)	736,145,540	736,145,540
Shares of registered preferred stock (no par shares)	14,553,600	14,553,600

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

The shares of preferred stock are non-voting and receive an advance share of profits of €0.064 per no par share, payable in arrears, as well as a further share of profits in the same amount as the shares of common stock. The claim to payment in arrears of the advance share of profits is granted to the holders of preferred stock as a separate right. The right to issue further shares of non-voting preferred stock with equal rights remains reserved.

Authorized capital increase

Year authorized	Available until	Original amount € millions	Balance at Dec. 31, 2005 € millions
2001	May 22, 2006	780	137

In view of the objections filed by shareholders, the Register Court has not yet registered the resolution adopted by the Shareholders' Meeting held on April 29, 2004 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, 2005 € millions
2003	May 14, 2008	375	375

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Treasury stock

At December 31, 2005, 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 purchase of treasury stock during the reporting period was carried out on the basis of the authorization issued under the resolutions passed at the Annual General Meetings of Shareholders of HVB AG on April 29, 2004 and May 12, 2005 and in accordance 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 69,682,924 shares of treasury stock were purchased by the Bank and controlled or majority-owned companies at the respective current market prices as part of normal securities trading, and a total of 70,079,893 shares of treasury stock were sold at the respective current market prices.

The treasury stock was purchased at an average price of €20.41 per share, and resold at an average price of €20.42 per share. The shares purchased during the period under review amounted to an equivalent of €209 million, or 9.3% of capital stock.

The highest number of shares of treasury stock held by the Bank on any given day during the reporting period was 1,394,758, equivalent to €4.2 million or 0.2% of capital stock.

Within the scope of its lending operations, the Bank and its controlled or majority-owned companies had received a total of 247,304 shares of treasury stock as collateral in accordance with Section 71e (1) 2 of the German Stock Corporation Act at year-end. This represents €0.7 million, or 0.0% of capital stock.

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Foreign-currency assets and liabilities

€ millions	2005	2004
Foreign currency assets	116,933	94,319
of which:		
US dollars	51,852	43,152
Japanese yen	8,732	4,992
Swiss francs	21,318	19,615
Foreign currency liabilities (excl. equity capital)	97,046	87,026
of which:		
US dollars	40,933	34,628
Japanese yen	7,291	4,501
Swiss francs	18,086	18,536

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	2005	2004
Placements with, and loans and advances to, other banks	402	261
Loans and advances to customers	1,279	5,841
Equity securities and other variable-yield securities	6,656	54
Debt securities	2,988	9
Participating interests	35	136
Property, plant and equipment	113	143
Other assets	11	11
Remaining trust receivables	1	1
Total	**11,485**	**6,456**

Trust liabilities

€ millions	2005	2004
Deposits from other banks	231	219
Amounts owed to other depositors	10,297	5,313
Promissory notes and other liabilities evidenced by paper	803	583
Miscellaneous other liabilities	154	341
Total	**11,485**	**6,456**

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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 provided by KfW and similar institutions, which the Bank has issued as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements and for securities lending transactions.

The own liabilities referred to here break down as follows:

€ millions	2005	2004
Deposits from other banks	43,734	38,474
Amounts owed to other depositors	5,058	5,408
Promissory notes and other liabilities evidenced by paper	4,401	2,907
Contingent liabilities	6,510	4,035
Total	**59,703**	**50,824**

The assets pledged as security for own liabilities can be broken down as follows:

€ millions	2005	2004
Assets held for trading purposes	13,168	13,484
Placements with, and loans and advances to, other banks	7,216	3,682
Loans and advances to customers	18,597	17,551
Investments	20,722	16,107
Property, plant and equipment	—	—
Total	**59,703**	**50,824**

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Collateral received that the Bank may sell on or pledge on

As part of repurchase agreements and securities lending transactions, the Bank has received security that it may sell on or pledge on at any time without the security provider having to be in arrears. The associated fair value totals €26 billion.

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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, net additions to deferred tax assets, changes in provisions, changes in pro-rated and accrued interest, the reversal of premiums and discounts, changes arising from valuation using the equity method, and minority interest in net income.

In fiscal 2005, investments in fully consolidated companies were acquired for a purchase price of €377 million, which resulted in an outflow of cash and cash equivalents totaling €207 million. At the same time, proceeds from the disposal of investments totaling €153 million were generated, €153 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	353	—
Assets held for trading purposes	—	—
Placements with, and loans and advances to, other banks	67	6
Loans and advances to customers	664	—
Allowances for losses on loans and advances	(25)	—
Investments	56	15
Property, plant and equipment	55	110
Other assets	43	1
Liabilities		
Deposits from other banks	160	—
Amounts owed to other depositors	836	—
Provisions	9	3
Other liabilities	208	129

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 amounts 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 for 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 are equivalent to their carrying amounts.

The difference between the fair values and carrying amounts totals €4.2 billion for assets and €3.9 billion for liabilities. The balance of these values is €0.3 billion.

€ billions	Carrying amount 2005	Fair value 2005	Carrying amount 2004	Fair value 2004
Assets				
Cash reserve	7.8	7.8	7.5	7.5
Assets held for trading purposes	103.5	103.5	91.7	91.7
Placements with, and loans advances to, other banks[1]	57.2	57.2	47.3	47.4
Loans and advances to customers[1]	274.6	278.5	262.0	272.1
Investments[2]	45.6	45.9	42.2	42.4
Other assets[3]	5.6	5.6	3.2	3.2
Liabilities				
Deposits from other banks	113.7	113.8	103.6	103.6
Amounts owed to other depositors	158.4	159.1	144.4	145.3
Promissory notes and other liabilities evidenced by paper	106.0	108.8	109.6	113.0
Liabilities held for trading purposes	63.6	63.6	59.9	59.9
Other liabilities[3]	9.4	9.4	5.1	5.1
Subordinated capital	17.6	17.9	18.5	18.9
Other items				
Irrevocable credit commitments	52.8	52.8	46.9	46.9

1 less allowances for losses on loans and advances
2 held-to-maturity, available-for-sale, and fair-value-option investments
3 positive or negative fair values of derivative financial instruments

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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%. In addition, 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, including options, multiplied by 12.5.

Equity funds consist of core capital and supplementary capital (equity capital), plus tier III capital. Tier III capital reflects 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.

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, 2005 were as follows:

€ millions	2005	2004
Equity funds[1]		
Tier I		
Shares of common stock	2,208	2,208
Additional paid-in capital, retained earnings, minority interest, treasury stock	9,722	9,560
Hybrid capital instruments (silent partnership certificates and trust preferred securities) excluding prorated interest	3,634	3,570
Other	465	383
Total core capital	**16,029**	**15,721**
Tier II		
Unrealized reserves in securities	498	313
Unrealized reserves in land and buildings (first disclosed in 2005)	227	—
Offsetting reserves for general banking risks	49	52
Cumulative shares of preferred stock	61	44
Participating certificates outstanding	1,720	1,723
Subordinated liabilities	8,014	7,861
Other	507	114
Total supplementary capital	**11,076**	**10,107**
Total equity capital	**27,105**	**25,828**
Tier III capital	329	1,262
Total equity funds	**27,434**	**27,090**

[1] group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

	2005	2004
Risk-weighted assets € billions		
On-balance-sheet assets	208	209
Traditional off-balance-sheet assets	32	25
Banking-book derivatives	1	—
Counterparty risks in the trading book	5	5
Total risk-weighted assets	**246**	**239**
Total market risk positions € millions	**560**	**1,768**

At December 31, 2005, the key capital ratios (based on financial statements approved by the Supervisory Board) compliant with the BIS Capital Accord were as follows:

in %	2005	2004
Core capital ratio (core capital/risk-weighted assets)	6.5	6.6
Equity capital ratio (equity capital/risk-weighted assets)	11.0	10.8
Equity funds ratio (equity funds/ [risk-weighted assets + 12.5 x market risk positions])	10.9	10.4

Pursuant to Sections 10 and 10a of the German Banking Act, the Bank's equity funds amount to €26,015 million. The liable equity, comprising core capital and supplementary capital less the deductible items, totals €25,318. Supplementary capital includes unrealized reserves of €227 million pursuant to Section 10 (2b) 1 No. 6 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	16,383			16,383
Subordinated capital (hybrid capital instruments, participating certificates outstanding and subordinated liabilities)	3,792	13,820		17,612
Reconciliation to the equity funds compliant with BIS rules				
Consolidated profit (loss)	(191)			(191)
Minority interest in net income (loss)	(395)			(395)
Available-for-sale reserve	(871)			(871)
Hedge reserve	142			142
Cumulative shares of preferred stock	(61)	61		—
Goodwill not yet amortized in balance sheet	(2,188)			(2,188)
Deductible items due to banking supervisory regulations (e.g. market-smoothing, residual maturity limitation, proportionate interest)	(90)	(3,859)		(3,949)
Reclassifications due to banking supervisory regulations	(68)	(261)	329	—
Eligible tier III capital unused				—
Unrealized reserves in securities		725		725
General reserves/loan-loss reserves		592		592
Other effects (e.g. differences in group of consolidated companies and principles of consolidation)	(424)	(2)		(426)
Equity funds compliant with BIS rules	**16,029**	**11,076**	**329**	**27,434**

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Contingent liabilities and other commitments

€ millions	2005	2004
Contingent liabilities[1]	**39,534**	**31,334**
Rediscounted bills of exchange	21	19
Guarantees and indemnities	39,513	31,315
Loan guarantees	10,141	7,432
Guarantees and indemnity agreements	25,499	20,989
Documentary credits	3,873	2,894
Other commitments	**61,058**	**55,742**
Commitments arising from sale option to resell transactions	449	787
Irrevocable credit commitments	52,341	46,865
Book credits	45,003	40,050
Guarantees	4,514	3,765
Mortgage and municipal loans	2,681	2,818
Bills of exchange	143	232
Delivery obligations from securities lending transactions	5,940	5,706
Other commitments	2,328	2,384
Total[2]	**100,592**	**87,076**

[1] contingent liabilities are offset by contingent assets to the same amount
[2] excluding contingent liabilities and other commitments of the disposal group held for sale totaling €603 million

Contingent liabilities payable to related entities

€ millions	2005	2004
Non-consolidated subsidiaries	793	733
Joint ventures	323	255
Associated companies	55	96
Other participating interests	—	—
Total	**1,171**	**1,084**

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 amount to €683 million (2004: €361 million) and €53 million (2004: €85 million), respectively.

The largest single item under other commitments is placement and transfer obligations totaling €526 million (2004: €507 million). Other commitments arising particularly from rental, leasing and maintenance agreements, and from rental of office space and use of technical equipment amount to €458 million (2004: €473 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 provide income subsidies to offset any losses incurred by hotel operating companies in which it holds an indirect majority stake.

As part of real estate financing and development operations, the Bank has assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by its H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement. 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 €519 million at year-end 2005 (2004: €418 million), and similar obligations for shares in cooperatives totaled €1 million (2004: €1 million). Under Section 24 of the German Private Limited Companies Act, the Bank was also liable for defaults on such calls in respect of three private limited companies for an aggregate of €16 million (2004: €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 €45 million (2004: €58 million), and of €14 million (2004: €22 million) with regard to CMP Fonds I GmbH at year-end 2005. In addition, under Article 5 (4) of the Articles of Incorporation, the Bank is jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

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

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, 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 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.

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 political risks:

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
DAB Bank AG, Munich[1]
Financial Markets Service Bank GmbH, Munich
Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich
2. Banks in other regions
Bank Austria Creditanstalt Aktiengesellschaft, Vienna[1]
HVB Bank Latvia AS, Riga
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
HVB Alternative Financial Products AG, Vienna
HVB Risk Management Products Inc., New York
4. Companies with bank-related auxiliary services
HypoVereinsFinance N.V., Amsterdam

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

The Bank's commitment arising from the above Statement of Responsibility declines by the extent to which the Bank's shareholding decreases in the future 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 2005 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 November 10, 2005 (retrospective part) and December 2, 2005 (forward-looking part) 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.

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	
	2005	2004	2005	2004	2005	2004	2005	2004
Management Board of HVB AG	5	4	4	3	7[2]	2	16	9[1]
of which compensation paid to Board spokesman	0.8	0.8	0.7	0.4	1.3	0.4	2.8	1.6
Supervisory Board of HVB AG for Supervisory Board activities	1	1	0	0	0	0	1	1
European Advisory Board							0.2	1
Former members of the Management Board of HVB AG and their surviving dependants							12	9
First executive management level							29	20
Severance packages/provisions for severance packages for former members of the Management Board and the first executive management level							25	—

1 including €1 million disbursed in 2004 but not included in the 2003 annual financial statements

2 for fiscal 2005, the members of the Management Board were again allotted a sum of money equivalent to a certain number of HVB shares after the expiry of three years as a long-term incentive. 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.
The fair value of the phantom stocks is based on a formula built primarily on the average stock market price of the HVB share over the last ten trading days of 2005.
A provision of €7 million was set aside in 2005 for the Phantom Stocks Program that replaced the Restricted Stocks Program in 2004.
For more details, please refer to the Compensation Report.

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 surrendered to the parent bank.

No compensation was paid to members of the Supervisory Board in 2005 for services rendered.

At December 31, 2005, HVB AG had pension provisions for members of the Management Board and their surviving dependants totaling €90 million.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2005.

in €	Fixed compensation	Variable compensation	Compensation for committee work	Total (excl. sales tax)	
Alessandro Profumo[1]	2,712	940	—	3,652	(2,497)[9]
Dr. Albrecht Schmidt, Chairman[2]	27,206	9,431	90,684	127,321	
Peter König, Deputy Chairman	22,500	7,800	20,000	50,300	
Dr. Lothar Meyer, Deputy Chairman[3]	15,678	5,435	40,000	61,113	
Dr. Hans-Jürgen Schinzler, Deputy Chairman[4]	20,466	7,095	18,192	45,753	
Dr. Manfred Bischoff[5]	8,548	2,963	—	11,511	
Aldo Bulgarelli[1]	1,356	470	—	1,826	(1,248)[9]
Dr. Mathias Döpfner[4]	13,644	4,730	—	18,374	
Volker Doppelfeld[2]	13,603	4,716	—	18,319	
Paolo Fiorentino[1]	1,356	470	—	1,826	(1,248)[9]
Dario Frigerio[1]	1,356	470	—	1,826	(1,248)[9]
Klaus Grünewald	15,000	5,200	—	20,200	
Anton Hofer	15,000	5,200	20,000	40,200	
Max Dietrich Kley[4]	13,644	4,730	18,192	36,566	
Friedrich Koch	15,000	5,200	—	20,200	
Hanns-Peter Kreuser	15,000	5,200	20,000	40,200	
Ranieri de Marchis[1]	1,356	470	—	1,826	(1,248)[9]
Dr. Diether Münich[6]	5,096	1,767	—	6,863	
Herbert Munker	15,000	5,200	20,000	40,200	
Roberto Nicastro[1]	1,356	470	—	1,826	(1,248)[9]
Vittorio Ogliengo[1]	1,356	470	—	1,826	(1,248)[9]
Gerhard Randa[7]	8,219	2,849	10,959	22,027	(15,056)[9]
Carlo Salvatori[1]	1,356	470	—	1,826	(1,248)[9]
Dr. Siegfried Sellitsch[8]	5,425	1,881	7,233	14,539	(9,937)[9]
Professor Wilhelm Simson[2]	13,603	4,716	18,137	36,456	
Professor Hans-Werner Sinn	15,000	5,200	20,000	40,200	
Maria-Magdalena Stadler	15,000	5,200	—	20,200	
Ursula Titze	15,000	5,200	—	20,200	
Jens-Uwe Wächter	15,000	5,200	20,000	40,200	
Helmut Wunder	15,000	5,200	20,000	40,200	
Total	**329,836**	**114,343**	**343,397**	**787,576**	**(770,802)**[9]

[1] since Nov. 29, 2005
[2] until Nov. 27, 2005
[3] Deputy Chairman since Dec. 2, 2005
[4] until November 28, 2005
[5] until July 27, 2005
[6] from July 28 to Nov. 28, 2005
[7] from May 12 to Nov. 28, 2005
[8] until May 12, 2005
[9] 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 to the first executive management level at the balance sheet date was as follows:

€ millions	2005	2004
Management Board of HVB AG	1	9
Supervisory Board of HVB AG	1	2
First executive management level	7	6

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.

Director's dealings and shareholdings of members of the Management Board and Supervisory Board

Section 15 a of the German Securities Trading Act (WpHG) requires the members of the Management Board and the Supervisory Board, and certain people closely related to them, to disclose transactions involving shares of HVB AG, or financial instruments based on such shares, provided the value of such transactions exceeds the amount of €5,000 in a given calendar year.

The following transactions have been notified to HVB AG for fiscal 2005, whereby more than two thirds of the transactions represent swaps relating to the tender offer:

Name, function	Type of transaction
Helmut Wunder, member of the Supervisory Board of HVB	Sale
Hanns-Peter Kreuser, member of the Supervisory Board of HVB	Sale
Peter König, Deputy Chairman of the Supervisory Board of HVB	Swap
Johann Berger, member of the Management Board of HVB	Swap
Dr. Michael Kemmer, member of the Management Board of HVB	Swap
Dr. Stefan Jentzsch, member of the Management Board of HVB	Swap
Ursula Titze, member of the Supervisory Board of HVB	Swap
Gerhard Titze, husband of Ursula Titze, member of the Supervisory Board of HVB	Swap
Elke Gomoll, wife of Anton Hofer, member of the Supervisory Board of HVB	Swap
Dieter Rampl, spokesman of the Management Board of HVB	Swap
Jens-Uwe Wächter, member of the Supervisory Board of HVB	Swap
Jens-Uwe Wächter, member of the Supervisory Board of HVB	Sale
Anton Hofer, member of the Supervisory Board of HVB	Swap
Dr. Diether Münich, member of the Supervisory Board of HVB	Swap
Michael Mendel, member of the Management Board of HVB	Swap
Dr. Wolfgang Sprissler, member of the Management Board of HVB	Swap
Veronika Sprissler, wife of Dr. Wolfgang Sprissler, member of the Management Board of HVB	Swap
Helmut Wunder, member of the Supervisory Board of HVB	Sale
Elke Gomoll, wife of Anton Hofer, member of the Supervisory Board of HVB	Sale
Helmut Wunder, member of the Supervisory Board of HVB	Sale

All transactions have been published under Corporate Governance on the Bank's website at www.hvb.com/ir.

Name of security	German securities identification number/ ISIN number	Completion date	Number	Price per share	Volume
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	November 11, 2005	200	€26.00	€5,200.00
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	November 1, 2005	2,500	€23.50	€58,750.00
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	October 4, 2005	370	5 new shares of common UniCredit stock	1,850 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 26, 2005	442	5 new shares of common UniCredit stock	2,210 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 17, 2005	13,127	5 new shares of common UniCredit stock	65,635 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 13, 2005	25,474	5 new shares of common UniCredit stock	127,370 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 9, 2005	562	5 new shares of common UniCredit stock	2,810 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 9, 2005	394	5 new shares of common-UniCredit stock	1,970 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 9, 2005	350	5 new shares of common UniCredit stock	1,750 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 7, 2005	45,559	5 new shares of common UniCredit stock	227,795 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 6, 2005	521	5 new shares of common UniCredit stock	2,605 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 6, 2005	450	€23.20	€10,440.00
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	August 31, 2005	1,100	5 new shares of common UniCredit stock	5,500 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	August 30, 2005	1,758	5 new shares of common UniCredit stock	8,790 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	August 29, 2005	19,827	5 new shares of common UniCredit stock	99,135 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	August 29, 2005	35,903	5 new shares of common UniCredit stock	179,515 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	August 29, 2005	654	5 new shares of common UniCredit stock	3,270 new shares of common UniCredit stock
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	August 10, 2005	150	€22.83	€3,424.50
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	July 12, 2005	150	€21.79	€3,251.56
Common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	July 6, 2005	223	€21.89	€4,881.47

At December 31, 2005, the members of the Management Board held no shares of HVB AG. At that same date, the members of the Supervisory Board held less than 1% of the entire stock issued by the parent bank.

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Fees paid to the independent auditors

The following table shows the breakdown of fees of €13 million recorded as expense in the year under review, as paid to the independent auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

€ millions	2005
Fee for auditing of the financial statements	9
Other auditing and appraisal services	1
Tax advisory services	—
Other services	3

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Employees

The average number of people employed by the Bank was as follows:

	2005	2004
Employees (excluding trainees)	57,597	57,134
Full-time	49,652	49,081
Part-time	7,945	8,053
Trainees	1,266	1,304

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Offices

Offices, broken down by region

	2004	Additions	Reductions		Change in	2005
		New openings	Closures	Consolidations	consolidated group	
Germany						
Baden-Wuerttemberg	25					25
Bavaria	390	3	1	2	4	394
Berlin	7	1				8
Brandenburg	8					8
Bremen	8					8
Hamburg	38		1	2		35
Hesse	14	1			1	16
Lower Saxony	27	1	1			27
Mecklenburg-Western Pomerania	8					8
North Rhine-Westphalia	21					21
Rhineland-Palatinate	22					22
Saarland	9					9
Saxony	10					10
Saxony-Anhalt	11					11
Schleswig-Holstein	74		1			73
Thuringia	9					9
Subtotal	**681**	**6**	**4**	**4**	**5**	**684**
Other regions						
Austria	405	8		11	(1)	401
Other Western Europe	18	1	3		(1)	15
Central and Eastern Europe	898	81	27	3	235	1,184
Americas	16				(2)	14
Asia	15				1	16
Africa	2					2
Australia	1		1			0
Subtotal	**1,355**	**90**	**31**	**14**	**232**	**1,632**
Total	**2,036**	**96**	**35**	**18**	**237**	**2,316**

Members of the Supervisory Board and Management Board

Supervisory Board

Alessandro Profumo
since November 29, 2005
Chairman since December 2, 2005

Dr. Albrecht Schmidt
Chairman
until November 27, 2005

Peter König
Deputy Chairman

Dr. Lothar Meyer
Deputy Chairman
since December 2, 2005

Dr. Hans-Jürgen Schinzler
Deputy Chairman
until November 28, 2005

Dr. Manfred Bischoff
until July 27, 2005

Aldo Bulgarelli
since November 29, 2005

Dr. Mathias Döpfner
until November 28, 2005

Volker Doppelfeld
until November 27, 2005

Beate Dura-Kempf
since March 9, 2006

Paolo Fiorentino
since November 29, 2005

Dario Frigerio
since November 29, 2005

Klaus Grünewald

Anton Hofer

Max Dietrich Kley
until November 28, 2005

Friedrich Koch

Hanns-Peter Kreuser

Ranieri de Marchis
since November 29, 2005

Dr. Diether Münich
from July 28 to November 28, 2005

Herbert Munker
until March 8, 2006

Roberto Nicastro
since November 29, 2005

Vittorio Ogliengo
since November 29, 2005

Gerhard Randa
from May 12 to November 28, 2005

Carlo Salvatori
since November 29, 2005

Dr. Siegfried Sellitsch
until May 12, 2005

Professor Wilhelm Simson
until November 27, 2005

Professor Hans-Werner Sinn

Maria-Magdalena Stadler

Ursula Titze

Jens-Uwe Wächter

Helmut Wunder

Management Board

Johann Berger
since April 1, 2005

Willibald Cernko
since February 23, 2006

Jan-Christian Dreesen
from January 1 to February 9, 2006

Rolf Friedhofen
since January 1, 2006

Dr. Stefan Jentzsch
until November 4, 2005

Dr. Michael Kemmer
until December 22, 2005

Heinz Laber
since January 1, 2006

Michael Mendel
until November 18, 2005

Christine Novakovic,
formerly Licci
from January 17 to November 4, 2005

Dieter Rampl
Board Spokesman
until December 31, 2005

Gerhard Randa
until May 12, 2005

Dr. Stefan Schmittmann
(deputy Board member)
since January 1, 2006

Ronald Seilheimer
since January 1, 2006

Matthias Sohler
since January 1, 2006

Dr. Wolfgang Sprissler
Board Spokesman
since January 11, 2006

Andrea Umberto Varese
since January 1, 2006

Andreas Wölfer
since January 1, 2006

Munich, March 20, 2006

BAYERISCHE HYPO- UND VEREINSBANK
AKTIENGESELLSCHAFT

THE MANAGEMENT BOARD

Berger Cernko Friedhofen Laber Schmittmann (deputy Board member)

Seilheimer Sohler Sprissler Varese Wölfer

Auditor's Report

We have audited the consolidated financial statements prepared by Bayerische Hypo- und Vereinsbank Aktiengesellschaft, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 21, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Geib	Pastor
Wirtschaftsprüfer	Wirtschaftsprüfer

Supervisory Board

Alessandro Profumo
Chief Executive Officer of UniCredito Italiano S.p.A., Milan since November 29, 2005, Chairman since December 2, 2005

Dr. Albrecht Schmidt
Former spokesman of the Management Board of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Grasbrunn
Chairman
until November 27, 2005

Peter König
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich
Deputy Chairman

Dr. Lothar Meyer
Chairman of the Management Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach
Deputy Chairman since December 2, 2005

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
until November 28, 2005

Dr. Manfred Bischoff
Chairman of the Board of EADS N.V., Starnberg
until July 27, 2005

Aldo Bulgarelli
Attorney, Verona
since November 29, 2005

Dr. Mathias Döpfner
Chairman of the Management Board of Axel Springer AG, Potsdam
until November 28, 2005

Volker Doppelfeld
Former member of the Management Board of BMW AG and member of the Supervisory Board of BMW AG, Münsing
until November 27, 2005

Beate Dura-Kempf
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Litzendorf
since March 9, 2006

As at March 9, 2006

Paolo Fiorentino
Head of Global Banking Service Division, Management Committee of UniCredito Italiano S.p.A., Milan
since November 29, 2005

Dario Frigerio
Head of Private Banking and Asset Management Division, Management Committee of UniCredito Italiano S.p.A., Milan
since November 29, 2005

Klaus Grünewald
FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, 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 November 28, 2005

Friedrich Koch
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Kirchheim

Hanns-Peter Kreuser
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich

Ranieri de Marchis
Chief Financial Officer, Management Committee of UniCredito Italiano S.p.A., Milan
since November 29, 2005

Dr. Diether Münich
Attorney, Munich
from July 28 to November 28, 2005

Herbert Munker
Employee, Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Leinburg
until March 8, 2006

Roberto Nicastro
Head of Retail Division, Management Committee of UniCredito Italiano S.p.A., Milan
since November 29, 2005

Vittorio Ogliengo
Head of Corporates/SME Division, Management Committee of UniCredito Italiano S.p.A., Parma
since November 29, 2005

Gerhard Randa
Former member of the Management Board of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Executive Vice President Magna International Inc., Vienna
from May 12 to November 28, 2005

Carlo Salvatori
Member and until January 11, 2006 Chairman of the Board of Directors of UniCredito Italiano S.p.A., Parma
since November 29, 2005

Dr. Siegfried Sellitsch
Chairman of the Management Board of Wiener Städtische Wechselseitige Versicherungsanstalt Vermögensverwaltung, Vienna
until May 12, 2005

Professor Wilhelm Simson
Former Chairman of the Management Board of E.ON AG and member of the Supervisory Board of E.ON AG, Trostberg
until November 27, 2005

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 [1]

Remuneration & Nomination Committee
Alessandro Profumo, since December 2, 2005
Dr. Albrecht Schmidt, until November 27, 2005
Peter König
Dr. Lothar Meyer, since December 2, 2005
Dr. Hans-Jürgen Schinzler, until November 28, 2005

Strategy and Business Development Committee
until December 31, 2005
Dr. Albrecht Schmidt, Chairman, until November 27, 2005
Peter König
Gerhard Randa, from May 12 to November 28, 2005
Dr. Hans-Jürgen Schinzler, until November 28, 2005
Professor Hans-Werner Sinn, until May 12, 2005
Helmut Wunder

Audit Committee
Dr. Lothar Meyer, Chairman
Anton Hofer
Max Dietrich Kley, until November 28, 2005
Peter König, since March 9, 2006
Ranieri de Marchis, since December 2, 2005
Herbert Munker, until March 8, 2006
Alessandro Profumo, since December 2, 2005
Dr. Albrecht Schmidt, until November 27, 2005

Risk Committee
until December 31, 2005
Dr. Albrecht Schmidt, Chairman, until November 27, 2005
Hanns-Peter Kreuser,
Dr. Siegfried Sellitsch, until May 12, 2005
Professor Wilhelm Simson, until November 27, 2005
Professor Hans-Werner Sinn, since May 12, 2005
Jens-Uwe Wächter

Negotiating Committee
Alessandro Profumo, since December 2, 2005
Dr. Albrecht Schmidt, until November 27, 2005
Peter König
Dr. Lothar Meyer, since December 2, 2005
Hans-Jürgen Schinzler, until November 28, 2005
Ursula Titze

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief 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

Ulrich Exler
President of the Bavarian State Tax Office, Ministerialdirigent a. D., Munich

Management Board

Johann Berger
born 1960
Corporates and Commercial Real Estate divisions
Austria & Central and Eastern Europe division since January 1, 2006
since April 1, 2005

Willibald Cernko
born 1956
Private Customers and Professionals division
since February 23, 2006

Jan-Christian Dreesen
born 1967
Private Customers and Professionals division
from January 1 to February 9, 2006

Rolf Friedhofen
born 1958
Chief Financial Officer (CFO)
since January 1, 2006

Dr. Stefan Jentzsch
born 1960
Corporates & Markets business segment
until November 4, 2005

Dr. Michael Kemmer
born 1957
Chief Risk Officer (CRO)
until December 22, 2005

Heinz Laber
born 1953
Human Resources Management
since January 1, 2006

Michael Mendel
born 1957
Germany business segment
until May 12, 2005
Austria & Central and Eastern Europe business segment from May 12, 2005
until November 18, 2005

Christine Novakovic, formerly Licci
born 1964
Germany business segment – Private Customers business unit
from January 17 to November 4, 2005

Dieter Rampl
born 1947
Board Spokesman
Human Resources Management
until December 31, 2005

Gerhard Randa
born 1944
Austria & Central and Eastern Europe business segment
Chief Operating Officer (COO)
until May 12, 2005

Dr. Stefan Schmittmann
(deputy Board member)
born 1956
Corporates division
since January 1, 2006

Ronald Seilheimer
born 1959
Investment Banking division
since January 1, 2006

Matthias Sohler
born 1969
Chief Operating Officer (COO)
since January 1, 2006

Dr. Wolfgang Sprissler
born 1945
Board Spokesman since January 11, 2006
Chief Financial Officer until December 31, 2005

Andrea Umberto Varese
born 1964
Chief Risk Officer (CRO)
since January 1, 2006

Andreas Wölfer
born 1961
Wealth Management division
since January 1, 2006

[1] see also Report of the Supervisory Board

SUMMARY OF ANNUAL FINANCIAL DATA

	2005	2004	2003	2002 new HVB Group	2002 old HVB Group	2001
Operating performance (€ millions)						
Net interest income	5,885	5,662	5,881	5,936	6,649	7,331
Provisions for losses on loans and advances	1,513	1,795	2,313	3,292	3,797	2,074
Net interest income after provisions for losses on loans and advances	4,372	3,867	3,568	2,644	2,852	5,257
Net commission income	3,240	2,845	2,795	2,672	2,684	2,877
Trading profit	926	728	820	787	787	592
General administrative expenses	6,582	6,118	6,371	6,896	7,076	7,716
Balance of other operating income and expenses	(143)	23	620	180	115	485
Operating profit (loss)	**1,813**	**1,345**	**1,432**	**(613)**	**(638)**	**1,495**
Net income from investments	321	14	(1,806)	587	649	530
Amortization of goodwill	—	165	1,134	395	395	321
Restructuring costs	546	250	—	283	286	19
Allocation to special provisions for bad debts	—	2,500	—	—	—	—
Balance of other income and expenses	(289)	(357)	(638)	(149)	(151)	(136)
Profit (loss) from ordinary activities/						
net income (loss) before taxes	**1,299**	**(1,913)**	**(2,146)**	**(853)**	**(821)**	**1,549**
Taxes on income	262	224	296	(3)	37	582
Net income (loss) after taxes	**1,037**	**(2,137)**	**(2,442)**	**(850)**	**(858)**	**967**
Minority interest in net income (loss)	(395)	(288)	(197)	41	29	(29)
Net income (loss) adjusted for minority interest	**642**	**(2,425)**	**(2,639)**	**(809)**	**(829)**	**938**
Dividend per share of common stock (€)	0.25	—	—	—	—	0.85
Earnings per share (adjusted, €)[1]	1.55	0.70	0.54	0.77	(0.81)	2.35
Earnings per share (€)	0.86	(3.48)	(4.92)	(1.51)	(1.55)	1.75
Key indicators (%)						
Return on equity after taxes (adjusted)[1]	10.0	3.9	2.1	(2.8)	(2.3)	6.5
Return on equity after taxes	5.5	(19.3)	(19.7)	(5.4)	(4.4)	4.9
Cost-income ratio (based on operating revenues)	66.4	66.1	63.0	72.0	69.1	68.4
Balance sheet figures (€ billions)						
Total assets	493.5	467.4	479.5	535.8	691.2	728.6
Total volume of lending	332.6	324.6	338.3	375.8	487.9	503.1
Shareholders' equity	16.4	14.0	10.3	11.3	14.2	25.1
Key capital ratios compliant with BIS rules[2]						
Core capital (€ billions)	16.0	15.7	14.4	14.6	19.1	21.7
Equity funds (€ billions)	27.4	27.1	25.6	25.9	33.4	41.5
Risk assets (€ billions)	245.5	238.6	241.8	285.6	340.6	365.1
Core capital ratio (%)	6.5	6.6[3]	5.9	5.1	5.6	6.0
Core capital ratio (adjusted, %)[4]	6.8	—	—	—	—	—
Equity funds ratio (%)	10.9	10.4	9.7	8.2	9.1	10.3
Share information						
Share price: Year-end (€)	25.61	16.70	17.62[5]	—	15.22	34.32
High (€)	26.85	21.13	19.26[5]	—	42.55	68.06
Low (€)	16.30	12.86	5.47[5]	—	11.75	27.40
Market capitalization (€ billions)	19.2	12.5	9.8[6]	—	8.2	18.4
Employees	61,251	57,806	60,214	64,254	65,926	69,520
Branch offices	2,316	2,036	2,062	2,073	2,104	2,238

[1] 2005 figures adjusted for "restructuring costs and additional provisions for losses on loans and advances"; 2004 figures adjusted for amortization of goodwill, restructuring costs, 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; 2001 and 2002 figures adjusted for amortization of goodwill
[2] as per approved financial statements
[3] 6.2% taking into account the effects of consolidation to be incorporated from the start of 2005
[4] 2005 figures adjusted for "restructuring costs and additional provisions for losses on loans and advances"
[5] HVB share price adjusted for rights markdown
[6] before capital increase

SUMMARY OF QUARTERLY FINANCIAL DATA

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	for information: Q4 2005 (adjusted)[1]
Operating performance (€ millions)					
Net interest income	1,404	1,493	1,468	1,520	1,520
Provisions for losses on loans and advances	323	326	327	537	390
Net interest income after provisions for losses on loans and advances	1,081	1,167	1,141	983	1,130
Net commission income	757	764	860	859	859
Trading profit	322	101	278	225	225
General administrative expenses	1,600	1,623	1,623	1,736	1,736
Balance of other operating income and expenses	(32)	2	20	(133)	(133)
Operating profit (loss)	**528**	**411**	**676**	**198**	**345**
Net income from investments	74	31	23	193	193
Amortization of goodwill	—	—	—	—	—
Restructuring costs	—	—	60	486	—
Allocation to special provisions for bad debts	—	—	—	—	—
Balance of other income and expenses	(37)	(36)	(36)	(180)	(180)
Profit (loss) from ordinary activities/ net income (loss) before taxes	**565**	**406**	**603**	**(275)**	**358**
Taxes on income	160	107	114	(119)	6
Net income (loss) after taxes	**405**	**299**	**489**	**(156)**	**352**
Minority interest in net income (loss)	(69)	(69)	(165)	(92)	(114)
Consolidated profit (loss)	**336**	**230**	**324**	**(248)**	**238**
Earnings per share (€)	0.45	0.30	0.44	(0.33)	0.32

	March 31, 2005	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	Dec. 31, 2005 (adjusted)[1]
Key indicators (%)					
Return on equity after taxes	11.6	9.7	10.2	5.5	10.0
Cost-income ratio (based on operating revenues)	65.3	67.0	65.2	66.4	66.4
Balance sheet figures (€ billions)					
Total assets	469.9	492.7	495.7	493.5	
Total volume of lending	326.2	333.3	334.1	332.6	
Shareholders' equity	14.6	15.4	16.3	16.4	
Key capital ratios compliant with BIS rules					
Core capital (€ billions)	15.4	15.7	15.7	16.0	
Equity funds (€ billions)	27.2	27.8	27.6	27.4	
Risk assets (€ billions)	242.0	246.5	250.0	245.5	
Core capital ratio (%)	6.4	6.4	6.3	6.5	
Equity funds ratio (%)	10.2	10.0	9.8	10.9	
Share information					
Share price (€)	18.87	21.51	23.44	25.61	
Market capitalization (€ billions)	14.2	16.1	17.6	19.2	
Employees	57,347	59,294	60,923	61,251	
Branch offices	2,085	2,190	2,263	2,316	

[1] adjusted for "restructuring costs and additional provisions for losses on loans and advances"

Important dates 2006

Publication of the 2005 annual results	March 22, 2006
Annual General Meeting of Shareholders	May 23, 2006
ICM International Congress Center Munich	
Neue Messe Munich-Riem, 81823 Munich, Germany	
First-quarter earnings	May 11, 2006
Second-quarter earnings	September 12, 2006
Third-quarter earnings	November 14, 2006

Contacts

Should you have any questions about the annual report, please contact Group Investor Relations by calling +49 (0)89 378-2 52 76, faxing +49 (0)89 378-2 40 83, or e-mailing ir@hvbgroup.com

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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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