HypoVereinsbank

Member of UniCredit Group

2006 Annual Report

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 €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 respects.

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Michelangelo Pistoletto, “Embraces Differences”, 2005, UniCredit collection.

2006 Annual Report

HypoVereinsbank Profile

- HypoVereinsbank is one of the **leading financial institutions** in Germany. Our core competencies cover retail banking, corporate banking and commercial real estate financing, wealth management and international capital markets.
- 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.
- HypoVereinsbank belongs to the European **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.
- Germany has an important role to play in the new Group. We are committed to our regional origins, but as a fully integrated member of the UniCredit Group we also want to develop a strong **cultural identity** as the first truly European bank. We are also committed to our **corporate citizenship**, promoting the common good in the countries where we operate.
- We offer our people excellent opportunities to further their careers throughout Europe. We give them a stake in our success through **performance-related systems of remuneration**, which helps to foster entreupreneurialism. At the same time, we ensure strict compliance with the Group-wide **Integrity Charter** which encompasses the basic values that all our people are expected to observe.

Financial Highlights

FULL HVB GROUP[1]

	HVB GROUP NEW 2006	FULL HVB GROUP 2006
Key indicators		
Return on equity after taxes, adjusted[1]	15.2%	18.5%
Return on equity after taxes	22.1%	37.8%
Return on equity before taxes, adjusted[1]	15.0%	20.6%
Return on equity before taxes	19.3%	35.5%
Cost-income ratio (based on total revenues)	62.1%	59.1%
Operating performance		
Operating profit	€2,257m	€4,567m
Profit before tax	€1,618m	€5,317m
Net profit	€1,640m	€4,420m
Earnings per share, adjusted[1]	€1.50	€2.88
Earnings per share	€2.18	€5.89
Balance sheet figures		
Total assets	€358.3bn	€508.0bn
Shareholders' equity	€21.9bn	€20.0bn
Key capital ratios compliant with German Banking Act[2]		
Core capital	€15.1bn	€18.3bn
Risk assets	€137.4bn	€219.3bn
Core capital ratio	11.0%	8.4%
Employees	25,738	50,659
Branch offices	788	1,877

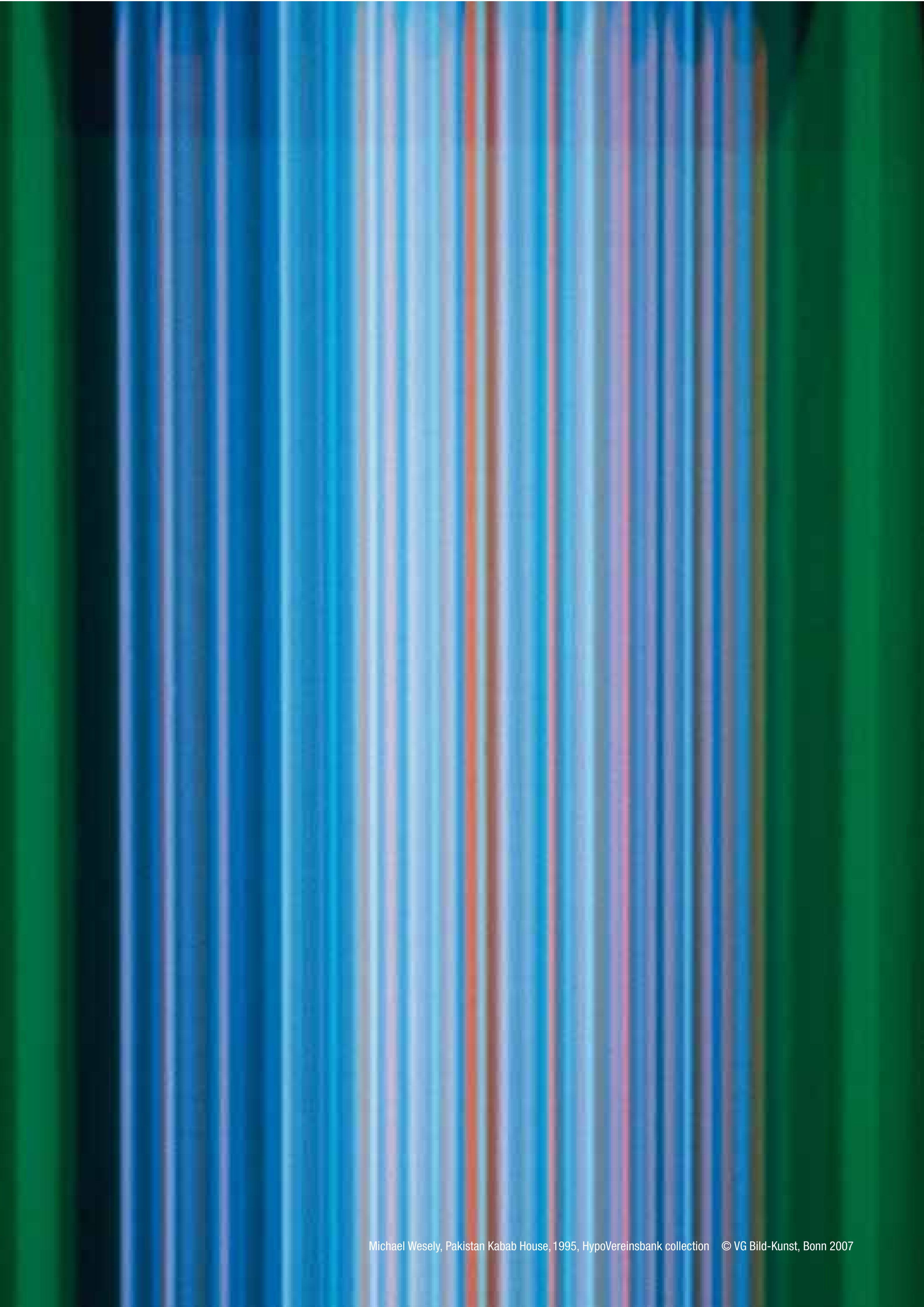
Share information		**2006**	**2005**
Share price:	Reporting date	€33.03	€25.61
	High	€33.20	€26.85
	Low	€32.50	€16.30
Market capitalisation at reporting date		€24.8bn	€19.2bn

1 2006 figures adjusted for the defined non-recurring effects (see Income Statement, HVB Group compliant with IFRS 5)

2 HVB Group new: pro forma figures

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	PUBLIC PFANDBRIEFS	MORTGAGE PFANDBRIEFS
Moody's	A2	P-1	stable	Aa1	Aa1
S & P	A	A-1	stable	AAA	—
Fitch Ratings	A	F1	positive	AAA	AAA



Michael Wesely, Pakistan Kabab House, 1995, HypoVereinsbank collection

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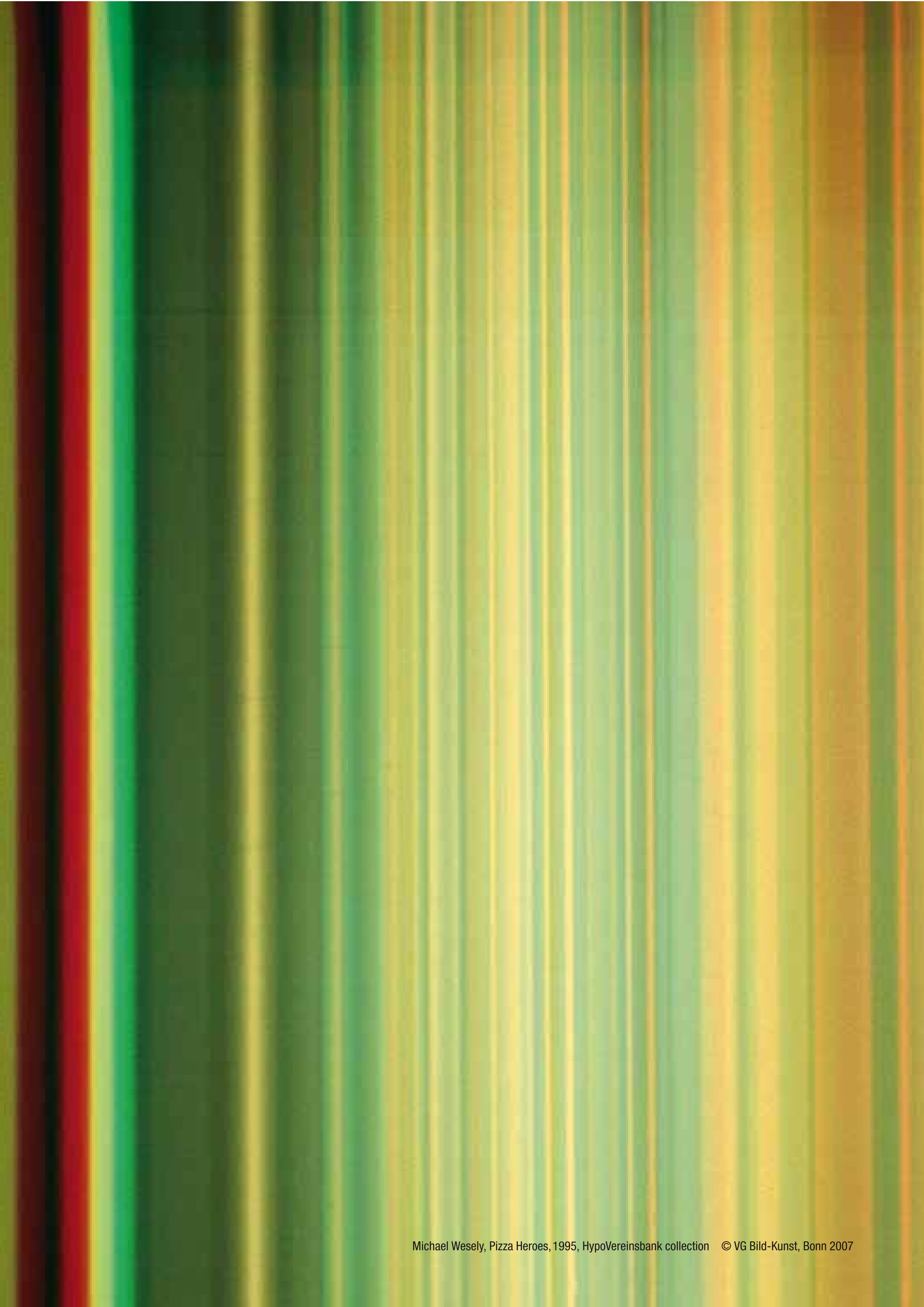


Michael Wesely, Pizza Heroes, 1995, HypoVereinsbank collection

Strategy, Business Model and Results

Chairman's Letter

"HVB has an essential role in the UniCredit Group's ambitious growth strategy, and Germany is a key home market and top priority for this Group."

Dear Shareholders,

We are pleased to announce that the integration of HVB into the UniCredit Group was substantially accomplished in the course of 2006. We are extremely satisfied with the results achieved by HVB but we are also keenly aware that we must not lose our momentum and initiative. We want to continue to be perceived as an innovation pathfinder in the financial sector, and we wish to further strengthen our position as a key player in the European financial market.

HVB has an essential role in the UniCredit Group's ambitious growth strategy, and Germany is a key home market and top priority for the Group. In fact, Germany is the largest European market – not only from the economic point of view, but also in terms of its population and the number of entrepreneurs and high-end customers. We are confident that HVB now has the human and financial resources to compete successfully in such an important and promising market by pursuing all relevant and external growth options.

We have created specialist business divisions focused on particular customer segments in order to achieve our objective of being the leading bank in terms of customer satisfaction, quality services and profitability both in Germany and in other key markets where we operate. This has enabled us to strengthen our position as a leading bank in the corporate market and to be perceived as an innovative player in wealth management.

In order to derive the greatest benefit from the financial potential of the German market as well as the Group's entire international network, UniCredit's Markets & Investment Banking Division will also be headquartered in Munich. This unit has already demonstrated its ability to leverage the previous experience gained in this area by UniCredit, BA-CA and HVB.

The measures taken to rationalise costs, reduce risks and optimise capital management are another essential part of the strategy to strengthen HVB.

The corporate transactions that led to the sale to BA-CA of the stakes previously held in banks in central and eastern Europe must also be viewed in this context. The ultimate goal is to provide HVB with the financial soundness and flexibility that are necessary for it to take advantage of all opportunities that may arise to further its development as a key market player. UniCredit has announced its intention to acquire the minority interests in HVB. This again is an effort to streamline the decision-making processes and is the natural conclusion of a highly successful integration process. This transaction should be seen as a significant step to improve the operational efficiency of HVB within the Group, and certainly not as a disengagement from the German market.

The operating and business results described in this Annual Report are testimony that the strategic and operational decisions made up to this point have been well-founded. Even more important, however, has been the extraordinary commitment demonstrated by all those who work at HVB and the fact that these results were achieved despite the uncertainties and immense pressures faced by our colleagues, and I would like to express my heartfelt thanks to all of them.

We will continue to make every effort to strengthen our identity which is based on shared values and cultural diversity within the UniCredit Group.

It is not only our desire to continue to create value and achieve impressive goals. We will also strive to make our growth sustainable by leveraging the reputation of HVB and all entities in the UniCredit Group. We will only feel completely satisfied if we are able to boost the sense of belonging to HVB and the UniCredit Group and to provide everyone with the opportunity to take an active role in achieving our shared, challenging objectives.

Alessandro Profumo
Chairman of the Supervisory Board

Letter to our Shareholders

"2006 has seen us build an outstanding position from which to continue our efforts in Germany."

Dear shareholders,
business partners
and friends of HVB,

Benjamin Disraeli, the celebrated British politician and author, once wrote: "The secret of success is constancy of purpose." The successful financial year enjoyed by our HypoVereinsbank in 2006 confirms the truth of this saying. This success would not have been possible without the constancy of purpose that our Bank has shown in our operations involving our customers and in the business combination with UniCredit. What had already started to happen in 2005 continued to accelerate throughout last year.

Being folded into the UniCredit Group makes it possible for us to combine local proximity and a focused commitment to our markets with a fast-growing, closely knit, European banking network. This is what makes us the first truly European bank and creates advantages for us on the marketplace. Advantages that our customers are noticing and that have given our team new impetus. In many respects, I am thoroughly proud of what we have achieved over the last year.

We have made a successful return to a sustainable growth path, offering our customers an innovative range of products together with a comprehensive service concept. Furthermore, as an operationally independent member of a European family of banks, we have a business model that demonstrates more powerfully every day how well it fits into a converging Europe. Keeping a regional focus, exploiting differences rather than smoothing them over, and adopting centrality as a complement rather than making it the goal per se: these are thoroughly European principles of collaboration and co-operation. The outcome is an excited sense of new beginnings that can be felt in many areas of our Bank. Although I do not wish to deny in any way that the necessary adjustment process has demanded much of many people over the last few months.

Thus the process of integration, which has run much faster and smoother than anticipated, has entailed considerably more work and a degree of uncertainty for our people. In this situation, our people have done more than just show an impressive willingness to change. They have also ensured that we could make a significant contribution to the overall performance of the UniCredit Group in 2006. For this achievement, I would like to express my heartfelt thanks to each and every one of our people.

The Integrity Charter that was introduced last year has placed the way we deal with each other in the HVB sub-group on a complete new footing in our daily work, in line with the values of the entire UniCredit Group. The Integrity Charter is a written system of values for the UniCredit Group, similar to ethical principles, that every employee as well as our customers and business partners can rely on as a firm foundation. That the Integrity Charter is compulsory throughout the corporate group also expresses our desire to see our corporate cultures converge and a common European identity emerge. Only those who have values can create value. The European identity supplements our roots in the individual domestic markets and underscores the UniCredit Group's claim to be a truly European banking group. (For more about the Integrity Charter, please refer to the section entitled "Human Resources and Corporate Social Responsibility" elsewhere in the present report.)

For HypoVereinsbank, 2006 was a year dominated by a new organisational structure for our operations. We have tailored the Retail, Corporates & Commercial Real Estating Financing and Wealth Management divisions to meet the demands of our various customer groups more fully. This enables us to provide the right products and services to meet the needs of each customer group and to deliberately refine our performance profile. Moreover, the UniCredit Group is pooling its entire investment banking activities at HypoVereinsbank. Our modified organisational structure in Germany fits into the structure of the UniCredit Group, making it possible for our customers to benefit from this transparent organisation throughout Europe, with clear responsibility structures across the whole UniCredit Group. We have thus put all the pieces in place to be able to exploit cross-border synergies for our Bank and also benefit from best practice solutions without losing time all across the corporate group.

Besides the realignment of our divisions, 2006 was also marked by the preparations to sell our operations in Austria and central and eastern Europe within the corporate group.

Letter to our Shareholders continued

Our shareholders approved a resolution to this effect from HVB's Management Board and Supervisory Board at the Extraordinary Shareholders' Meeting held on October 25 of last year. The shares we held in Bank Austria Creditanstalt, International Moscow Bank and HVB Bank Latvia were finally transferred in January of this year; the remaining transactions – involving HVB Bank Ukraine and our Baltic offices – will be completed soon, once the outstanding conditions have been met.

As a result of this transaction, HypoVereinsbank enjoys a high degree of financial strength in comparison to our competitors. We intend to use this newly found financial freedom to reinforce our capital base, which will give us the firm footing we need for faster growth – especially inside but also outside Germany.

All the divisions have a clear strategy for boosting their business volumes, their market shares and their profitability with a view to making themselves even more attractive for their respective customer groups. Last year we already made a successful return to the marketplace with a range of product and service promotions. The package of measures we are using to seize the initiative comprises new customer care models and attractive products, like the free Welcome Account for our retail customers. In addition, we are further expanding our regional presence, especially in corporate banking and wealth management. The impressive number of new customers that we succeeded in acquiring last year implies that, here too, we are on the right track.

Turning HypoVereinsbank into the investment banking competence centre for the entire UniCredit Group is opening up tremendous new opportunities for us. The aim is to firmly establish this activity among the leading group of European investment banks. With this decision, HypoVereinsbank is reaping the benefits of its outstanding positioning and sustained performance in this line of business.

But our strategy does not consist solely of organic growth. We also intend to employ the funds at our disposal to strengthen our competitive position – where it makes financial sense – by making targeted acquisitions. However, we will only do this if the target's activities are a good fit with our strategy, they generate value for our Bank and our corporate group and they represent a sustainable reinforcement of our operations over the long run.

I am convinced that appropriate additions to our business will open up in a rapidly recovering Germany. All the more so, as and when the three-pillar model of the German financial services industry becomes less rigid. But we are just at the start of this process. Misaligned regulatory conditions continue to prevent a wide-reaching consolidation of the German banking sector. Yet this is exactly what is needed if German banks are to close in on the upper ranks of their European peers in terms of profitability as defined by international norms. The development of the UniCredit Group in Italy is an excellent example of the positive outcome of integrating institutions from different banking worlds. Originally resulting from the merger of various formerly public-sector institutions, the UniCredit Group today is one of the biggest and most successful private-sector banking groups in Europe.

The positive developments at HypoVereinsbank within the UniCredit Group have coincided with an unusually strong upturn in the German economy and a favourable capital market environment. The result is that the success of our business model is clearly reflected in our figures for 2006.

Thus last year we were able to build on the constant improvement in our operating result that started some time ago and narrowly beat our financial targets. The net profit posted by the new HVB Group – meaning without the discontinued operations – totalled €1,640 million after a loss of €127 million in the previous year; adjusted for non-recurring effects, we succeeded in increasing our profit by a factor of almost four year-on-year. Adjusted for gains on disposal and extraordinary charges, our return on equity after taxes reached a healthy 15.2%. Moreover, all the divisions reported higher profits than last year, thus making a strong contribution to the good overall results.

Of course we want to share our financial success with you, our shareholders, in an appropriate manner. Hence the Management Board will propose to the Annual General Meeting of Shareholders that the dividend for 2006 be raised to €0.40 per share.

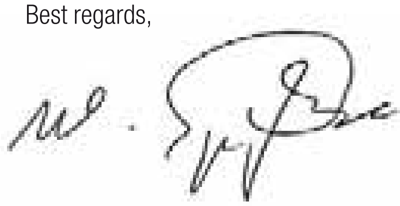
2006 has seen us build an outstanding position from which to continue our efforts in Germany. We aim to exploit this tailwind throughout the current financial year. Back in the 16th century, the French author Michel de Montaigne commented: "No wind serves him who addresses his voyage to no certain port." In line with this, we have set ourselves highly ambitious financial targets for this and the subsequent years, as outlined at the Capital Markets Day staged by the UniCredit Group at the start of July 2006. We will continue to advance the value-based realignment of our Bank. Thus we are looking to be among the top German banks in terms of profitability.

But above and beyond the financial targets, we have also set ourselves other challenges for 2007. We want to remain one of the players who act on the market rather than react. We want to convince more people of our capabilities and tie them to us as long-term customers. And we want to increase the level of satisfaction in us expressed by our customers. As far as we are concerned, customer satisfaction is the key measure of our success.

And these objectives will be advanced by UniCredit's decision announced in January of this year to seek to acquire the shares owned by HVB's minority shareholders. With this step, UniCredit is aiming to simplify the operational processes at HVB with a view to speeding up response times to market changes. The squeeze-out means that UniCredit is increasing its financial commitment on the German market, thus boosting the role played by HVB within the corporate group.

Our vision of helping to build the first truly European banking group is already in large part a reality. I would ask for your trust and your support as we continue down this path towards a successful future for HypoVereinsbank as an integral part of the UniCredit Group. I personally would be delighted if you were to be a UniCredit shareholder in the future – if you are not already – so that you can continue to be involved in the positive development of HypoVereinsbank in a pan-European context.

Best regards,



Wolfgang Sprissler

Summary of Divisional Results

All the divisions of HVB contributed to the Group's strong year-on-year (yoy) increase of operating profitability in 2006. These results are particularly positive, given the fact that during the year, a major divisionalisation process was successfully implemented and many projects were launched in all divisions to enhance their future profitability.

Group operating profit rose by 70% yoy, driven by:

- Retail division: over 100% increase[1], as rising revenues augmented the effect of an important decrease in operating costs (–8.7% yoy).
- Wealth Management division (WEM): increase[1] of 17.6% yoy despite Activest disposals, with Private Banking posting a solid 45% yoy rise thanks to double digit top line growth, combined with a significant decrease in costs.
- Corporates & Commercial Real Estate Financing division (CCREF): increase[1] of 9.8% yoy with a distinct rise in Corporates, stemming from both higher revenues and lower costs, and the ongoing restructuring of CREF carried on with no significant drag on operating profit.
- Markets & Investment Banking division (MIB): increase[1] of 43.3% yoy as the higher level of activity of all major business segments led to over 20% increase in operating revenues.

During 2006 the new Global Banking Services division successfully consolidated service units, already achieving a sustained cost reduction for the Group.

1 increase in Group operating profit

Divisional highlights[1]

€ millions	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING		MARKETS & INVESTMENT BANKING
Total revenues					
2006	1,728	550	1,103[3]	199[4]	2,279
2005	1,694	569	1,043[3]	233[4]	1,889
Operating costs					
2006	(1,422)	(336)	(444)[3]	(51)[4]	(1,163)
2005	(1,557)	(387)	(459)[3]	(82)[4]	(1,110)
Operating profit					
2006	306	214	659[3]	148[4]	1,116
2005	137	182	584[3]	151[4]	779
Profit before taxes					
2006	117	746	447[3]	84[4]	969
2005	(174)	133	360[3]	(76)[4]	700
Cost-income ratio[2] in %					
2006	82.3	61.1	40.3[3]	25.6[4]	51.0
2005	91.9	68.0	44.0[3]	35.2[4]	58.8

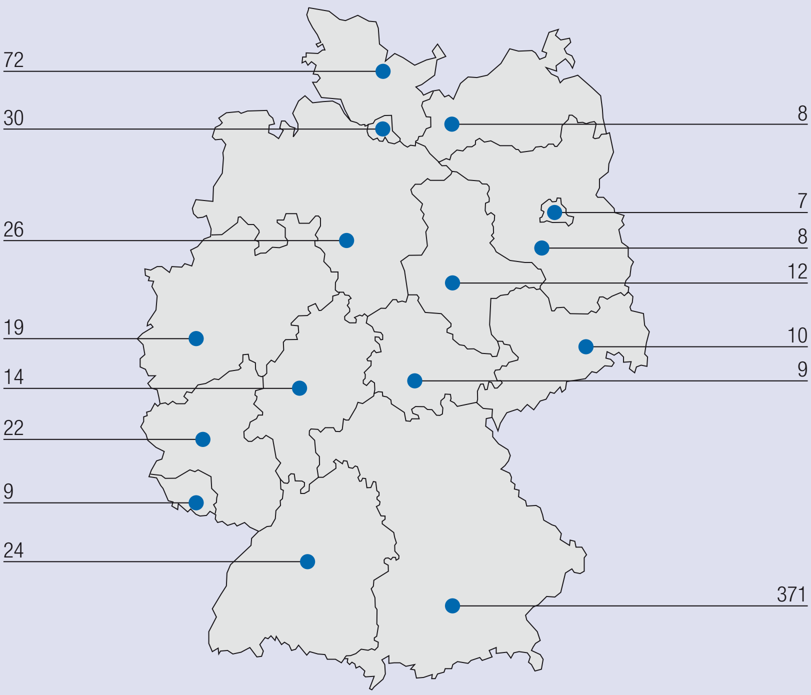
1 please refer to the Notes for more detailed information
2 based on total revenues
3 Corporates
4 Commercial Real Estate Financing

Retail Division

Divisionalisation boosts growth opportunities

When the Bank was split into divisions in the middle of the year, the wealth management, corporates and retail customer segments were aligned with the uniform UniCredit structure. This created a stable foundation for growth.

Retail: offices in Germany



Offices by state

STATE	DEC. 31, 2006	%
Baden-Wuerttemberg	24	3.7
Bavaria	371	57.9
Berlin	7	1.1
Brandenburg	8	1.2
Hamburg	30	4.7
Hesse	14	2.2
Lower Saxony	26	4.1
Mecklenburg-Western Pomerania	8	1.2
North Rhine-Westphalia	19	3.0
Rhineland-Palatinate	22	3.4
Saarland	9	1.4
Saxony	10	1.6
Saxony-Anhalt	12	1.9
Schleswig-Holstein	72	11.2
Thuringia	9	1.4
Total[1]	**641**	**100.0**

1 The total number of offices of the new HVB Group is 788 (see Note 82)

Range of products and services tailored to demand

Now that they are homogenous, the customer segments are in a better position to provide a bespoke range of products and services, securing long-term customer satisfaction, and to significantly enhance efficiency in production and handling.

The small business customer segment, which includes all customers with annual revenues of up to €3 million, has been included in the Retail division. This goes hand in hand with a strengthening of our retail bank, which has achieved even greater proximity to our business and professional customers, and providing comprehensive customer care from a single source for commercial and personal banking during the life cycle of our business customers. At the same time, we have succeeded in retaining the customer relationship models that have proved successful with small business customers, in the form of standardised offerings made via telesales and individual solutions provided on site, through to our specialised approach for the target group of health care professionals.

As part of a systematic, customer-oriented transfer process, we succeeded in moving over some 320,000 customers within a few weeks, whilst managing to keep the same relationship manager in most cases. A customer survey carried out specially for this purpose showed that the transfer did not have a detrimental effect on the satisfaction and loyalty of our customers.

Earnings performance in the Retail division

In 2006, the Retail division made an operating profit of €306 million before loan-loss provisions, thus providing a significant contribution towards HypoVereinsbank's total profit. With a 8.7% reduction in operating costs, total revenues increased by 2%. (Please refer to Note 22 in the notes to the consolidated financial statements for a detailed discussion of the results.)

Improved advisory processes support rise in cross-selling rate

Systematic, long-term advisory processes play a crucial role particularly in the more sophisticated customer segments. HVB is consistently pursuing the policy it has adopted in this connection. By refining this policy, we have succeeded in sustainably increasing the cross-selling rate by using competent advisory methods tailored to customers' needs, objectives and affinity to risk. This has involved applying the advisory processes of the recently integrated small business customer segment for the first time.

In 2006, the BasisDialog and PremiumDialog advisory processes were revised with this in mind. Apart from streamlining processing steps and simplifying functions, system adjustments focused on networking with existing product-closing tools. As intended by the comprehensive, holistic advisory strategy, the sales force now has a wealth of possibilities for gathering, consolidating and evaluating customer data using CRM tools.

Further expansion of alternative sales channels

Moreover, we succeeded in increasing our lead in online services. It is now possible to buy all basic products over the Internet conveniently and inexpensively. This helps reinforce our customer acquisition and cross-selling activities in our branches. We also added more online services (making it possible to create and amend tax exemption requests, for instance) with a view to boosting customer satisfaction and improving customer retention.

Systematic pursuit of customer acquisition

Offering a unique account package (the HVB Willkommenskonto) helped us to win almost 60,000 new customers in the second half of 2006. Consistent advisory reviews and the ensuing product sales with these customers have already led to a high cross-selling rate and above-average earnings. We are looking to repeat this success in 2007, this time also with special offers for our existing customers.

Retail Division continued

Securities operations record solid growth rates

Despite the separation of the Wealth Management division in the middle of the year, the securities business saw its 2005 growth rates beaten again in 2006. With revenues up more than 16%, this line of business was once more the engine of growth for the division in 2006.

Strong gains were made in all product areas. With gross revenues in excess of €2.5 billion, the business involving structured products enjoyed especially lively growth. Above all, the certificates on funds issued for the first time in 2006 were particularly popular, making a significant contribution to growth.

The merger of Activest and Pioneer Investments has also provided our retail customers with a broader spectrum of high-quality fund products from our own Bank, which also reported significant increases in volumes in retail customer operations in 2006. At over €6.6 billion, the Activest TotalReturn fund group is now the largest fund of its kind in Germany.

In addition to earnings growth, the optimisation of earnings structures was by far the most important factor in 2006. The goal is to significantly stabilise earnings and thus reduce the dependency on capital market fluctuations. A huge step was taken in this direction with the relaunch of the HVB KombiAnlage, a standardised fund asset management offering.

The HVB KombiAnlage recorded volume growth of over €1 billion in the fourth quarter alone and, at over €5.25 billion, now ranks among the largest fund asset management products in Germany. The annual asset management fee it generates guarantees a significant earnings base for the coming years. The exceptionally high quality of the HVB KombiAnlage product was confirmed by winning first place in the study carried out by FondsConsult (03/2006) and through the renewed certification by the Institut für Vermögensaufbau (Q4/2006).

HVB wins market share in instalment loan business

In 2006, HVB was able to increase its share of the instalment loan business to 1.8% despite stagnation in the market. Innovative offerings, such as the option of increasing the regular repayments, make it easier to draw up concepts for customised solutions whilst using standardised procedures. The ongoing development of advisory and rating systems in the instalment loan business ensures that we provide customised finance solutions and accurately predict the credit risks entailed in these loans at the same time.

Excellent performance in insurance business

Our insurance business performed strongly, posting growth of almost 20% in endowment policies and over 30% in non-life policies. One of the main drivers was the state-subsidised Riester pension, a private retirement savings plan, which posted over 60% growth in terms of volumes sold.

We successfully re-aligned our portfolio of insurance products catering for the needs of our small business customers. Overall, we succeeded in selling insurance products to a broad section of each customer group, hence sustainably boosting fee and commission income.

Further increase in deposit-taking operations

Deposit-taking operations were one of the primary sources of income for the division once more in 2006. Consistent pricing policies helped us to again substantially raise the interest contribution on the deposits side by almost 15%. In the process, the quality of deposits has improved, thus guaranteeing future income. HVB KomfortSparen, a new savings plan introduced in November 2005, attracted 100,000 new customers in its first year. Over 85% of these customers make monthly deposits under the scheme and are thus safeguarding growth in the coming years.

Real estate finance as a basic product for cross-selling

Real estate finance continues to be a core product for retail and small business customers. The strategy of focusing on profitable, low-risk business was continued. Particularly in this area, the market was characterised by fierce competition and hence strong pressure on margins. Despite this difficult market environment, we managed to book new business at a satisfactory rate in 2006. In the course of these new contracts, we also succeeded in boosting the cross-selling rate so as to increase both the proceeds gained from each customer relationship and customer loyalty.

Significant expansion of e-business and cash management

HVB significantly expanded the electronic banking and cash management services it provides for its customers in 2006. Thus, customer payments in Germany rose to 550 million items (up 10% on last year) and 2.5 million items abroad (up 20% on last year). The gross contributions from payments increased by around 7.5%. Thus we improved the earnings situation in this line of business, bucking the market trend, despite the persistent decline in margins.

In cash management, we won 49 new clients (cross-border cash pools) and continued to consolidate our position in central and eastern Europe.

Outlook: focus on optimised advisory services

In 2006, we devised a systematic concept for continuing to expand and optimise the sales interface, which will reduce costs and increase earnings in our retail operations in 2007. This forms the springboard for us to achieve our ambitious 3-year plan. The key points involve offering optimised advisory services through the consistent allocation of customers, deploying more employees in sales functions and reaching passive customers by applying a new relationship management concept. To this end, we will also invest in the continuing professional development of our workforce.

Tailor-made range of products and services for all customer groups

Private customers

Demand-driven range of products and services

Private banking customers

Demand-driven range of products and services, focusing on investment business

Small business customers

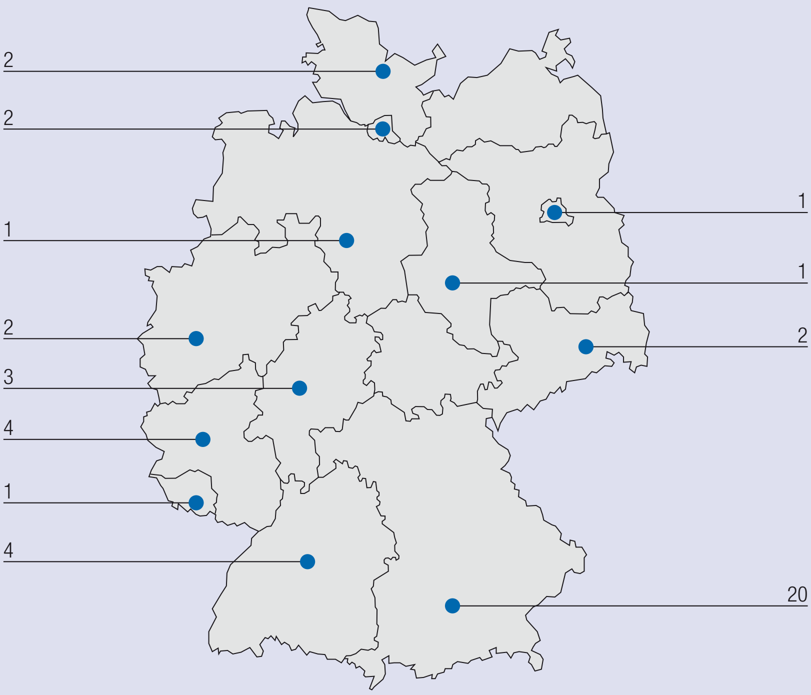
Demand-driven range of products and services for the private and business needs of entrepreneurs

Wealth Management Division

Market environment with huge growth opportunities

The wealth management market in Germany offers significant opportunities for growth. By 2009, private assets in this segment are set to increase by around 6%.

Wealth Management: offices in Germany



Offices by state

STATE	DEC. 31, 2006	%
Baden-Wuerttemberg	4	9.3
Bavaria	20	46.5
Berlin	1	2.3
Hamburg	2	4.7
Hesse	3	7.0
Lower Saxony	1	2.3
North Rhine-Westphalia	2	4.7
Rhineland-Palatinate	4	9.3
Saarland	1	2.3
Saxony	2	4.7
Saxony-Anhalt	1	2.3
Schleswig-Holstein	2	4.7
Total[1]	**43**	**100.0**

1 The total number of offices of the new HVB Group is 788 (see Note 82)

Personal, independent, forward-looking advice

According to a forecast by Barclays Wealth Insight, Germany is one of the countries that will record the highest relative growth in millionaires in the coming years. We aim to attract more than an equal share of this growth and position ourselves as one of the top names in wealth management. We provide a convincing proposition to our customers through personal, independent and far-sighted advice coupled with a high level of expertise and comprehensive strategies as well as innovative and customised solutions.

Earnings performance in the Wealth Management division

In the third quarter of 2006, the segments were re-organised in connection with the integration of HypoVereinsbank in the UniCredit Group. This re-organisation mainly affected the former Germany business segment. The Retail and Wealth Management divisions were formed from the Private Customers business unit. In addition, customers and employees were transferred from the former Corporate Customers and Professionals business unit (business customer segment) to the new Retail and Wealth Management divisions. 90% of the customers contacted decided in favour of HVB's new proposition and switched to Wealth Management.

In 2006, the Wealth Management (WEM) division's results were also boosted by the gain realised when the Activest companies (Activest Investmentgesellschaft mbH, Munich, Activest Investmentgesellschaft Luxembourg S.A., Luxembourg and Activest Investmentgesellschaft Schweiz AG, Berne) were sold to Pioneer Investments. The sale yielded a gain on disposal of €543 million, which is reported under net income from investments. The Activest companies were deconsolidated with effect from July 1, 2006. Hence the 2006 results cannot be compared to last year, but the adjusted figures can be used for comparison.

The Wealth Management division generated an operating profit of €214 million before loan-loss provisions and thus made a very strong contribution to HypoVereinsbank's total profit in 2006. Operating costs remained stable despite the reestablishment of the division. (Please refer to Note 22 in the notes to the consolidated financial statements for a detailed discussion of the results).

HVB Wealth Management starting in 2nd place in the German wealth management market

We have an excellent starting position: in terms of customer assets under management, today we already have an outstanding ranking in 2nd place in the German wealth management market. Highly affluent customers were transferred from the retail and corporate banking segments of HVB AG in the course of the new divisionalisation. The new division has an investment volume of more than €31 billion and serves over 37,000 affluents. The operating result and significant profitability indicators reflect HypoVereinsbank's excellent starting position in this important business area.

To achieve our growth targets, we have increased the number of facilities we use and people we employ. We now have more than 40 offices throughout Germany. Hence, we cover more than 90% of the market and are thus easily accessible for all of our customers. Our nationwide presence and the resulting proximity to our customers makes us stand out from many of our competitors.

Strategy and value levers of the new division offer clear advantages

We offer the individual attention and exclusivity of a private bank combined with the competence, security and international network of a large banking group – the UniCredit Group. This network spans 40 countries, including Luxembourg, Austria, Italy, Switzerland, the CEE countries and the United States among others. Besides wealth management, we also have a high level of expertise in the fields of financing, real estate finance and particularly in the management of foundations and trusts. Wealth Management at HVB AG handles distribution for wealthy retail customers in Germany, private banking operations in Luxembourg, the activities of the DAB banking group and the production and marketing of real assets, bundled in the WealthCap subsidiary currently being formed.

We serve customers at HVB AG with liquid assets of more than €500,000 under a relationship approach specially tailored to the requirements of high net worth customers. This is expanded to include specific family office services for customers with total addressable assets exceeding €30 million. In addition, our investment management units support our customers in the purchase and sale of corporate holdings and private equity products. In doing so, we follow the entire process from investment consulting all the way to the signing of agreements.

Wealth Management Division continued

Relationship model geared to holistic asset management

A total of six customer segments form the basis of our relationship model, which is geared to providing holistic wealth management: family office customers, for whom the key element is providing holistic advice on very large and complex estates; wealthy private customers, where the focus is placed on individual asset strategies; professionals and business customers, for whom asset accumulation and corporate finance is the main element; and foundations and privately owned investment companies focusing on the professional management of large-scale assets. In addition, we attend to the private affairs of company owners and perform professional asset management for certain securities accounts, such as public-sector customers and professionals.

Competent staff – a basic requirement for our customers

Committed, highly trained and – in many instances – certified employees with special advisor virtues are absolutely essential for satisfying our customers' high expectations. It is therefore a top priority that all of our employees' daily activities reflect our service promise: we expect our employees to be customer-oriented, competent and innovative. We will consistently take new steps to establish ourselves as Germany's leading wealth manager in the long term. In these efforts, customer satisfaction is the key driver of our business activities and an important factor in our employees' pay.

Institut für Vermögensaufbau IVA and the firstfive rating agency award five stars to tailored-made mandate and portfolio solutions

We provide expertise in all relevant areas, complete with exclusive, prize-winning products. One such offering is HVB Vermögensverwaltung FIRST, an asset management product that has been awarded several top five-star marks by the independent Institut für Vermögensverwaltung (IVA). This product is aimed at customers intending to invest a volume in excess of €250,000 in this product.

Another product to receive honours is First Flex, our individual HVB Vermögensverwaltung wealth management concept, which has met with success for 25 years, and was again reassessed and likewise awarded several top five-star ratings from firstfive, an independent rating institute. With its strategic, risk-return-based investment approach HVB Vermögensverwaltung First Flex posted an average annual return of 9%. In addition to mandate solutions, we also offer our customers tailored portfolio solutions with various risk profiles. We have certified quality securities accounts for each risk class. They serve as the basis for the relationship manager, who then works with the customer to optimise the composition of the portfolio. We attach great importance to transparency through clear pricing and extensive reporting.

Special expertise in managing inheritances and trusts bridges generations

With our inheritance management and trust management, we also offer our customers cross-generational asset planning, underscoring the stringent quality standards we impose on our advisory activities. After all, a challenge such as planning the transfer of wealth to the next generation is one of the most personal issues addressed in the field of financial advice. Our certificated experts in trust and inheritance issues see to the needs of heirs, testators and trusts, as well as clients thinking of setting up a trust, from the initial idea to the asset management activities.

Financial planning is specifically tailored to cater for customers with very substantial assets. Expert advice and one-stop financial advisory services are provided by specially trained, certificated financial planners.

HypoVereinsbank sells Activest to Pioneer Investments

The advisory services we offer benefit from our membership of the UniCredit Group as we are able to call upon outstanding expertise worldwide in areas like asset management. The combination of Activest and Pioneer, a global mutual fund company that has been extremely successful for many decades, will give our customers access to an even greater range of international investment products. This means we can leverage the advantages of a strong, global asset management partner to offer our customers a broad range of worldwide products.

Excellent performance by Wealth Management subsidiaries

In 2006, DAB Bank recorded the best result in its company's history. It now manages more than a million securities accounts for the first time. The assets under management were increased by 19% compared to the previous year. At just under €30 billion, around €14 billion of which are B2B-brokered funds, DAB is Germany's largest independent funds platform. A successful year on the stock market saw almost eleven million transactions carried out on the DAB platform.

HVB Luxembourg Private Banking succeeded in establishing Family Trust Management Europe S.A. (FTME) in 2006 to complement its successful WEM activities. This company has specialised in managing internationally diversified assets in a Luxembourg-based corporation.

Wealth Management Capital Holding GmbH, which is currently being formed, is seeking to become one of the leading initiators of closed-end funds in Germany. Merging our subsidiaries H.F.S. (Hypo-Fondsbeteiligungen für Sachwerte GmbH), Blue Capital and HVBFondsFinance GmbH will serve to pool expertise in the three areas of private equity, German real estate and international real estate. We expect this to put us in a first mover position in the development and implementation of innovative real-estate products.

Outlook: systematic alignment of the business model and organic growth

In 2007, the focus will be placed on organic growth, notably by increasing the assets managed for customers, new customer acquisition and the optimisation of the range of products as planned. The consistent and seamless alignment of the business model to cater for the needs of defined target groups has an important role to play in this regard. We will continue to expand our business model whilst seeking to intensify co-operation with and between our subsidiaries. We intend to pursue six growth goals in the coming years: enhancing customer satisfaction; boosting customer loyalty; expanding our customer base; significantly increasing the share of our asset management products, fostering the dynamic development of fresh money and generating synergies from a higher level of networking in the co-operation between Wealth Management units.

Wealth Management distinguishes six target customer groups, two of which share a common relationship model/co-operation with Corporates

Target customer group		Product basket
Family office customers	Institutional	• Personal wealth management for very wealthy families (investment and financing)
Wealthy private customers	Individual	• Full spectrum of WEM products and services (with focus on investment)
Professionals/SMEs	Individual	• Full spectrum of WEM products and services (investment and financing)
Private foundations and private asset management companies	Individual	• Professional portfolio management
Business owners with business side in Corporates	Individual	• Full spectrum of WEM products and services (investment and financing)
Corporate customers (public-sector corporations)	Institutional	• AM-specific WEM products and services (separate security account and transaction account)

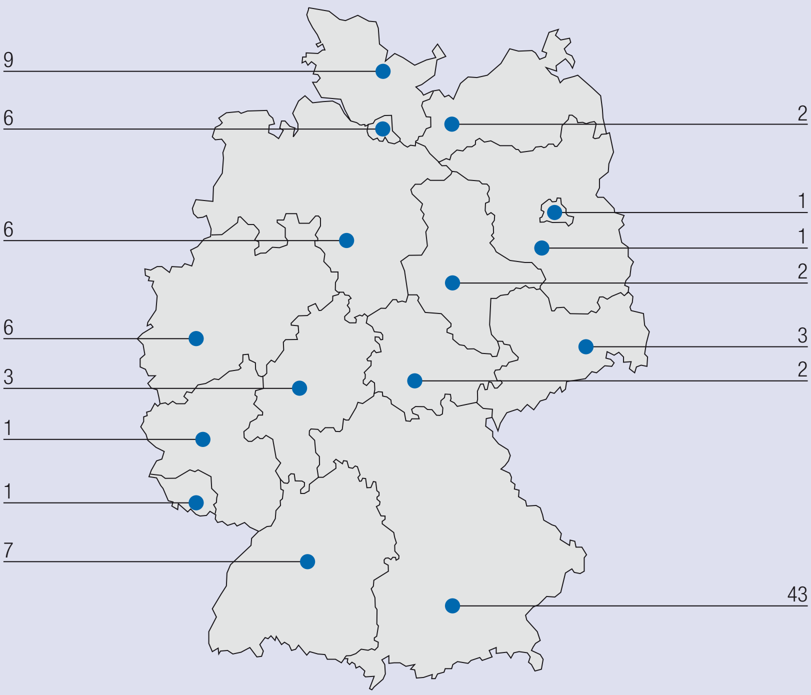
■ Customer allocated fully to Wealth Management
■ Revenue share (customer not allocated fully to Wealth Management)

Corporates & Commercial Real Estate Financing Division

Corporate Banking

In 2006, solid results were generated by 1,984 employees working at 93 locations throughout Germany (HVB AG), serving around 70,000 customers and handling loans worth €40 billion and deposits worth €20 billion.

Corporate Banking: offices in Germany



Offices by state

STATE	DEC. 31, 2006	%
Baden-Wuerttemberg	7	7.5
Bavaria	43	46.2
Berlin	1	1.1
Brandenburg	1	1.1
Hamburg	6	6.5
Hesse	3	3.2
Lower Saxony	6	6.5
Mecklenburg-Western Pomerania	2	2.2
North Rhine-Westphalia	6	6.5
Rhineland-Palatinate	1	1.1
Saarland	1	1.1
Saxony	3	3.2
Saxony-Anhalt	2	2.2
Schleswig-Holstein	9	9.7
Thuringia	2	2.2
Total[1]	**93**	**100.0**

1 The total number of offices of the new HVB Group is 788 (see Note 82)

First value driver: satisfied customers, friendly market environment and good prospects

With a market share of around 5.9% based on the total lending volume in Germany, HVB is the fifth largest corporate bank – but not as far as customers are concerned. We were voted "Corporate bank of the year" in 2007 by 100,000 readers of "Markt und Mittelstand", a sector magazine; the main reason for this was "the high quality of the range of products and services" offered to corporate customers by HVB. The feedback we have gained from numerous discussions with customers also shows that our business combination with UniCredit is seen as an advantage. As far as its market presence and significance is concerned, HVB has moved sharply upwards in customer rankings, due in part to customers profiting from the presence of UniCredit banks in 20 countries in Europe – not only in the emerging markets of CEE but also in the most important exporting countries of the EU. But above all, it is the expertise cultivated in increasingly complex corporate banking operations which our customers find convincing.

At the same time, a relatively stable market environment and a favourable economic climate had a positive impact on results. In particular, German enterprises succeeded in exploiting new opportunities to improve their competitiveness in exports. Germany continues to be the world's biggest exporting country and largely managed to maintain its market shares in 2006. This trend was accompanied by a rise in foreign direct investment and is evidence of the increasing globalisation of production activities and companies. HVB benefited strongly from this development in 2006, thanks largely to the expertise it has in foreign trade and cash management operations as well as in liquidity and financial risk management in its investment, interest and currency products.

Its industry expertise and strong customer relationships in key export sectors, such as engineering, tool manufacturing and automotive supply, also made a decisive contribution to performance in 2006. Greater competitive pressure in fees and lending margins was more than compensated, but will continue to have an impact.

An estimated lending volume of €1.2 trillion in Germany and the rise in demand for capital market expertise among broader customer groups (mid-caps) provide plenty of room for further growth in the coming financial year. We expect the total lending volume for corporate customers to grow by around 5%. We also assume that the market climate for German corporate banking operations will develop similarly well in 2007.

Second value driver: greater advisory expertise and suitable product solutions

Twelve initiatives were launched under the Growth Opportunities (GO) programme in 2006; these will underpin our future growth and improve our value added. In this context, the investments made in our advisory services and efficient relationship management in particular are considered essential requirements for exploiting market opportunities. Alongside greater expertise, relationship managers are benefiting from clear customer segmentation, which is giving them more leeway to serve customers on a long-term basis, provide competent advice and call in product specialists to effectively meet specific customer needs. To optimise this, new relationship models were introduced when the divisions were restructured. Our operations are now divided into four customer segments:

– large caps (6,000 customers)
– mid caps (27,000)
– small caps (32,000) and
– public-sector customers (5,000)

The customer transfers required to implement the resegmentation and the restructuring of divisions were completed mid-2006, with no hindrance to commercial activities; in fact we succeeded in acquiring a number of new customers.

Corporates & Commercial Real Estate Financing Division continued

More specific training for employees is a further positive side-effect of the resegmentation. In 2006, all relationship managers working in the mid-cap and large-cap sector underwent training in conducting strategic dialogues with customers. Moreover, relationship managers have been able to use the methods launched in 2006 – "HVB industry and benchmark analysis", "HVB corporate customer credit-standing analysis" and the "HVB structural analysis for the Mittelstand" – to show their customers where they are located in an industry-wide comparison and what opportunities and openings there are for their company.

The ratio of net interest income to net fees and commissions stood at 70:30, clearly indicating that lending operations were our core business again in 2006. But all our efforts were aimed at providing Mittelstand customers with innovative alternative solutions to supplement traditional loans, such as mezzanine products involving the capital market (PREPS™). This highly innovative profit-participation platform, which was launched jointly with our partner CEG, enables mid-sized companies to raise finance directly from the capital market. With its sixth transaction (2007-1) in the first quarter of 2007, Corporates placed over €2.0 billion of subordinated capital for Mittelstand customers via the PREPS™ platform.

HVB is the market leader in Germany for mezzanine finance. Besides providing sophisticated, tool-aided advisory services, coupled with the analysis and funding of current (working capital) and non-current assets, we offer structured loans to a broader array of small and medium-sized enterprises. We are also continuing to expand operations involving subordinated finance, small and medium-sized finance for corporate transactions and project finance. In addition, we can open up the complete range of products of the Markets & Investment Banking division (MIB) to mid-sized customers, thus enabling them to access the capital market.

We rolled out a new product in the autumn of 2006 in the form of M-ABS, an asset-backed securities programme for Mittelstand companies. This product leverages the UniCredit Group's high level of expertise in the field of securitisation.

As the leading player in central and eastern Europe, accompanying our customers into these markets is one of the focal points of our business activities. In 2006, almost 4,000 HVB customers made use of these capabilities to invest in one or more CEE countries. Our services extended from facilitated account opening to complex cash management solutions, cross-border credit offerings and leasing products. Our business combination with the UniCredit Group has put these cross-border business activities on an even wider base.

Earnings performance of Corporates

Our corporate banking operations continue to make a significant contribution to the consolidated profit of HVB Group. Operating profit before net write-downs of loans and provisions for guarantees and commitments developed especially well, rising 12.8% to €659 million compared to 2005. Despite higher revenues, we succeeded in cutting operating costs by 3.3% year-on-year. There was a slight increase in net write-downs of loans and provisions for guarantees and commitments, up 5.8% to €201 million. As a result of higher revenues and cost reductions, the cost-income ratio improved by 3.7 percentage points to 40.3% (see also the Segment Reporting section in the notes to the consolidated financial statements). The solid 5.8% year-on-year improvement in total revenues was down to a 6.4% rise in net interest income and a pleasing 4.9% increase in net fees and commissions, which benefited from higher income from advisory fees under structured finance.

Outlook: growth initiatives in several lines of business

Corporates will again seek to act as a value driver for customers and to remain the market player with the highest customer satisfaction in 2007. We intend to support our customers' growth in the course of the increasing cross-border expansion of medium-sized corporate customers and be seen as the driver of process and product innovation in corporate banking. To this end, Corporates will launch further growth initiatives in the following areas in 2007:

– Organic growth (recruitment and training of new corporate customer relationship managers) and opening of five branches in regions with low market penetration (south-western Germany, North Rhine-Westphalia, Lower Saxony)

– Greater concentration on sectors and industries in which HVB can tap further potential with its core expertise: public-sector finance, renewable energy, global shipping and maritime industry

– Further expansion in innovative product areas (derivatives, structured finance, foreign trade, cash management and corporate finance)

– Leasing products and services: the UniCredit Group's Corporate division plays an outstanding role in leasing operations in Europe. We will seek to transfer this expertise to Germany through HVB Leasing

Hence, the strategic economic goals set for 2007 are to increase our market share, apply strict cost management and manage risks at increased volumes.

Our corporate banking operations are geared to four customer segments, which we serve with tailor-made products and services.

Customer segment	Product range
Large caps **Revenues > €250m**	• Tool-based analysis and advisory instruments • Focus: international operations and capital market
Mid caps **Revenues €15m – €250m**	• Tool-based analysis and advisory instruments • Focus: structured finance
Small caps **Revenues €3m – €15m**	• Finance • Cash management • Trade finance • Derivatives
Public-sector customers	• Structured finance • Derivatives • Asset management products

Corporates & Commercial Real Estate Financing Division continued

Commercial Real Estate Financing

In 2006, Commercial Real Esate Financing continued its firm commitment to implementing the Group business model in commercial real estate finance in Germany.

Implementing the business model

The implementation of the business model involved balancing activities between the restructuring of the current portfolio and the continued focus on value-added business (e.g. services and products with higher advisory content). The new structure adopted in 2005, based on regional teams at six locations in Germany (Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Nuremberg) with the structured finance specialists concentrated in Munich, proved to be effective and was consequently retained without amendment in 2006.

During 2006, with the implementation of the new Group divisionalisation, our commercial real estate finance operations were integrated into the Corporates & Commercial Real Estate Financing division. This makes it easier to exploit synergies in fee-generating products and services and also leverage the strong structuring expertise deployed by Corporates.

The major activities in 2006 included an analysis of the customer portfolio from a strategic perspective, leading to the transfer of positions identified as non-strategic to the Special Credit Portfolio (please see page 7 of the HVB Interim Report at September 30, 2006). This move made it possible for us to concentrate our sales efforts on the target customer base.

Development of the real estate market

Bouyed by a surprisingly strong economy overall together with some sector-specific factors, the German property markets improved in 2006. Investment activities, rents and prices have all picked up; property and portfolio transactions, which had already increased sharply in the last few years, have reached record levels.

The improvement in residential and commercial property markets is also reflected in the gradual reduction of vacancy rates that had depressed the markets in the past and in a slight decline in the number of forceclosures. Some selected German office markets, in particular, have seen very little new construction and high absorption rates combined with a noticeable reduction in oversupply; this has already led to initial rises in rents for offices in good locations.

New business approach and development in 2006

Despite improving market conditions, our approach to new lending in the real estate business remained extremely cautious in 2006. We continued to be selective in terms of the quality of the properties financed and maintain high credit requirements for investors and buyers, and pricing has been systematically linked to the risk profile of the transaction.

Our strict lending and pricing policy helped to stabilise profitability in the new lending business of Commercial Real Estate Financing in 2006, despite some pressure on margins at sector level. During 2006, we kept our lending policy focused on risk and geared to marketing and transfer options in order to provide greater room for risk management possibilities in the portfolio.

Earnings development

The period of transition experienced by Commercial Real Estate Financing in 2006 and the major focus on restructuring were reflected by the 14.6% decrease in total revenues year-on-year, mainly due to the significant reduction of interest-bearing assets, resulting in lower net interest income. At the same time, the successful downsizing effort also translated into a significant decrease in operating costs, down by an impressive 37.8% year-on-year as the resources allocated to Commercial Real Estate Financing were effectively reduced. Furthermore, the lower volume of lending and the adjustment measures carried out led to a massive reduction in loan-loss provisions.

Outlook: continued focus on premium segments

The probability of an ongoing improvement in property markets is enhanced by the good start to 2007 made by the economy as a whole. However, developments are likely to differ by sector and region. The residential market should lose some momentum this year, because it benefited from various segment-specific factors (including government subsidies) in the past two years that no longer apply. In contrast, commercial construction should increase considerably. Regional differences that are still evident between the individual markets will hardly diminish in the course of this year.

In this setting, Commercial Real Estate Financing intends to keep its focus on serving its target customer base, which primarily includes investors, property developers and housing development companies. In accordance with its strategic guidelines, Commercial Real Estate Financing will maintain its commitment to cutting back non-profitable business and increasing the service component of its revenues, as well as a applying cautious approach to new business.

Markets & Investment Banking Division

Competence centre for global financial markets and investment banking services

The Markets & Investment Banking (MIB) Division of HVB was created in July 2006 from almost all of the activities performed by HVB's former Corporates & Markets business segment.

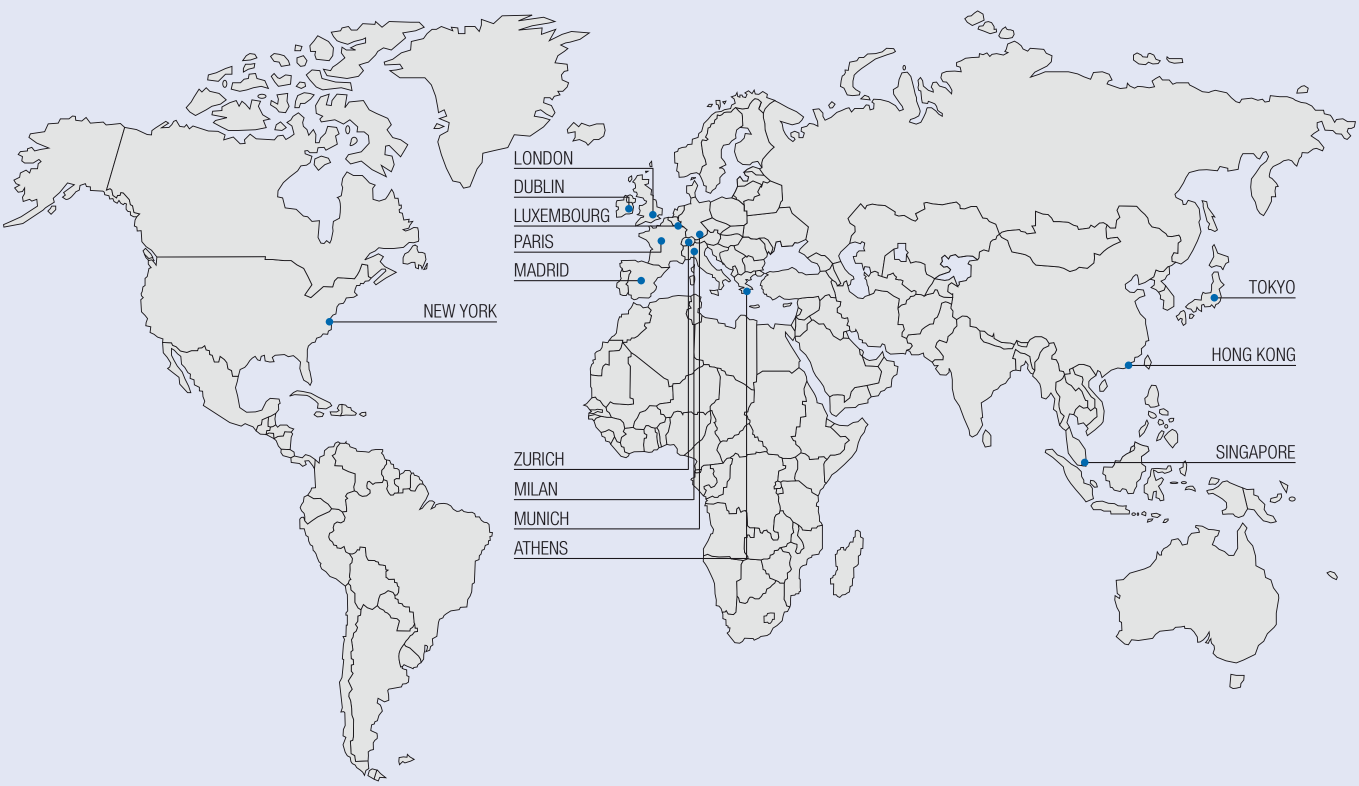
MIB is divided into four organisational units: two operating areas – Markets and Investment Banking – the COO organisation and the Markets & Credit Risk area. Global Research, a cross-function, supports the entire product franchise across all asset classes and client groups.

Integrated business model

Our integrated business model covers the entire value chain of the global markets and investment banking business. MIB takes its lead from the strategic goals of its various client groups. It provides origination, trading, structuring and distribution services to institutional customers, public clients, multinationals and corporates. MIB also develops specialist products for all the other divisions: Retail, Wealth Management, and Corporates & Commercial Real Estate Financing.

MIB has a proven track record in its core areas of expertise: structured derivatives, structured finance, cash trading and structured credit.

Markets & Investment Banking: operating offices worldwide



This enabled it to deliver impressive financial results in 2006, simultaneously proceeding with the UniCredit Group's integration processes in the field of investment banking.

2006: another year of strong financial performance

The operating profit of MIB reached €1,116 million in 2006, rising by 43.3% over an already strong 2005, driven mainly by a solid 20.6% growth in revenues across all the main revenue lines. Net interest income rose by 11.2% to €1,171 million. Net trading, hedging and fair value income amounted to €737 million, with a significant increase of 52.9% over 2005. Net fees and commissions rose to €366 million, up 8.9% year-on-year (yoy). The main business drivers of the good expansion of revenues were solid customer flows in Fixed Income, Currencies & Commodities (FICC), a record deal pipeline in structured finance solutions and excellent revenue generation in structured derivatives.

In 2006 the cost-income ratio of the division declined by 7.8 percentage points to 51% year-on-year, despite a 4.8% rise in operating costs related to results-driven bonus payments.

Thanks to the solid operating performance the overall yoy growth in pre-tax profit was close to 40% (38.4%), despite the decision to adopt a different parameter when calculating the fair values of financial assets and liabilities, which burdened the income statement by €153 million. Without that one-off effect, the yoy rise in pre-tax profit would have shown an even stronger 60% increase compared to 2005.

Markets: top "country broker" in FICC and excellent expertise in structuring derivatives

The Markets area includes trading, structuring and distribution activities. Its main business lines are: Structured Derivatives, Global Distribution, FICC, Equities, and Corporate Derivatives.

Markets' aim is to tap new business potential in its core markets and expand its market share across the entire value chain of the capital markets. In 2006, besides recording an excellent year in terms of financial results, it gained a number of industry awards that confirmed its ability to deliver complex, high-value, client-centric solutions to its global customer base.

Development of important business lines within Markets

- The Structured Derivatives business confirmed its market leadership and expanded its innovative edge. Our fast product-development and time-to-market cycles for innovative solutions in equity, index and cross-asset structures give us a big advantage over our competitors. Winning the "Certificate of the Year Award" for the third consecutive year for our "HVB Express-Zertifikat EURO STOXX 50/Nikkei 225" demonstrated the business line's outstanding strength in the structuring of products, especially in the retail segment (source: Zertifikate Award).

- Global Distribution provides our institutional customers with comprehensive coverage for tactical and strategic asset allocation. The unit acted as global sales force with deep market penetration, advising and distributing capital market products. Via its client-centric approach, Global Distribution added to Markets' successful performance in 2006 with an excellent structured retail business and a strong institutional client business, both of which continued to deliver strong and stable revenues.

- Like all flow-driven businesses, FICC performed very well.

- The Corporate Derivatives business was primarily driven by our unique approach involving corporate financial risk management advisory rather than pure product sales in all target markets.

- Equities performed very strongly in a good market environment with greater customer activity. A new client coverage model helped to realise cross-selling potential.

Investment Banking: innovative solutions and a strong position in structured finance

The main business lines within Investment Banking are: Financing, Loan Syndication, Structured Credit, and Regional Investment Banking (which comprises Corporate Coverage, Corporate Finance, Equity Capital Markets (ECM) and Mergers & Acquisitions Advisory (M&A)).

Markets & Investment Banking Division continued

Our Investment Banking area aims to be among the top players in its core markets, providing innovative solutions and leveraging client network and knowledge in these markets and in high growth markets like New Europe, in close co-operation with the Corporates & Commercial Real Estate Financing division and with UniCredit's CEE Division. Investment Banking had a very good year in 2006, significantly contributing to the divisional performance despite a competitive business environment.

Development of the main business units within Investment Banking

- Financing, which encompasses acquisition leveraged finance, project finance, structured commodity finance and other structured transactions, experienced a record deal flow. We acted as bookrunner and mandated lead arranger (MLA) for KION, one of the largest ever German leveraged buy-outs (LBO).

- Loan Syndication tightened our strong market position in this business field thanks to its in-depth knowledge of complex transactions and strong placement power. The markets rewarded our overall performance in 2006 with a # 1 ranking among German LBO bookrunners (source: Dealogic).

- Structured Credit had another successful year offering our customers access to unique products in the credit asset class. Structured Credit carried out a series of innovative transactions in 2006 that were well received by investors. Major successes were also scored with asset-backed securities (ABS) in Central and Eastern Europe. Among other things, HVB was the first bank to give its clients access to the Russian consumer loan market through a euro-denominated ABS issue. Another major transaction was Breeze II, which was named Senior Debt Deal of The Year 2006 (source: Euromoney/Ernst & Young).

  Active Credit Portfolio Management (ACPM), which is part of Structured Credit, was voted "Credit Portfolio Manager of the Year" by the market (source: Deutsches Risk Magazin). This confirmed its transformation from a business unit devoted solely to managing loan exposures to a credit portfolio manager.

- Within Regional Investment Banking, ECM and M&A confirmed their role as major players in the local small and mid cap market segments. Throughout 2006, our Senior Banker concept ensured a high-level strategic dialogue with our corporate and multinational customers, the new Corporate Finance unit supplied the analytic skills. This co-operation leads to innovative product solutions for our clients.

Global Research: leading skills in Germany

Global Research is a top quality provider of equity and credit analysis as well as economic research, FI/FX and cross-asset strategy for institutional investors.

Together with Global Distribution, the Bank's task force for advisory and distribution services, Global Research hosted the German Investment Conference – the largest and most visible conference of its type in Germany. The Conference drew a record attendance in 2006, with 100 listed German companies represented by 240 corporate participants joined by 500 institutional investors to exchange views and to network.

HVB's Global Research team also won a number of prestigious awards, including the EquityAnalystAward (Börsen-Zeitung), confirming its leading expertise for the German market.

Outlook: spotlighting integration and key growth initiatives

We will proceed with our integration activities in 2007. One of our major goals for the year will be to expand our Markets & Investment Banking division to a Munich-based competence centre for all of the UniCredit Group's investment banking activities. Progressing with integration will help us to create additional value by exploiting existing transfer opportunities, leveraging the division's pan-European network and investing in selected business areas with attractive growth potential.

Selected growth initiatives for 2007

- Markets will focus on expanding its FICC business and leveraging the potential inherent in the existing Equities network. In the Structured Derivatives business, we will make greater use of both customer potential and the product range (e.g. risk management advisory for multinationals).

- Investment Banking will scale up its business in ECM and M&A, and Corporate Finance is to be expanded. In terms of financing activities, we aim to selectively capture new markets by leveraging our innovative, tailor-made products. Structured Credit will focus more heavily on customer-centric solutions and securitisation activities.

Landmark leveraged finance transaction

As mandated lead arranger, bookrunner and agent, MIB made a decisive contribution to the success of the KION buyout, a landmark transaction in Germany in 2006. This deal underpins MIB's strong market position in the leveraged buyout market.

Breeze II – Senior Debt Deal of the Year 2006

Breeze II is an excellent example of MIB's innovative structuring capacities. HVB was the first bank in Europe to develop a structure for the customised financing of wind park portfolios. The award shows that HVB is the undisputed market leader for renewable energy finance on the capital markets.

HVB named Best Provider of Structured Products

Structured Derivatives are an important pillar of HVB's strong performance in 2006. Deutsches Risk recognised HVB's approach to offer its clients tailor-made solutions with an attractive risk-reward profile. HVB is also a member of the Derivative Forum, which promotes transparent standards in the German retail market.

EquityAnalystAward for Global Research

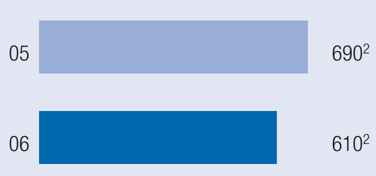
HVB Equity Research confirmed its performance with several top placements in 2006 Börsen-Zeitung's EquityAnalystAwards. This external ranking again demonstrated that HVB is among the leading German brokers in terms of quality.

Global Banking Services Division

The birth of a new division

In January 2006, all of the Bank's service units, which until then had been assigned to the Chief Operating Officer (COO) or the business segments, were grouped together under the COO. As a result of this move, HVB now has an integrated corporate centre at its disposal in line with the UniCredit Group's global concept.

Total IT spending (€ millions)[1]



1 IT spending without depreciation or amortisation, but including capital spending
2 without BA-CA, CEE, Activest

Broad range of services

The services it provides range from IT application development and operations, purchasing, organisation, logistics and facility management, and cost management through to back-office functions for loans, accounts, payments, securities handling as well as foreign exchange, money market and derivatives back offices. GBS is an independent division at corporate level.

PRO: programmes continued

The Process Redesign and Optimisation (PRO) programme launched in 2005 to boost efficiency was successfully continued in 2006. Costs have been cut by simplifying steering tasks and processes in both back offices and the corporate centre. With only a few more measures outstanding in 2007, the project is expected to completely achieve the goals set.

Cost management: systematic cost management yields sustained cost cuts

The cost management system rolled out at the start of 2006 is an important part of the value-based development of HVB. This new function is tasked with constantly streamlining banking processes and boosting efficiency in the use of resources. Under the cost management programme we managed to reduce non-personnel costs by more than €60 million in 2006. These cost reductions were based on over 40 individual initiatives. They range from consolidating the relevant consumables and improving standards and guidelines through to sustainably optimising the advertising budget. At the same time, HVB has also benefited from the bundling of volumes within the UniCredit Group and the systematic exchange and implementation of best practice methods to cut back costs. In 2007, a number of further cost-cutting measures throughout all major cost categories will achieve additional reductions.

Back office consolidation

All back office units were consolidated under one responsible unit with effect from November 1, 2006. This step created clear structures and responsibilities, forming what is in effect a back office factory.

On the payments side, HVB Payment and Services (PAS), the subsidiary entrusted with the task of handling payments, was sold to the Postbank subsidiary Betriebscenter für Banken (BCB) with effect from January 1, 2007. This will enable us to reduce costs even further whilst maintaining the same standard of quality and performance. Moreover, we started to adjust the relevant products, processes and IT systems to prepare for the introduction of the Single European Payments Area (SEPA). In all back office functions, the key element was focusing on core competencies.

In securities services, we paved the way for our strategic re-orientation and further optimised our operational efficiency in 2006. In line with corporate strategy, a project was launched to transfer the securities handling for retail, private banking and corporate customers to ITS (International Transaction Services GmbH). Moreover, talks were held on co-operation with potential partners for the transfer of the clearing and custody business.

The measures initiated under the PRO project to streamline back office processes for our branch network and real estate financing were continued as planned and implemented in 2006. Finally, in our operations supporting foreign branches, 2006 was marked by the consolidation of back offices at all locations where UCI and HVB both have a presence. Appropriate measures already yielded significant synergies in 2006.

Information technology: pooling strengths under Group-adjusted IT governance processes

IT spending was reduced in 2006 compared to the previous year. Particularly in corporate centres and in banking operations, we managed to achieve significant cost reductions, some of which benefited the business segments.

Consolidation was continued in the Retail division by implementing automatic processes for retail operations, and the course was set for customer growth by optimising existing products and introducing new ones. Besides realigning its commercial operations, the Wealth Management division focused on expanding an advisory service and portfolio management platform. Pressing ahead with the roll-out of SEPA was the principle topic in the Corporates & Commercial Real Estate Financing division. The main element on the IT side for the Markets & Investment Banking division involved expanding innovative capital market products such as structured products and cross-asset derivatives.

Another important step in 2006 was the Group-wide consolidation of IT platforms. In this regard, the emphasis was placed on analysing possible areas of use and the need for the development of a cross-border core bank system aimed at realising further synergy potential in the coming years.

Within the framework of Group-adjusted corporate management, uniform IT governance processes involving central IT management were introduced and successfully implemented for HVB. The strengths of our two IT subsidiaries, HVB Info and HVB Systems, were pooled when the companies merged in April 2006. Considerable synergy effects were generated by optimising processes and reducing interfaces. In addition to IT operations and services, the merged IT provider also offers application development and expert advisory services regarding the business processes of IT customers and the IT system environment.

Re-organisation of Logistics & Facility Management (CLF)

A concept for the new CLF organisation uniting facility management under one roof for the first time was drawn up in the third quarter of 2006. The timetable calls for this organisation to be rolled out during 2007:

1. Corporate Real Estate Asset Management. This unit is tasked with providing the best possible standardised workstations and appropriate facilities for the core business and administrative units. It is also expected to preserve the value of the Bank's real estate portfolio by applying defined investment criteria aimed at securing strategic management over the medium and long term.
2. Corporate Facility Management and Logistics Services. The challenge for this unit is to provide the best possible local management of buildings used by the Bank in its day-to-day operations. This involves constantly reducing the cost of occupancy whilst maintaining the same high level of quality and providing all bank logistics services (cash and forms, mail, printing, vehicle pool, insurance, telephones, bookkeeping and travel expense reports, catering) and the corporate security for the HVB sub-group (strong focus on business continuity management in 2006).
3. Real Estate Development & Planning. This unit looks to combine non-strategic property holdings (buildings and land not required for commercial operations) with the aim of liquidating them as rapidly as possible. In implementing this strategy of disposing of operations which are not considered a core competence, a non-strategic portfolio of 88 office properties located in Germany was sold as a package to a U.S. investor in December 2006 following an international tender procedure.

Annelies Strba, Without title, 2002 (section), HypoVereinsbank collection © Courtesy Galerie Fabian and Claude Walter, Zurich

Human Resources & Corporate Social Responsibility

Human Resources

Growing together in a European context

For our employees, the year 2006 was dominated by the integration process in Europe. Together with the UniCredit Group, we have made major progress towards becoming the first truly European bank.

Great willingness for change

Our employees faced the challenges with a great willingness for change and made a decisive contribution to HypoVereinsbank's (HVB) strong operating performance. With organisational structures gradually solidifying, signs are already evident that the cultures are growing together within the pan-European banking group. Our employees are enjoying new prospects for development both in Germany and at the new Group's other locations.

At year-end, the new HVB Group had 25,738 employees, 20,506 of whom worked for HVB AG. We succeeded in maintaining payroll costs at the new HVB Group at the same level, with the total standing at €2,216 million for 2006 compared to €2,212 million in 2005.

Cultural identity: Integrity Charter and People Survey

The Integrity Charter forms a common set of values for all employees of the UniCredit Group. The key element is integrity as an overriding value which bolsters our standing among customers, employees and shareholders. The Integrity Charter defines our six basic values: fairness, transparency, respect, reciprocity, freedom and trust (see also the Integrity Charter chart following this chapter).

In order to convey the binding character of the values and at the same time to create a forum for an open dialogue, a Group-wide Integrity Charter Day was held on September 20, 2006. On this occasion, employees and their supervisors discussed ways and means of reinforcing their value orientation in future. In the run-up to the event, HVB AG managers reporting directly to the Management Board had joined with members of the Management Board to consider the content of the values in-depth and how they are applied in daily banking operations.

We are drawing up an action plan to permanently establish the Integrity Charter. To this end, the Integrity Charter will become an integral part of our continuous professional development and management training programmes. Since January 2007, HVB has had an ombudsman available as a contact in cases of conflict. Employees who feel that they have been affected by actions in breach of the Integrity Charter can call upon to this person in confidence.

The first People Survey was carried out just a few weeks after the Integrity Charter Day on a Group-wide basis. The aim of the complete staff survey was to discover employees' opinions on issues like style of leadership, co-operation, working environment and so on, in absolute anonymity for each and every individual. The survey served as both sentiment barometer and appraisal of the current situation. With a participation rate of around 67%, HVB AG exceeded the overall rate achieved in the UniCredit Group. Thus our employees showed their willingness to participate in the process of the strategic development of values at HVB. In particular, the working environment, organisational

HVB AG workforce

2001	27,173
2002	26,163
2003	22,630
2004	21,640
2005	21,338
2006	**20,506**

Share of women at HVB AG, 2006 (%)

Workforce	55
Salaried staff	74
Managerial staff[1]	14
Specialist functions[1]	23

1 A, B and C levels

efficiency and co-operation between managers and their staff were positively assessed. Improvements were requested in areas like the clarity of strategic goals and market positioning. Specific measures will be derived from the results in 2007.

Transparency and trust are two values that are crucial for getting along together successfully in a collegial manner. One example: some of our Management Board meetings are held "locally", meaning at different HVB locations in Germany. In this way, we have created a forum allowing employees in each region to enter into a dialogue with our senior executives following a Management Board meeting and to discuss current issues concerning the strategy and development of HVB.

Designing socially compatible change processes

A series of staff movements took place in 2006. The adjustment of the previous business segment structure of HVB to the divisional structure of the UniCredit Group led to around 1,400 employees changing within the Bank. They were re-allocated to sales divisions together with their functions. Our goal is to continue to strengthen our customer-tailored approach by defining clear structures and responsibilities.

The change process was accompanied by intensive and generally constructive meetings with the Central Works Council. The employees affected were selected by mutual consent, including all parties concerned, and prepared for their new position in the organisation in the course of some 50 round table discussions. This helped to make the transit as socially compatible as possible, and we received only a few complaints from customers in the process. As a result, the project was successfully completed without any frictional losses.

We likewise designed the Process Redesign and Optimisation project (PRO) in a socially compatible manner. This efficiency enhancement programme launched in 2005 to optimise and streamline processes envisages a reduction of around 2,100 positions by 2007. In addition, synergy effects will be created by 2008 through the shedding of 1,800 jobs in the course of the integration process within the UniCredit Group. We are on schedule in both projects. Natural fluctuation, which increased to 8.6% in the year under review, was beneficial to the reduction in staffing levels. The agreements relating to early and partial retirement also helped to reduce the headcount. Where at all possible, we would like to continue paring back our human resources without having to resort to compulsory redundancies.

Our proven flexible capacity management system helps us to achieve a balance between the Bank's interests and the priorities of our employees. One of the most important management tools serving this end is part-time work, which currently involves some 21% of the employees at HVB AG. Sabbaticals – unpaid leaves of absence lasting from twelve to twenty-four months – give employees the opportunity to pursue outside interests for a limited period.

Our in-house temporary employment agency, HVB Profil, also made a significant contribution to capacity management in 2006. HVB Profil has access to a number of employees who are assigned flexibly to various areas of HVB. The focus of its work again last year involved supporting various organisational and personnel changes and offering bank apprentices permanent positions.

The socially compatible design of change processes can only be achieved if management and employee representatives work together as partners. In the year under review, our employee representatives, particularly the Central Works Council and the Speaker's Committee for Senior Executives, also made an important contribution to constructively balancing interests. We would like to expressly thank these people in this regard.

Continuity and innovation in professional training and development

The primary task of our Talent & Development Center is to recruit, integrate and foster talented junior staff. It is responsible for apprentices, students and trainees alike, and caters for our former trainees, or alumni. Moreover, the tasks of the Talent & Development Centre include promoting our credentials as an employer at trade fairs, in advertisements, on the internet and training all our staff in banking methods and management.

We define quality and continuity as the primary goals of our policy with regard to professional development. We invest specifically in the continuing professional development of young specialists and managers. We are planning to once more increase the junior staff quota for apprentices in 2007 from its present level of 6%. The number of apprentices offered permanent positions in the HVB sub-group stood at around 80% in the year under review. HVB Profil takes on some of the young bankers who, after completing their apprenticeships, are not offered permanent positions at HVB AG.

Human Resources continued

The practical orientation of our apprenticeships is an important concern for us. Our apprentices are fully integrated into daily operations at branches. They come into contact with all the aspects of normal branch operations and work with the permanent staff at the branch in order to become familiar with workflows and processes as well as the requests and needs of customers. Since 2006, HVB AG has been offering a course of studies in financial services in collaboration with the Ingolstadt School of Management. The curriculum is intended for the best apprentices who simultaneously complete the trainee programme during their studies after completing their vocational training. The on-the-job course focuses on methodologies and fosters initiative, creativity and social skills, and leads to a Bachelor's degree.

Our trainee programme is similarly characterised by continuity; we have agreed a fixed rate of 1% of trainees. The programmes we offer are considered top quality education for high potentials. We already provide a range of special training courses to those graduating from universities with the new Bachelor degree. Hence, we are responding to changes in Germany's educational landscape at an early stage and are deliberately tying talented and motivated junior staff to our Bank.

In addition, some 450 students gained insight into the requirements and areas of operation of our Bank during placements with us in the year under review. As we view placements as an educational tool running parallel to a course of studies, we make it a rule not to offer any placements to university graduates who have already completed their studies.

Talent management and "networked" personnel development

A crucial element of all continuing professional development measures of HVB is its networking concept. Thus, professional training for all apprentices in a given year (2006: 520) starts with First Steps. This comprises three days of specialist and personal training, and also includes sessions with the Management Board. This serves as a foundation for a personal network of apprentices at the Bank. Thus the introductory programme not only provides an insight into our customers and products, it also helps individuals adapt to the corporate culture at HVB and develop their social skills.

Meetings with senior managers underscore the great importance we attach to our professional training programmes and our junior staff. In 2006, HVB organised a roadshow with the CEO of the UniCredit Group, Alessandro Profumo. During a breakfast with junior staff, apprentices, trainees and alumni had the opportunity to discuss key business issues and their personal development potential within the UniCredit Group.

The HVB Alumni Network, which targets former trainees and serves as an instrument to retain them, is also committed to the networking concept. At the annual Trainee Day, trainees and alumni discuss important banking issues in workshops. In 2006, attention focused on the Integrity Charter, although an exchange of ideas with the member of the UniCredit Group's Management Committee responsible for Human Resources, Rino Piazzolla, was also part of the supporting programme.

The Career Center is another instrument serving development. Above-average alumni are nominated for participation by their supervisor. The Career Center includes two years' mentoring by an experienced manager and a seminar to evaluate the individual's current position.

A new mentoring programme has been initiated at HVB AG to promote female specialists and managers. The emphasis here is placed on the development of greater professional and personal skills and the creation of networks. At present, more than half of the staff at HVB AG (55%) are female, yet only about 26% of them hold positions as specialists and managers. The objective of the 12-month mentoring programme is to promote the careers of women by providing personal guidance and holding relevant events, thus significantly raising the number of female managers.

A wide range of continuing professional development programmes is available to all employees. These include courses in methods and seminars to improve communication and leadership skills. To help our people communicate better with people in non-German-speaking countries, we have significantly increased the range of foreign language courses we offer, and concepts catering for individual needs can be designed, implemented and supervised within the scope of personal coaching.

Another example of high quality, networked continuing professional development is our new Master in Corporate Banking programme which was developed in conjunction with leading universities in Italy, Austria and Germany (including the Technical University of Munich). The objective of this in-service course is to teach international advisory and problem-solving skills to participants working in corporate banking and lending operations. In addition, it makes a major contribution to forming Group-wide networks and fostering intercultural co-operation. The Bocconi University in Milan confers a Master in Corporate Banking on students completing this course of study. The first course was taken by 50 people from ten countries, 11 of whom were from HVB. A loyalty declaration will serve to ensure that the expertise cultivated will be used to serve our customers in the long term.

International development

HVB's staff development tools are already closely intermeshed with the development programmes of the UniCredit Group. Hence, we are pressing ahead with sustainable personnel planning on an international level and offering exciting prospects for our top performers and potential future executives at an early stage.

- UniQuest is a one-year programme for 100 talents from the entire UniCredit Group. In this connection, talented young people with three to six years' job experience work in international teams on strategic projects. Their customers are top executives of the UniCredit Group. The goal is to build up an international network, expertise and a thorough understanding of correlations in the UniCredit Group outside their own specialist area.
- The next step in executive training is the Talent Pipeline. This is a Group-wide pool of high-performing, internationally mobile junior staff who are suitable for promotion to the next management level in the next five to seven years. Candidates in the talent pipeline are introduced to the top management of the UniCredit Group and discussed by it as part of management and successor planning. Suitable development measures are also defined.
- The Executive Development Programme (EDP) creates the framework for an annual inventory of the senior management in the UniCredit Group. In the process, the performance, potential and expertise of 1,500 senior executives are discussed together with their identification with values. The objective is to define steps in the development of individuals with responsibility against the backdrop of division-specific business scenarios and thus initiate early succession planning.

Socially based HR policies

We promote the well-being and performance of our employees through a large number of facilities and measures. Enabling people to harmonise working life with family life has been one of the strengths of our HR policies for years. In co-operation with the nationwide Family Service, we advise our employees and support them financially if they take leaves of absence for family reasons. This applies particularly to childcare and caring for relatives. In addition, we help mothers and fathers to re-enter the workforce. For this commitment, the charitable Hertie Foundation has certified HVB AG under its Work & Family audit more than once.

Our "Bank of the Generations" project looks at the effects of demographic change. We are looking to bring about a change in the way people think by using tools like an analysis of the age structure, sensitising our people to different work-time models and devising a continuing professional development programme appropriate for the relevant life phase.

The Health Forum creates a platform for the activities of our health management. We run seminars and information events to reinforce health awareness and encourage personal responsibility. The social counselling provided by HVB advises employees in times of need and also supports executives by offering coaching on how to deal with challenges in their working environments. Further information is provided in our 2005 Sustainability Report. Please refer to the Financial Calendar in this report for ordering information.

Outlook: increasing performance-related pay

HVB has operated a variable remuneration structure since 1995. In 2004, we introduced a remuneration structure consisting of 12 monthly salaries and a variable component. The bonus is determined depending on the degree of target achievement within a specific range. For sales divisions, this system is undergoing further development, which will involve the respective targets being specified in even greater detail – depending on target achievement – thus making it easier to understand and to constantly calculate the bonus paid. This means that our employees can benefit even more directly from successful sales efforts in future. The regular measurement of customer satisfaction has an important role to play in this regard.

Integrity Charter Foundations

The path to profit

	FAIRNESS	TRANSPARENCY	RESPECT
Colleagues	Ban discrimination on the grounds of sex, race, political opinion or trade-union activity. Practise respect and care towards people at all times. Ban favouritism in recruitment, promotion, and incentive policies.	Share your knowledge without monopolising it to your own advantage. Ensure transparency in career paths.	Clearly define roles and responsibilities for everybody employed in the company. Listen and offer constant attention to people, respecting their values, feelings, moral stance; never use any form of undue pressure or offence.
Customers and Suppliers	Strive for customer satisfaction at all times. Pay appropriate attention to all kinds of customer. Show impartiality in the selection of suppliers, so as to turn the relationship with them into a competitive advantage for the company.	Ensure timely information on our products and services at all times. Select suppliers with impartiality.	Safeguard the confidentiality of any information acquired, both in relation to customers and the Company itself, its assets and its decisions. Open a communication channel with suppliers aimed at supporting the most innovative and responsible processes implemented.
Investors	Pay appropriate attention to to all types of investor, without discrimination or favouritism, in order to make markets increasingly open and competitive.	Turn market communication into an economic and cultural value; aim to be clear, complete and timely; and use the most effective communication channel for each investor.	With investors adopt rules of behaviour in line with corporate values and the professional ethics required by the market's highest standards.
Local Communities	Establish suitable relations with stakeholders in order to offer assistance, service and opportunities without discrimination. Promote local growth by supporting those initiatives that pay greater attention to the actual needs of the community.	Keep the community you work in informed of what we do and how we do it.	Promote growth which is ecologically and socially sustainable.

RECIPROCITY	FREEDOM	TRUST
It means to co-operate, sharing information and knowledge to generate value and find legitimation of our professional identity beyond organizational boundaries. We should care about an active listening of our colleagues' needs, trying to have a positive influence in our working environment.	Create the proper environment freedom of dissent and the freedom to say what one thinks. Offer everybody the chance to practise the values of entrepreneurship and develop her or his own professional personality.	Keep your word, admitting the possibility of mistakes made in good faith.
Offer a good return and a feeling of certainty to customers, to receive the equivalent in return. Listen to requirements and transform them into products and services. Promote co-operation with suppliers, so that they and the company can create value and give their corporate identity legitimacy.	Handle interpersonal relations in free and equal terms without being in awe of those who are stronger and without arrogance towards those who are weaker.	Build up confidence through behaviours that constantly confirm our reputation.
Listen without prejudice to any indications investors may send through the established channels.	Achieve freedom of action such that you can keep the promises you make to the market without undue conditioning.	Develop lasting and continuous relationships with the financial community; safeguard your consistency and credibility and willingly accept any criticism expressed by the market.
Create spaces for discussion and dialogue, in which mutual exchange of information may increase our legitimacy and reputation.	Respect individual moral codes and local cultures when acting in your territory.	Establish social and cultural relations with local communities, whose distinctive feature should be reciprocity.

Corporate Social Responsibility

Living values in a new corporate culture

The business combination between the UniCredit Group (UCI) and HypoVereinsbank has created the first truly European bank. This bank has its very own corporate culture which is increasingly emerging in the course of the integration process.

Key role of the Integrity Charter

Co-operation in the new UCI is based on the Integrity Charter, which is the common set of values for all our employees (see also the section entitled Our People). In addition, the values described in the charter – fairness, transparency, respect, reciprocity, freedom and trust – form the basis for our business operations (see also the description of the full Integrity Charter immediately prior to this section).

The Integrity Charter defines the way we collaborate with our stakeholders, such as our customers and suppliers; it also forms the basis of our legitimacy in society at large:

- For example, we want to offer our customers sustainable banking products and services which create value in both commercial and social respects. Trust and a distinct service culture serve as a foundation for the customer relationship.
- We ensure that our business relationship with our suppliers is characterised by fairness, trust and appreciation. We reach agreements to the satisfaction of all parties involved.
- As a company we have a social responsibility – after all, we are corporate citizens in the communities in which we operate. We seek to contribute towards the ongoing development of society through our commitment.

Our 2005 Sustainability Report had the motto “Creating value by living values”. In this report we dealt in depth with our set of values and with the approach we adopt towards our stakeholders (please refer to the Financial Calendar for ordering information).

CSR management system as a steering and co-ordination tool

The proven sustainability management system in place at HVB and UCI’s CSR management concept complement each other in many ways. Combining the two approaches creates a solid basis for HVB to assume social responsibility as part of the UniCredit Group (corporate social responsibility).

Our CSR management system functions on the basis of a network structure, whilst the Management Board provides the set of values and the guidelines. The CSR Management unit is directly responsible for maintaining its internal and external network, reporting to the Management Board at regular intervals. The CSR team initiates and co-ordinates a broad array of activities, including benchmarking and monitoring the agreed targets and work programmes. It also bears responsibility for CSR communications with external stakeholders and in this connection works closely with the colleagues at UCI involved in CSR management and also with the heads of HVB divisions for specific tasks such as credit policies and product structuring.

Environmental management system certified

Environmental management is another important area covered by CSR Management. The environmental management system of HypoVereinsbank had already been developed by the mid-nineties and was the reason for our excellent performance in numerous ratings and rankings. At the end of 2006, our system was certified compliant with the international ISO 14001 standard and validated in accordance with the European EMAS standard (European Management and Audit Scheme). Both standards define requirements which an environmental management system has to comply with – EMAS from a European perspective and ISO from a global one.

With the certification, we meet the requirements of external rating agencies for a generally recognised quality standard and are in step with UCI, which is also certified and validated in compliance with ISO 14001/EMAS. The certification process enabled us to optimise the existing environmental management system and to devise further measures to save energy and spare resources. Both direct and indirect environmental aspects were taken into consideration in this context:

- The direct aspects are concerned with the effects of facility management (energy used for heating, cooling and electricity) and with the conduct of employees (waste separation, paper consumption).
- Indirect environmental aspects relate to our products, for example the issue of how we manage our customers' assets, the criteria used in the credit approval process and how environmentally and socially compatible these criteria are.

Commitment to climate protection

Climate protection is one of the primary issues of our times. Hence HypoVereinsbank has been taking action in various areas for years. By doing so, we are responding to the expectations of our stakeholders whilst also underscoring our commitment to solving global problems. To bundle and expand our activities, we are currently developing a climate strategy for HVB and the UniCredit Group. To date, we have been involved in:

- emissions trading services: trading, strategy consulting, hedging concepts and finance
- investment in the Carbon Fund (UniCredit Group)
- participation in the Carbon Disclosure project
- financing renewable energy sources
- applying the World Bank standards and Equator Principles
- sustainable asset management and certificates on the HVB Sustainability Index
- funds based on environmental technologies
- modernisation loans (energy-efficient property redevelopment)
- ImmoPass, a seal of quality for sustainable housing construction
- our environmental management system, certified and validated (ISO 14001, EMAS)
- implementing environmental standards in the procurement system
- sustainable mobility management
- ecological construction standards and energy management in bank buildings

The synergies achieved from certification projects can also be quantified. Thus, around €100,000 can be saved in energy costs alone each year, for example by installing a new computer-assisted cooling plant in building Z2. Re-certification is due after three years.

Sustainable banking products: Equator Principles and commitment to climate protection and renewable energy …

HVB was part of the group that established the Equator Principles. These constitute a global, industry-wide standard for large-scale project finance ensuring compliance with social and ecological principles. As one of the original group of 10 banks, HVB helped to set up a global, industry-wide standard for major project finance deals by introducing the Equator Principles in June 2003.

Corporate Social Responsibility continued

A total of 45 financial institutions worldwide introduced the revised Equator Principles during last year. In the process they undertook to comply with a code of extended environmental and social standards when financing projects. This helps the banks involved to better assess, mitigate and generally manage any potentially harmful effects of projects they fund on society and the environment.

Besides requiring compliance with the World Bank's Performance Standards and Guidelines, the Equator Principles call for projects to be categorised as high-impact, medium-impact or low-impact. An environmental assessment must be prepared for projects with a high or medium risk, with the scope of the analysis and the package of measures depending on the degree of risk determined. The revised version of the Equator Principles reflects the experience gained by financial institutions such as HVB with the previous rules since they were introduced three years ago. At the same time, it takes account of the replacement of the Safeguard Policies with the new Performance Standards of the International Finance Corporation (IFC), on which some of the Equator Principles are based.

An intensive dialogue between Equator Principles banks and the IFC was launched in May 2004, and a large number of comments have been made on the first draft of the Performance Standards. Customers, lobby groups and development organisations were subsequently involved in drawing up the new Equator Principles. HypoVereinsbank has put a large amount of work into this process and recently assumed the chair of what is known as the Working Group, which represents the core Equator Principles banks.

The dialogue we foster with non-governmental organisations (NGOs) and other stakeholders also serves to minimise credit risks. For example, this occurred when Bulgaria announced plans to build two new nuclear power plants in Belene. This project, for which the Bulgarian government was responsible, led to protests by NGOs such as Greenpeace and Urgewald. After in-depth discussions and careful consideration, our Bank decided not to provide any finance.

We also played a pioneering role in the field of renewable energy. For several years now, HVB has been financing a broad array of wind farms, hydro-electric plants, biomass power plants, sewage treatment plants, desalination plants and water purification plants. We were the first bank to successfully market a self-contained portfolio of wind farms as a corporate bond. We also financed innovative projects in the fields of solar energy, biomass and biogas last year.

We have combined our expertise in the renewables sector in new credit approval structures, thus further expanding and optimising our nationwide market presence. In the year under review, we succeeded in expanding our portfolio. In the field of project finance alone, we recorded €465 million for new projects while our total portfolio for all areas of finance stood at €3.6 billion at the end of 2006.

… and expansion in investment products and asset management

It is not incompatible to focus on returns and simultaneously take account of social and ecological criteria. On the contrary, sustainable capital investment products generate higher returns than conventional investments in many cases. HVB serves a growing group of customers comprising ecclesiastical investors, foundations and private investors who are looking to harmonise their return expectations with their values.

In recent years, HVB has created a portfolio of sustainable investment products. We offer investments from UniCredit's subsidiary Pioneer (formerly: Activest) and also enter into special arrangements with other fund and research service providers. Thus, we co-operate with oekom research AG, a prestigious rating and research agency, on a permanent basis:

- in sustainable asset management with First Flex (security accounts from €500,000 upwards)
- in the issuing of sustainability certificates on the HVB Sustainability Index (five certificates in issue in 2006)
- in Activest EcoTech, the oldest German environmental fund, which has ranked among the top performers in this sector for several years now.

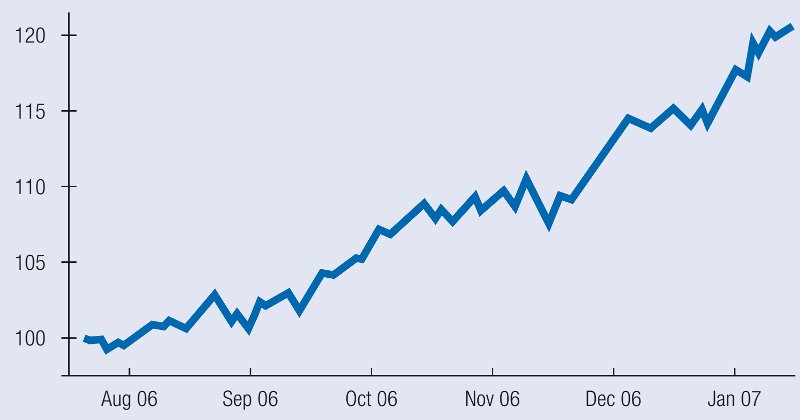
Sustainable banking operations: cost cutting and risk minimisation

The ecological impact of banking operations lies primarily in the areas of building services, office operations, mobility, waste and procurement. The task at hand is to save on resources whilst also cutting costs and minimising risks.

Our environmental management system consistently optimises the consumption of energy, water and paper, including handling the waste that arises. One of our priorities is to avoid emissions, particularly of greenhouse gases, as well as reducing consumption levels. Environmentally aware construction which includes renewable energy and the creation of healthy interior environments are also key elements of our environmental management.

The reduction of emissions by restricting business trips is also an important concern for us. In recent years we have managed to significantly reduce the kilometres travelled per employee by switching to more environmentally compatible methods of transport and using modern means of communication such as video conferences.

Performance of Activest EcoTech (%)



Performance of Activest EcoTech fund
(without front-end load)

As in other environmental issues, we rely on a large number of internal communication measures to encourage our employees to act in environmentally aware ways. This includes providing electronic tips, environmental guidelines and informative lectures at many internal events. We report extensively on our sustainable banking operations in our Sustainability Report. (Please refer to the Financial Calendar for ordering information.)

Our procurement system also complies with sustainability standards. When purchasing office and business equipment, selecting company cars or hiring service companies, HVB takes account not only of cost-effectiveness and functionality, but also social and ecological criteria. These factors are also decisive when selecting products and suppliers. In all major tenders and contracts, the suppliers are requested to complete standardised surveys providing information on environmental management as well as social and labour issues, and to attach relevant documentation. Some of the questions involved are formulated as “minimum requirements” on topics such as avoiding child labour. This self-declaration is incorporated in the contract, should the supplier be awarded work.

Social commitment: donation management, …

For years now, HVB has been supporting a large number of institutions, projects and initiatives which enrich the community. We promote numerous social institutions and cultural happenings, thus contributing towards social development in the regions where we operate.

On the social side, for example, we have been supporting charitable facilities, relief organisations, churches and schools for years. One example is our traditional Christmas donation: in December 2006 ten different organisations were chosen and the €100,000 in donations divided up between them. The organisations and facilities work in the fields of the vocational training and integration of disabled people, providing assistance in medical emergencies or social hardship, hospice work, development aid and the environment.

Corporate Social Responsibility continued

… promotion of sustainability initiatives …

We have been involved in sustainability initiatives at regional, national and international level for years.

- For example, we have participated in task forces such as the local Agenda 21 initiative and the Umwelt-Pakt Bayern.
- We are a member of the Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen (VFU), the Forum Nachhaltige Geldanlagen and the Arbeitskreis für Umweltbewusstes Management (BAUM).
- At international level, we participate in the Finance Initiative of the United Nations Environment Programme and are co-founder of the UNEPFI Regional Task Force in Central and Eastern Europe. This task force is responsible for promoting sustainability management in the financial sector of this region through conferences, best practice models, an Internet-based platform for environmental risk assessments and other initiatives.

… and commitment to art, culture and science

For a long time now, HypoVereinsbank has been promoting a large number of interests in the fields of the fine arts, culture and science.

With regard to the fine arts, our art collection comprises more than 25,000 works, which are on display to our customers and employees in our network of branches. In addition, we have made valuable paintings, including works by Goya and Boucher, accessible to the public by permanently lending them to top museums like the Alte Pinakothek in Munich.

The Kunsthalle run by the Hypo Foundation for Culture is one of the best known art exhibition halls in Germany and has already held about 70 exhibitions.

On the culture side, the Hypo Foundation for Culture has been supporting cultural institutions and projects since 1983. In addition, it is committed to the preservation of historic monuments and presents a highly regarded preservation award each year.

We also set standards as HypoVereinsbank in classical music. Not only are we one of the patrons of the huge festivals held in Bayreuth, Munich and Salzburg, we also support regional benefit concerts at locations where we maintain operations, such as the festical concerts in Rheingau, in Passau and Würzburg or the Richard-Strauss concerts in Garmisch-Partenkirchen. It is often possible to combine cultural sponsorship with social commitment, such as the benefit concert featuring the 12 cellists from the Berlin Philharmonic Orchestra held to support a children's hospital in Würzburg or the benefit concert of "Yehudi Menuhin live music now" in Dresden. A further focal point of our music sponsorship involves promoting young talent. As chief sponsor we support one of the most important international opera singing competitions, the "Competizione dell'Opera" as we do the training of young talent at the Opera Academy at Gut Immling in Chiemgau.

In terms of science and education, for years we have been sponsoring universities and institutions such as the Stifterverband für die deutsche Wissenschaft (an association of donors to German science), the Deutsches Museum, the Ludwig Maximilian University and the Technical University in Munich. Moreover, HVB performs treasury functions for the fund-raising associations of the two universities in Munich, providing personnel and infrastructure for this purpose.

Sponsoring young people is a special interest of ours. The focal points are the "Förderpreis Deutscher Film" German film prize and the "Jugend kulturell" cultural sponsorship programme, which supports young artists with monetary prizes and opportunities to exhibit in our facilities, among other things. Moreover, we host the HVB Europe Concert with the European Youth Orchestra, which is sponsored by the EU.

Outlook: expanding CSR management and the range of sustainable investments

Harmonising our CSR management system with that of UCI is one of our top priorities in 2007. The task here will be to intelligently pool the strengths of both sides.

CSR Management is designing a new concept for HVB's social responsibility jointly with the divisions and back offices. At the same time, the requirements, experience and concerns of UCI in areas such as donations, corporate volunteering and local activities will be included. By doing so, we will strengthen our profile as an international corporate citizen.

As in the past, HVB will highlight the issue of sustainability, for example, as part of the UN Decade of Education for Sustainable Development in co-operation with the city of Munich.

The prime objective of the Decade of Education is to enable citizens and groups to independently organise their lives and economic activities in a sustainable way. In setting up BenE, a regional centre of expertise, Munich became one of the 30 regional centres of excellence currently accredited worldwide for "Education for Sustainable Development" by the United Nations University in February 2007. The goals of BenE supported by HVB are to network educational authorities and facilities, increase synergy potential and create joint packages of measures. In this connection HVB intends to set up the "BenE Netzwerk Wirtschaft" business network in April 2007 with other Munich-based companies.

We will also continue to develop our activities in our lending and investment business. This applies firstly to the Equator Principles and the field of renewable energy. But we will also endeavour to provide more product solutions for any investment volume and strengthen our marketing activities for sustainable investment products. We are also planning to issue two new sustainability certificates in the first quarter of 2007, which will enable us to fulfil our social responsibility in diverse ways. We will pool and significantly expand our activities in the field of climate protection and implement a climate strategy for HVB and UCI.

Sustainability ratings and rankings 2006

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		
oekom research (2005)	B–	A+ to D–	4th out of 60 banks
scoris Dax 30 rating (2005)	69	1 to 100	8th out of 30 companies
Zürcher Kantonalbank (2005)	AA	AAA–C	

Claudio Hils, Kayaba-Cho, 1998, HypoVereinsbank collection

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CORPORATE STRUCTURE AND BUSINESS OPERATIONS

Legal corporate 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 (the other being Bank Austria Creditanstalt AG), 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 and hence a major part of UniCredit Group from that date as a sub-group.

On September 12, 2006, the Management Board and Supervisory Board of HVB AG agreed to transfer HVB AG's holdings in Bank Austria Creditanstalt AG (BA-CA) and Joint Stock Commercial Bank HVB Bank Ukraine (HVB Bank Ukraine) to UniCredit, its Closed Joint Stock Company International Moscow Bank (IMB) and AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) subsidiaries to BA-CA, and the assets and liabilities of the HVB AG branches in Tallinn, Estonia, and Vilnius, Lithuania, to AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga). An Extraordinary Meeting of Shareholders of HVB AG held on October 25, 2006 approved the corresponding contracts with more than 99.4% of the votes cast in each case. The Management Board decided to complete the transactions on January 9, 2007. The gains on disposal from the transactions listed will be largely realised in the first quarter of 2007.

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. On January 23, 2007, the Board of Directors of UniCredit (the majority shareholder of HVB AG) decided to start a squeeze-out procedure with regard to HVB shares. When the annual financial statements were prepared, UniCredit held more than 95% of the capital stock.

Information pursuant to Section 315 (4), German Commercial Code, in conjunction with the German Takeover Directive Implementation Act

The subscribed capital of HVB AG totals €2,252,097,420.00 and is divided into

a) €2,208,436,620.00 shares of common bearer stock, broken down into 736,145,540 no par shares
b) €43,660,800.00 non-voting shares of registered preferred stock, broken down into 14,553,600 no par shares.

The common bearer stock makes up 98.06% of capital stock and the preferred stock 1.94%.

The common stock consists of bearer or registered shares.

Shareholders holding shares of common bearer stock are entitled to attend the Annual General Meeting of Shareholders and exercise their voting rights subject to the conditions set out in Article 18 (2) of the Articles of Association. Each share of common stock is vested with one vote at the Annual General Meeting of Shareholders.

Each shareholder has the right to ask questions and speak at the Annual General Meeting of Shareholders, although the meeting chairman may limit the right to ask questions and speak as appropriate.

The shares of both common stock and preferred stock benefit from the equal disbursement of any profit distributions (dividend payment).

The preferred shares are non-voting and registered. They receive an advance share of profits of €0.064 per no par share, payable out of cumulative profit on a cumulative basis, as well as a further share in profits of the same amount as the shares of common stock. The claim to payment of the advance share of profits on a cumulative basis is granted to the holders of preferred stock as a separate right.

Shareholders holding shares of registered preferred stock are entitled to attend the Annual General Meeting of Shareholders subject to the conditions set out in Article 18 (1) of the Articles of Association.

In the event of a capital increase, the holders of common and preferred shares normally have a subscription right. The Management Board may exclude this subscription right if it is authorised to do so by a resolution adopted by the Annual General Meeting of Shareholders or by an amendment to the Articles of Association approved by the Annual General Meeting of Shareholders.

In addition, the holders of common and preferred shares enjoy the other rights granted by the German Stock Corporation Act.

Under Article 6 (2) of the Company's Articles of Association, the shares of registered preferred stock may only be transferred with the Company's approval. Compliant with Section 71 b) of the German Stock Corporation Act, treasury stock does not confer any rights to the Company. The Management Board is not aware of any restrictions regarding the exercise of voting rights or the transfer of shares that might arise from agreements between shareholders.

On November 22, 2005, UniCredito Italiano S.p.A., Genoa, informed the Company compliant with Section 21 of the German Securities Trading Act (WpHG) that it held 93.9% of the capital stock and 93.8% of the voting shares of common bearer stock in the Company, of which 0.001% indirectly, since November 17, 2005. UniCredit's ad-hoc announcement dated January 23, 2007 indicates that its interest in the capital stock of HVB AG had in the meantime risen to 95%.

The Company has not issued any shares that confer any special influence over the Company's executive bodies and hence any special control powers.

There is no distinction between control of voting rights and share with regard to employee holdings. Where Company employees have acquired Company shares, they can exercise their voting rights in the same way as any other shareholder: either in person or through a proxy.

The appointment and dismissal of members of the Management Board is based on the legal provisions set forth in Sections 84 and 85 of the German Stock Corporation Act. Under Section 179 of the German Stock Corporation Act, amendments to the Company's Articles of Association require a resolution from the Annual General Meeting of Shareholders. Such a resolution requires a majority of at least three quarters of the capital stock represented when the resolution is adopted. Article 21 (2) of the Company's Articles of Association confers to the Supervisory Board the authority to make amendments to the Articles of Association that only affect the wording but not the content (amendment of the wording).

A resolution adopted by the Annual General Meeting of Shareholders on April 29, 2004 authorises the Management Board to issue shares from the authorised capital increase (Section 202 et seq., German Stock Corporation Act) in accordance with Article 5 (2) of the Company's Articles of Association. Article 5 (2), 1 and 2 of the Company's Articles of Association is worded as follows: "The Management Board, with the consent of the Supervisory Board, is authorised until April 29, 2009 to increase the Company's share capital by issuing new shares in exchange for contributions in cash or kind, one or several times but in an aggregate volume of no more than 330,000,000 shares in a total par value of €990,000,000.00. Either only common shares or common shares and non-voting preferred stock vested with the same rights as the already existing non-voting preferred stock may be issued."

The Management Board is hereby authorised, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders in the instances listed individually in Article 5 (2) of the Company's Articles of Association in accordance with the authorisation granted on April 29, 2004.

Moreover, a resolution adopted by the Annual General Meeting of Shareholders on May 14, 2003 authorises the Management Board until May 14, 2008 to issue equity warrant bonds, convertible bonds, dividend bonds, option certificates and convertible certificates with an option or conversion right and/or conversion obligation into shares of common bearer stock of Bayerische Hypo- und Vereinsbank Aktiengesellschaft or dividend bonds (with or without option or conversion right/obligation) compliant with Section 221 of the German

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Stock Corporation Act in euros or any other legal tender. The total nominal value or equivalent amount may not exceed an aggregate of €1,500,000,000.00. Under Article 5 (4) of the Company's Articles of Association, a conditional capital of €375 million is available to grant shares of common stock to the holders of bonds and certificates issued in accordance with the authorisation granted on May 14, 2003.

Furthermore, the Management Board is authorised compliant with Section 71 (1) No. 7 of the German Stock Corporation Act to buy and sell treasury stock for trading purposes by a resolution adopted at the Annual General Meeting of Shareholders held on May 23, 2006.

Moreover, the Company is permitted to buy treasury stock in the instances provided for in Section 71 (1) Nos. 1–5 of the German Stock Corporation Act.

There are no significant agreements at HVB AG that are subject to the condition of a change of control following a takeover offer.

No compensation agreements have been reached with members of the Management Board or employees in the event of a takeover offer.

In accordance with Section 171 (2) 2 of the German Stock Corporation Act as amended by the German Takeover Directive Implementation Act of July 8, 2006, the information pursuant to Section 315 (4) of the German Commercial Code is explained in the Report of the Supervisory Board in the 2006 Annual Report.

Main products, sales markets, competitive position and facilities

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 wealth management.

Following the transfer of its interests and business activities in Austria, central and eastern Europe, Russia, the Ukraine and the Baltic states, HVB Group will in future focus on Germany as its core market within the UniCredit Group. Moreover, there is the possibility of entering markets in other regions of Europe (notably Scandinavia and Benelux). The aim is also to significantly expand investment banking operations and become the centre of competence for investment banking within the entire UniCredit Group.

BA-CA will continue to have operating responsibility for business in central and eastern Europe (CEE). Consolidating the CEE activities will significantly enhance the footprint and service range of the UniCredit Group. HVB Group is consequently in a position to offer its customers even better access to this region, thus enabling them to benefit from the transactions.

A breakdown of our offices by region is shown in Note 82 "Offices" in the notes to the consolidated financial statements.

Organisation of management and control

The Management Board of HVB AG is the management 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 has 20 members and includes equal numbers of representatives of the 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 set up three committees in the year under review: the Remuneration & Nomination Committee, the Audit Committee and the Negotiating Committee.

HVB AG conducts risk monitoring and risk management on a group-wide basis. The monitoring systems are geared to identifying risks at an early stage. In 2006, risk control and risk management were combined under the area of responsibility of the Chief Risk Officer, who reported to the Audit Committee of the Supervisory Board on a regular basis. 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 83 "Members of the Supervisory Board and Management Board".

Basic features of the remuneration system
Structure of compensation paid to members of the Management Board
The compensation paid to members of the Management Board is determined by the Remuneration & Nomination Committee of the Supervisory Board. The direct compensation has three components comprising fixed and variable elements: fixed compensation, variable compensation as a bonus featuring profit-related components (short-term incentive) and a long-term incentive.

The variable components are especially important as these are linked to the achievement of the targets agreed for the financial year and the targets in the strategic plan and can exceed the fixed salary. Competitive profit-related compensation and postponing payment to the near or far future as a result of participation in the long-term incentive plan of the UniCredit Group is intended to ensure that the management is bound to the company.

To ensure that the compensation for the responsibilities assumed by Management Board members is commensurate with market conditions, an external specialist performed a market survey on behalf of HVB AG which included similar companies. The compensation payable to members of the Management Board for 2006 was stipulated by the Remuneration & Nomination Committee taking account of this survey.

The fixed salary is equivalent to the level paid in similar companies. It is disbursed in 12 monthly amounts.

The bonus is a short-term incentive, the size of which depends on certain targets agreed at the beginning of the year with all members of the Management Board being met. In 2006, these targets were specified in detail in the course of the year after completion of the three-year planning. The targets are shown in scorecards and include team targets, core targets and integration targets.

The team target for all members of the Management Board is based on the results achieved by the HVB sub-group. Some Management Board members responsible for regional divisions also have a divisional target as an additional team target. The main emphasis is placed on what are known as core targets, i.e. especially significant targets from the Management Board members' own area of responsibility. The most important tasks arising during the process of integrating HVB AG into the UniCredit Group are covered by the integration targets.

Targets mainly relating to quantities, but also some quality targets, are agreed with the members of the Management Board. A relatively narrow range is defined for meeting the quantitative targets. If the lowest value of this range is not achieved, no points are awarded for the target. If the highest value is achieved, the Management Board member receives the highest number of points previously defined for this target. The Remuneration & Nomination Committee decides on the quality targets, taking into account the vote given for the target achievement by the head of the division or the function in which the Management Board member works.

The weighted total amount of points gained from each target results in the target achievement. A bonus is paid if a specified minimum number of points is achieved. Compliant with UniCredit's treatment of this issue, the maximum bonus will be defined as the reference value from 2007. This maximum bonus can be utilised whenever a total number of 120 points is achieved in the scorecard. This means that the bonus has a maximum upper limit and a correspondingly lower percentage of the maximum bonus will be disbursed in future if targets are fully met.

Each Management Board member takes part in the Stock Option & Performance Shares Plan of the UniCredit Group (long-term incentive plan of the UniCredit Group). This plan consists of two components. On the one hand, each Management Board member is granted a certain number of options which can be exercised if the beneficiary is still working for the UniCredit Group after four years (vesting). In 2006, the Management Board of HVB AG was granted a total of 508,633 stock options. Each option entitles the Management Board member to purchase a UniCredit share at a price which was fixed before the option was issued. The option may be exercised within a period of nine years after vesting.

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On the other hand, each Management Board member is promised a specific number of UniCredit shares (to be transferred free-of-charge) on condition that the relevant targets in UniCredit's strategic plan are met after three years have passed and the beneficiary is still working for the UniCredit Group. The Management Board of HVB AG received 195,333 performance shares in 2006. The targets were combined in baskets. There are baskets for the UniCredit Group and for each division. Each basket has five targets, of which three must have been met.

Members of the Management Board involved in operating activities receive the shares only if the division has achieved its target. They receive 50% of the shares if only the division has met its targets but 100% of the shares if the Group has also met its targets. The other Management Board members receive the shares if the Group has achieved its targets. HVB AG reimburses the cost of participating in the long-term incentive plan to UniCredit.

Exceptions have been made to the rules set out above for individual members of the Management Board, depending on their personal contractual arrangements. Please see the Compensation Report elsewhere in the Annual Report for further details in this regard.

Compensation paid to members of the Management Board for positions on supervisory boards of Group companies is surrendered to HVB AG.

Information on the amount of compensation paid to members of the Management Board is provided in Note 79, "Information on relationships with related parties", in the notes to the consolidated financial statements.

The Annual General Meeting of Shareholders of May 23, 2006 invoked what is referred to as the opt-out clause of the Act on the Disclosure of Management Board Remuneration and resolved that the remuneration received by Management Board members will not be disclosed on an individualised basis.

Besides direct remuneration, Management Board members have received pension commitments. Except for three members of the Management Board, the Management Board members take part in the fund-linked deferred compensation scheme (FDC) which is also available to the Bank's employees. HVB AG has fixed the contribution as 20% of the fixed salary and the short term incentive, subject to a cap of €200,000 per year. It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from HVB AG. HVB AG credits the deferred compensation amounts to the Management Board member's capital account and invests them in a fund, currently the Pioneer Total Return Fund. HVB AG guarantees an annual return of 2.75%. A higher yield is initially used for allocation to a fluctuation reserve amounting to 10% of the separate funds for FDC. Any surplus return is credited to the Management Board member in due proportion. The fluctuation reserve is used to offset any actuarial losses. When the beneficiary becomes entitled to receive benefits, the capital credit balance is converted into a pension for life. A commitment for a fixed amount was agreed with one member of the Management Board. Contributions will be paid to a pension fund for another member of the Management Board. HVB AG has not agreed a pension commitment with a further member of the Management Board.

In addition, there are commitments in the event of the termination of Management Board activities. If a contract is not extended for reasons for which the member of the Management Board is not responsible, a transitional allowance of at least one year's salary (fixed salary and bonus), but a maximum of three years' salary depending on the length of service, is usually paid; the maximum amount is paid after 20 years. The transitional allowance is limited to the annual salaries (fixed salary and bonus) still outstanding until the age of 62 in each case. In the event that his contract is not extended, one member of the Management Board will not receive any benefits from HVB AG on account of another contract he has in the corporate group; another can receive a retirement pension.

Compensation paid to members of 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 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 €25,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no-par share. 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 €120,000 payable upon conclusion of the financial year, which is used to compensate committee members on the basis of a corresponding Supervisory Board resolution. According to this, the members of the Audit Committee receive annual compensation of €20,000 each for the 2006 financial year. The chairman of the committee receives twice this amount. Where they sit on the Management Committee of UniCredit, the members of the Supervisory Board surrender 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.

Information on the amount of compensation paid to members of the Supervisory Board is provided in Note 79, "Information on relationships with related parties", in the notes to 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 operating divisions.

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. In 2007, the dual steering will continue to be harmonised with the steering of the UniCredit Group. A detailed description of this issue is given in the Risk Report under the section entitled "Overall bank management".

ECONOMIC CONDITIONS

General economic trends in 2006

With year-on-year growth of nearly 5% in 2006, the global economy grew at around the same pace as in 2005. The engines of growth were the United States, with GDP up 3.5% in 2006, China, up 10.75%, and the emerging economies of Asia, up 7.0%. However, there was a slowdown during the year, primarily in the United States, in the wake of which GDP growth fell tangibly below the long-term average of 3.25%. The main reasons for this were the weaker fiscal stimuli, the continuing rise in the foreign trade deficit, a significant slowdown in the real estate sector and the serious problems encountered by the U.S. automotive industry. In contrast, Japan is in the midst of a prolonged period of growth. Driven by exports and business capital expenditures, GDP rose by approximately 2.0% in 2006 compared to the previous year.

The upturn in the euro area gained momentum during the past year. At 2.75%, gross domestic product (GDP) rose almost twice as rapidly as in 2005. In this context, the European economy benefited from external demand that remained strong coupled with lively domestic demand. This applies particularly to Germany, where capital spending was joined by private consumption as factors driving growth. For the first time in over a decade, Germany's GDP growth kept pace with the euro area as a whole. Turning now to the developments in detail:

- At an average of 2.5% in 2006, GDP growth in Germany was significantly higher than the 0.9% recorded in the previous year. This was the biggest rise since 2000, primarily driven by strong growth in capital expenditures by companies.
- German inflation stood at 1.8% after 1.9% in 2005. The year-on-year decline was largely due to the smaller increase in energy prices and prices set by the government.
- Unemployment averaged 4.48 million in 2006 after 4.86 million in the previous year.
- The current account surplus totalled 4.4% of GDP following on from 4.0% in 2005, helping Germany retain its position as the world's biggest exporter.
- The public-sector deficit fell significantly, from 3.2% of GDP to 1.9%. Hence Germany met the requirements of the European Stability and Growth Pact for the first time in five years.
- Long-term interest rates rose again. At the end of 2006, yields on 10-year German government bonds were at 3.95% after 3.3% in 2005. The European Central Bank raised the refinancing rate from 2.25% at the outset of the year to 3.5% in December 2006.

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Sector conditions
The German banking sector enjoyed a good year in 2006 in terms of loan portfolios and total deposits. This trend was driven by continued rapid growth in the global economy coupled with a German economy expanding more rapidly than at any time since 2000 and international financial markets performing strongly. The factors underpinning net interest income created a favourable environment overall for the profitability of German banks. On the lending side, the growth rate for loans in 2006 rose again in the banking sector for the first time since 2002, even if it was still very low compared with the rest of the euro area. The total number of loans and advances increased by around 1% in 2006, after decreasing by an average of 0.6% each year between 2002 and 2005. This can be attributed to high capital spending by German companies and the loans required to fund this investment. In contrast, there was only a slight increase in the demand for credit from private households.

Total deposits grew more rapidly, with the aggregate deposits of non-banks rising by 4.5% in 2006. As with loans and advances, the main factor behind this change was the improved financial situation of companies, which preferred term money to sight deposits in 2006.

The positive contribution to net interest income made by the growth in loan portfolios and total deposits in 2006 was tempered by further pressure on interest margins during the first half of the year. Whereas banks raised their deposit rates appreciably in response to the more restrictive monetary policy pursued by the European Central Bank, long-term credit interest rates initially continued their downward path in the first half of the year. This trend reversed in the second half to almost return to the previous year's level.

Net fees and commissions' contribution to the earnings situation of German banks benefited chiefly from the very friendly financial market environment in 2006. Greater activity on the capital market again resulted in much higher trading volumes on German stock exchanges in 2006. This development was reinforced by very strong demand from institutional investors. The DAX rose by over 20% year-on-year for the second time in a row, thus creating a very favourable environment for the funds business and trading profit of German banks.

Risk provisioning developed relatively well in 2006, at least as far as the corporate sector is concerned. There was a further decline in the number of company insolvencies, whilst personal bankruptcies continued to increase.

BUSINESS SITUATION AND DEVELOPMENT OF INCOME

Major events in 2006
The integration of HVB Group into the UniCredit Group has given rise to a new reporting structure and segment structure.

Discontinued operations
The transfers agreed by the Management Board and Supervisory Board on September 12, 2006, which were approved by the Extraordinary Meeting of Shareholders on October 25, 2006, represent a discontinued operation as defined by IFRS 5, resulting in a different presentation in the individual parts of the consolidated financial statements.

The results of the discontinued operations are not shown in the income statement prepared in compliance with IFRS 5 until after the net profit after tax and minorities of "HVB Group new". The following companies and sub-groups have been defined as discontinued operations: the Bank Austria Creditanstalt Group, IMB, AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga), HVB Bank Ukraine and the HVB AG branches in Vilnius and Tallinn.

The income statement for HVB Group compliant with IFRS 5 (HVB Group new) down to the item "Net profit of HVB Group new" does not reflect the earnings power of the new HVB Group following the transactions listed, either in the past or in the future. The profit now disclosed for HVB Group new does not contain any adequate revenues offsetting the capital tied up by the holdings in BA-CA, IMB and the other units being transferred (dividends or primary revenues from the holdings). Looking into the future, the proceeds from the transactions will give HVB Group the chance to expand its core competencies and to tap additional sources of revenue.

Modified business structure (new divisions)
In conjunction with the integration of the Bank into the UniCredit Group, the activities of the new HVB Group have been restructured and divided into the following global divisions: Retail, Wealth Management, Corporates & Commercial Real Estate Financing, and Markets & Investment Banking. Also shown is a segment called "Other/consolidation" that covers Global Banking Services and Group Corporate Centre activities. The latter also contain the former RER segment and the newly defined SCP portfolio.

The reorganisation primarily affected the former Germany business segment, from which the Retail, Wealth Management and Corporates & Commercial Real Estate Financing – divided into Corporates and Commercial Real Estate Financing operations – divisions emerged. Within this, the Retail and Wealth Management divisions were created out of the former Private Customers business unit, whereas the Corporate Customers and Professionals and Real Estate business units formed the basis for the new Corporates & Commercial Real Estate Financing division. In addition, customers were transferred from the former Corporate Customers and Professionals business unit (business customer segment) to the new Retail and Wealth Management divisions.

The Markets & Investment Banking division was essentially formed out of the Corporates & Markets segment, but without the activities of the BA-CA Group and IMB.

Compliant with IAS 14.52, we also show the companies defined as discontinued operations in accordance with IFRS 5 additionally and separately from the continuing divisions and segments of the new HVB Group in a separate column headed "Discontinued operations" in our segment report.

New income statement structure
In its Interim Report for the period ended September 30, 2006, HVB Group prepared its income statement for the first time using the structure for many years used by UniCredit in its capital market communications. Furthermore, the presentation of expense items has been modified by the year-end 2006 to match the usual UniCredit practice. This means all absolute amounts in the income statement are shown with their impact on profit.

A reconciliation of the income statement structure used to date to the new income statement structure for the period from January 1 to December 31, 2005 is shown in the notes to the consolidated financial statements (Note 2, "Consistency") together with the main differences.

Adjustment of comparison periods
Due to the changes listed above, the income statement and the segment report are no longer comparable with the figures reported in the 2005 Annual Report. For this reason, we have adjusted the figures for previous years accordingly.

General comments by management on the operations of the full HVB Group
In its income statement for 2006, the full HVB Group reported a net profit of €4,420 million (2006: €642 million) after taxes and minorities, including a net gain from non-recurring items. This total comprises the net profit of the discontinued operations of €3,457 million (2005: €1,158 million), the minority interests in the discontinued operations of €677 million (2005: €389 million) and the net profit of €1,640 million recorded by the new HVB Group (2005: loss of €127 million). The net profit recorded by the new HVB Group especially reflects the good operating performance that is described in greater detail under "Operating performance of HVB Group new" below using the individual items in the income statement. Comments on the net profit of the discontinued operations are shown in the Note 39 "Income statement and earnings per share of discontinued operations" in the notes to the consolidated financial statements.

Financial Review continued

Non-recurring effects

The profit before tax of the full HVB Group totalled €5,317 million, including the non-recurring effects of €2,230 million resulting in part from the integration of HVB Group into the UniCredit Group. Of the total non-recurring effects in 2006, €362 million are attributable to the continuing operations of the new HVB Group and €1,868 million to discontinued operations.

The non-recurring effects in the new HVB Group relate to the following:

- Gains on the disposal of the Activest companies to Pioneer Global Asset Management S.p.A. totalling €543 million and the partial disposal of our holding in Münchener Rückversicherungs-Gesellschaft AG (€217 million) disclosed in net income from investments
- Valuation expenses of €130 million arising from the disposal of a portfolio of non-strategic real estate announced by the Management Board of HVB AG on December 13, 2006 included in net income from investments
- Restructuring costs of €60 million
- General provisions for losses on specific loans and advances of €55 million disclosed under net write-downs of loans and provisions for guarantees and commitments that were made possible for the first time by the preparations for Basel II causing improvements to the data records in terms of defaults by customers who are 90 days in arrears and other non-performance
- Expenses of €153 million arising from a change in the parameters used to calculate the fair value mainly of financial instruments under the categories held for trading and at fair value through profit and loss (fair-value discount) shown in a separate line called "Other non-operating expenses"

In the discontinued operations, the non-recurring effects comprise the following individual items:

- Gains of €669 million on the disposal of Splitska banka, which belongs to the BA-CA Group, and of €1,756 million on the disposal of the Bank BPH Group disclosed in net income from investments
- Restructuring costs of the discontinued operations totalling €248 million. €225 million of this total relates to the creation of provisions for reorganisation and restructuring in the Retail, Corporates, Markets & Investment Banking and Global Banking Services divisions as well as Support Services and Risk Management at BA-CA
- Non-recurring expense of €278 million in net write-downs of loans and provisions and for guarantees and commitments relating to a change of methods used by BA-CA
- Expenses of €31 million arising from a change in the parameters used to calculate the fair value mainly of financial instruments under the categories held for trading and at fair value through profit and loss (fair-value discount) shown in the income statement item called "Other non-operating expenses"

The profit before taxes totalling €1,299 million was also depressed by non-recurring effects in 2005. In addition to restructuring costs of €546 million (€108 million of which is for discontinued operations), this includes further extraordinary expenses arising from loan-loss provisions due to additional general provisions for losses on specific loans and advances totalling €147 million (€70 million of which was for discontinued operations).

Adjusted for non-recurring effects in both years, the full HVB Group performed extremely well, with profit before taxes rising by 55.0% to reach €3,087 million after €1,992 million in the previous year and net profit after taxes and minorities totalling €2,160 million, up 85.7% on the previous year.

Appropriation of profit

In the full HVB Group, €3,798 million of the unappropriated profit of €4,420 million has been transferred to reserves. The consolidated profit (which is the profit available for distribution of HVB AG) amounts to €622 million. We will propose to the Annual General Meeting of Shareholders that a dividend of €301 million be paid to the shareholders and that a further €321 million be transferred to retained earnings. The total dividend payout of €301 million is equivalent to a dividend of €0.40 per share of common stock and per share of preferred stock and an advance dividend of €0.064 per share of preferred stock.

Key capital ratios

The return on equity after taxes (based on average IFRS equity capital without change in valuation of financial instruments) of the full HVB Group amounted to 37.8% (including non-recurring effects). Even adjusted for the non-recurring effects listed, our expectations with regard to return on equity after taxes have been more than met, with a figure of 18.5% at December 31, 2006 after 10.2% in the previous year.

Besides increasing our return on equity, we also more than matched the targets stated in the Outlook section of Management's Discussion and Analysis (on page 74 of the 2005 Annual Report) in terms of a significant boost in total revenues and a substantial improvement in the cost-income ratio (ratio of operating costs to total revenues). The cost-income ratio improved by 9.4 percentage points during the year under review to 59.1%.

We were able to beat these targets for return on equity and the cost-income ratio in the new HVB Group as well.

Operating performance of the new HVB Group

As already mentioned in the section headed "Major events in 2006", we are presenting a separate income statement for the new HVB Group in compliance with IFRS 5 rules. This statement no longer contains the income and expense items of discontinued operations and shows their contribution to earnings only after net profit after tax and minorities of the new HVB Group.

Total revenues

With further year-on-year growth in net trading, hedging and fair value income as well as in net fees and commissions coupled with a favourable economic climate, further improvements to our earnings structure are becoming apparent on the operating side. Overall, total revenues increased 14.2% over the previous-year figure.

Net interest income

At €3,148 million, we almost matched the previous year's total for net interest income (down 0.6% or €18 million) despite the scheduled strategic portfolio disposals, chiefly in the Real Estate Restructuring unit. Average risk assets (compliant with the German Banking Act) declined by 7.1% year-on-year. The effects of portfolio disposals were also reflected in our segment report through the decline in net interest income in the Other/consolidation segment, whilst all other operating divisions increased or maintained net interest income compared to the previous year. At €251 million, interest and similar income from dividends and other income from equity investments almost matched the previous year's level of €259 million.

Net fees and commissions

At €1,753 million, there was a significant 1.7% year-on-year rise in net fees and commissions. However, the profit contributions made by the sold Activest companies are only included in net fees and commissions for 2006 up to the middle of the year, which has a negative effect when compared to 2005. Adjusted for consolidation and currency effects, the rate of increase in net fees and commissions totalled 7.0%. In the process, net fees and commissions from the securities and depositary business rose by around 9% in adjusted terms. In particular, sales of innovative financial products like the "HVB Best of Fonds", "HVB Flex Bonus Zertifikat", "HVB 2 x 5% Profianleihe" and the "HVB Höchststand-Zertifikat" helped to boost earnings. There was also an increase in the contributions made to profits by other service units (including commissions) and from the lending business.

Financial Review continued

Net trading, hedging and fair value income
Net trading, hedging and fair value income of the new HVB Group developed especially well. At €768 million, it is more than double the figure of €376 million reported for 2005. The net income from financial instruments classified as held for trading increased by €209 million to €673 million thanks essentially to higher dividend income arising from trading operations (up €184 million to €320 million) together with a rise of around a quarter in equity contracts to €112 million. In 2006, we report the gains realised from private equity transactions of €38 million under net trading, hedging and fair value income for the first time; these were previously shown under net income from investments.

Net other expenses/income
Net other expenses/income amounted to €32 million. A net expense of €311 million was reported for this item in 2005 on account of losses absorbed. Of the total losses absorbed in 2005, €256 million relates 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 sub-group, which was not consolidated in 2005. The major companies of the HVB Immobilien AG sub-group were fully consolidated in the consolidated financial statements of HVB Group with effect from January 1, 2006.

Operating costs
At €3,695 million, the operating costs of the new HVB Group were reduced by 4.9% compared to the previous year. In the process, the payroll costs remained stable at 0.2%, despite higher expenses for profit-related bonus payments in the Markets & Investment Banking segment, while there was a 7.5% reduction in other administrative expenses and a significant 24.2% decline in amortisation, depreciation and impairment losses on intangible and tangible assets.

In net terms, consolidation and currency effects served to reduce expenses reported under the aggregate operating costs by €11 million in 2006. In particular, the increase in expenses caused by the initial consolidation of the HVB Immobilien AG sub-group was offset by the lower expenses arising from the deconsolidation of the Activest companies, resulting in a year-on-year decrease adjusted for consolidation and currency effects of 4.6%.

Operating profit
The massive 70.0% rise in the operating profit of the new HVB Group to €2,257 million is evidence of the further progress we made in the year under review in the constant improvement of our operating profit we had already initiated in previous years, helping us to more than meet our financial targets. The rise in operating profit compared to the same period last year is a result of both the rise in total revenues and successful cost reduction measures. This efficiency gain led to a significant enhancement of the cost-income ratio (percentage of total revenues made up by operating costs), which improved by 12.4 percentage points to 62.1%.

Provisions for risks and charges
Net provisions for risks and charges increased to €164 million after €87 million in the previous year. The largest individual item in this regard is the provision for rental guarantees related to premises no longer required for banking operations that were vacated in the course of space-optimisation programmes. As a result of discontinuing the use of space, existing tenancy/leasing contracts became onerous contracts for which provisions of €60 million must be set aside to meet contractual obligations arising under what are defined by IAS 37.66 as onerous contracts. This will no longer affect our income statements in future years. In addition, this income statement item includes further provisions for rental guarantees, other provisions and accruals for risks and charges as well as provisions for litigation risks in the lending business.

Write-down on goodwill
In compliance with IFRS 3, scheduled write-downs have no longer been taken on goodwill since January 1, 2005. No non-scheduled write-downs of goodwill were taken in 2006.

Restructuring costs
The restructuring costs incurred in part as a result of the integration of HVB Group into the UniCredit Group amounted to €60 million in 2006. This figure includes payroll costs of €27 million and other administrative expenses (including depreciation) of €28 million. The restructuring costs of €438 million reported for 2005 essentially included additions to restructuring provisions mainly for severance pay settlements, depreciation charges on non-current assets and fees.

Net write-downs of loans and provisions for guarantees and commitments
At €933 million, net write-downs of loans and provisions for guarantees and commitments were €46 million or 4.7% below the figure of €979 million recorded for 2005. Net write-downs of loans and provisions for guarantees and commitments were affected by the non-recurring effects described in both years. Even adjusted for the non-recurring effects, there was a 2.7% decline in net write-downs of loans and provisions for guarantees and commitments to €878 million.

Net income from investments
Net income from investments recorded by the new HVB Group amounted to €671 million in 2006 and benefited from net non-recurring effects of €630 million.

These effects include gains on the disposal of the Activest companies (€543 million) and the sale of part of our holding in Münchener Rückversicherungs-Gesellschaft AG (€217 million) and valuation expenses of €130 million arising from the sale of a portfolio of non-strategic real estate announced by the Management Board of HVB AG on December 13, 2006.

In addition, gains were realised from the reduction of our shareholdings in Babcock & Brown Limited (€55 million) in the first quarter of 2006 and Lufthansa AG (€40 million) in the second quarter of 2006; these were partially offset by deconsolidation losses and write-downs on investment properties.

In 2005, the largest income items were the gains from the partial disposal of our shareholdings in Münchener Rückversicherungs-Gesellschaft AG (€208 million) and the gains realised on the sale of our holdings in Rhön-Klinikum AG (€36 million) and Premiere AG (€63 million). These were partially offset by non-recurrent expenditure of €225 million 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.

Other non-operating expenses
Expenses of €153 million arising from a change in the parameters used to calculate the fair values of financial instruments classified as held for trading and at fair value through profit and loss are shown in a separate line in the income statement called "Other non-operating expenses" (changes in accounting estimates, compliant with IAS 8.32 et seq.). This involves an effect, which is non-recurrent in this magnitude, arising from the initial application of the fair-value discount which takes account of other factors influencing the calculation of the fair value and thus increases the quality of our conservative fair value calculation.

Profit before tax
The profit before tax of the new HVB Group amounted to €1,618 million including the non-recurring effects mentioned after a loss of €107 million in the previous year. Adjusted for non-recurring effects, profit before tax, at €1,256 million in 2006, would still have been more than three times as high as the adjusted figure of €408 million for 2005.

Income tax for the period
For the year under review, we are disclosing income tax income of €125 million (2005: income tax expenses of €14 million), which consists of expenses arising from current income taxes of €199 million and income from deferred taxes of €324 million.

The apparently low current income taxes of €199 million in relation to the profit before tax of €1,618 million is mainly attributable to tax-free earnings. In addition, the capitalisation of the discounted corporate income tax credit from previous years in accordance with new tax regulations had a beneficial effect.

The deferred tax income stems largely from an increase in the deferred tax assets recognised on the domestic loss carryforward of HVB AG which were not previously disclosed.

Financial Review continued

Minorities and net profit

Minorities account for €103 million of net profit. After deducting the minorities, we generated a profit of €1,640 million after a loss of €127 million incurred as a result of non-recurring effects in the previous year. Adjusted for the listed non-recurring effects in both years, we managed to increase the profit of €290 million reported for 2005 by a factor of almost four to €1,128 million in 2006.

The return on equity of the new HVB Group (based on the average IFRS equity capital of the full HVB Group, distributed to the continuing and discontinued operations in accordance with average risk-weighted assets) totals 19.3% before taxes and 22.1% after taxes. Adjusted for non-recurring effects, the amounts are 15.0% before taxes and 15.2% after taxes. Starting in the 2007 financial year, we will adjust the method used to calculate return on equity to match the controlling logic of the UniCredit Group.

Segment results by new division

The contributions of the divisions to the profit before tax of the new HVB Group of €1,618 million were as follows:

Retail	€117 million
Wealth Management	€746 million
Corporates & Commercial Real Estate Financing	€531 million
Markets & Investment Banking	€969 million
Other/consolidation	loss of €745 million

The income statements of each division, the components and targets of the divisions and comments on the performance of the divisions are described in Note 21 "Notes to segment reporting by division" and Note 22 "Income statement broken down by division" in the notes to the consolidated financial statements.

FINANCIAL SITUATION

Total assets

The total assets of the full HVB Group amounted to €508.0 billion at December 31, 2006, which represents an increase of €14.4 billion, or 2.9%, over the 2005 year-end total.

The shareholders' equity shown in the balance sheet amounts to €20.0 billion, including minority interest of €3.3 billion. The €4.6 billion growth in shareholders' equity essentially stems from the profit of €4.4 billion, of which €3.8 billion is allocated to other retained earnings and €0.6 billion of which is reported as consolidated profit.

The changes in fair values of hedging derivatives in effective cash flow hedges are disclosed in the hedge reserve. The changes in the value of these derivatives are offset by future compensating effects arising from the hedging relationships which are not yet permitted to be recorded in the balance sheet. This explains why the hedge reserve does not have any economic informative value when 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 cumulative undisclosed reserves. The available-for-sale reserve and the hedge reserve are not included for the purpose of calculating the return on equity.

Compliant with IFRS 5, an enterprise must provide and present information on the balance sheet which enables the persons for whom the annual financial statements are prepared to assess the financial impact of discontinued operations and non-current assets or disposal groups held for sale.

For this reason, the assets and liabilities of discontinued operations have to be shown in the balance sheet as well as non-current assets or disposal groups held for sale and the liabilities of disposal groups held for sale under separate balance sheet items.

Hence, the other balance sheet items (except for shareholders' equity) in the year under review only include the figures for continued operations without non-current assets or disposal groups held for sale and without the corresponding liabilities. The previous year's figures have not been adjusted. Consequently, the individual balance sheet items cannot be compared with those of the previous year. To increase transparency and facilitate assessment of the year-on-year financial performance, we have also included a pro forma balance sheet as well as the underlying assumptions in the Note entitled "Pro forma balance sheet" in the notes to the consolidated financial statements. In this context, the continuing operations in both 2006 and the previous year are taken as the basis.

Here we will describe only the development of the individual balance sheet items shown in the pro forma balance sheet of the new HVB Group.

The total assets of HVB Group new increased by €6.6 billion, or 1.9%, to €358.3 billion. In particular, the assets of the new HVB Group increased as a result of rises of €18.6 billion in assets held for trading purposes and of €6.1 billion in placements with, and loans and advances to, other banks, whereas loans and advances to customers decreased by €15.2 billion, partly due to further portfolio disposals, and investments fell by €7.1 billion. The allowances for losses on loans and advances included as a deductible item in the assets fell by €3.2 billion.

Funding was adjusted to reflect the higher volume of lending. The main rise on the liabilities side came in deposits from other banks, up €13.2 billion. By contrast, promissory notes and other liabilities evidenced by paper were down by €6.8 billion. Shareholders' equity increased by €1.4 billion, largely as a result of the profit generated in the year under review.

Risk assets, key capital ratios and liquidity of the full HVB Group

Compared to the year-end total for 2005, the risk assets of the full HVB Group in accordance with the German Banking Act (without market risks) declined by €13.2 billion to €219.3 billion. Major factors contributing to this included the deconsolidation of Bank BPH S.A. and its subsidiaries, with risk assets totalling €9.4 billion, and the securitisation activities listed below.

The risk assets of the new HVB Group totalled €137.4 billion at year-end.

The full HVB Group continued its securitisation activities in 2006 with two new transactions: Provide A 2006-1 and Promise XXS 2006-1. The corresponding volume of lending newly outplaced totalled €7.0 billion at year-end, serving to reduce risk-weighted assets by €5.7 billion in accordance with the German Banking Act. At the same time, the Amadeus, Lombard Sec. No. 1, Promise A 2000-1, Promise A 2002-1 and Promise Austria 2002-1 transactions expired during 2006 with an aggregate lending volume of €1.8 billion. This resulted in the reversal of a reduction of €1.6 billion in risk-weighted assets compliant with the German Banking Act.

At year-end 2006, the core capital of the full HVB Group compliant with the German Banking Act totalled €18.3 billion and equity capital €27.1 billion. This gives rise to a core capital ratio (excluding market risk positions) of 8.4% and an equity funds ratio of 11.8%.

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 2006 (2005: 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, 2006

At the Extraordinary Meeting of Shareholders on October 25, 2006, HVB AG submitted the agreements for the sale of its holdings in BA-CA and HVB Bank Ukraine to UniCredit, its IMB and AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) subsidiaries to BA-CA, and the assets and liabilities of HVB AG's branch offices in Tallinn, Estonia, and Vilnius, Lithuania, to AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) for approval. The Extraordinary Meeting of Shareholders approved the agreements with over 99.4% of the votes cast.

Financial Review continued

Conditions were set for executing the transactions. These were that official approval be obtained from the relevant authorities and that the Management Board adopt a resolution based on a legal opinion given by an external advisor confirming that the underlying resolutions at the Extraordinary Meeting of Shareholders on October 25, 2006 contain no errors which would prevent implementation of the agreements. The Management Board adopted a corresponding resolution on January 9, 2007. The following transactions were subsequently completed:
- HVB AG's 77.53% interest in BA-CA was transferred to UniCredit against payment of €109.81 per share (giving a total purchase price of around €12.5 billion in cash) on January 9, 2007,
- HVB AG's 100% interest in AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) was transferred to BA-CA for a purchase price of €35 million in cash plus the capital increase of AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) underwritten by HVB in August 2006 of around €40 million, on January 10, 2007, and
- HVB AG's 70.26% interest in IMB plus options on a further 2.79% interest in IMB was transferred to BA-CA for a purchase price of €1,070 million in cash on January 11, 2007.

Due to conditions that had not been met, the following transfers had not taken place by the time the annual financial statements were prepared:
- HVB AG's 100% interest in HVB Bank Ukraine to UniCredit against payment of €83 million in cash, and
- the assets and liabilities of HVB AG's branches in Tallinn, Estonia, and Vilnius, Lithuania, to AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) for a purchase price of €1 million and €9 million, respectively, plus the difference between the carrying amount of the assets transferred and liabilities assumed.

On January 23, 2007, UniCredit announced its intention of acquiring the shares in HVB AG held by minority shareholders (squeeze-out). HVB AG will remain a joint stock corporation under German law and an operationally independent institution after the squeeze-out. The new HVB Group will be the centre of competence for the entire investment banking activities of the UniCredit Group. Furthermore, it aims to expand its market position in retail banking, corporate banking and commercial real estate financing, and wealth management with a view to securing profitable growth.

OUTLOOK

The 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 the new HVB Group at the outset of 2007.

General economic outlook for 2007

In 2007, global growth is anticipated to slow down somewhat, although there are no signs of a hard landing for the global economy. At just under 4.5%, GDP growth is expected to lag behind that of last year only slightly. At the same time, worldwide growth will be more evenly balanced. The United States will probably enjoy a soft landing in 2007, expanding by 2.1%, while the euro area and Japan are expected to grow at a similar pace to the U.S. economy. The emerging economies of Asia and China should remain at the top of the growth league (at just under 8% and just under 9.5%, respectively).

In the United States, the problems in the real estate and automotive sectors will initially have a restraining effect. However, lower energy prices will bring relief and boost the purchasing power of private consumers with a favourable financial market environment probably acting as a support in this regard. The slowdown in growth in the United States will probably come to an end in the first half of 2007, while capital spending will revive in the second half. This will give the U.S. economy new momentum, enabling it to return to its long-term growth potential. For the year as a whole, this will mean growth of almost 2.0% year-on-year. With GDP rising a good 2% in 2007, Japan's economy is anticipated to expand above its long-term trend for the fourth time in a row. Exports and capital spending by companies will remain important pillars of the economy. In addition, a significant recovery is expected in private consumption levels. As the economy continues to perform well, the slight upward trend in consumer prices to date is expected to increase somewhat. Hence, the Bank of Japan will probably carry out two moderate interest rate rises this year, to take the key rates to 0.75%.

Although growth in the euro area is expected to remain steady in 2007, it will lose some of its momentum in the course of a long-term normalisation process. This is suggested in part by leading indicators which, despite declining slightly, are still at a very high level. The sentiment, notably in companies, is set to remain positive. Domestic demand is anticipated to continue its revival, partly as a result of a sustained rise in employment, although there will be a slight deterioration in the outlook for exports because of the slight slowdown worldwide. For 2007 as a whole, GDP growth will thus stand at around 2% in the euro area. With GDP rising at just under 2% in Germany, growth is expected to slow down a little. This is chiefly a result of the slight deterioration in the outlook for exports due to weaker growth in the United States; in addition, a slight decline is expected in the very high growth rate of capital spending by companies in 2006. Furthermore, the increase in value-added tax that came into force at the start of the year may have led to purchases being brought forward and, in return, to private consumption decreasing, particularly at the beginning of 2007. However, the continued increase in jobs for which social security contributions are payable should restrain any decline in private consumption and ensure a moderate recovery in consumption levels as the year wears on.

Sector development 2007

Our assessment indicates a consolidation of economic growth in the economy during the 2007 financial year. 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 the positive economic environment will have a further favourable impact on risk provisioning. Operating costs should feature a slightly lower increase than in 2006. In 2008, we expect German banks' profits to grow only slightly less than in 2007.

The European Central Bank is expected to raise its key rate twice, by 25 basis points each time, in the course of year. This is suggested by the stable economic performance entailing the risk of second-tier effects in inflation as well as the continued very ample supply of liquidity. In contrast, the Fed is expected to lower the key rate by a mere 25 basis points in the current year. In the United States, long-term interest rates will probably remain largely around 4.7%, the level reached at the end of 2006, as a result of slightly weaker economic growth. German yields should also rise very slowly, to 4.1%. Because the relative advantage in terms of interest rates enjoyed in the United States will decline further, the dollar is expected to move towards the 1.34 mark by the end of the year.

General economic outlook for 2008

In 2008, the global economy will show the same solid growth as in 2007. This is especially true for the United States, which should see growth accelerate slightly. In contrast, the European and German economies should keep the same growth rates as in 2007.

Financial Review continued

Key planning data for 2007

Our plans 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 2% in Germany,
– the inflation rate will rise to approximately 2% as a result of the increase in the rate of value-added tax,
– long-term interest rates will remain close to 4%,
– the number of company bankruptcies will continue to decline slightly.

Development of HVB Group

A rise in 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, the new HVB Group will provide important financial contributions to achieving this goal.

Based on our good operating performance in the year under review, we are planning a further tangible increase in total revenues for the new HVB Group and only a slight rise in operating costs, which will lead to an improvement in the cost-income ratio. This is based on the existing group of consolidated companies following the disposal of our activities in Austria and central and eastern Europe.

Net trading, hedging and fair value income, coupled with higher net commission income from innovative products for private and corporate customers, is set to drive the increase in total revenues.

Net write-downs of loans and provisions for guarantees and commitments will remain at around the same level as the previous year.

The new HVB Group is the centre of competence for the investment banking activities of the UniCredit Group. The possibility of pooling the activities grouped together in a virtual structure at the new HVB Group is currently being considered. The first step would involve integrating the main business activities of UniCredit Banca Mobiliare (UBM), UniCredit's investment bank, in the new HVB Group. The definitive timing and nature of the integration are to be determined in the near future.

With the disposal of BA-CA, AS UniCredit Bank and IMB at the start of January 2007, the core capital ratio improved to 15.6% on a pro forma basis.

Opportunities arising from the development of general conditions and future business strategy

In the course of the combination with the UniCredit Group and as a result of the sale of the commercial activities in Austria, central and eastern Europe, Russia, the Ukraine and the Baltic states, interesting new opportunities have arisen for HVB Group to continue to grow again organically and by means of acquisitions after a period of transformation and integration:

– Exploiting opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany.
– Tapping the success potential arising from the concentrated expansion of investment banking activities.

- HVB Group's prospects of realising high value-added potential and sustained earnings growth as part of a European banking group with a unique competitive profile in central and eastern European markets.
- Using more favourable funding options through a sustainably improved and secured capital base, which can also influence rating assessments.
- Leveraging the advantage from HVB Group's now high capital base and liquidity to swiftly and flexibly respond to opportunities arising on the market.
- Reduction of regional risk potential and the entailed future investment risks.
- Exploiting cost and earning synergies by optimising all production capacities, rationalising overlapping functions and enhancing processing flows.

Opportunities in terms of corporate strategy, performance and other factors

Besides the opportunities arising from our combination with the UniCredit Group, the disposals in Austria and central and eastern Europe and the strategic realignment of HVB Group, further opportunities have arisen as a result of:

- a further improvement in total revenues by creating and using new products for all customer segments through product factories with tailored solutions,
- projects to support customers demanding cross-border financial services in central and eastern European markets,
- a further reduction in operating costs achieved by strict cost management in Germany,
- an improvement in cross-selling potential in all customer groups,
- reducing risk by disposing of individual non-strategic assets, and
- a bolstering of the capital base also from sustainable earnings growth.

The economic development in the core market of Germany will also have a major impact on all of the opportunities described. An economic recovery, accompanied by improvement in the unemployment rate and a favourable trend on the real estate markets, provides positive leverage for further strong performance.

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. This also applies to Bank Austria Creditanstalt Group and other units in central and eastern Europe until their disposal at the beginning of January 2007.

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

MANAGEMENT AND MONITORING OF RISK IN HVB GROUP

1 Risk management

For risk management purposes the Bank defines its overall risk strategy at HVB 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 divisions. 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 divisions implement – with profit responsibility – the risk strategies defined for them within HVB Group. In doing so, they utilise 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 organisationally independent and encompasses the following tasks:

Risk analysis

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

Risk control

In addition to the quantification and validation of the risks incurred and the monitoring of 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 organisational structures.

3 Divisions and committees

Risk management

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

Strategic Credit Committee (SCC)

Strategic issues are discussed and decided on by the Strategic Credit Committee (SCC) in its capacity as a management and decision-making body with responsibility for all areas. The role of the SCC has no effect on the final decision-making authority of the Management Board on matters that cannot be delegated or those related to the Minimum Requirements for Risk Management (MaRisk).

The issues addressed by the SCC are primarily the risk strategy of HVB Group and division-related risk strategies and measures, the specification of risk tolerance, risk classification processes, credit organisation principles, risk-related aspects with regard to process/processing standards in the credit business, major changes or updates in the product range in the lending business and the amount of risk premiums (transfer prices) and country limits.

The SCC is chaired by the Chief Risk Officer, and has representatives from all the divisions and, from the back office side, Risk Control, Recovery Management and Credit & Risk Management.

Asset Liability Committee

The Asset Liability Committee makes decisions at its monthly meetings on asset/liability management of HVB AG and sets guidelines for HVB Group. The committee pursues the following key goals:

– establishment of uniform methods for asset/liability management for the entire HVB Group,
– optimum utilisation of the financial resources of liquidity and capital, and
– co-ordination of the requirements of the divisions for financial resources and business strategy.

Risk monitoring

The Chief Risk Officer is responsible for monitoring and co-ordinating important risk-policy activities within HVB Group. The activities of the Chief Risk Officer in the year under review were supported by the Audit Committee of the Supervisory Board, various units under the Chief Financial Officer and the Audit department.

Audit Committee of the Supervisory Board

In 2006, the Management Board provided the Audit Committee of the Supervisory Board with information on the entire risk situation and risk management of the Bank at four meetings. The Supervisory Board received timely, detailed reports on all risks relevant to the Bank and on the performance of the loan portfolios and credit strategies. This reflects 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.

Chief Risk Officer

The following departments, which perform tasks for HVB Group as well as HVB AG, are under the responsibility of the Chief Risk Officer:

Risk Control

– Risk Control deals in HVB Group with market risk, credit risk, operational risk and business risk as well as risks arising from the Bank's own real estate portfolio and shareholdings/financial investments. Its tasks and competencies include ongoing, independent risk measurement and monitoring, responsibility for risk measurement methods and their ongoing development, as well as reporting to the Chief Risk Officer, the Management Board of HVB Group and the Audit Committee of the Supervisory Board.

In addition, Risk Control is responsible for economic 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 in HVB Group. As of the second quarter of 2007, the structure of Risk Control will be adjusted to match its redefined responsibilities within the UniCredit Group.

Credit & Risk Management

– The Credit & Risk Management department pools the credit processing units for special business transactions for the credit business of the former Germany segment and for North America, Latin America and Asia 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 in the newly formed Retail, Wealth Management and Corporates & Commercial Real Estate Financing divisions. These units are 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 divisions named above and across the board for the lending business of the Markets & Investment Banking division. We see their input on credit exposure decisions as a value-added contribution in the interest of sector-oriented risk management.

Chief Credit Risk Officer

– The function of the Chief Credit Risk Officer was eliminated effective January 31, 2006, and the restructuring and workout areas, of which he was in charge, were placed under the responsibility of Recovery Management. Credit responsibility for the Americas and Asia was taken on by Credit & Risk Management, whereas credit policy was taken over by Risk Control. Credit responsibility for financial institutions was transferred to Credit Risk Banks, Institutions & Country Risk. The tasks of risk provision forecasting and portfolio analysis originally under the responsibility of the Chief Credit Risk Officer are now handled by Recovery Management. Risk Control is in charge of preparing centralised policies and operating guidelines for the entire credit business.

Risk Report continued

Real Estate Valuation and Consulting

– The Real Estate Valuation and Consulting department focuses on the valuation of individual properties and portfolios, regular updates and monitoring of property values, and the analysis and forecasting of real estate market trends. At the same time it provides support in risk assessment and management in relation to mortgage collateral and the pfandbrief business as well as the determination of economic capital pursuant to Basel II.

Chief Financial Officer

The following departments under the Chief Financial Officer provide support in risk monitoring alongside the Tax Affairs and Investments departments:

Accounting

– The Accounting department is able to identify unfavourable trends by analysing the income statements which it produces on a monthly basis. This provides an important contribution to compliance with the risk management process.

Regulatory Reporting

– The Regulatory Reporting department is responsible for reporting to the regulatory bodies with jurisdiction over the banking sector. Along with Principle I (backing of risk assets and market risk positions with own funds) and Principle II (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.

Asset Liability Management

– The Asset Liability Management department controls the short-term and long-term liquidity within HVB Group to ensure that the Bank has adequate liquidity at all times and to optimise the funding costs. Key elements are co-ordinated operations on money markets and capital markets and the specification of liquidity profiles for the corresponding units. Asset Liability Management is also responsible for the balance sheet structure and measures to optimise regulatory capital as well as risk management of our investments. The measures implemented in connection with these functions serve to support our Bank's rating and return targets.

Moreover, units under the responsibility of the Chief Financial Officer – along with the Risk Control department – are involved in our Basel II project activities.

Audit

– The Audit department operates as an independent organisational unit. It reports directly to the Board Spokesman and acts on behalf of the Management Board. Although it primarily performs the internal audit function for HVB AG, it also performs tasks for HVB Group as a whole. Its duties range from a control and advisory function based on a standardised system of reporting through to complete execution of internal auditing for the subsidiaries.
  The Minimum Requirements for Risk Management (MaRisk) 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 Management Board with a comprehensive overview of all audit findings and conclusions as well as their current status. In addition, the head of the Audit department reports on current trends and results in auditing activities at the regular sessions of the Supervisory Board's Audit Committee.

The departments and committees described here reflect the status of the organisational structure at December 31, 2006. Additional organisational adjustments may take place during the integration of HVB Group into the UniCredit Group.

Where necessary, a distinction is made in the Risk Report between the full HVB Group (including the companies which, in accordance with IFRS 5, are classified as discontinued operations and non-current assets or disposal groups held for sale) and the new HVB Group (excluding the companies which, in accordance with IFRS 5, are classified as discontinued operations and non-current assets or disposal groups held for sale).

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 individual risk types are aggregated at HVB Group level as part of the economic capital calculation, applying a uniform one-year holding period and a 99.95 percent confidence level across all risk types.

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

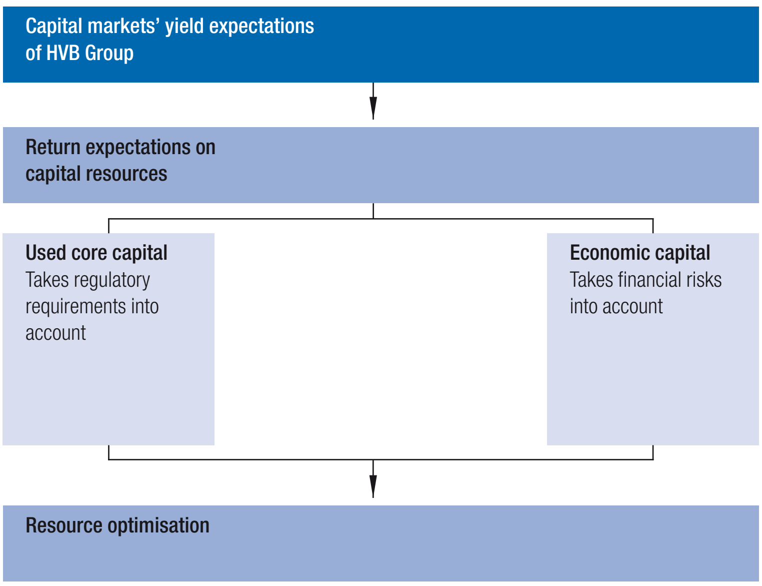
3 Development of risk measurement and monitoring methods

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). In addition, differences in methodologies will be examined in the course of integration into the UniCredit Group.

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 divisions are allocated both regulatory (or used core) capital and economic 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. In 2007, harmonisation of the dual management principle with the management principles applied by the UniCredit Group will continue.



Risk Report continued

2 Regulatory capital adequacy

Used core capital

For planning purposes, the divisions are required to have core capital backing for credit and market risks equal to an average of 6.8 percent of equivalent risk assets. Furthermore, the expected return on investment is derived from the average used core capital calculated – for this purpose, excluding hybrid capital.

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 assets, with or without the market risk positions weighted by a factor of 12.5)
– 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 2006 is contained in the Financial Review and in the notes to the consolidated financial statements (Note 76) in the present Annual Report.

Economic capital after portfolio effects

(confidence level 99.95%)

	2006		2005	
	€ millions	in %	€ millions	in %
Broken down by risk type				
Market risk	174	2.2	278	3.4
Credit risk	1,763	22.3	3,273	39.8
Business risk	595	7.5	1,098	13.3
Operational risk	791	10.0	1,056	12.8
Risks arising from the Bank's own real estate portfolio	259	3.2	347	4.2
Risks arising from the Bank's shareholdings/financial investments	584	7.4	2,181	26.5
HVB Group new	**4,166**	**52.6**		
Discontinued operations and non-current assets or disposal groups held for sale	3,751	47.4		
Full HVB Group	**7,917**	**100.0**	**8,233**	**100.0**
Capital cushion to cover risks				
Full HVB Group[1]	**21,947**		**18,807**	
Utilisation, in %				
Full HVB Group[1]	**36.1**		**43.8**	

1 adjustment of previous-year values due to retroactive adjustment of IFRS disclosures

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 German Banking Act.
– Reports on the actual ratios and significant effects on them are submitted every month to the Asset & Liability Committee, which decides on appropriate action if the actual ratios deviate significantly from plan.
– The Management Board is informed on a monthly basis on the risk asset budget utilisation of the divisions.

3 Economic capital adequacy

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

Our economic capital, aggregated for the full HVB Group (including minority interests) amounted to €7.9 billion at December 31, 2006 after taking into account all risk-reducing portfolio effects. This represents an overall decline of 3.8% year-on-year. €4.2 billion of this amount relates to the new HVB Group.

In the year under review, the discontinuation of business activities and the sale of assets were also the focal point of economic capital changes. The related economic capital value at December 31, 2006 amounted to €3.75 billion. The decrease since December 31, 2005 is mainly attributable to the sale of the BPH Group and Activest business units to the UniCredit Group. The most noticeable effect on the economic capital of the new HVB Group is the reduction of our investment portfolio, primarily through the further reduction of our stake in Münchener Rückversicherungs-Gesellschaft AG, to approximately €0.6 billion. Consequently, the economic capital for credit risk, at €1.8 billion, with a stake of 22.3%, remains the most important risk item.

Economic capital after portfolio effects

(confidence level 99.95%)

	2006		2005[1]	
	€ millions	in %	€ millions	in %
Broken down by division				
Retail	571	7.2	707	8.6
Wealth Management	138	1.7	116	1.4
Corporates & Commercial Real Estate Financing	688	8.7	830	10.1
Markets & Investment Banking	1,545	19.5	1,114	13.5
Other/consolidation	1,224	15.5	1,695	20.6
HVB Group new	**4,166**	**52.6**	**4,462**	**54.2**
Discontinued operations and non-current assets or disposal groups held for sale[2]	3,751	47.4	3,771	45.8
Full HVB Group	**7,917**	**100.0**	**8,233**	**100.0**

1 previous-year figures based on the 2006 divisional structure
2 item for 2005 includes companies disposed of in the 2006 financial year

Risk Report continued

In a quarterly analysis of our ability to support risk, we measure our economic capital against the capital cushion available to us to cover risk. In addition, this sustainability analysis is carried out with a corresponding forecasting horizon as a component 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 actual result. Minority interests are included and goodwill is deducted. The capital cushion for the full HVB Group amounted to €21.9 billion at the end of 2006 (comparable previous-year figure: €18.8 billion). The year-on-year rise results primarily from higher transfers to reserves together with an increase in the AfS reserve and lower participating certificates outstanding and hybrid capital instruments. With an aggregate economic capital of €7.9 billion, this represents a utilisation of 36.1% of the cushion.

Even taking into account the results of risk type-specific stress results, we had a substantial buffer in the capital cushion at the level of the full HVB Group over the entire financial year.

4 Risk strategy

Taking as the starting point the economic capital and the ability to cover risks, the Management Board approved a risk strategy for 2006 that is consistent with the business strategy. For 2007 this has been done for the new HVB Group which already reflects the new orientation within the planned structure of the UniCredit Group and all relevant risk types.

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

– Loan default risk is defined as the potential losses arising from commercial lending operations. It is taken into account by recognising allowances for losses on loans and advances in the balance sheet whenever specific indicators of a default have arisen in the past (incurred loss). The abstract expectation that customers could default in the future (the concept of expected loss and credit value-at-risk) must be seen separately from this.

Counterparty risk

– Counterparty risk is defined as the potential losses arising from the default or deterioration of credit ratings of counterparties with whom we have engaged in OTC derivatives transactions involving interest rates, foreign currencies, equities/indexes, or other futures or derivative transactions. It can be broken down into settlement risk, replacement risk and cash risk. For the Bank there is a settlement risk whenever payments are exchanged and, when processing the transaction, we make advance payments without being certain at the time of the payment that the counterparty will make the corresponding payment. The replacement risk is defined as the risk that the Bank must replace a transaction at less favourable market conditions following a default by the counterparty. The cash risk consists of the risk that the counterparty will not repay loans (taken out in cash). In the case of treasury products, cash risk is relevant in money trading.

Issuer risk

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

Country risk

– 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 HVB 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 organisational 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 divisions 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 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 in HVB Group.

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

Measurement methods

Loan default risk

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, future 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 creditworthiness analysis instruments.

  HVB Group has a wide range of rating and scoring processes tailored to the needs of the various customer groups. We continually optimise 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 customer.

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

  The rating and scoring processes are subject to continual monitoring. They are validated at regular intervals and recalibrated or fundamentally revised as required. A key aspect of this work in 2006 was in further development for private and business customers.

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 in HVB Group. 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.

Risk Report continued

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 utilisation at the reporting date plus portions of the unused, externally committed credit lines. The calculation takes into account differences in the risk inherent in various credit types.

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 economic capital as a safety cushion, taking portfolio effects into account.

Scenario analysis

– The credit value-at-risk is calculated under the assumption of normal conditions. Scenario analysis helps us to simulate the effects of future macroeconomic trends or exogenous shocks and quantify their impact on the potential losses in the credit portfolio of HVB Group. 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 optimise the loan portfolio and hence enhance the profitability of our lending business, we apply a pricing methodology with an orientation towards 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 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 loan default risk 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 our Bank intends to implement as of 2008. The related implications from Basel II are moving the regulatory viewpoint towards 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 through the use of scoring and rating processes, adjusting and streamlining the internal processes accordingly. In the area of validation and calibration, we have extended the rating processes already implemented for rating procedures to the estimation of loss quotas and the size of exposures. This process utilises information both from the Bank's own experience in liquidation of collateral and externally available benchmarks. We already assess our collateral on the basis of recovery rates. We regard the usage of these processes as Basel II-compliant. In the year under review we also finalised the so-called Basel II calculation engine and adapted it to the requirements of the German Solvency Ordinance (SolvV).

With regard to the requirements of Pillar 2 and Pillar 3 under the Basel II regulations and the EU Directive, the departments concerned have carried out a comprehensive in-house audit. The requirements of Pillar 2 were met through the on-schedule implementation within our Bank of the Minimum Requirements for Risk Management of the German banking supervision authorities. These include the treatment of concentration risk, stress-testing (of individual risk types and overall bank risk) and the determination of the ability to cover risk.

Through the participation of our Bank in the Quantitative Impact Study QIS 5.0 we have already had the opportunity 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 calibrated statistical models permit the determination of default probabilities and loss quotas 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 department. 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 as the Basel II requirements go into effect.

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.

At HVB Group 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 database encompassing all exposures to borrowers within HVB Group worldwide. This ensures that information is regularly provided on concentrations of loan default risk and related limits.

Counterparty risk and issuer risk

We employ limit systems as a key element of our management and control of counterparty risk 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 within an appropriate time frame. For counterparty risk, this applies to both replacement risk and settlement risk. For the latter, the risk for the future value date is limited and monitored right from the time the Bank enters into the transaction, so that a concentration of payments on a single value date is prevented beforehand. This enables each trader to check current limit utilisation and lets the risk controller perform direct limit monitoring for each counterparty or issuer.

Risk Report continued

Country risk
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 the 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 the portfolio level, is internal reporting. In compliance with the Minimum Requirements for Risk Management (MaRisk), the Management Board and the Audit 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.

Quantification and specification
A decrease of €34.3 billion (8.5%) in loan default and counterparty risk was recorded in the year under review. The driving forces behind this decline were the ongoing systematic reduction of the Real Estate Restructuring (RER) portfolio, the sale of BPH in Poland and a strategically targeted reduction of the lending portfolio in Germany.

The structure of the credit risk portfolio in terms of industries is essentially unchanged, despite the disposal of more than one third of the HVB Group portfolio as the decline affected all industry groups. The biggest decreases arose among retail customers, and banks and insurers. The trend in regional distribution reflects company strategy with a decrease in exposure in the Germany region. The sale of the Bank Austria Creditanstalt Group and other HVB Group companies has led to exposure in Austria and central and eastern Europen being almost completely eliminated.

Apart from an increase in the Wealth Management division, exposure declined by between 5% and 10% in all divisions.

The quality of the core portfolio remained stable. The core portfolio is defined as the HVB Group portfolio minus the exposures assigned to RER. The sale of the Bank Austria Creditanstalt Group and other HVB Group companies in central and eastern Europe affected all rating classes to the same extent, resulting in a sharp decline in each such class. Exposure in rating classes 9 and 10 declined by almost half.

The risk contribution from the divisions has changed, as reflected in the distributions of expected loss and value-at-risk. Both expected loss and value-at-risk decreased in the Retail division. The risk share of Markets & Investment Banking rose to make up almost half of the total value-at-risk in the activities remaining with HVB Group, on account of the large volumes involved. The share of risk from Corporates & Commercial Real Estate Financing declined slightly, whereas in Wealth Management, it remained stable at a low level.

Loan-loss provisions
Our total loan-loss provisions, including allowances for losses on guarantees and indemnities, declined by €3.2 billion to €6.3 billion in 2006, taking into account write-offs taken on the lending portfolio of €3.8 billion.

Loan default risks
We created a total loan-loss provision of €0.9 billion for loan default risks in 2006. More detailed information can be found in the notes to the consolidated financial statements (Notes 35 and 46) in the present Annual Report.

Breakdown of loan default exposure and counterparty exposure by industry sector

€ billions	2006	2005
Industry sector		
Retail customers	51.1	81.5
Banks and insurers	42.1	86.2
Construction	34.6	59.7
Food, consumer goods, services	24.5	50.2
Chemicals, health, pharmaceuticals	12.1	13.9
Utilities	11.5	15.0
Transportation	10.4	13.4
Other	9.1	12.3
Public sector	8.6	29.5
Mechanical engineering, steel	6.2	10.7
Electrical, IT, communications	6.0	8.1
Automotive	4.9	8.0
Media, printing, paper	4.7	6.7
Mineral oil	3.9	6.4
HVB Group new	**229.7**	
Discontinued operations and non-current		
assets or disposal groups held for sale	137.6	
Full HVB Group	**367.3**	**401.6**

Breakdown of loan default exposure and counterparty exposure by region

€ billions	2006	2005
Region		
Germany	158.7	185.7
Rest of Europe	39.2	53.6
North America	13.4	17.6
Other	10.1	19.2
Asia	3.1	3.9
Japan	2.8	2.7
Austria	1.2	79.4
Central and Eastern Europe	1.2	39.5
HVB Group new	**229.7**	
Discontinued operations and non-current		
assets or disposal groups held for sale	137.6	
Full HVB Group	**367.3**	**401.6**

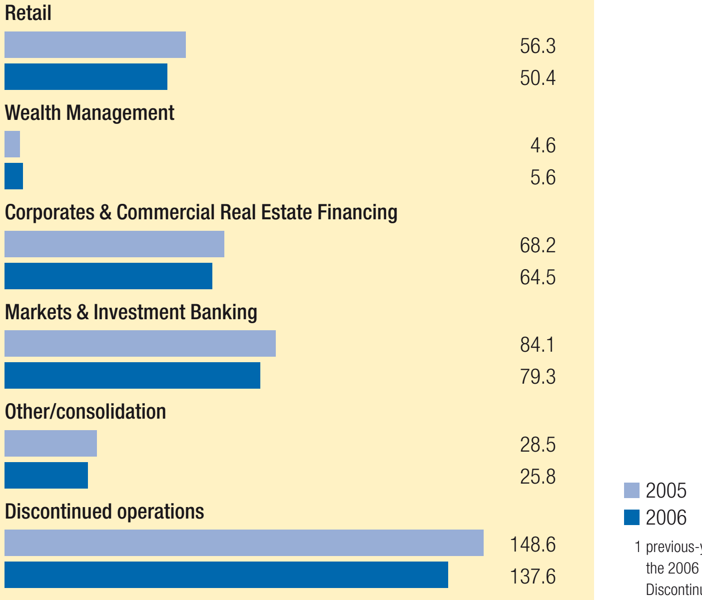
Risk Report continued

Breakdown of loan default exposure and counterparty exposure by rating class – core portfolio

	2006		2005[1]	
	€ billions	in %	€ billions	in %
Rating				
Free of credit risk	7.8	2.1	13.5	3.5
Not rated	7.9	2.2	18.8	4.8
Rating 1–4	109.8	30.2	220.5	56.5
Rating 5–8	93.5	25.8	124.6	31.9
Rating 9–10	6.6	1.8	12.9	3.3
HVB Group new	**225.6**	**62.1**		
Discontinued operations and non-current assets held for sale or disposal groups	137.6	37.9		
Full HVB Group	**363.2**	**100.0**	**390.3**	**100.0**

1 previous-year figures based on the 2006 divisional structure

Breakdown of loan default exposure and counterparty exposure by division (in € billions) – core portfolio[1]



1 previous-year figures based on the 2006 divisional structure. Discontinued operations for 2005 includes companies disposed of in the 2006 financial year.

**Breakdown of expected loss,
and of loan default risk and counterparty risk (value-at-risk)
by division – core portfolio**

	EXPECTED LOSS		VALUE-AT-RISK	
in %	2006	2005[1]	2006	2005[1]
Division				
Retail	13.7	16.0	7.6	10.7
Wealth Management	0.9	0.9	0.7	0.9
Corporates & Commercial Real Estate Financing	15.4	16.4	16.4	17.4
Markets & Investment Banking	22.1	15.4	28.3	19.7
Other/consolidation	16.1	14.9	8.0	10.1
HVB Group new	**68.2**	**63.6**	**61.0**	**58.8**
Discontinued operations and non-current assets or disposal groups held for sale[2]	31.8	36.4	39.0	41.2
Full HVB Group	**100.0**	**100.0**	**100.0**	**100.0**

1 previous-year figures based on the 2006 divisional structure
2 item for 2005 includes companies disposed of in the 2006 financial year

Financial derivatives

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 2006, the total nominal amount of worldwide derivative transactions of the full HVB Group amounted to approximately €2,713 billion.

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) for the full HVB Group at year-end 2006 totalled €41.5 billion (December 31, 2005: €47.5 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) for the full HVB Group totalled €20.1 billion (December 31, 2005: €19.5 billion) and the remaining risk after risk weighting amounted to €5.9 billion (December 31, 2005: €5.4 billion).

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

Risk Report continued

Derivatives transactions

€ millions	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	1 – 5 YEARS	MORE THAN 5 YEARS	2006	2005	2006	2005	2006	2005
Interest rate derivatives	**548,351**	**521,308**	**398,182**	**1,467,841**	**1,952,534**	**19,062**	**37,310**	**20,502**	**37,668**
OTC products									
Forward rate agreements	50,254	251	—	50,505	99,208	22	48	11	56
Single-currency swaps	366,245	452,540	343,730	1,162,515	1,541,569	16,927	34,239	18,213	34,429
Interest rate options									
– purchased	15,119	31,381	27,644	74,144	80,758	2,084	3,021	—	—
– written	9,293	28,618	26,808	64,719	80,719	—	—	2,278	3,177
Other interest rate derivatives	294	4	—	298	10,395	3	2	—	6
Exchange-traded products									
Interest rate futures	48,948	8,514	—	57,462	66,223	—	—	—	—
Interest rate options	58,198	—	—	58,198	73,662	26	—	—	—
Foreign exchange derivatives	**156,295**	**75,478**	**27,496**	**259,269**	**323,298**	**3,872**	**4,542**	**3,679**	**4,949**
OTC products									
Foreign exchange forwards	113,927	20,254	252	134,433	186,823	1,758	2,631	1,951	2,988
Cross-currency swaps	14,856	50,516	26,018	91,390	81,916	1,723	1,237	1,391	1,473
Foreign exchange options									
– purchased	12,454	2,248	645	15,347	29,202	391	674	—	—
– written	15,058	2,460	581	18,099	25,357	—	—	337	488
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	—	—	—	—	—	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Equity/index derivatives	**98,797**	**100,089**	**6,367**	**205,253**	**197,605**	**10,396**	**4,699**	**10,602**	**5,434**
OTC products									
Equity/index swaps	14,384	4,521	495	19,400	—	484	—	228	—
Equity/index options									
– purchased	21,477	25,767	703	47,947	60,301	6,629	4,669	—	—
– written	23,294	41,567	3,110	67,971	83,009	—	—	6,836	5,359
Other equity/index derivatives	107	223	—	330	1,208	17	30	—	75
Exchange-traded products									
Equity/index futures	9,819	—	—	9,819	10,118	—	—	—	—
Equity/index options	29,716	28,011	2,059	59,786	42,969	3,266	—	3,538	—
Credit derivatives[1]	**36,148**	**142,713**	**73,207**	**252,068**	**139,688**	**2,748**	**903**	**3,231**	**1,743**
Other transactions	**1,348**	**1,316**	**407**	**3,071**	**2,290**	**295**	**117**	**291**	**122**
HVB Group new	**840,939**	**840,904**	**505,659**	**2,187,502**		**36,373**		**38,305**	
Discontinued operations and non-current assets or disposal groups held for sale	296,427	155,822	73,191	525,440		5,139		5,474	
Full HVB Group	**1,137,366**	**996,726**	**578,850**	**2,712,942**	**2,615,415**	**41,512**	**47,571**	**43,779**	**49,916**

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

Derivatives transactions by counterparty type

	FAIR VALUE			
	POSITIVE		NEGATIVE	
€ millions	2006	2005	2006	2005
OECD central governments (and central banks)	141	337	133	286
OECD banks	24,849	41,072	26,139	42,805
OECD financial institutions	8,888	3,598	9,604	5,496
Non-OECD central governments (and central banks)	91	76	54	—
Non-OECD banks	71	31	98	89
Non-OECD financial institutions	188	51	140	59
Other companies and private individuals	2,145	2,406	2,137	1,181
HVB Group new	**36,373**		**38,305**	
Discontinued operations and non-current assets or disposal groups held for sale	5,139		5,474	
Full HVB Group	**41,512**	**47,571**	**43,779**	**49,916**

Risk Report continued

Credit derivatives

€ millions	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	1 – 5 YEARS	MORE THAN 5 YEARS	2006	2005	2006	2005	2006	2005
Banking book	**462**	**2,149**	**11,688**	**14,299**	**15,003**	**485**	**235**	**798**	**804**
Protection buyer									
Credit default swaps	323	979	7,537	8,839	10,139	462	163	53	10
Total return swaps	—	—	2,000	2,000	2,000	—	—	327	343
Credit-linked notes	45	65	515	625	261	2	—	2	254
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	49	1,091	1,606	2,746	2,550	21	19	415	197
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	45	14	30	89	53	—	53	1	—
Other	—	—	—	—	—	—	—	—	—
Trading book	**35,686**	**140,564**	**61,519**	**237,769**	**124,685**	**2,263**	**668**	**2,433**	**939**
Protection buyer									
Credit default swaps	6,609	68,463	35,218	110,290	54,212	393	248	1,614	236
Total return swaps	11,726	1,606	235	13,567	10,221	329	4	—	173
Credit-linked notes	57	310	284	651	153	15	—	4	153
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	5,536	68,525	25,503	99,564	50,483	1,524	221	477	374
Total return swaps	11,706	1,503	33	13,242	9,578	—	171	327	3
Credit-linked notes	52	157	246	455	38	2	24	11	—
Other	—	—	—	—	—	—	—	—	—
HVB Group new	**36,148**	**142,713**	**73,207**	**252,068**		**2,748**		**3,231**	
Discontinued operations and non-current assets or disposal groups held for sale	827	3,762	1,505	6,094		15		14	
Full HVB Group	**36,975**	**146,475**	**74,712**	**258,162**	**139,688**	**2,763**	**903**	**3,245**	**1,743**

Credit derivatives by reference asset

€ millions	NOMINAL AMOUNT					
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	OTHER	TOTAL 2006	TOTAL 2005
Public-sector bonds	14,240	—	553	—	14,793	5,109
Corporate bonds	196,111	28,606	781	—	225,498	72,725
Equities	—	—	—	—	—	—
Other assets	11,088	203	486	—	11,777	61,854
HVB Group new	**221,439**	**28,809**	**1,820**	**—**	**252,068**	
Discontinued operations and non-current assets or disposal groups held for sale	4,390	—	1,704	—	6,094	
Full HVB Group	**225,829**	**28,809**	**3,524**	**—**	**258,162**	**139,688**

Country risk year-on-year

In the year under review, the exposures of the full HVB Group entailing country risk decreased by €17.8 billion to €82.8 billion.

Approximately 94.3 percent of the total exposure are from countries with rating classes 1–4 (investment grade). Of the exposure in rating classes 5–8, a volume of €2.3 billion (4.8%) was in rating class 5.

The business strategy of HVB Group is also reflected in the development of the exposure and the value-at-risk for each country. This is the cause of a significant increase in the country value-at-risk for countries in eastern Europe. Decreases in the exposure, by contrast, are related primarily to treasury transactions in rating classes 1–4.

The portfolio of the new HVB Group displays good regional diversification. The majority (53%) of the exposure of the new HVB Group is related to low-risk western Europe (rating class 1).

The top 10 countries also include mainly low-risk countries in western Europe, North America and Asia.

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

€ millions	EXPOSURE 2006	EXPOSURE 2005	VALUE-AT-RISK 2006	VALUE-AT-RISK 2005
Rating				
Rating 1–4	45,244	95,850	35	115
Rating 5–8	2,714	4,771	31	76
Rating 9	3	51	0	8
HVB Group new	**47,961**		**66**	
Discontinued operations and non-current assets or disposal groups held for sale	34,877		207	
Full HVB Group	**82,838**	**100,672**	**273**	**199**

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

Risk Report continued

Country exposure[1] by region and product category

€ millions	LENDING 2006	LENDING 2005	TRADING 2006	TRADING 2005	ISSUER RISK 2006	ISSUER RISK 2005	TOTAL 2006	TOTAL 2005
Region								
Africa	327	755	190	203	7	8	524	966
North America	1,755	5,054	2,156	6,934	302	2,891	4,213	14,879
Eastern Europe	3,785	11,885	640	5,372	63	701	4,488	17,958
Central and South America	2,578	3,070	2,115	8,010	1,270	1,306	5,963	12,386
Asia/Pacific	4,033	4,989	3,058	6,395	134	691	7,225	12,075
Western Europe	6,868	14,551	17,931	26,148	749	1,709	25,548	42,408
HVB Group new	**19,346**		**26,090**		**2,525**		**47,961**	
Discontinued operations and non-current assets or disposal groups held for sale	19,069		10,510		5,297		34,877	
Full HVB Group	**38,415**	**40,304**	**36,600**	**53,062**	**7,822**	**7,306**	**82,838**	**100,672**

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

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

€ millions	EXPOSURE 2006	EXPOSURE 2005	VALUE-AT-RISK 2006	VALUE-AT-RISK 2005
Country				
UK	18,595	32,449	0	0
Cayman Islands, off-shore	3,662	7,138	7	20
Switzerland	3,633	5,757	0	0
USA	2,510	12,078	0	0
Russia	1,531	1,989	10	10
Japan	1,517	3,055	0	0
Norway	1,310	1,272	0	0
Turkey	1,288	1,912	13	17
Cayman Islands, on-shore	1,174	3,700	2	4
Canada	905	2,337	0	0
HVB Group new	**36,125**		**32**	
Discontinued operations and non-current assets or disposal groups held for sale	17,111		23	
Full HVB Group	**53,236**	**71,687**	**55**	**51**

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 Markets & Investment Banking division 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 is also shown as an aggregate value. The risks inherent in the trading books continue to be shown separately for regulatory purposes. To determine and allocate the economic capital requirements for market risks, this value-at-risk, like other risk types, is scaled to a confidence level of 99.95% 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 2005. 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. The results of this back-testing confirm the high quality of our internal risk model.

In addition, appropriate procedures are applied within HVB Group.

In addition to calculating the value-at-risk, we continually conduct stress tests for HVB Group to determine the potential losses in our market risk positions resulting from extreme market movements and worst-case scenarios. The scenarios we examine range from large movements in interest rate, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered for HVB AG, such as the widening of the credit spread or changes in the correlations. This also includes scenarios used in the UniCredit Group.

Market risk from trading positions: HVB Group new
(value-at-risk, 99% confidence level, one-day holding period)

€ millions	AVERAGE 2006[1]	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005
Interest rate positions (incl. credit spread risks)	12	12	9	10	15	11
Foreign exchange positions	5	3	4	6	7	5
Equity/index positions	5	4	5	5	5	9
Diversification effect[2]	(8)	(6)	(7)	(9)	(9)	(9)
HVB Group new	**14**	**13**	**11**	**12**	**18**	**16**

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

Risk Report continued

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 Management Board of HVB Group 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 2006 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 perform spot checks on the risk situation on an intraday basis as well.

Management is informed daily of the exposure to market risk, limit utilisation, and the profits and losses within HVB Group. The results of the risk analyses, including the results of the back-testing and stress tests, are reported on a monthly basis.

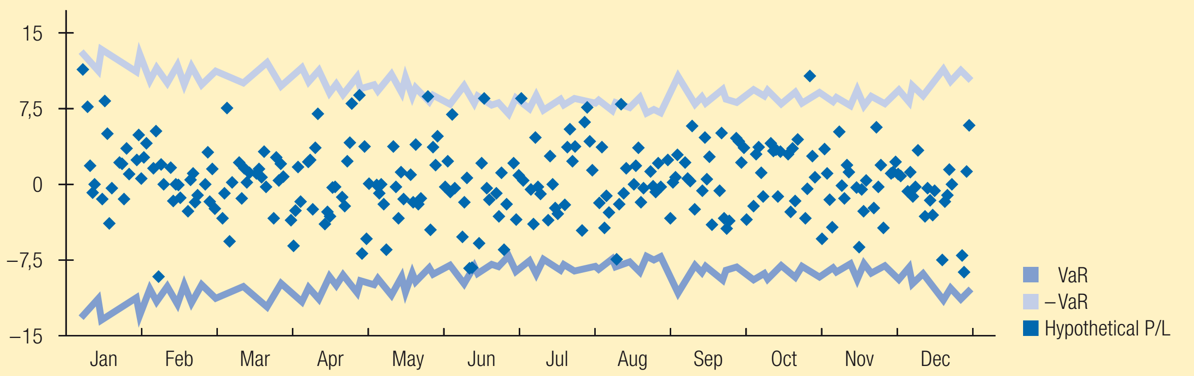
Quantification and specification
The table shows the aggregate market risks of our trading positions in the new HVB Group for last year.

At €0.17 billion, the economic capital for market risks at the new HVB Group has fallen since last year.

At year-end, the banking book of the new HVB Group contained market risks of €13 million (2005: €20 million; one-day holding period).

In addition, regular stress tests and scenario analyses are carried out on the banking books of HVB AG that reveal the loss potential in case of extreme market movements.

Back-testing of internal model: Trading activities HVB AG 2006
(€ millions)



In compliance with the Basel II requirements, the change in the market value of the banking book in case of an interest rate shock amounting to 200 basis points is compared with the Bank's eligible equity funds. With a notional utilisation of 6.4% of its regulatory equity capital at December 31, 2006, HVB AG is well below the outlier value of 20% required by the banking supervisory authorities.

As part of the earnings perspective, a dynamic simulation of the net interest income is carried out for HVB AG on a quarterly basis. The future trend in net interest income is simulated in various scenarios in relation to business volume and interest rates. Assuming a constant volume of business, a parallel upward interest shock of 200 basis points would result in a €165 million decrease in net interest income within the next 12 months.

3 Liquidity risk

Risk management

We distinguish three categories of liquidity risk:

Short-term 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

– Funding risk represents the risk that additional refinancing funds will be available only at higher market interest rates.

Market liquidity risk

– 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 Liquidity Policy passed by the Management Board, and are implemented by the operational business units. Implementation – for short-term liquidity risk and the funding risk – is co-ordinated and tracked by Asset Liability Management.

Market liquidity risk is managed by the people responsible for the various 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 essentially be made to the measurement and monitoring instruments listed for market risks.

Measurement methods

Short-term liquidity risk

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 units of HVB Group, ranging from the next banking day up to one month.

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

Funding risk

To measure funding risk, long-term funding needs are determined through a co-ordinated process, taking the expected business trends into consideration. This funding plan is updated regularly. The funding targets derived from this process ensure a balanced maturity structure of assets and liabilities within defined maturity buckets.

Market liquidity risk

Fair value adjustments (FVAs) are used to reflect the market liquidity risk of securities and derivatives in the accounts for both the trading book and the banking book. The FVAs include a discount for close-out costs, non-liquid positions and model risks related to the assessment of fair values.

Risk Report continued

Risk monitoring

The monitoring of our liquidity situation has been entrusted to our 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 Treasury Management while optimising costs.

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

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

Quantification and specification

Conditions on the money markets and capital markets remained favourable during the year under review. Risk premiums on capital markets for funding costs again declined slightly compared to 2005. The disposals of participating interests in the course of 2006 resulted in a further improvement of the liquidity situation of HVB AG.

Short-term liquidity risk

Within the framework of our short-term liquidity limit system, which operates under conservative assumptions, we showed an overall positive balance of €9.9 billion in the new HVB Group for the next banking day at the end of December 2006 (full HVB Group: €15.4 billion).

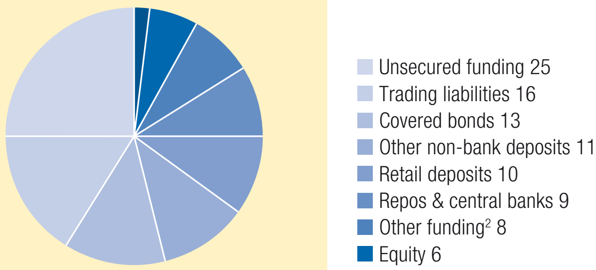
The portfolio of highly liquid securities eligible as collateral for central bank borrowings and available at short notice to compensate for unexpected outflows of liquidity amounted to €7.6 billion at year-end (full HVB Group: €12.6 billion).

The requirements of the regulatory Liquidity Principle II were met at all times by the relevant units of HVB Group during the year under review. In 2006 the funds available to HVB AG exceeded its payment obligations for the following month by an average of €20.2 billion.

Funding risk

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. The new HVB Group refinanced a volume of €10.7 billion on the capital market in 2006 (full HVB Group: €14.4 billion). 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 new[1] (in %)



1 total assets of the new HVB Group €355 billion (full HVB Group: €508 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: HVB Group new

	€ billions
Mortgage Pfandbriefs	19.0
Jumbo Pfandbriefs	21.5
Public Pfandbriefs	5.2
Public Jumbos	1.9
HVB Group new	**47.6**

Breakdown of unsecured funding: HVB Group new

	€ billions
Promissory notes	9.2
Bank deposits	37.3
Certificates of deposit and commercial papers	10.3
Other liabilities evidenced by paper (capital market)	19.1
Subordinated liabilities (capital market)	12.1
HVB Group new	**88.0**

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 each HVB Group subsidiary or that of the relevant divisions and functional units. The activities are guided by a tool-based operational risk management process defined internally within HVB Group and implemented by HVB Group since 2004. These will take into account the requirements of Basel II, in particular the Basel Committee's "Sound Practices for the Management and Supervision of Operational Risk".

The operational risk managers in the various units are responsible for the operational implementation of the process, which involves in particular the collection, analysis, evaluation and quality assurance of risk data and the planning of appropriate measures with continual monitoring of important risks.

Our Legal Department is responsible for managing legal risk. It monitors compliance by HVB Group companies with the statutory regulations and the recognised principles of case law. For HVB Group companies with their own legal departments, it performs this function in close co-operation with these departments.

In the course of integration into the UniCredit Group, the standards and procedures applied were gradually harmonised during 2006. This process will continue in 2007. The previous HVB Group operational risk system for collecting loss data and determining risk will gradually be applied as a platform for the entire UniCredit Group when modifications are complete.

Measurement methods

We employ the loss distribution approach to quantify the operational risk of 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 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.

Risk Report continued

When determining capital adequacy in HVB Group for regulatory purposes within the Basel II framework, we will implement the Advanced Measurement Approach (AMA). This approach has been agreed within the UniCredit Group for use by HVB AG and selected subsidiaries with effect from January 1, 2008 and will subequently be rolled out in the remaining major subsidiaries. The AMA calculation will be carried out in the future using a standardised measurement model that will be applied across the entire UniCredit Group.

Risk monitoring

In the year under review, the focus was on implementing the operational risk management process in the interest of performing a comprehensive risk survey of HVB AG and important HVB Group companies for the first time. In this process, important risks were identified and recorded along with risk-reducing measures. In addition, ongoing monitoring was implemented on the basis of an early warning system based – wherever possible – on indicators.

As part of regular and comprehensive reporting, the Chief Risk Officer, the Management Board of HVB Group and the Audit Committee of the Supervisory Board are kept informed by Risk Control on any loss events that occur and important operational risks and their management. This provides the basis for any measures deemed necessary.

Quantification and specification

The economic capital for operational risks of the new HVB Group amounted to €0.8 billion at the end of 2006.

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

Divisions and companies of HVB Group:

– In HVB Group the insurance programme was surveyed and reviewed to obtain a basis for further optimisation.

– Retail/Corporates & Commercial Real Estate Financing: Further reductions were achieved in risks in the securities process by implementing measures such as linking the order entry system to the portfolio management system, the implementation of additional checking mechanisms for order entry and increasing the straight-through processing rate for transferring domestic custodial accounts.

– Markets & Investment Banking: Important measures included improvements in liquidity management (money market/foreign exchange cash management). At the same time the straight-through processing rate was increased for transactions handled in foreign currency payment systems and the items reconciled between the front office, back office and accounting units.

– Financial Markets Service Bank GmbH: The introduction of new systems and the optimisation of existing ones raised the level of process automation while increasing the flexibility in the products handled. In addition, existing processes were streamlined and optimised, resulting in a further reduction in settlement risk.

Handling crisis situations:

– The crisis and emergency management organisation of HVB Group demonstrated its ability to perform by its appropriate and effective responses to real situations and drills.

– A project has been underway since the beginning of 2006 to prepare the Bank for a worldwide flu epidemic (pandemic). In accordance with the pandemic plan developed in this project, the preparations of HVB Group will be organised to ensure that business operations can continue.

– The Business Continuity Management (BCM) working group of HVB Group has identified and assessed the main processes critical to business operations. The results will be included in the uniform BCM Policy of HVB Group due to be introduced in 2007.

IT risks:

– HVB Information Services GmbH classifies its IT projects on the basis of specific risk criteria to further reduce risk through early identification and analysis of potential problems.

Legal risks:
Real estate finance/financing of purchases of shares in real estate funds

– 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, who is required to demonstrate that the conditions for cancelling the contract have been met, must repay the outstanding loan amount to the Bank, including interest at customary market rates, even after cancellation of the loan agreement. According to the ruling by the European Court of Justice dated October 25, 2005, the relevant German legal provisions do not contravene 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. However, this applies only if the customer can prove that he would not have made the investment if he had been aware of this right; in addition, the German Supreme Court has decided that the Bank would only have to assume the investment risk in case of culpable actions. Consequently, the Bank does not expect the more recent court rulings to have negative effects either. In addition, the Bank's claim to repayment remains in effect even if the borrower issued an invalid proxy to a third party and the Bank relied on the validity of the proxy. Experience gained to date shows that there are no legal risks in such cases. The most recent judgement from the German Supreme Court also confirms the already narrow conditions for an explanation and advisory obligation on the part of the Bank. In cases of institutionalised collaboration, the German Supreme Court (in a decision dated May 16, 2006) makes it easier for investors to provide evidence of violations of the explanation obligation. This new concept in legal opinion will only be fully explained by decisions in individual cases in the future.
– If the Bank finances the purchase of shares in real estate funds for the borrower with a loan not secured by a real property lien, the borrower can – if the transaction is a so-called related transaction – dispute the claim of the financing bank to repayment of the loan on the basis of objections which the borrower is entitled to assert against the seller or agent in the fund transaction because of improper advice. Consequently, the Bank has no claim against the borrower to repayment of the loan if it utilised the sales organisation of the agent arranging the sale of shares in the fund, the loan was disbursed directly to the fund, and the investor was misled when purchasing the shares or if the borrower enjoys the right to cancel such agreements. 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.

Court proceedings of HVB AG shareholders

– Shareholders have filed suit against the re-election of the shareholder representatives to the Supervisory Board and the election of the auditor for the 2004 financial 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. A shareholder has filed an appeal with the German Supreme Court against the denial of leave to appeal.

– A shareholder has filed a separate action seeking a declaration 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 were null and void. Because of the decision of January 18, 2006 of the Munich Higher Regional Court mentioned above, we do not expect this suit to succeed.

– Moreover, 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.

Risk Report continued

– 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 the actions of Supervisory Board members for the 2004 financial 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. Munich Regional Court I dismissed the suit against the election of the Supervisory Board members and the auditor of the financial statements; the ruling is not yet final. The non-ratification of the actions of the Supervisory Board members at the Annual General Meeting of May 12, 2005, on which another resolution was passed at the ordinary general meeting on May 23, 2006, has no material effect on the Bank.

– Furthermore, shareholders of our Bank have filed suit against the resolutions of our Annual General Meeting of May 23, 2006, approving the spin-off and take-over agreement of March 29, 2006 and the master agreement of January 16, 2006 in conjunction with the transfer of a loan portfolio to a company in the Goldman Sachs Group. In the so-called release motion filed by our Bank in response to this suit, the Munich Regional Court on September 27, 2006 stated that the suits filed against the spin-off are no impediment to their being entered in the Commercial Register, since the suits are obviously without foundation. Munich Higher Regional Court rejected the filed suits on February 12, 2007, meaning that the release ruling is final.

– Numerous shareholders have filed suit contesting the resolutions adopted by our Bank's Extraordinary Shareholders' Meeting on October 25, 2006 approving the sale and transfer of the shares held by our Bank in Bank Austria Creditanstalt AG and HVB Bank Ukraine to the UniCredit Group, the shares held by our Bank in International Moscow Bank and AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) to Bank Austria Creditanstalt AG, and the branches in Vilnius and Tallinn to AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga), asking the court to declare these resolutions null and void. In addition some shareholders have filed suit asking the court to order HVB AG to provide further information regarding questions which they claim were not fully answered at the Extraordinary Shareholders' Meeting, and in particular to provide a full interpretation of the business combination agreement with the UniCredit Group. In the view of the Bank these claims are without merit. Among the prerequisites stipulated in the purchase and transfer agreements for the execution of the transactions is due diligence on the part of the Management Board in ensuring, on the basis of a report prepared by an external legal consultant, that the approval resolutions contain no errors that would represent an impediment to the execution of the contract in question. After the Management Board adopted a resolution for this purpose, the shares held by our Bank in Bank Austria Creditanstalt AG were transferred to the UniCredit Group, and in International Moscow Bank and AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) to Bank Austria Creditanstalt AG, at the beginning of January 2007. With regard to the transfers of the branches in Vilnius and Tallinn to AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga), and the shares held by our Bank in HVB Bank Ukraine to UniCredit Group, other conditions remain to be met.

Special proceedings regarding the cash settlement for Vereins- und Westbank AG

– 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; after settlement of the legal challenges to this move, HVB AG paid the minority shareholders of Vereins- und Westbank AG an increased cash settlement of €26.65 per share (the "26.65 settlement"). Notwithstanding this arrangement, numerous minority shareholders have exercised their right to have the €26.65 compensation reviewed in special judicial proceedings pursuant to Section 1 (3) of the Act on the Procedure Regarding the Compensation of Minority Shareholders. In a ruling dated March 2, 2006, Hamburg District Court increased the cash settlement to €37.20 per share on the basis of its own assessment; the Bank has appealed against this decision. We assume that, at most, a small additional payment will have to be made to the squeezed-out shareholders of Vereins- und Westbank AG. More detailed information could have a negative effect on the legal position of HVB AG in the pending proceedings.

Claims asserted by the bankruptcy 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 related to 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).

Trade tax allocation/Hypo Real Estate

– Up to and including 2001, HVB AG charged or reimbursed trade tax (Gewerbesteuer) to various subsidiaries which comprised a single entity with HVB AG or its legal predecessors for trade tax purposes. Hypo Real Estate Bank AG and Hypo Real Estate International AG have now filed a lawsuit demanding repayment of approximately €62 million plus interest for alleged overpayments and asserting supposed rights to information. On the basis of legal opinions obtained on this matter, HVB AG believes that the plaintiffs are not entitled to their claims.

EU antitrust proceedings and claims of consumer protection associations

– In June 2002 the European Commission imposed an approximately €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 totalling approximately €94 million were imposed on seven other Austrian banks. On December 14, 2006 the European Court of Justice reaffirmed the reason for the fine and the amount; even if Bank Austria Creditanstalt AG appeals against this decision or loses an appeal, there will be no major detrimental consequences for Bank Austria Creditanstalt AG. 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.

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 is that the former subsidiary participated in the embezzlement of funds from companies in the former East Germany. BvS seeks damages in the amount of approximately €128 million plus interest. However, we believe that these claims are unfounded.

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 behaviour, 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.

Risk Report continued

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

Risk monitoring
Economic capital arising from business risk is calculated and analysed by Risk Control and reported to the Chief Risk Officer and the Audit Committee of the Supervisory Board.

Within the framework of monthly reporting by the Accounting department, 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 economic capital for business risks of the new HVB Group amounted to €0.6 billion at year-end 2006.

The Process Redesign and Optimisation (PRO) efficiency programme launched in 2004 was successfully continued in 2006. Only a few measures remain to be implemented in 2007. The project is expected to fully achieve all of its goals.

In cost management terms, HVB Group will also benefit from the pooling of volumes within the UniCredit Group and the systematic exchange and implementation of best-practice approaches to cost-cutting. In 2007, additional savings will be achieved through a large number of further cost-cutting measures covering all major cost categories. More details on PRO and cost management can be found in the section on Global Banking Services in the present Annual Report.

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 HVB Group subsidiaries.

HVB Immobilien AG is responsible for portfolio management and disposal, property and facility management, restructuring, land development and the rental of the properties under its jurisdiction. At the operational subsidiaries of HVB Group 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
Economic capital for real estate risk is calculated and analysed by Risk Control and reported to the Chief Risk Officer and the Audit Committee of the Supervisory Board.

At HVB Immobilien AG a risk monitoring system was introduced in 2003 to systematically identify, measure, analyse 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 2006, 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 economic capital relating to our real estate portfolio amounted to €0.3 billion at the end of 2006 for the new HVB Group. The real estate portfolio of the new HVB Group is located primarily in Munich, which accounts for 31% of the total.

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 of HVB Group are excluded, whose risks are already separately identified and recorded as part of the other risk types.

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

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

Risk Control calculates and analyses the economic capital for shareholdings and financial investments, and reports it to the Chief Risk Officer and the Audit Committee of the Supervisory Board.

The task of investment controlling falls to the Holdings department, which is under the responsibility of the Chief Financial Officer. This department uses auditors' reports, annual reports and interim reporting instruments to regularly verify the value of our investments. This ensures that substantial negative changes in value are recognised early, analysed, and reported to the Chief Financial Officer.

Quantification and specification

By actively managing our financial investments, Asset Liability Management successfully continued its efforts to reduce market risk and particularly cluster risk in the course of 2006. Major moves included the further reduction of our stake in Münchener Rückversicherungs-Gesellschaft AG and the disposal of our holding in Deutsche Lufthansa AG.

Economic capital of the new HVB Group decreased by approximately €0.4 billion to €0.6 billion.

8 Strategic risk

Risk management

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

As a part of corporate management, the management of strategic risk lies within the area of responsibility of the Management Board, which determines the risk positioning of HVB Group by defining the Bank's strategic orientation.

Measurement methods

Strategic risk is measured primarily by qualitative methods. For this purpose, we continually monitor the domestic and international 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 Audit Committee.

Risk Report continued

Quantification and specification

Risk from overall economic trends

A particular risk that could impede the strategic reorientation of HVB Group stems from the overall economic trend. The regional focus on the German core market results in a greater dependency on the state of the German economy than in the past. However, the differing trends in the markets served by the global Markets & Investment Banking division also affect the net asset, financial and earnings position of our Bank.

The trend in the economic situation in Germany was clearly positive, thus presenting good growth opportunities. However, there are still risks associated with Germany's structural problems. Although the economic upswing energised the employment market for the first time in a long while and produced a turnaround in the area of regular employment, the regional core business segment of HVB Group remains difficult in view of the high unemployment level overall, which remains substantial, high bankruptcy figures and the persistent fragility of domestic demand. Additional factors in the public sector are the high level of public debt and the deficits in the statutory social insurance system. In view of the restrictive fiscal policy signals in 2007 in the form of increases in value-added tax and insurance tax rates by three percentage points and the elimination of other tax breaks, the dynamic trend can be expected to continue at a somewhat slower rate.
In addition there are uncertainties related to trends in foreign currency exchange rates and commodity prices.
Consequently, the risk factors listed above could individually or cumulatively prevent us from achieving the financial goals we have set, or could prevent us from fully achieving them.

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. The business environment described above has repeatedly led to increases in loan defaults and loan-loss provisions in the past. If the economic environment proves weaker than currently expected, we cannot preclude the possibility that provisions for losses on loans and advances will remain at a high level.

Risks from the restructuring of the corporate group/integration risks

The business combination of HVB Group with the UniCredit Group initiated in 2005 and the related integration projects may result in unforeseen difficulties that may also have a negative impact on the net asset, financial and earnings position of our Bank. In the year under review HVB Group established a divisional structure corresponding to that of the UniCredit Group for carrying out its business activities in its regional core market. This fulfils a key prerequisite for successful operations in the market in the long term, but could also lead to the temporary loss of customers. In addition, this restructuring means that new types of processes will be carried out in the early phases which could entail risks because of their complexity.

Finally, the success of the integration projects will depend to a decisive degree on key staff members remaining with our Bank. If HVB Group loses key employees in the further course of the business combination, this could represent a difficulty for the ultimate integration of HVB Group into the UniCredit Group.

The transfer at the beginning of 2007 of the investments in Bank Austria Creditanstalt Group and other units in central and eastern Europe certainly took place at a favourable time, resulting in substantial sales proceeds; however, the search for equivalent re-investments entails risks. With the proceeds from these transactions the Bank has the manoeuvring space to push ahead with both organic and acquisition-driven growth in the German banking market, gain access in northern European regions to markets similar to those in western Europe, expand its core competencies in specialised niche areas, optimise its regulatory capital and repurchase hybrid financing when it makes economic sense to do so. However, relinquishing the growth and income potential in the markets and business segments we have sold, combined with the uncertainty regarding when the gains on disposal can be reinvested in attractive targets, may have detrimental effects on the financial situation of our Bank. Even if the Management

Board of HVB Group is convinced that the gains on disposal can be profitably reinvested, we cannot preclude the possibility that investments will be made later than planned, or that a smaller amount will be invested, possibly on unfavourable or less favourable terms. In addition, the Management Board is convinced that the stronger focus on the German market than in the past represents an enormous opportunity, in view of the available funds, to significantly expand the Bank's position in the German market as the German economy gains strength; however, this focus also means less regional diversification. The concentration on a market currently regarded as difficult could have detrimental effects on our Bank's net asset, financial and earnings position.

It is uncertain whether the regional focus on Germany can be fully or at least largely offset through investments in the Benelux countries and/or Scandinavia or in selected niche markets or through the future function of HVB AG as a centre of competence for investment banking for the entire UniCredit Group.

As a result of the above-named gains on disposal, HVB AG is in a position to expand its existing investment banking business and in particular to integrate the investment banking activities of other units of the UniCredit Group into HVB Group. However, the pooling of all investment banking activities within the UniCredit Group could also result in risks over and above those resulting from tying up equity capital. This is because investment banking generally involves not only greater earnings opportunities, but also greater risks and more exposure to cyclical effects than conventional banking activities.

The possible difficulties listed above could individually or cumulatively have negative effects on the financial situation of our Bank.

Hard-fought marketplace

Our Bank must face up to intense competition as a result of focussing on the market for financial services in Germany and investment banking. This is the case especially in commercial banking in HVB Group's core market, in particular due to excess capacity in the retail banking business. In these markets, HVB Group is competing against public sector banks and co-operative banks as well as other private sector German and international banks, some of which – as in the case of certain public-sector banks – are still backed by state guarantees.

Through the new corporate structure, HVB Group intends to further improve its market position and income situation. Nevertheless, it is possible that a further increase in the intensity of competition – triggered, for instance, by further national or cross-border bank mergers – could have negative effects on the net asset, financial and earnings position of HVB Group.

Katharina Bosse, Paul Oskar (Iceland), 1997, HypoVereinsbank collection

Financial Statements (2): Consolidated Financial Statements

Financial Statements (2): Consolidated Financial Statements

Consolidated Income Statement and Appropriation of Net Income

for the Year Ended December 31, 2006 (HVB Group compliant with IFRS 5)

The transfers agreed by the Management Board and Supervisory Board on September 12, 2006, which were approved by the Extraordinary Meeting of Shareholders on October 25, 2006, represent a discontinued operation as defined by IFRS 5, resulting in a different presentation in the income statement.

The results of the discontinued operations are not shown in the income statement prepared in compliance with IFRS 5 until after the net profit after tax and minorities of "HVB Group new". The following companies and sub-groups have been defined as discontinued operations: the Bank Austria Creditanstalt Group, Joint Stock Commerical Bank HVB Bank Ukraine (HVB Bank Ukraine), Closed Joint Stock Company International Moscow Bank (IMB), AS UniCredit Bank, Riga (formerly HVB Bank AS, Riga) and the HVB AG branches in Tallinn, Estonia, and Vilnius, Lithuania.

	NOTES	2006	2005	CHANGE	
Income/expenses		€ millions	€ millions	€ millions	in %
Net interest	27	3,148	3,166	(18)	(0.6)
Dividends and other income from equity investments	28	251	259	(8)	(3.1)
Net interest income		**3,399**	**3,425**	**(26)**	**(0.8)**
Net fees and commissions	29	1,753	1,723	+ 30	+ 1.7
Net trading, hedging and fair value income	30	768	376	+ 392	>+ 100.0
Net other expenses/income	31	32	(311)	+ 343	
Net non-interest income		**2,553**	**1,788**	**+ 765**	**+ 42.8**
TOTAL REVENUES		**5,952**	**5,213**	**+ 739**	**+ 14.2**
Payroll costs		(2,216)	(2,212)	(4)	+ 0.2
Other administrative expenses		(1,166)	(1,260)	+ 94	(7.5)
Amortisation, depreciation and impairment losses on intangible and tangible assets		(313)	(413)	+ 100	(24.2)
Operating costs	**32**	**(3,695)**	**(3,885)**	**+ 190**	**(4.9)**
OPERATING PROFIT		**2,257**	**1,328**	**+ 929**	**+ 70.0**
Provisions for risks and charges	33	(164)	(87)	(77)	+ 88.5
Write-down on goodwill		0	0	0	0.0
Restructuring costs	34	(60)	(438)	+ 378	(86.3)
Net write-downs of loans and provisions for guarantees and commitments	35	(933)	(979)	+ 46	(4.7)
Net income from investments	36	671	69	+ 602	>+ 100.0
Other non-operating expenses	37	(153)	0	(153)	
PROFIT BEFORE TAX	38	**1,618**	**(107)**	**+ 1,725**	
Income tax for the period	20	125	(14)	+ 139	
NET PROFIT		**1,743**	**(121)**	**+ 1,864**	
Minorities		(103)	(6)	(97)	>+ 100.0
NET PROFIT OF HVB GROUP NEW		**1,640**	**(127)**	**+ 1,767**	
Net profit after tax of discontinued operations		3,457	1,158	+ 2,299	>+ 100.0
Minority interest in the net profit of discontinued operations		(677)	(389)	(288)	+ 74.0
NET PROFIT OF FULL HVB GROUP		**4,420**	**642**	**+ 3,778**	**>+ 100.0**
Change in reserves		3,798	451	+ 3,347	>+ 100.0
CONSOLIDATED PROFIT		**622**	**191**	**+ 431**	**>+ 100.0**

Consolidated Income Statement and Appropriation of Net Income continued

The income statement of the full HVB Group for 2006, including the discontinued operations, is marked by non-recurring effects with a positive net balance of €2,230 million, some of which relates to the integration of HVB Group into the UniCredit Group.

Of the total non-recurring effects in 2006, €362 million are attributable to the continuing operations of the new HVB Group and €1,868 million to discontinued operations.

The non-recurring effects in the new HVB Group relate to the following:
– Gains on the disposal of the Activest companies to Pioneer Global Asset Management S.p.A. totalling €543 million and the partial disposal of our holding in Münchener Rückversicherungs-Gesellschaft AG (€217 million) disclosed in net income from investments
– Valuation expenses of €130 million arising from the disposal of a portfolio of non-strategic real estate announced by the Management Board of HVB AG on December 13, 2006 included in net income from investments
– Restructuring costs of €60 million
– General provisions for losses on specific loans and advances of €55 million disclosed under net write-downs of loans and provisions for guarantees and commitments that were made possible for the first time by the preparations for Basel II causing improvements to the data records in terms of defaults by customers who are 90 days in arrears and other non-performance
– Expenses of €153 million arising from a change in the parameters used to calculate the fair value mainly of financial instruments under the categories held for trading and at fair value through profit and loss (fair-value discount) shown in the line item "Other non-operating expenses"

In the discontinued operations, the non-recurring effects comprise the following individual items:
– Gains of €669 million on the disposal of HVB Splitska banka, which belongs to the BA-CA Group, and of €1,756 million on the disposal of the Bank BPH Group disclosed in net income from investments
– Restructuring costs of the discontinued operations totalling €248 million. €225 million of this total relates to the creation of provisions at BA-CA for reorganisation and restructuring in the Retail, Corporates, Markets & Investment Banking and Global Banking Services divisions as well as Support Services and Risk Management
– Non-recurring expense of €278 million in net write-downs of loans and provisions and for guarantees and commitments relating to a change of methods used by BA-CA
– Expenses of €31 million arising from a change in the parameters used to calculate the fair value of assets (fair-value discount) shown in the income statement item "Other non-operating expenses"

In addition to restructuring costs of €546 million (€108 million of which is for discontinued operations), the previous-year total included further extraordinary expenses arising from loan-loss provisions due to additional general provisions for losses on specific loans and advances totalling €147 million (€70 million of which was for discontinued operations).

In the full HVB Group, €3,798 million of the unappropriated profit (€4,420 million) has been transferred to reserves. The consolidated profit (which is the profit available for distribution of HVB AG) amounts to €622 million. We will propose to the Annual General Meeting of Shareholders that a dividend of €301 million be paid to the shareholders and that a further €321 million be transferred to retained earnings. The total dividend payout of €301 million is equivalent to a dividend of €0.40 per share of common stock and per share of preferred stock and an advance dividend of €0.064 per share of preferred stock.

EARNINGS PER SHARE

FULL HVB GROUP	NOTES	2006 €	2005 €
Earnings per share (adjusted)[1]	40	2.88	1.55
Earnings per share	40	5.89	0.86

1 2006 figures adjusted for the defined non-recurring effects
2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances

Since no conversion rights or option rights on conditional capital existed at the closing date for 2006, there is no calculation of diluted earnings per share.

The income and expense of both the continuing and the discontinued operations are disclosed in the individual income statement items in the income statement shown below for information purposes. This provides an overview of the operating performance of the full HVB Group including the discontined operations.

	2006	2005	CHANGE	
Income/expenses of full HVB Group	€ millions	€ millions	€ millions	in %
Net interest	5,886	5,576	+ 310	+ 5.6
Dividends and other income from equity investments	479	533	(54)	(10.1)
Net interest income	**6,365**	**6,109**	**+ 256**	**+ 4.2**
Net fees and commissions	3,468	3,198	+ 270	+ 8.4
Net trading, hedging and fair value income	1,230	656	+ 574	+ 87.5
Net other expenses/income	104	(322)	+ 426	
Net non-interest income	**4,802**	**3,532**	**+ 1,270**	**+ 36.0**
TOTAL REVENUES	**11,167**	**9,641**	**+ 1,526**	**+ 15.8**
Payroll costs	(3,895)	(3,733)	(162)	+ 4.3
Other administrative expenses	(2,132)	(2,185)	+ 53	(2.4)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(573)	(690)	+ 117	(17.0)
Operating costs	**(6,600)**	**(6,608)**	**+ 8**	**(0.1)**
OPERATING PROFIT	**4,567**	**3,033**	**+ 1,534**	**+ 50.6**
Provisions for risks and charges	(267)	(98)	(169)	>+ 100.0
Write-down on goodwill	0	0	0	0.0
Restructuring costs	(308)	(546)	+ 238	(43.6)
Net write-downs of loans and provisions for				
guarantees and commitments	(1,661)	(1,482)	(179)	+ 12.1
Net income from investments	3,170	392	+ 2,778	>+ 100.0
Other non-operating expenses	(184)	0	(184)	
PROFIT BEFORE TAX	**5,317**	**1,299**	**+ 4,018**	**>+ 100.0**
Income tax for the period	(117)	(262)	+ 145	(55.3)
NET PROFIT	**5,200**	**1,037**	**+ 4,163**	**>+ 100.0**
Minorities	(780)	(395)	(385)	+ 97.5
Net profit of full HVB Group	**4,420**	**642**	**+ 3,778**	**>+ 100.0**
Change in reserves	3,798	451	+ 3,347	>+ 100.0
Consolidated profit	**622**	**191**	**+ 431**	**+ 100.0**

Balance Sheet

at December 31, 2006

Assets	NOTES	2006 € millions	2005 € millions	CHANGE € millions	CHANGE in %
Cash reserve	41	3,211	7,757	(4,546)	(58.6)
Assets held for trading purposes	7, 42	107,211	103,519	+ 3,692	+ 3.6
Placements with, and loans and advances to, other banks	8, 43	41,264	57,229	(15,965)	(27.9)
Loans and advances to customers	8, 44	169,998	274,643	(104,645)	(38.1)
Allowances for losses on loans and advances	9, 45	(6,068)	(12,511)	+ 6,443	+ 51.5
Investments	10, 47	19,845	45,419	(25,574)	(56.3)
Property, plant and equipment	11, 48	1,547	2,723	(1,176)	(43.2)
Intangible assets	13, 49	808	2,776	(1,968)	(70.9)
Income tax assets	50	2,745	3,291	(546)	(16.6)
Other assets	51	3,021	5,573	(2,552)	(45.8)
Assets of discontinued operations and non-current assets					
or disposal groups held for sale	53, 54	164,451	3,240	+ 161,211	>+ 100.0
Total assets		**508,033**	**493,659**	**+ 14,374**	**+ 2.9**

Shareholders' equity and liabilities	NOTES	2006	2005	CHANGE	
		€ millions	€ millions	€ millions	in %
Deposits from other banks	15, 58	85,672	113,739	(28,067)	(24.7)
Amounts owed to other depositors	15, 59	92,136	158,421	(66,285)	(41.8)
Promissory notes and other liabilities evidenced by paper	15, 60	76,938	105,982	(29,044)	(27.4)
Liabilities held for trading purposes	16, 61	59,962	63,638	(3,676)	(5.8)
Provisions	17, 62	1,683	5,672	(3,989)	(70.3)
Income tax liabilities	63	1,378	1,891	(513)	(27.1)
Other liabilities	18, 64	5,214	9,406	(4,192)	(44.6)
Subordinated capital	65	12,142	17,612	(5,470)	(31.1)
Liabilities of discontinued operations and					
of disposal groups held for sale	66, 67	152,920	1,887	+ 151,033	>+ 100.0
Shareholders' equity		19,988	15,411	+ 4,577	+ 29.7
Shareholders' equity attributable to shareholders of HVB AG		16,690	12,358	+ 4,332	+ 35.1
Subscribed capital		2,252	2,252	0	0.0
Additional paid-in capital		8,883	9,128	(245)	(2.7)
Other reserves		4,061	58	+ 4,003	>+ 100.0
Change in valuation of financial instruments		872	729	+ 143	+ 19.6
AfS reserve		1,195	871	+ 324	+ 37.2
Hedge reserve		(323)	(142)	(181)	>(100.0)
Consolidated profit		622	191	+ 431	>+ 100.0
Minority interest		3,298	3,053	+ 245	+ 8.0
Total shareholders' equity and liabilities		**508,033**	**493,659**	**+ 14,374**	**+ 2.9**

Statement of Changes in Shareholders' Equity

€ millions	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES	PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at Jan. 1, 2005 before initial application of new and revised IFRSs	**2,252**	**9,103**	**227**	**—**
Effect of initial application of new and revised IFRSs	—	—	(245)	(245)
Shareholders' equity at Jan. 1, 2005 after initial application of new and revised IFRSs	**2,252**	**9,103**	**(18)**	**(245)**
Change from capital increase against cash contribution	—	—	—	—
Transaction costs of capital increase	—	—	—	—
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	—	—	451	—
Actuarial losses on defined benefit plans	—	—	(561)	(561)
Change in holdings of, and net income from, own equity instruments	—	25	—	—
Dividend payouts	—	—	—	—
Changes in group of consolidated companies	—	—	83	—
Reserve arising from foreign currency translation and other changes	—	—	103	—
Shareholders' equity at Dec. 31, 2005	**2,252**	**9,128**	**58**	**(806)**
Shareholders' equity at Jan. 1, 2006 before initial application of new and revised IFRSs	**2,252**	**9,128**	**864**	**—**
Effect of initial application of new and revised IFRSs	—	—	(806)	(806)
Shareholders' equity at Jan. 1, 2006 after initial application of new and revised IFRSs	**2,252**	**9,128**	**58**	**(806)**
Change from capital increase against cash contribution	—	—	—	—
Transaction costs of capital increase	—	—	—	—
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	—	—	3,798	—
Actuarial losses on defined benefit plans	—	—	(8)	(8)
Change in holdings of, and net income from, own equity instruments	—	(1)	—	—
Dividend payouts	—	—	—	—
Changes in group of consolidated companies	—	—	18	—
Reserve arising from foreign currency translation and other changes	—	(244)	195	—
Shareholders' equity at Dec. 31, 2006	**2,252**	**8,883**	**4,061**	**(814)**
including:				
shareholders' equity of discontinued operations and				
disposal group held for sale	—	—	1,912	(590)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS		CONSOLIDATED PROFIT	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF HVB AG	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
AfS RESERVE	HEDGE RESERVE				
354	**(469)**	**—**	**11,467**	**2,509**	**13,976**
—	—	—	(245)	(43)	(288)
354	**(469)**	**—**	**11,222**	**2,466**	**13,688**
—	—	—	—	9	9
—	—	—	—	—	—
—	—	—	—	—	—
771	189	—	960	20	980
(256)	140	—	(116)	—	(116)
—	—	191	642	395	1,037
—	—	—	(561)	(123)	(684)
—	—	—	25	—	25
—	—	—	—	(118)	(118)
—	—	—	83	201	284
2	(2)	—	103	203	306
871	**(142)**	**191**	**12,358**	**3,053**	**15,411**
871	**(142)**	**191**	**13,164**	**3,219**	**16,383**
—	—	—	(806)	(166)	(972)
871	**(142)**	**191**	**12,358**	**3,053**	**15,411**
—	—	—	—	40	40
—	—	—	—	—	—
—	—	—	—	—	—
646	(368)	—	278	51	329
(322)	187	—	(135)	(1)	(136)
—	—	622	4,420	780	5,200
—	—	—	(8)	(5)	(13)
—	—	—	(1)	—	(1)
—	—	(191)	(191)	(191)	(382)
—	—	—	18	(320)	(302)
—	—	—	(49)	(109)	(158)
1,195	**(323)**	**622**	**16,690**	**3,298**	**19,988**
405	(136)	—	2,181	2,446	4,627

Cash Flow Statement

€ millions	2006	2005
Net income (loss) of full HVB Group	**5,200**	**1,037**
Write-downs, provisions for losses on, and write-ups of, loans and advances and		
additions to provisions for losses on guarantees and indemnities	1,761	1,600
Write-downs and depreciation less write-ups on long-term assets	1,088	1,077
Change in other non-cash positions	(4,620)	(2,231)
Profit from the sale of investments, property, plant and equipment	(1,094)	(392)
Other adjustments (mainly taxes on income paid and interest received		
less interest paid and dividends received)	(4,724)	(5,728)
Subtotal	**(2,389)**	**(4,637)**
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	(18,784)	(9,692)
Placements with, and loans and advances to, other banks	(19,757)	(7,846)
Loans and advances to customers	8,071	45
Other assets from operating activities	(46)	220
Deposits from other banks	23,754	8,912
Amounts owed to other depositors	5,054	9,892
Promissory notes and other liabilities evidenced by paper	(4,115)	(3,645)
Other liabilities from operating activities	(924)	3,008
Taxes on income paid	(319)	(207)
Interest received	19,466	17,271
Interest paid	(15,283)	(12,331)
Dividends received	326	544
Cash flows from operating activities	**(4,946)**	**1,534**
including: discontinued operations	1,148	3,173

€ millions	2006	2005
Proceeds from the sale of investments	13,114	5,750
Proceeds from the sale of property, plant and equipment	65	8
Payments for the acquisition of investments	(8,625)	(4,357)
Payments for the acquisition of property, plant and equipment	(194)	(902)
Effects of the change in the group of companies included in consolidation	229	537
Cash flows from investing activities	**4,589**	**1,036**
including: discontinued operations	(2,489)	(971)
Change in additional paid-in capital	—	25
Proceeds from capital increase	—	—
Dividend payments	(559)	—
Other financing activities, net (subordinated and hybrid capital)	(806)	(1,301)
Other financing activities, net	131	86
Cash flows from financing activities	**(1,234)**	**(1,190)**
including: discontinued operations	(332)	(126)
Cash and cash equivalents at end of previous period, full HVB Group	**7,757**	**6,903**
+/– Net cash provided/used by operating activities	(4,946)	1,534
+/– Net cash provided/used by investing activities	4,589	1,036
+/– Net cash provided/used by financing activities	(1,234)	(1,190)
+/– Effects of exchange rate changes	(81)	71
Less disposal group held for sale and discontinued operations	(2,874)	(597)
Cash and cash equivalents at end of period (HVB Group new)		
(2005: full HVB Group)	**3,211**	**7,757**

Notes to the Consolidated Financial Statements

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 315a 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 264b of the German Commercial Code, the following companies are exempted from the obligation to prepare a management report and disclose their financial statements:
- HVZ GmbH & Co. Objekt KG, Munich
- Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
- Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
- Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
- A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co., Großkugel Bauabschnitte Alpha Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co., Großkugel Bauabschnitte Beta Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
- HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
- KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße I KG, Munich
- Omnia Grundstücks-GmbH & Co. Objekt Ostragehege KG, Munich
- Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
- Othmarschen Park Hamburg GmbH & Co., Gewerbepark KG, Munich
- SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich
- Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
- TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich

Accounting and Valuation

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 recognised retroactively. With the exception of the new and revised IFRS, we have applied the same accounting and valuation principles in 2006 as in the consolidated financial statements for 2005.

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

Listed below are the changes to the standards to be applied for the first time with effect from January 1, 2006, which essentially affect the Bank.

HVB Group has exercised the new option in the revised IAS 19.93 A "Employee benefits" permitting unrealised actuarial gains or losses to be carried in shareholders' equity outside the profit or loss for the period. The comparative previous year figures and the statement of changes in shareholders' equity have been adjusted accordingly. Unrealised actuarial losses of €1,372 million have been charged directly to shareholders' equity together with the related deferred tax assets of €400 million. Thus the change of method resulted in a reduction of €972 million in the shareholders' equity reported at December 31, 2005; €166 million of this total is attributable to minorities. The reserves have increased by €1,108 million, this being the balance of the unrealised actuarial loss (€1,372 million) and the capitalised excess cover for plan assets (€264 million). Investments (excess cover for plan assets) declined by €264 million accordingly.

In addition, the following changes to the standards were applicable for the first time, but they have not had any material consequences for HVB Group:
- Change in IAS 21 "The effects of changes in foreign exchange rates"
- Additions to IAS 39 "Financial instruments: recognition and measurement" and IFRS 4 "Insurance contracts"
- Change in IAS 39 regarding cash flow hedge accounting
- Interpretation IFRIC 4 on leases

HVB Group modified the model it uses internally to calculate fair values in 2006. The modification incorporates additional factors affecting the fair value when marking to market. The expense arising from this modification is recorded under "Other non-operating expenses" in the income statement.

As part of the integration into the UniCredit Group, in the 2006 financial year we started preparing the income statement in the structure which has been used for many years by UniCredit in its capital market communications.

The following remarks describe the main differences between the new income statement presentation using the UniCredit income statement structure and the old HVB income statement structure.

- In the new income statement structure, net interest income contains interest income and expenses arising from trading operations that were previously carried under trading profit. Furthermore, the income from investment properties (rental income) previously carried in net interest income is now assigned to net other expenses/income.

- Net fees and commissions contains fees and commissions arising from trading operations (previously carried in trading profit).

- Net trading, hedging and fair value income is shown without interest, fee and commission income arising from trading operations. Dividend income arising from trading operations remains part of net trading, hedging and fair value income. Furthermore, net trading, hedging and fair value income contains gains on the valuation of financial instruments at fair value through profit and loss, which were previously carried in net income from investments.

Accounting and Valuation continued

– Most of the income and expenses from investment properties previously carried in net income from investments are now included in “Net other expenses/income”. Furthermore, large parts of the old income statement item entitled “Balance of other income and expenses” (e.g. losses absorbed) are now included in “Net other expenses/income”. Provided restructuring provisions are not involved, the additions to and releases of provisions have been included in a separate item entitled “Provisions for risks and charges”.

– Write-downs on investment properties, which were previously deducted from net income from investments, are now carried under operating costs.

– The UniCredit income statement structure shows net write-downs of loans and provisions for guarantees and commitments after operating profit, although the content has remained largely the same (with the exception of litigation risks in lending business).

Notes on the adjustment of disclosures in the income statement to match the UniCredit Group structure

New income statement structure

INCOME/EXPENSES	2005 € millions
Net interest income	5,576
Dividends and other income from equity investments	533
Net interest income	**6,109**
Net fees and commissions	3,198
Net trading, hedging and fair value income	656
Net other expenses/income	(322)
Net non-interest income	**3,532**
TOTAL REVENUES	**9,641**
Payroll costs	(3,733)
Other administrative expenses	(2,185)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(690)
Operating costs	**(6,608)**
OPERATING PROFIT	**3,033**
Transfers to provisions	(98)
Write-down on goodwill	0
Restructuring costs	(546)
Net write-downs of loans and provisions for guarantees and commitments	(1,482)
Net income from investments	392
PROFIT BEFORE TAX	**1,299**
Income taxes for the period	(262)
NET PROFIT	**1,037**
Minorities	(395)
NET PROFIT OF FULL HVB GROUP	**642**

Old income statement structure[1]

INCOME/EXPENSES	2005 € millions
Interest and similar income	17,067
Interest expense and similar charges	(11,182)
Net interest income	5,885
Provisions for losses on loans and advances	(1,513)
Net interest income after provisions for losses on loans and advances	4,372
Fee and commission income	3,859
Fee and commission expenses	(619)
Net commission income	3,240
Gains less losses arising from trading securities (trading profit)	926
General administrative expenses	(6,582)
Balance of other operating income and expenses	(143)
Operating profit (loss)	**1,813**
Net income from investments	321
Amortisation of goodwill	0
Restructuring costs	(546)
Balance of other income and expenses	(289)
Profit (loss) from ordinary activities/ net income (loss) before taxes	**1,299**
Taxes on income	(262)
Net income (loss) after taxes	**1,037**
Minority interest in net income (loss)	(395)
Consolidated profit (loss) of full HVB Group, adjusted for minority interest	**642**

1 Presentation of positive/negative figures adjusted to match UniCredit rules

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

The following standards newly published or revised by the IASB, which become operative after the end of the 2006 financial year, have not been applied early.

The disclosure of financial instruments will be modified when IFRS 7 "Financial Instruments: Disclosures" 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.

The newly published IFRS 8 "Operating Segments", which replaces the old regulations governing segment reporting (IAS 14), is not subject to compulsory application until January 1, 2009.

The Bank does not expect the newly published IFRIC interpretations (IFRIC 7 to IFRIC 12) in 2006 to have any material consequences.

4 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 488 (2005: 421) companies. Of this total, 396 relate to discontinued operations, meaning that 92 companies relate to continuing operations (= HVB Group new). 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, 2006. The group of consolidated companies does not include any companies that are not fully consolidated. 28 (2005: 28) companies are accounted for using the equity method, including one company in the new HVB Group.

The following companies (participations) are no longer included in consolidation for the new HVB Group.
– Activest Investmentgesellschaft mbH, Munich
– Activest Investmentgesellschaft Luxembourg S.A., Luxembourg
– HVB Wealth Management Holding GmbH, Munich
– Westfalenbank AG, Bochum
– HVB Systems GmbH, Unterföhring
– HVB Risk Management Products Inc., New York

The three Activest companies (Activest Investmentgesellschaft mbH, Activest Investmentgesellschaft Schweiz AG and Activest Investmentgesellschaft Luxembourg S.A.) were sold to Pioneer Global Asset Management S.p.A. in the third quarter for an aggregate price of €600 million. Activest Investmentgesellschaft mbH and Activest Investmentgesellschaft Luxembourg S.A. thus left the group of companies included in consolidation by HVB Group with effect from July 1, 2006. The sale netted a non-recurring gain of €543 million for HVB Group, which is disclosed in net income from investments.

HVB Wealth Management Holding GmbH was absorbed into HVB AG on February 27, 2006 (entry in the Commercial Register) with effect from October 1, 2005.

Westfalenbank left the group of companies included in consolidation in October 2006. HypoVereinsbank completed the sale of Westfalenbank AG to Crown Northcorp on October 26, 2006. The transaction concludes the restructuring of Westfalenbank AG. HVB had already sold the wealth management and retail activities in 2005. HypoVereinsbank integrated the corporate operations of Westfalenbank AG with more than 1,500 small and medium-sized enterprises during 2006.

On April 26, 2006, HVB Systems GmbH, Unterföhring, was integrated into HVB Informations-Verarbeitungs-GmbH, Munich, with effect from December 31, 2005, which was renamed HVB Information Services GmbH, Munich, as part of the merger.

HVB Risk Management Products Inc., New York, was deconsolidated at December 27, 2006, as the liquidation of the company was completed by this date.

Accounting and Valuation continued

The following companies, among others, have been consolidated for the first time in the 2006 financial statements for the new HVB Group with effect from January 1, 2006:
– HVB Immobilien AG, Munich, with a further 37 material companies
– HVB Capital Partners AG, Munich

In addition, there are initial consolidation and deconsolidation effects relating to the discontinued operations (activities in Austria and eastern Europe):

The direct subsidiaries Joint Stock Commercial Bank HVB Bank Ukraine, Kiev, and AS UniCredit Bank, Riga, were added to the group of companies included in consolidation with effect from January 1, 2006.

In addition, the following companies belonging to the BA-CA sub-group, among others, were added with effect from January 1, 2006:
– CA IB Corporate Finance Beratungs Ges.m.b.H., Vienna (sub-group)
– Nova Banjalucka Banka a.d., Banja Luka
– Universale International Realitäten GmbH, Vienna (sub-group)
– CA IB Securities S.A., Warsaw
– BPH Towarzystwo Funduszy Inwestycyjnych S.A., Warsaw
– BPH PBK Zarzadzanie Funduszami Sp. z.o.o., Warsaw
– CA IB Polska S.A., Warsaw
– CA IB International Markets AG, Vienna
– CA IB International Markets Ltd., London

AWT International Trade AG, Vienna (sub-group), was fully consolidated for the first time on April 1, 2006.

The following companies, among others, left the BA-CA sub-group:
– HVB Splitska banka d.d., Split
– Bank BPH S.A., Cracow

On June 30, 2006, BA-CA AG sold its 99.75% interest in HVB Splitska banka d. d., Split, to Société Générale S. A., Paris. The sale of HVB Splitska banka – which is shown separately in the balance sheet at December 31, 2005 and March 31, 2006 as a disposal group held for sale compliant with IFRS 5 – yielded a non-recurring gain on disposal of €669 million disclosed under net profit from discontinued operations.

At the beginning of November 2006, BA-CA transferred Bank BPH S.A., Cracow (BPH), to UniCredit. This intracompany transfer at standard market terms yielded a non-recurring gain on disposal of €1,756 million for HVB Group, which is carried in net profit from discontinued operations. The sale of BPH also involved the deconsolidation of its subsidiaries:
– BPH Leasing S.A., Warsaw
– BPH Bank Hipoteczny S.A., Warsaw
– BPH Towarzystwo Funduszy Inwestycyjnych S.A., Warsaw
– BPH PBK Zarzadzanie Funduszami Sp. z.o.o. Warsaw

The only company still accounted for by the new HVB Group using the equity method is Ramius HVB Partners LLC, Delaware.

In total, 584 subsidiaries, associated companies and joint ventures of the full HVB Group were neither fully consolidated nor accounted for using the equity method as they do not have a material impact on the Bank’s assets or financial position, or earnings.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these companies makes up around 1.6% of consolidated profit of the full HVB Group, while such companies provide around 1.1% of consolidated assets. The interests in these companies are carried as available-for-sale investments.

	2006 FULL HVB GROUP	2005 FULL HVB GROUP
Subsidiaries of the full HVB Group	**1,019**	**1,104**
Consolidated companies	488	421
Non-consolidated companies	531	683
Joint ventures	**13**	**15**
of which:		
accounted for using the equity method	—	—
Associated companies	**68**	**71**
of which:		
accounted for using the equity method	28	28

The Bank has applied the option given in Section 313 (4) of the German Commercial Code. The separate list of holdings drawn up in compliance with Section 313 (2) of the German Commercial Code contains all subsidiaries, joint ventures and associated companies – broken down by whether they are included in the consolidated financial statements or not – together with other holdings. The list forms part of the present consolidated financial statements filed with the Commercial Register in Munich, and can be called up on the Bank's website at www.hvb.com/holdings.

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 recognised 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 amortisation 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 divisions and subdivisions. 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 8.4% 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 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 assets designated as financial instruments measured at fair value through profit or loss upon initial recognition (fair value option).

Such assets are measured at fair value and recognised in profit or loss in the income statement. A fair-value discount was applied for the first time in 2006 to take account of other factors influencing the calculation of the fair value and thus increase the quality of our conservative fair value calculation. The fair-value discount essentially relates to financial instruments classified as held for trading and financial instruments measured at fair value through profit and loss are shown under assets held for trading purposes and liabilities held for trading purposes. The fair value option is essentially 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 (AfS). Loans and receivables originated by the company are measured at amortised cost and capitalised under placements with, and loans and advances to, other banks, and loans and advances to customers.

Accounting and Valuation continued

– 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 amortised cost, with premiums and discounts included on a pro rata basis. Write-downs are taken where there is a rating-related decline in value. If the reasons for the write-down no longer apply, a subsequent write-up is taken to the income statement up to, but no more than, the amortised cost; held-to-maturity financial instruments are included under investments.

– All other financial assets are classified as available for sale (AfS) securities and receivables. They are measured at fair value. The difference between the fair value and amortised cost is carried in a separate item under shareholders' equity (AfS reserve) in the balance sheet until the asset is sold or an impairment to be recognised in profit or loss 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 reclassified into categories that are valued at amortised cost. Available-for-sale financial instruments are largely included in investments.

Purchases and sales of financial instruments are recognised 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 amortised cost.

Outside the portfolio held for trading purposes or at fair value through profit or loss, detachable 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 recognised 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 recognised asset, liability, or an unrecognised firm commitment – or an identified portion thereof – that is attributable to a particular risk and that might affect net income for the period. In this respect, a high level of effectiveness is required, with the changes in the fair value of the hedged item with regard to the hedged risk and hedging derivative compensating each other within a range of 80–125%. The Bank applies the method of accounting for fair value hedges for derivatives used to hedge the fair value of recognised assets and liabilities. Under this method, the hedging instrument is measured at fair value and taken to 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 recognised 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 recognises derivatives in accordance with cash flow hedge accounting when they are used to hedge future interest cash flows 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 recognised 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 yet be shown in the balance street. The hedge reserve is reversed and taken to the income statement in the periods during which the cash flows of the hedged financial instruments affect net income for the period. 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 recognised in the income statement. Depending on its classification, the hedged item is recognised at amortised 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. A discussion of the risks inherent in financial instruments is included in the Risk Report alongside the detailed information in the notes to the consolidated financial statements.

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

The valuation results for securities and derivatives are calculated on the basis of either external price sources (e.g. stock exchanges or other price providers like Reuters) or market prices determined using internal valuation models (mark-to-model). For the most part, prices from external sources are used to calculate the valuation results of securities. Derivatives are primarily valued on the basis of valuation models. The parameters for the Bank's internal valuation models (e.g. yield curves, volatilities, spreads, etc.) are taken from external sources and checked for validity and correctness by the Risk Control unit.

8 Placements, loans and advances

Placements with, and loans and advances to, other banks and customers are carried at amortised cost, provided they are neither fair-value-option receivables nor hedged items of a recognised 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 or provisions to the amount of the anticipated loss have been made to cover all identifiable risks arising from lending operations. They are reversed as soon as the loan default risk has ceased, or used if the receivable is classified 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. The Bank applies the loss confirmation period method for this. The loss confirmation period represents the period between a default event occurring, or a borrower defaulting, and the point at which the Bank identifies the default and sets up loan losses and – where appropriate – a specific loan-loss provision accordingly. Loan losses for which no or inadequate specific provisions have been created are treated as consumption of general provisions.

Accounting and Valuation continued

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 effective hedges 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 amortised 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.

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 amortised acquisition or production cost.

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

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 to the lessee. Title may or may not eventually be transferred.

HVB Group as lessor

Under finance leases, the lessor recognises the leased asset in the balance sheet as a receivable at an amount equal to the net investment in the lease. The lease payments are broken down into the finance charge and the redemption payment. The redemption payment reduces the amount of the outstanding liability (net investment); the finance charge is treated as interest expense. Interest and similar income is recognised on the basis of a constant, periodic rate of return relating to the net investment outstanding. The term "net investment" is defined in detail in Note 44 "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 recognised as, and valued using the same principles as, property, plant and equipment. Revenue under these arrangements is recognised on a straight-line basis over the lease term. HVB Group leases both movable property and real estate as a lessor under operating leases. Operating leases with HVB Group as lessor are comparatively insignificant.

HVB Group as lessee

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

The lease payments relating to finance leases are broken down into two components: the finance charge and the redemption payment. The redemption payment reduces the residual liability, and the finance charge is shown as interest expense. Lease payments relating to operating leases are treated as rental expense and recognised in 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 recognised if it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Compliant with IAS 36, scheduled amortisation is no longer taken on goodwill. The value of goodwill is tested annually and where there is an indication of impairment. Impairments are taken where necessary. Software is valued at amortised cost and written down over an expected useful life of three to five years. All other intangible assets are amortised over a period of up to ten years, as they have a limited useful life.

14 Assets of discontinued operations and non-current assets or disposal groups held for sale

Under IFRS 5, assets of discontinued operations and non-current assets or disposal groups held for sale are carried at the lower of the carrying amount or fair value less costs to sell at the balance sheet date.

15 Liabilities

Liabilities that are not hedged items of an effective fair value hedge are reported at amortised 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. Gains and losses arising from the valuation and realisation of liabilities held for trading purposes are taken to the income statement as gains less losses arising from trading securities.

The valuation results for securities and derivatives are calculated on the basis of either external price sources (e.g. stock exchanges or other price providers like Reuters) or market prices determined using internal valuation models (mark-to-model). For the most part, prices from external sources are used to calculate the valuation results of securities. Derivatives are primarily valued on the basis of valuation models. The parameters for the Bank's internal valuation models (e.g. yield curves, volatilities, spreads, etc.) are taken from external sources and checked for validity and correctness by the Risk Control unit.

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 recognised 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.

Accounting and Valuation continued

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 plan assets and unrealised actuarial gains and losses. Causes of such gains and losses include irregularities in the risk profile (e.g. higher or lower rates of early retirement or mortality than anticipated in the calculation principles applied) and changes in the applicable parameters.

The new option for recognising unrealised actuarial gains and losses in shareholders' equity permitted by the revised IAS 19.93 A "Employee benefits" was exercised by the Bank as of January 1, 2006.

The discount rate is based on the long-term interest rate for first-class, fixed-income corporate bonds at the balance sheet date. The amount of the provisions recognised in the balance sheet is calculated essentially using the provisions recognised in the previous year plus the pension expense determined at the beginning of the financial year less payments for the current financial year affecting liquidity and less payments to the plan assets of the current financial 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 flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used. In addition, the negative fair value 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 prices 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 Income tax for the period

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

Segment Reporting

21 Notes to segment reporting by division (primary segmentation)

In conjunction with the integration of the Bank into the UniCredit Group, the activities of the new HVB Group have been restructured and divided into the following global divisions: Retail; Wealth Management; Corporates & Commercial Real Estate Financing; and Markets & Investment Banking. Also shown is the "Other/consolidation" division that covers Global Banking Services and Group Corporate Centre activities. The latter also contain the former RER segment and the newly defined Special Credit Portfolio (SCP).

The reorganisation primarily affected the former Germany business segment, from which the Retail, Wealth Management and Corporates & Commercial Real Estate Financing – divided into Corporates and Commercial Real Estate Financing operations – divisions emerged. Within this, the Retail and Wealth Management divisions were created out of the former Private Customers business unit, whereas the Corporate Customers and Professionals and Real Estate business units formed the basis for the new Corporates & Commercial Real Estate Financing division. In addition, customers were transferred from the former Corporate Customers and Professionals business unit (business customer segment) to the new Retail and Wealth Management divisions.

The Markets & Investment Banking division was essentially formed out of the Corporates & Markets segment, but without the activities of the BA-CA Group and IMB.

The transfers agreed by the Management Board and Supervisory Board on September 12, 2006, which were approved by the Extraordinary Meeting of Shareholders on October 25, 2006, represent a discontinued operation under IFRS 5. Consequently, compliant with IAS 14.52, the segment report contains a separate line entitled "Discontinued operations" in addition to and separate from the continuing operations and segments. This includes the income and expenditure of the following companies and sub-groups defined as discontinued operations: the Bank Austria Creditanstalt Group, HVB Bank Ukraine, IMB, AS UniCredit Bank, Riga, and the HVB AG branches in Tallinn and Vilnius.

COMPONENTS OF THE NEW HVB GROUP SEGMENTS

Retail division

Our customers are divided into three groups within the Retail division: private customers, affluents and business customers. We are implementing our growth strategy differently for each of the customer groups. For private customers, we are concentrating on attractive market segments, maintaining a clear range of products tailored to cater for specific customer needs and (re-)activating the single-product users among our customers. With regard to affluent customers, we are intensifying systematic customer contact, refining both our need-based approach and our products and maximising the risk/return for each customer. Finally, for our business customers, we are reinforcing our cross-selling (particularly asset gathering), adjusting our pricing and our service model and harmonising our distribution channels.

The Retail division serves around three million customers. Major subsidiaries allocated to this division include Bankhaus Neelmeyer and Vereinsbank Victoria Bauspar AG.

Wealth Management division

In 2006, Wealth Management handled marketing for wealthy customers in Germany, private banking operations in Luxembourg, the activities of the DAB banking group, the production and marketing of real assets, and the income and expenses of the Activest Group up until June 30, 2006.

During the divisionalisation process, more than 37,000 wealthy customers with an investment volume of more than €31 billion were transferred from the retail and corporate banking operations of HVB AG.

This division serves customers with liquid assets of more than €500,000 under a relationship approach tailored to the requirements of high net worth customers. This is expanded to include specific family office services for customers with investments exceeding €30 million.

Segment Reporting continued

The following customer groups form the basis of the relationship model geared to providing comprehensive wealth management: family office customers, for whom the key element is providing comprehensive advice on very large and complex estates; wealthy private customers, where the focus is placed on individual asset strategies; professionals and business customers, for whom asset accumulation and corporate finance is the main element; and foundations and companies focussing on the professional management of large-scale assets. In addition, we attend to the private affairs of company owners and perform professional asset management for certain securities accounts, such as public-sector customers and professionals.

Corporates & Commercial Real Estate Financing division

In our corporate banking operations, we concentrate on the needs of our around 70,000 customers: supporting their cross-border expansion; helping them with new forms of finance and financial risk management and opening them up to the capital market, among other things. Our ambitious goal is to become the leading corporate bank in Germany. Our success in this respect was confirmed when "Markt und Mittelstand" journal named us SME Bank of the Year 2007.

The corporate banking business provides various relationship models based on different customer requirements. In particular, we have relationship models for large caps, mid caps, small caps and the public sector. We combine these models with regional proximity and sector know-how.

Lending operations will continue to be our core business into the future. This involves our creating innovative solutions such as mezzanine products which incorporate the capital market, for our mid-sized corporate customers. These are offered in addition or as an alternative to the traditional loan. Besides providing sophisticated advisory services and the analysis and funding of current and non-current assets (working capital), we are offering structured loans to a broader array of mid-sized enterprises. We are also continuing to expand operations involving subordinated finance, small and medium-sized financing for corporate transactions and project finance. As part of our financial risk management, we advise our customers extensively on all possible ways of hedging entrepreneurial risks.

We leverage our leading position in central and eastern Europe to support our customers through our European network.

Major subsidiaries allocated to this division include HVB Banque Luxembourg, which is assigned to several divisions, and HVB Leasing GmbH.

Commercial Real Estate Financing

Organisationally, Commercial Real Estate Financing belongs to the Corporates division. It forms part of the UniCredit Group's growth strategy for Germany and Europe, aiming to significantly improve the risk/return profile of portfolios and sustainably boost the profitability of the business. The consistent implementation of our strict lending policies based on the current market conditions and the sustained reduction of unprofitable portions of portfolios are playing an important role in this process. Our target customers have access to tailored products from HypoVereinsbank's full range, extending from classic real estate finance and interest rate hedging through to the structuring, syndication and, where appropriate, securitisation of portfolios. Our customers are served by regional account management teams based at six locations in Germany (Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Nuremberg) and the structured loan specialists concentrated in Munich.

Markets & Investment Banking division

The global Markets & Investment Banking (MIB) division of the UniCredit Group started out as a virtual organisation in mid-2006. Headquartered in Munich, it has offices at all the major financial centres worldwide, including London, New York, Hong Kong and Singapore. Around 2,000 employees at 40 locations serve some 1,100 institutional customers and 270 multinationals. HypoVereinsbank has been defined as the UniCredit Group's centre of competence for investment banking. All related activities are intended to be pooled at HVB, due in part to the expertise and know-how we possess in this area. Some 70% of the business volume and revenues of investment banking activities of the UniCredit Group are already generated by HypoVereinsbank today and thus currently flow into the balance sheet and income statement of HypoVereinsbank. The goal is to increase the proportion of this business volume by integrating the respective activities of other units in the UniCredit Group and boosting our market share. At the same time all activities will focus on selected products and customer segments where HypoVereinsbank can provide differentiated expertise. The ambitious growth targets of this new player in the European investment banking marketplace are of direct importance to HypoVereinsbank.

Markets & Investment Banking will receive a uniform structure with global responsibility within the UniCredit Group so that it can address global customers accordingly. Thus, in terms of its organisation and in other ways, the division differs from other operating units that have a regional branding tailored to suit the respective market and are part of a separate legal unit responsible for the entire regional market.

By combining complementary product competencies in the areas of structured finance, structured derivatives, structured loans and currency and interest hedging operations, a broad, competitive product portfolio has been created which provides an excellent basis for winning new customers and for offering additional services to existing customers in all markets. Flagship products and market positions notably include:

– takeover finance: 20% share of the German market, one of the leading arrangers of leveraged buy-outs in Europe
– project finance: one of the leading arrangers in Europe
– structured foreign trade finance
– issuing operations for pfandbriefs: market leader in Germany with a share of 13%, number 6 in Europe
– structured derivatives: leading provider in Germany

Relationship management and customer retention is based on a direct approach. Senior bankers foster the primary relationships with customers and communicate their needs to appropriate specialists.

Moreover, Markets & Investment Banking sees itself as a supplier of innovative and specialised products for all regional sales units of the remaining divisions who are thus also important individual customers and primary sales partners (structured investment products for Retail and Wealth Management customers, or derivatives to hedge commodity and currency risks for corporates).

Major subsidiaries allocated to this division include HVB Banque Luxembourg, which is assigned to several divisions, HVB Global Assets, HVB Capital Asia Ltd. and HVB Capital Partners AG.

Other/consolidation division

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

Global Banking Services

The Global Banking Services activities encompass IT application development and operation, purchasing, organisation, logistics and facility management, cost management, the back office functions for credit, accounts, payments, securities services, foreign exchange, money market and derivative back office.

Group Corporate Centre

The Group Corporate Centre activities also contain the former RER segment and the newly defined Special Credit Portfolio (SCP). When it was first disclosed at September 30, 2006, the SCP encompassed a portfolio of non-strategic loans with a volume of €20.5 billion. The SCP contains loans with little cross-selling potential, thus offering poor value for HypoVereinsbank. Only properly serviced loans have been assigned to this portfolio. When the SCP was defined, non-performing loans were also assigned, provided they met the criteria mentioned above. In all, properly serviced loans make up 90% of the total SCP. In addition to the RER and SCP portfolios, the Group Corporate Centre activities also include profit contributions that do not fall within the jurisdiction of the individual divisions. Among other items, this includes the profits of non-consolidated holdings, provided they are not assigned to the divisions, and the net income from securities holdings for which the Management Board is responsible. Also incorporated in this segment are the amounts resulting from decisions taken by management with regard to asset/liability management.

Segment Reporting continued

METHOD OF SEGMENT REPORTING

Segment reporting is based on the internal organisational and management structure together with internal financial reporting. The divisions operate as autonomous companies with their own equity resources and responsibility for profits and losses. The divisions are delimited by responsibility for serving customers.

When the segments were restructured, the methods and parameters used in segment reporting were modified as follows:

Net interest income continues to be broken down using the market interest calculation method. In the case of companies assigned to several divisions, capital allocation for the purpose of calculating the return on investment calls for core capital amounting to 7% of risk-weighted assets relating to equivalent risk assets for credit and market risks (= risk-weighted assets plus market risks weighted with a factor of 12.5) to be assigned to the divisions. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. The percentage used to assess the equity capital allocated to the companies assigned to several divisions (HVB AG, HVB Banque Luxembourg) has been reduced from 5% to 3.4%. This rate, which equals the 3-month EURIBOR plus a premium in the amount of the average 5-year UniCredit credit spread, is set for one year as part of the budgeting process. Equity capital is not standardised for the subsidiaries.

Operating costs are allocated to the correct division according to causation. The Global Business Services and Group Corporate Centre units are treated as external service providers charging the divisions fair market prices for their services. The new method of charging costs that cannot be allocated directly involves identifying the overhead costs for each segment individually in the budgeting process and setting them in the form of a fixed premium on the direct and indirect costs for the appropriate financial year.

The previous-year figures for 2005 and the quarterly figures in 2006 have been adjusted in the presentation of the segment information to reflect both the changes in the segment structures and the altered methods applied.

22 Income statement broken down by division

€ millions	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	MARKETS & INVESTMENT BANKING	OTHER/ CONSOLI-DATION	HVB GROUP NEW	DISCONTINUED OPERATIONS	FULL HVB GROUP
TOTAL REVENUES								
2006	1,728	550	1,302	2,279	93	5,952	5,215	11,167
2005	1,694	569	1,276	1,889	(215)	5,213	4,428	9,641
Operating costs								
2006	(1,422)	(336)	(495)	(1,163)	(279)	(3,695)	(2,905)	(6,600)
2005	(1,557)	(387)	(541)	(1,110)	(290)	(3,885)	(2,723)	(6,608)
OPERATING PROFIT (LOSS)								
2006	306	214	807	1,116	(186)	2,257	2,310	4,567
2005	137	182	735	779	(505)	1,328	1,705	3,033
Net write-downs of loans								
and provisions for guarantees								
and indemnities								
2006	(173)	(10)	(264)	16	(502)	(933)	(728)	(1,661)
2005	(267)	(4)	(402)	(52)	(254)	(979)	(503)	(1,482)
Other items[1]								
2006	(16)	542	(12)	(163)	(57)	294	2,117	2,411
2005	(44)	(45)	(49)	(27)	(291)	(456)	204	(252)
PROFIT (LOSS) BEFORE TAX								
2006	117	746	531	969	(745)	1,618	3,699	5,317
2005	(174)	133	284	700	(1,050)	(107)	1,406	1,299

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill, restructuring costs, net income from investments and other non-operating expenses

Segment Reporting continued

Income statement of the Retail division

INCOME/EXPENSES	2006 € millions	2005 € millions	Q4 2006 € millions	Q3 2006 € millions	Q2 2006 € millions	Q1 2006 € millions
Net interest income	**1,096**	**1,103**	**261**	**285**	**270**	**280**
Net fees and commissions	629	584	140	139	154	196
Net trading, hedging and fair value income	(1)	0	(1)	(1)	2	(1)
Net other income/expenses	4	7	(10)	(2)	11	5
Net non-interest income	**632**	**591**	**129**	**136**	**167**	**200**
TOTAL REVENUES	**1,728**	**1,694**	**390**	**421**	**437**	**480**
Payroll costs	(557)	(565)	(132)	(139)	(145)	(141)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(865)	(992)	(213)	(227)	(210)	(215)
Operating costs	**(1,422)**	**(1,557)**	**(345)**	**(366)**	**(355)**	**(356)**
OPERATING PROFIT	**306**	**137**	**45**	**55**	**82**	**124**
Restructuring costs	(7)	(50)	(5)	(1)	(1)	0
Net write-downs of loans and provisions for guarantees and commitments	(173)	(267)	(43)	(50)	(51)	(29)
Net income from investments and other items[1]	(9)	6	(7)	(4)	1	1
PROFIT (LOSS) BEFORE TAX	**117**	**(174)**	**(10)**	**0**	**31**	**96**
Cost-income ratio in %	82.3	91.9	88.5	86.9	81.2	74.2

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill, net income from investments and other non-operating expenses

With profit before tax of €117 million in the year under review, the Retail division performed excellently in 2006, achieving a turnaround after the loss of €174 million reported for this item in 2005. This improvement in results was achieved mainly by enhancing efficiency on the operating side.

At €306 million, operating profit was more than double the amount posted in 2005. Total revenues increased by €34 million, or 2.0%, to €1,728 million. This development was largely supported by the 7.7% increase in net fees and commissions. This results in part from the successful marketing of innovative investment products, like the "HVB Best of Funds" with a volume of €540 million, "HVB Flex Bonus" with €150 million in the first quarter, "HVB 2 x 5% Profianleihe" with around €380 million in the second quarter and the "HVB Höchststand-Zertifikat" with €200 million in the third quarter. In the fourth quarter, a strong emphasis was placed on boosting sales of the successful investment product "KombiAnlage plus". In the process, we managed to acquire a volume of €1.3 billion in new investments, which will have a positive impact on our future earnings potential in the long run. Net interest income remained almost stable (down 0.6%). At the same time, we managed to almost fully offset the planned reduction of our real estate portfolio by increasing volumes and margins in the deposit-taking business. Operating costs declined by a total of 8.7%, to €1,422 million, reflecting both the success of our PRO efficiency enhancement programme and the benefits generated from efficient cost management. This involves cost reductions posted in both payroll costs and other administrative expenses (including depreciation on property, plant and equipment). The cost-income ratio improved sharply, by 9.6 percentage points to 82.3%, benefiting from the increase in total revenues and the simultaneous decline in operating costs as a result of general efficiency enhancement. Taking the 35.2% reduction in net write-downs of loans and provisions for guarantees and commitments and the lower restructuring costs into account, the division generated profit before tax of €117 million (2005: loss of €174 million). As expected, the net profit for 2006 was generated largely in the first two quarters of the year, while the total declined in the third quarter decreased in line with the weaker business cycle in the summer months. With regard to the small loss generated in the fourth quarter of 2006, it must be noted that the third quarter of 2006 benefited from the positive catch-up effect arising from the technical reorganisation of the new segment structure. At the same time, the fourth quarter's results were affected by the transfers to the Special Credit Portfolio disclosed under the "Other/consolidation" segment for the first time at September 30, 2006. Adjusted for these effects, profit before tax in the fourth quarter would have been slightly higher than the adjusted figure for the third quarter. Besides the isolated result for the fourth quarter, the focus was placed on the sustainable generation of income in the future building on our "KombiAnlage plus" investment product.

Segment Reporting continued

Income statement of the Wealth Management division[1]

INCOME/EXPENSES	2006 € millions	2005 € millions	Q4 2006 € millions	Q3 2006 € millions	Q2 2006 € millions	Q1 2006 € millions
Net interest income	**163**	**153**	**47**	**40**	**40**	**36**
Net fees and commissions	397	437	86	62	114	135
Net trading, hedging and fair value income	(13)	(10)	(1)	1	(8)	(5)
Net other expenses/income	3	(11)	1	(1)	3	0
Net non-interest income	**387**	**416**	**86**	**62**	**109**	**130**
TOTAL REVENUES	**550**	**569**	**133**	**102**	**149**	**166**
Payroll costs	(117)	(131)	(26)	(25)	(34)	(32)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(219)	(256)	(49)	(43)	(65)	(62)
Operating costs	**(336)**	**(387)**	**(75)**	**(68)**	**(99)**	**(94)**
OPERATING PROFIT	**214**	**182**	**58**	**34**	**50**	**72**
Restructuring costs	(7)	(43)	(5)	(2)	0	0
Net write-downs of loans and provisions for guarantees and commitments	(10)	(4)	(8)	(2)	4	(4)
Net income from investments and other items[2]	549	(2)	10	533	4	2
PROFIT BEFORE TAX	**746**	**133**	**55**	**563**	**58**	**70**
Cost-income ratio in %	61.1	68.0	56.4	66.7	66.4	56.6

1 also includes the activities of the Activest companies in the first half of the year
2 contains the following income statement items: provisions for risks and charges, write-down on goodwill, net income from investments and other non-operating expenses

HypoVereinsbank's Wealth Management division handles marketing for wealthy customers in Germany, private banking operations in Luxembourg and the activities of the DAB banking group. The division also encompasses the production and marketing of real assets, grouped together in the WealthCap subsidiary currently being formed.

During the divisionalisation process, more than 37,000 wealthy customers with an investment volume of more than €31 billion were transferred from the retail and corporate banking operations of HVB AG. More than 90% of the selected customers immediately accepted the tailored service offering, a take-up rate that far outstripped our expectations.

During the re-organisation of the divisions within the UniCredit Group, the Activest Group (Activest Investmentgesellschaft mbH, Munich, Activest Investmentgesellschaft Luxembourg S. A., Luxemburg and Activest Investmentgesellschaft Schweiz AG, Berne) was sold to Pioneer Global Asset Management S.p.A. with effect from July 1, 2006.

The Wealth Management division's profit before tax is dominated by the gain on the disposal of the Activest companies to Pioneer Global Asset Management S.p.A. The sale yielded a gain on disposal of €543 million, which is carried under net income from investments. The Activest companies left the group of companies included in consolidation with effect from July 1, 2006. At the same time, it is important to note that, unlike the previous year or the first and second quarters of 2006, the totals for the full year 2006 do not include the primary profit contributions of the Activest companies.

Adjusted for the gain on disposal and the deconsolidation effects, the Wealth Management division posted an extremely pleasing 40% year-on-year rise in profit before tax. This also reflects the strong performance of the DAB banking group, which achieved the best results ever in the company's history. In particular, this development can be attributed to the successful increase of transaction volumes in securities operations. The DAB banking group exceeded the one-million-customer mark for the first time in December 2006.

The division's good earnings performance was underpinned by a significant increase in total revenues. Adjusting the figures for the effects of deconsolidation, the Wealth Management division posted an increase of €63 million, or 13%, in this regard. With a 10.3% rise adjusted for deconsolidation effects, net fees and commissions was the driving force behind total revenues. In particular, we succeeded in significantly boosting the share of assets under management from funds and asset management offerings. Net interest income increased by 7.9% after deconsolidation effects. As regards interest income/expense, a slight decline in lending operations was offset by a pleasing development in income from deposit-taking operations.

Operating costs declined by 13.2%, caused mostly by the deconsolidation of the Activest companies. After adjustment for the deconsolidation effects, operating costs remained stable (up 0.3%) despite investments made in the new division. Investments in growth were offset by reductions in ongoing costs. As a result of the good earnings performance, the (adjusted) cost-income ratio improved by 7.7 percentage points to 61.1%.

Segment Reporting continued

Income statement of the Corporates & Commercial Real Estate Financing division, Corporates subdivision

INCOME/EXPENSES	2006 € millions	2005 € millions	Q4 2006 € millions	Q3 2006 € millions	Q2 2006 € millions	Q1 2006 € millions
Net interest income	**801**	**753**	**205**	**185**	**202**	**209**
Net fees and commissions	297	283	63	76	73	85
Net trading, hedging and fair value income	4	2	2	4	(2)	0
Net other expenses/income	1	5	(4)	(1)	5	1
Net non-interest income	**302**	**290**	**61**	**79**	**76**	**86**
TOTAL REVENUES	**1,103**	**1,043**	**266**	**264**	**278**	**295**
Payroll costs	(168)	(168)	(43)	(41)	(43)	(41)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(276)	(291)	(73)	(69)	(65)	(69)
Operating costs	**(444)**	**(459)**	**(116)**	**(110)**	**(108)**	**(110)**
OPERATING PROFIT	**659**	**584**	**150**	**154**	**170**	**185**
Restructuring costs	(1)	(19)	0	(1)	0	0
Net write-downs of loans and provisions for guarantees and commitments	(201)	(190)	(74)	(48)	(35)	(44)
Net income from investments and other items[1]	(10)	(15)	(14)	(4)	1	7
PROFIT BEFORE TAX	**447**	**360**	**62**	**101**	**136**	**148**
Cost-income ratio in %	40.3	44.0	43.6	41.7	38.8	37.3

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill, net income from investments and other non-operating expenses

Corporates, which focuses on the needs of our small and medium-sized corporate customers, performed extremely well in 2006. As a result, profit before tax was one quarter higher than the high level recorded in the previous year.

This can be largely attributed to the strong operating performance, which led to a 12.8% rise in operating profit. In the process, total revenues posted 5.8% growth, driven by a 6.4% rise in net interest income and the 4.9% improvement in net fees and commissions which benefited from higher income from advisory fees under structured finance. In addition, a 3.3% reduction was achieved in operating costs as a result of strict cost management, helping the cost-income ratio to improve to 40.3% in 2006.

Fewer expenses were incurred in non-operating items than in the previous year. At the same time, the 5.8% increase in net write-downs of loans and provisions for guarantees and commitments, to €201 million, was offset by much lower restructuring costs.

Income statement of the Corporates & Commercial Real Estate Financing division, Commercial Real Estate Financing subdivision

INCOME/EXPENSES	2006 € millions	2005 € millions	Q4 2006 € millions	Q3 2006 € millions	Q2 2006 € millions	Q1 2006 € millions
Net interest income	**160**	**198**	**27**	**40**	**44**	**49**
Net fees and commissions	38	30	8	11	11	8
Net trading, hedging and fair value income	0	0	0	0	0	0
Net other expenses/income	1	5	(2)	0	2	1
Net non-interest income	**39**	**35**	**6**	**11**	**13**	**9**
TOTAL REVENUES	**199**	**233**	**33**	**51**	**57**	**58**
Payroll costs	(13)	(19)	(2)	(4)	(3)	(4)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(38)	(63)	(10)	(10)	(8)	(10)
Operating costs	**(51)**	**(82)**	**(12)**	**(14)**	**(11)**	**(14)**
OPERATING PROFIT	**148**	**151**	**21**	**37**	**46**	**44**
Restructuring costs	0	(7)	0	0	0	0
Net write-downs of loans and provisions for guarantees and commitments	(63)	(212)	(11)	(30)	(4)	(18)
Net income from investments and other items[1]	(1)	(8)	5	(6)	0	0
PROFIT (LOSS) BEFORE TAX	**84**	**(76)**	**15**	**1**	**42**	**26**
Cost-income ratio in %	25.6	35.2	36.4	27.5	19.3	24.1

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill, net income from investments and other non-operating expenses

Commercial Real Estate Financing continued to be impacted in 2006 by the continuation of the restructuring programme started in the previous year, notably involving the disposal of non-strategic portfolios.

Thus, net interest income was depressed by the continued reduction of volumes, as planned, and decreased by 19.2%. By contrast, net fees and commissions rose by around one quarter. This can be attributed in particular to very lively business with interest derivatives. However, total revenues decreased by 14.6% overall. Compared to 2005, operating costs were reduced by more than a third. This results from the savings in payroll costs entailed in the portfolio disposals coupled with lower other administrative expenses and a decline in amortisation, depreciation and impairment losses on intangible and tangible assets. On account of the pleasing development on the cost side alone, the cost-income ratio improved significantly, by 9.6 percentage points to 25.6%.

Profit before tax increased by a strong €160 million in 2006 to reach €84 million. This improvement was mainly a result of the significant decline in net write-downs of loans and provisions for guarantees and commitments compared to the previous year.

Segment Reporting continued

Income statement of the Markets & Investment Banking division

INCOME/EXPENSES	2006 € millions	2005 € millions	Q4 2006 € millions	Q3 2006 € millions	Q2 2006 € millions	Q1 2006 € millions
Net interest income	**1,171**	**1,053**	**361**	**268**	**256**	**286**
Net fees and commissions	366	336	106	72	86	102
Net trading, hedging and fair value income	737	482	79	193	171	294
Net other expenses/income	5	18	3	(8)	5	5
Net non-interest income	**1,108**	**836**	**188**	**257**	**262**	**401**
TOTAL REVENUES	**2,279**	**1,889**	**549**	**525**	**518**	**687**
Payroll costs	(522)	(443)	(144)	(120)	(120)	(138)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(641)	(667)	(181)	(147)	(162)	(151)
Operating costs	**(1,163)**	**(1,110)**	**(325)**	**(267)**	**(282)**	**(289)**
OPERATING PROFIT	**1,116**	**779**	**224**	**258**	**236**	**398**
Restructuring costs	(1)	(70)	(1)	0	0	0
Net write-downs of loans and provisions for guarantees and commitments	16	(52)	20	(5)	16	(15)
Net income from investments and other items[1]	(162)	43	(221)	16	16	27
PROFIT BEFORE TAX	**969**	**700**	**22**	**269**	**268**	**410**
Cost-income ratio in %	51.0	58.8	59.2	50.9	54.4	42.1

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill, net income from investments and other non-operating expenses

The Markets & Investment Banking division succeeded in increasing its net profit year-on-year by 38.4%, from €700 million to €969 million, in the 2006 financial year. This development can be attributed mainly to the 43.3% improvement in operating profit, to €1,116 million.

Operating profit was boosted by the €390 million rise in total revenues, an increase of 20.6% driven by extremely strong net trading, hedging and fair value income, which we succeeded in increasing by 52.9% compared to the previous year. A significant rise of 8.9% was also recorded for net fees and commissions and 11.2% for net interest income.

As a result of the enhanced total revenues, the cost-income ratio improved by 7.8 percentage points to 51.0%, even though operating costs rose by 4.8% as a result of higher performance-related payroll costs.

Net income from investments and other items was down by €205 million on the previous year. The total includes expenses of €153 million, incurred on a non-recurring basis at this level, arising from a change in the parameters used to calculate the fair values mainly of financial instruments under the categories held for trading and at fair value through profit and loss. In 2005, this item also contained gains realised on the sale of our holdings in Premiere AG and Rhön-Klinikum AG for which there are no disposal gains at a similar level in the year under review; at the same time, lower provisions for risks and charges had a compensatory effect.

As a result of a good market environment, a net reversal of €16 million (previous year: net addition of €52 million) was recorded for net write-downs of loans and provisions for guarantees and commitments in the year under review.

Profit before tax increased by 38.4%, to €969 million, despite the non-recurrent charges incurred as a result of the fair-value discount. Adjusted for this non-recurring effect, a 60% rise, to €1,122 million, would be shown for profit before tax.

Income statement of the Other/consolidation division

INCOME/EXPENSES	2006 € millions	2005 € millions	Q4 2006 € millions	Q3 2006 € millions	Q2 2006 € millions	Q1 2006 € millions
TOTAL REVENUES	**93**	**(215)**	**7**	**(2)**	**60**	**28**
Operating costs	**(279)**	**(290)**	**(33)**	**(94)**	**(51)**	**(101)**
OPERATING PROFIT (LOSS)	**(186)**	**(505)**	**(26)**	**(96)**	**9**	**(73)**
Restructuring costs	(44)	(249)	(30)	(12)	(2)	0
Net write-downs of loans and provisions						
for guarantees and commitments	(502)	(254)	(179)	(91)	(132)	(100)
Net income from investments and other items[1]	(13)	(42)	(35)	(11)	2	31
PROFIT (LOSS) BEFORE TAX	**(745)**	**(1,050)**	**(270)**	**(210)**	**(123)**	**(142)**

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill, net income from investments and other non-operating expenses

The Other/consolidation division contains Global Banking Services, Group Corporate Centre, including the profit contributions from the newly created Special Credit Portfolio assigned to this segment, plus the Real Estate Restructuring segment previously shown separately and consolidation effects. Total revenues amounted to €93 million in the year under review, following a negative total of €215 million for the previous year. This improvement can be attributed for the most part to the far lower expenses arising from the HVB Immobilien sub-group than in the previous year. The total expenses of €256 million arising from the HVB Immobilien sub-group in the previous year had an impact on total revenues. Total revenues were enhanced by the rise in net trading, hedging and fair value income attributable to the positive effects of currency translation compliant with IAS 21.28 following on from a negative effect in the previous year. This is offset by declining net interest income partly as a result of the planned reduction in volume in the former Real Estate Restructuring segment and lower dividend income. Operating costs fell by 3.8%, despite the expense involved in the initial consolidation of the HVB Immobilen sub-group. The operating loss improved by €319 million compared with the previous year to €186 million. The segment recorded a loss before tax of €745 million at December 31, 2006. This is due mostly to the higher loan-loss provisions of €502 million required primarily for the newly created Special Credit Portfolio and the operating loss caused by restructuring costs of €44 million. The net loss before taxes in 2005 amounted to €1,050 million. Besides the operating loss and restructuring costs of €249 million, this total included loan-loss provisions of €254 million as well as non-recurring expenditure of €225 million arising in conjunction with the acquisition of real estate from the assets of a real estate fund management by the Bank's Internationales Immobilien-Institut GmbH (iii-investments) subsidiary.

In the year under review, in the line "Net income from investments and other items", income from the disposal of shareholdings (€217 million from Munich Re, €55 million from Babcock & Brown and €40 million from Lufthansa) is offset by transfers of €60 million to provisions for rental guarantees relating to space in buildings becoming vacant and valuation expenses of €130 million arising from the disposal of a portfolio of non-strategic real estate announced by the Management Board of HVB AG on December 13, 2006.

Segment Reporting continued

23 Balance sheet figures, broken down by division

€ millions	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	MARKETS & INVESTMENT BANKING
Assets held for trading purposes				
2006	3	43	—	107,169
2005	4	40	—	88,652
Total volume of lending				
2006	47,680	5,040	64,090	64,381
2005	52,359	4,313	64,989	66,732
Deposits from other banks				
2006	189	372	1,229	85,286
2005	220	143	909	71,992
Amounts owed to other depositors				
2006	28,625	9,832	25,414	27,214
2005	28,327	9,645	23,691	28,446
Promissory notes and other liabilities evidenced by paper				
2006	373	378	4,085	11,207
2005	397	379	4,632	7,354
Risk-weighted assets (compliant with German Banking Act)				
2006	24,894	3,859	41,567	51,638
2005	28,340	4,116	45,788	50,965

1 2005 figures including HVB Splitska banka

24 Risk provision rates, broken down by operating division, HVB Group new

	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	MARKETS & INVESTMENT BANKING
Net addition rate (%)				
2006	0.36	0.20	0.41	(0.02)
2005	0.51	0.09	0.62	0.08
Loan-loss rate (%)				
2006	0.87	0.20	0.62	0.33
2005	0.41	0.02	0.61	0.64
Total allowances for losses on loans and advances (€ millions)				
2006	716	28	1,509	626
2005	930	33	1,632	964
Provision rate (%)				
2006	1.50	0.56	2.35	0.97
2005	1.78	0.77	2.51	1.44

OTHER/ CONSOLIDATION	HVB GROUP NEW	DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD FOR SALE	CONSOLIDATION	FULL HVB GROUP[1]
(4)	107,211	17,188	(1,409)	122,990
(95)	88,601	18,601	(3,456)	103,746
28,881	210,072	108,022	(4,764)	313,330
38,935	227,328	110,299	(2,900)	334,727
(1,404)	85,672	50,499	(2,403)	133,768
(799)	72,465	45,615	(3,897)	114,183
1,051	92,136	60,817	(322)	152,631
3,272	93,381	66,594	(193)	159,782
60,895	76,938	21,897	(404)	98,431
71,022	83,784	22,763	(565)	105,982
22,989	144,947	85,388	—	230,335
30,429	159,638	85,109	—	244,747

Segment Reporting continued

25 Employees, broken down by operating and service division

	2006	2005
Retail	8,609	8,737
Wealth Management	1,200	1,546
Corporates & Commercial Real Estate Financing	2,184	2,180
Markets & Investment Banking	2,045	2,094
Group Services	5,667	6,167
Group Corporate Centre	6,033	6,629
HVB Group new	**25,738**	**27,353**
Discontinued operations	24,921	33,898
Full HVB Group	**50,659**	**61,251**

26 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	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP NEW	DISCONTINUED OPERATIONS	FULL HVB GROUP
Total revenues								
2006	5,661	1,098	106	133	(1,046)	5,952	5,215	11,167
2005	5,024	709	139	85	(744)	5,213	4,428	9,641
Operating profit								
2006	1,928	724	39	58	(492)	2,257	2,310	4,567
2005	1,568	433	45	18	(736)	1,328	1,705	3,033

Total volume of lending, broken down by region

€ millions	2006	2005
Germany	174,779	180,134
Rest of Europe	41,285	38,496
Americas	5,794	11,753
Asia	3,096	4,994
Consolidation	(14,882)	(8,049)
HVB Group new	**210,072**	**227,328**
Discontinued operations and non-current assets or disposal groups held for sale	108,022	110,299
Consolidation	(4,764)	(2,900)
Full HVB Group[1]	**313,330**	**334,727**

1 2005 figures including HVB Splitska banka

Employees, broken down by region

	2006	2005
Germany	24,256	25,682
Rest of Europe	963	1,078
Africa	1	2
Americas	284	307
Asia	234	284
Australia	—	—
HVB Group new	**25,738**	**27,353**
Discontinued operations	24,921	33,898
Full HVB Group	**50,659**	**61,251**

Notes to the Income Statement

27 Net interest income

HVB GROUP NEW	2006 € millions	2005 € millions
Interest and similar income from		
lending and money market transactions	11,846	10,472
fixed-income securities	2,132	1,257
finance leases	50	41
Interest expense and similar charges from		
deposits	(6,689)	(4,230)
promissory notes and		
other liabilities evidenced by paper	(3,558)	(3,695)
subordinated capital	(633)	(679)
Total	**3,148**	**3,166**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €11,531 million and €8,964 million, respectively.

28 Dividends and other income from equity investments

HVB GROUP NEW	2006 € millions	2005 € millions
Income from		
equity securities and other variable-yield securities	74	114
subsidiaries	43	48
companies accounted for using the equity method	4	4
participating interests	130	93
Total	**251**	**259**

29 Net fees and commissions

HVB GROUP NEW	2006 € millions	2005 € millions
Securities and custodial services	872	877
Foreign trade operations/money transfer operations	300	304
Lending operations	363	354
Other service operations	218	188
Total	**1,753**	**1,723**

This item comprises the balance of fee and commission income of €2,190 million (2005: €2,093 million) and fee and commission expense of €437 million (2005: €370 million). In terms of the year-on-year change in net fees and commissions, the profit contributions made by the sold Activest companies are only included in net fees and commissions for 2006 up to the middle of the year, which has a negative effect when compared to 2005. Adjusted for consolidation and currency effects, the rate of increase in net fees and commissions totalled 7.0%. In the process, net fees and commissions from the securities and depositary business rose by around 9% in adjusted terms.

30 Net trading, hedging and fair value income

HVB GROUP NEW	2006 € millions	2005 € millions
Net gains on financial instruments		
held for trading	**673**	**464**
Equity contracts	112	89
Interest rate and currency contracts	241	239
Dividend income arising from trading operations	320	136
Private equity realisation gains[1]	**38**	**—**
Effects arising from hedge accounting	**—**	**4**
Net gains on financial instruments designated		
at fair value through profit or loss	**27**	**(13)**
Other net trading, hedging and fair value income	**30**	**(79)**
Total	**768**	**376**

1 the gains on the disposal of actively managed holdings in the private equity business are recorded here. The gains of around €23 million realised in the previous year have not been adjusted. They are shown under net income from investments

31 Net other expenses/income

HVB GROUP NEW	2006 € millions	2005 € millions
Other income		
Income from investment property	65	5
Income from general rental contracts and		
mixed-usage buildings	52	26
Miscellaneous other income	105	110
Other expenses		
Current expense from investment property	(29)	(20)
Absorbed losses	(23)	(272)
Income from general rental contracts and		
mixed-usage buildings	(38)	—
Miscellaneous other expenses	(100)	(160)
Net other expenses/income	**32**	**(311)**

Notes to the Income Statement continued

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 sub-group, which was not consolidated in 2005. The profits and losses of the companies allocated to this sub-group were included in the consolidated financial statements as a result of the profit-and-loss transfer agreement between HVB Immobilien AG and HVB AG. The main companies of the HVB Immobilien AG sub-group have been fully consolidated in the consolidated financial statements of HVB Group with effect from January 1, 2006.

32 Operating costs

HVB GROUP NEW	2006 € millions	2005 € millions
Payroll costs	**(2,216)**	**(2,212)**
Wages and salaries	(1,837)	(1,821)
Social security costs	(260)	(257)
Pension and other employee benefit costs	(119)	(134)
Other administrative expenses	**(1,166)**	**(1,260)**
Amortisation, depreciation and impairment losses	**(313)**	**(413)**
on property, plant and equipment	(174)	(260)
on software and other intangible assets, excluding goodwill	(139)	(153)
Total	**(3,695)**	**(3,885)**

A long-term incentive programme including share-based remuneration transactions featuring compensation in UniCredit shares (stock options and performance shares) has been set up for executives of all UniCredit Group companies selected using defined criteria. The stock options grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. A set number of UniCredit shares (performance shares) is transferred free of charge if, after a period of three years, the relevant targets have been met and the beneficiary is still working for the UniCredit Group.

Information on stock options

	2006 STOCK OPTIONS	2005 STOCK OPTIONS
Number	2,658,900	2,933,500
Strike price (€)	5.951	4.817
UCI stock market price (€)	5.951	4.817
Date of granting	June 23, 2006	Nov. 25, 2005
Start of exercise period	June 23, 2010	Nov. 25, 2009
End of exercise period	Dec. 31, 2019	Dec. 31, 2018
Fair value of each option at granting date (€)	1.269	1.0548

Information on performance shares

	2006 PERFORMANCE SHARES	2005 PERFORMANCE SHARES
Number	1,142,300	1,256,800
UCI stock market price (€)	5,951	4.817
Date of conditional granting	June 23, 2006	Nov. 25, 2005
Granting upon satisfaction of criteria	Dec. 31, 2009	Dec. 31, 2008
Fair value of each performance share at granting date (€)	5.574	4.461

The fair value on the date of granting is recorded as an expense on the basis of the expected number of options exercised/performance shares granted over the period or vesting period of the respective programme. The corresponding expenses for the executives of the new HVB Group totalling €3 million in 2006 will be reimbursed to UniCredit when they fall due.

33 Provisions for risks and charges

The largest individual item in net provisions for risks and charges is the expense for rental guarantees related to premises no longer required for banking operations that were vacated in the course of space-optimisation programmes. As a result of discontinuing the use of space, existing tenancy/leasing contracts became onerous contracts for which provisions of €60 milllion must be set aside to meet contractual obligations arising under what are defined by IAS 37.66 as onerous contracts. This will no longer affect our income statements in future years.

Besides further small transfers to provisions for rental guarantees, this item also includes other provisions and accruals for risks and charges as well as provisions for litigation risks in the lending business.

34 Restructuring costs

The restructuring costs relate in part to the business combination of HVB Group with the UniCredit Group. The total amounted to €60 million in 2006, including payroll costs of €27 million and other administrative expenses of €28 million. The restructuring costs of €438 million reported for the previous year mainly concerned allocations to restructuring provisions earmarked primarily for severance packages, depreciation charges on non-current assets and fees.

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

HVB GROUP NEW	2006 € millions	2005 € millions
Additions	**(1,919)**	**(2,127)**
Allowances for losses on loans and advances	(1,873)	(2,040)
Allowances for losses on guarantees and indemnities	(46)	(87)
Reversals	**896**	**1,106**
Allowances for losses on loans and advances	864	1,091
Allowances for losses on guarantees and indemnities	32	15
Recoveries from write-offs of loans and advances	90	42
Total	**(933)**	**(979)**

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

HVB GROUP NEW	2006 € millions	2005 € millions
Non-consolidated subsidiaries	(2)	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	7	—
Total[1]	**5**	**—**

1 Net release

36 Net income from investments

HVB GROUP NEW	2006 € millions	2005 € millions
Gains on the disposal of		
placements, loans and advances	—	—
available-for-sale investments	381	353
held-to-maturity investments	2	10
companies accounted for using the equity method	—	—
shares in affiliated companies	527	6
land and buildings	9	(1)
Write-downs and value adjustments on		
available-for-sale investments	(27)	(4)
held-to-maturity investments	—	—
companies accounted for using the equity method	(30)	(42)
shares in affiliated companies	(8)	(29)
land and buildings	(183)	(224)
Total	**671**	**69**

Gains of €217 million on the disposal of our holding in Münchener Rückversicherungs-Gesellschaft AG (2005: €208 million) represent the biggest item in the gains on the disposal of available-for-sale investments. Also included in the year under review are significant gains on the disposal of Babcock & Brown Limited (€55 million) and Deutsche Lufthansa AG (€40 million). In the previous year, we realised gains on the disposal of our holdings in Premiere AG (€63 million) and Rhön-Klinikum AG (€36 million). The gain on deconsolidation arising from the sale of the Activest companies (Activest Investmentgesellschaft mbH, Activest Investmentgesellschaft Schweiz AG and Activest Investmentgesellschaft Luxembourg S. A.) to Pioneer Global Asset Management S.p.A. totalled €543 million. The write-downs and value adjustments on land and buildings in 2006 include valuation expenses of €130 million arising from the disposal of a portfolio of non-strategic real estate announced by the Management Board of HVB AG on December 13, 2006.

Notes to the Income Statement continued

37 Other non-operating expenses

Expenses of €153 million arising from a change in the parameters used to calculate the fair value essentially of financial instruments classified as held for trading and at fair value through profit and loss are shown in a separate line in the income statement called "Other non-operating expenses" (changes in accounting estimates, compliant with IAS 8.32 et seq.). This involves an effect, which is non-recurrent in this magnitude, arising from the initial application of the fair-value discount which takes account of other factors influencing the calculation of the fair value and thus increases the quality of our conservative fair value calculation.

38 Income tax for the period

HVB GROUP NEW	2006 € millions	2005 € millions
Current taxes	(199)	(249)
Deferred taxes	324	235
Total	**125**	**(14)**

The income arising from deferred taxes is mainly attributable to valuation adjustments of deferred tax assets.

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Profit before tax	1,618	1,299
Applicable tax rate	26,4%	26,4%
Computed income taxes for the period	(427)	(343)
Tax effects		
arising from prior years and changes in tax rates	1	35
arising from foreign income	31	95
arising from non-taxable income	307	211
arising from different tax laws	133	139
arising from non-deductible expenses	(102)	(97)
arising from valuation adjustments and		
the non-recognition of deferred taxes	182	(299)
arising from amortisation of goodwill	0	0
arising from other differences	0	(3)
Recognised income taxes for the period	**125**	**(262)**

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 resulting from the deductibility of municipal trade tax. This item also includes the income from the capitalisation of the discounted corporate income tax credit.

The item effects on taxes arising from valuation adjustments and the non-recognition of deferred taxes contains the effects arising from the reduction and increase of deferred tax assets compliant with IAS 12.56 and IAS 12.37. In the previous year, it also included the effects due to the non-recognition of deferred tax assets due to tax losses carried forward and temporary differences in the current financial 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 recognised.

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Deferred tax liabilities		
Placements with, and loans advances to, other banks and customers, incl. provisions for losses on loans and advances	84	79
Assets/liabilities held for trading purposes	103	221
Investments	205	601
Property, plant and equipment/intangible assets	77	86
Other assets/liabilities	292	261
Deposits from other banks/amounts owed to other depositors	0	6
Other	55	74
Recognised deferred tax liabilities	**816**	**1,328**
Deferred tax assets		
Assets/liabilities held for trading purposes	367	588
Investments	177	262
Property, plant and equipment/intangible assets	60	53
Provisions	456	845
Other assets/liabilities	372	432
Placements with, and loans advances to, other banks and customers, incl. provisions for losses on loans and advances	132	95
Losses carried forward	579	556
Other	362	236
Recognised deferred tax assets	**2,505**	**3,067**

German corporations are generally charged a definitive corporate income tax rate of 25.0% (previous year: 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 total assessment rate for deferred taxes of 39.8% at HVB AG.

The available-for-sale reserve was reduced by €42 million due to deferred taxes in the year under review. Deferred tax assets of €124 million were offset against the hedge reserve in the current year. On account of the option set forth in IAS 19.93 A, deferred tax assets of €149 million were directly offset from shareholders' equity. 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 recognised for tax losses of the new HVB Group carried forward totalling €5,142 million (2005 HVB Group new: €5,290 million) and deductible temporary differences of €1,130 million (2005 HVB Group new: €1,104 million).

39 Income statement and earnings per share of discontinued operations

The following have been defined as discontinued operations: the BA-CA Group, HVB Bank Ukraine, IMB, AS UniCredit Bank, Riga, and the HVB AG branches in Tallinn and Vilnius.

Income statement of discontinued operations

€ millions	2006	2005
Net interest income	2,966	2,684
Net fees and commissions	1,715	1,475
Net trading, hedging and fair value income	462	280
Net other expenses/income	72	(11)
Total revenues	**5,215**	**4,428**
Operating costs	(2,905)	(2,723)
Operating profit	**2,310**	**1,705**
Provisions for risks and charges	(103)	(11)
Write-down on goodwill	—	—
Restructuring costs	(248)	(108)
Net write-downs of loans and provisions for guarantees and commitments	(728)	(503)
Net income from investments	2,499	323
Non-operating expenses	(31)	—
Profit before tax	**3,699**	**1,406**
Income tax for the period	(242)	(248)
Net profit	**3,457**	**1,158**
Minorities	(677)	(389)
Net profit	**2,780**	**769**

Notes to the Income Statement continued

The net profit (after taxes and minorities) of the discontinued operations totalling €2,780 million was heavily affected in 2006 by the non-recurring effects accruing at BA-CA, which yielded a net gain. Non-recurring effects of €1,868 million are included in the net profit before tax of €3,699 recorded for 2006. We have defined the following as non-recurring effects: the gains on the disposal of the Bank BPH Group (€1,756 million) and HVB Splitska banka (€669 million) recognised in net income from investments offset by restructuring costs of €248 million, non-recurring expense in net write-downs of loans and provisions for guarantees and commitments of €278 million due to changes in methods used and other non-operating expenses of €31 million. Non-recurring expenses of €178 million (restructuring costs of €108 million and additional provisions of €70 million for losses on loans and advances) were included in the previous year.

Adjusted for these items, the profit before tax for 2006 totalled €1,831 million, or €247 million higher than the adjusted previous-year figure of €1,584 million.

The operating profit of the discontinued operation rose by €605 million, or 35.5%, to €2,310 million. Almost €400 million of this increase is attributable to the BA-CA Group and €164 million to IMB. The increase in operating profit is a result of the 17.8% rise in total revenues. Operating costs rose by 6.7%. As a result of the lower net income from investments (adjusted for non-recurring effects) and the higher provisions for risks and charges, the good operating performance overall did not lead to a corresponding rise in the profit before tax adjusted for non-recurring effects.

Earnings per share of discontinued operations

	2006	2005
Earnings per share (€)	3.71	1.03
Earnings per share (adjusted, €)[1]	1.38	1.16

1 2006 figures adjusted for restructuring costs, additional write-downs of loans and provisions for guarantees and commitments, other non-operating expenses and the gain on disposal of HVB Splitska banka and Bank BPH
2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances

40 Earnings per share

FULL HVB GROUP	2006	2005
Net profit adjusted for minorities (€ millions)[1]	2,160	1,163
Average number of shares	750,699,140	750,699,140
Earnings per share (€)	5.89	0.86
Earnings per share (adjusted, €)[1]	2.88	1.55

1 2006 figures adjusted for the defined non-recurring effects
2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances

Notes to the Consolidated Balance Sheet

41 Cash reserve[1]

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Cash on hand and balances with central banks	3,191	7,269
Treasury bills and other bills eligible		
for refinancing with central banks	20	488
Treasury bills, zero-interest Treasury notes and		
similar instruments of public-sector entities	—	322
Bills of exchange	20	166
Total	**3,211**	**7,757**

1 cash and cash equivalents

42 Assets held for trading purposes

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Debt securities and other fixed-income securities	45,709	41,838
Money market instruments	667	1,594
Bonds and notes	45,042	40,244
issued by public-sector borrowers	5,521	7,651
issued by other borrowers	39,521	32,593
of which:		
Marketable securities	45,624	41,692
listed	40,280	36,387
unlisted	5,344	5,305
Equity securities and other variable-yield securities	19,917	11,663
Equity securities	16,493	9,833
Investment securities	3,288	1,697
Other	136	133
of which:		
Marketable securities	19,311	10,986
listed	19,276	10,899
unlisted	35	87
Positive fair values from derivative		
financial instruments	35,114	44,371
Other assets held for trading purposes	6,471	5,647
Total	**107,211**	**103,519**

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	243	1
Joint ventures	—	—
Associated companies	11	53
Other participating interests	91	20
Total	**345**	**74**

43 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	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Placements, loans and advances		
Municipal loans	478	1,436
Real estate loans	—	24
Other placements, loans and advances	17,549	21,035
Investments	**23,237**	**34,734**
Total	**41,264**	**57,229**

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Banks in Germany	17,641	16,235
Banks in other regions	23,623	40,994
Total	**41,264**	**57,229**

Notes to the Consolidated Balance Sheet continued

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Repayable on demand	12,919	13,459
With agreed maturities	28,345	43,770
up to 3 months	19,963	27,516
from 3 months to 1 year	1,928	7,331
from 1 year to 5 years	4,104	5,939
from 5 years and over	2,350	2,984
Total	**41,264**	**57,229**

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 €521 million.

Placements with, and loans and advances to, related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	5,442	399
Joint ventures	—	—
Associated companies	31	791
Other participating interests	46	73
Total	**5,519**	**1,263**

44 Loans and advances to customers

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Loans and advances		
Municipal loans	13,864	19,004
Real estate loans	87,841	111,514
Other loans and advances	65,363	140,093
Investments	**2,930**	**4,032**
Total	**169,998**	**274,643**

Loans and advances to customers in Germany and other regions

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Customers in Germany	136,054	154,175
Customers in other regions	33,944	120,468
Total	**169,998**	**274,643**

Loans and advances to customers, broken down by maturity

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Repayable on demand	13,658	23,423
With agreed maturities	156,340	251,220
up to 3 months	22,838	35,679
from 3 months to 1 year	11,999	18,774
from 1 year to 5 years	34,040	55,602
from 5 years and over	87,463	141,165
Total	**169,998**	**274,643**

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 €2,705 million.

Loans and advances to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	1,124	2,559
Joint ventures	9	10
Associated companies	123	254
Other participating interests	1,298	3,072
Total	**2,554**	**5,895**

Amounts receivable from lease operations (finance lease)

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Gross investment value (by remaining maturity)		
up to 3 months	155	470
from 3 months to 1 year	171	1,059
from 1 year to 5 years	435	3,116
from 5 years and over	24	3,309
Total gross investment	**785**	**7,954**
of which: unguaranteed residual values	—	1,147
Unrealised finance income (by remaining maturity)		
up to 3 months	(6)	(45)
from 3 months to 1 year	(21)	(139)
from 1 year to 5 years	(37)	(438)
from 5 years and over	(2)	(747)
Total unrealised finance income	**(66)**	**(1,369)**
Net investment (by remaining maturity)		
up to 3 months	149	425
from 3 months to 1 year	150	920
from 1 year to 5 years	398	2,678
from 5 years and over	22	2,562
Total net investment	**719**	**6,585**

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 realised by the lessor. The residual value of the leased asset is estimated at the inception of the lease.

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

Notes to the Consolidated Balance Sheet continued

45 Allowances for losses on loans and advances

Analysis of provisions for losses on loans and advances

€ millions	COUNTERPARTY RISK	PORTFOLIO ALLOWANCES	TOTAL
Balance at January 1, 2005 Full HVB Group	**12,924**	**480**	**13,404**
Changes affecting income			
Gross additions	2,705	502	3,207
Releases	(1,651)	(97)	(1,748)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	53	37	90
Use of existing loan-loss allowances	(2,328)	(306)	(2,634)
Effects of currency translation and other changes not affecting income	275	(24)	251
Non-current assets or disposal groups held for sale	(59)	—	(59)
Balance at December 31, 2005 Full HVB Group	**11,919**	**592**	**12,511**
Balance at January 1, 2006 Full HVB Group	**11,919**	**592**	**12,511**
Discontinued operations	(3,159)	(124)	(3,283)
Balance at January 1, 2006 HVB Group new	**8,760**	**468**	**9,228**
Changes affecting income			
Gross additions	1,592	281	1,873
Releases	(853)	(11)	(864)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	(397)	—	(397)
Use of existing loan-loss allowances	(3,569)	(267)	(3,836)
Effects of currency translation and other changes not affecting income	62	2	64
Non-current assets or disposal groups held for sale	—	—	—
Balance at December 31, 2006 HVB Group new	**5,595**	**473**	**6,068**

Breakdown of allowances for losses on loans and advances

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Placements with, and loans and		
advances to, other banks	102	169
Loans and advances to customers	5,493	11,750
Portfolio allowances	473	592
Total	**6,068**	**12,511**

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

Total volume of lending

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Placements with, and loans and		
advances to, other banks	18,027	22,495
Loans and advances to customers	167,068	270,611
Contingent liabilities arising from		
guarantees and indemnities	24,977	39,513
Total	**210,072**	**332,619**

Ratio of allowances to total lendings

	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Total allowances for losses on loans and advances (€ millions)	6,317	12,993
Allowances for losses on loans and advances (€ millions)	6,068	12,511
Allowances for losses on guarantees and indemnities (€ millions)	249	482
Total volume of lending (€ millions)	210,072	332,619
Provision rate[1] (%)	**3.01**	**3.91**

1 total allowances divided by total volume of lending

Net addition rate

	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Net write-downs of loans and provisions for guarantees and commitments (€ millions)	933	1,482
Total volume of lending (€ millions)	210,072	332,619
Net addition rate[1] (%)	**0.44**	**0.45**

1 net write-downs of loans and provisions for guarantees and commitments divided by total volume of lending

Loan-loss rate

	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Use of existing loan-loss allowances (€ millions)	3,836	2,634
+ Use of allowances for losses on guarantees and indemnities (€ millions)	3	14
– Recoveries from written-off loans and advances (€ millions)	90	87
Loan losses (€ millions)	3,749	2,561
Total volume of lending (€ millions)	210,072	332,619
Loan-loss rate[1] (%)	**1.78**	**0.77**

1 loan losses divided by total volume of lending

The increase in the loan-loss rate to 1.78% in the year under review arose largely in conjunction with the greater use of existing loan-loss allowances (loan defaults) relating to various portfolio disposals.

47 Investments

Analysis of investments

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Held-to-maturity investments		
Debt securities and other fixed-income securities	471	8,017
Available-for-sale investments	7,138	14,697
Non-consolidated subsidiaries	588	1,149
Participating interests	1,884	1,693
Debt securities and other fixed-income securities	2,700	7,491
Equity securities and other variable-yield securities	1,966	4,364
of which: long-term securities	1,413	3,788
Fair-value-option investments	11,728	21,136
Debt securities and other fixed-income securities	11,613	19,134
Equity securities and other variable-yield securities	115	2,002
Companies accounted for using the equity method	35	1,036
of which: goodwill	—	83
Investment property	473	533
Total	**19,845**	**45,419**

Breakdown of carrying amounts at December 31, 2006

HVB GROUP NEW € 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	22	—	996	14,127	1,476	16,621
listed securities	22	—	846	13,338	855	15,061
unlisted securities	—	—	150	789	621	1,560

€2,832 million of the debt securities and other fixed-income securities mature in 2007.

Notes to the Consolidated Balance Sheet continued

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		INVESTMENT PROPERTY	TOTAL
			TOTAL	OF WHICH: GOODWILL		
Acquisition cost						
Balance at Jan. 1, 2006						
Full HVB Group	1,844	2,094	949	83	895	5,782
Balance at Jan. 1, 2006						
Discontinued operations	(1,041)	(211)	(815)	(83)	(333)	(2,400)
Balance at Jan. 1, 2006						
HVB Group new	803	1,883	134	—	562	3,382
Changes in consolidated group	71	152	—	—	1,156	1,379
Changes arising from foreign						
currency translation	(2)	—	—	—	—	(2)
Additions	20	228	—	—	4	252
Reclassifications	89	(3)	—	—	14	100
Disposals	(220)	(232)	—	—	(136)	(588)
Non-current asstes or						
disposal groups held for sale	—	(1)	—	—	(676)	(677)
Balance at Dec. 31, 2006						
HVB Group new	761	2,027	134	—	924	3,846
Changes in valuation not affecting income						
Balance at Jan. 1, 2006						
Full HVB Group	11	431	—	—	—	442
Balance at Jan. 1, 2006						
Discontinued operations	(11)	(24)	—	—	—	(35)
Balance at Jan. 1, 2006						
HVB Group new	—	407	—	—	—	407
Changes in consolidated group	—	—	—	—	—	—
Changes arising from foreign						
currency translation	—	—	—	—	—	—
Changes in value not affecting income	8	224	—	—	—	232
Reclassifications	—	—	—	—	—	—
Disposals	—	(53)	—	—	—	(53)
Non-current asstes or						
disposal groups held for sale	—	—	—	—	—	—
Balance at Dec. 31, 2006						
HVB Group new	8	578	—	—	—	586

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		INVESTMENT PROPERTY	TOTAL
			TOTAL	OF WHICH: GOODWILL		
Cumulative change arising from						
accounting using the equity method,						
full HVB Group						
Balance at Jan. 1, 2006						
Full HVB Group	—	—	159	—	—	159
Balance at Jan. 1, 2006						
Discontinued operations	—	—	(155)	—	—	(155)
Balance at Jan. 1, 2006						
HVB Group new	—	—	4	—	—	4
Write-downs and write-ups						
Balance at Jan. 1, 2006						
Full HVB Group	(706)	(832)	(72)	—	(362)	(1,972)
Balance at Jan. 1, 2006						
Discontinued operations	303	73	1	—	119	496
Balance at Jan. 1, 2006						
HVB Group new	(403)	(759)	(71)	—	(243)	(1,476)
Changes in consolidated group	(46)	—	—	—	(451)	(497)
Changes arising from foreign						
currency translation	2	(1)	(2)	—	1	—
Write-downs	(8)	(7)	(30)	—	(186)	(231)
Write-ups	—	—	—	—	11	11
Reclassifications	92	—	—	—	(4)	88
Disposals	182	46	—	—	59	287
Non-current assets or						
disposal groups held for sale	—	—	—	—	362	362
Balance at Dec. 31, 2006						
HVB Group new	(181)	(721)	(103)	—	(451)	(1,456)
Carrying amounts						
Balance at Dec. 31, 2005						
Full HVB Group	1,149	1,693	1,036	83	533	4,411
Balance at Dec. 31, 2006						
HVB Group new	588	1,884	35	—	473	2,980

Notes to the Consolidated Balance Sheet continued

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	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Debt securities and other fixed-income securities	14,784	34,642
Money market instruments	38	1,731
Bonds and notes	14,746	32,911
issued by public-sector borrowers	7,492	14,543
issued by other borrowers	7,254	18,368
Equity securities and other variable-yield securities	2,081	6,366
of which:		
Equity securities	871	2,109
Investment securities	1,184	2,575

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	—	9
Joint ventures	—	—
Associated companies	96	131
Other participating interests	—	123
Total	**96**	**263**

Fair value of investments

The fair value of investment property in the new HVB Group totalled €516 million (2005: €562 million, full HVB Group). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods.

The fair value of major investments in listed non-banks totals €1.6 billion. The comparison with the carrying amount gives rise to a price reserve of around €0.5 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

	2006		2005	
	INTEREST[1] in %	MARKET VALUE € millions	INTEREST[1] in %	MARKET VALUE € millions
Agrob AG	52.7	22	52.7	22
Babcock & Brown Ltd.	4.9	179	8.4	206
ERGO Versicherungsgruppe Aktiengesellschaft	<5.0	527	<5.0	400
Köhler & Krenzer Fashion AG	<50.0	13	<50.0	18
Münchener Rückversicherungs-Gesellschaft AG	2.2	659	4.9	1,281
Nordex AG	4.3	38	5.7	17
Wüstenrot & Württembergische AG	7.5	140	7.5	94
HVB Group new		**1,578**		**2,038**
Discontinued operations				
Unternehmens Invest AG[2]	13.0	9	13.0	6
Wienerberger AG	0.6	21	5.2	132
Full HVB Group		**1,608**		**2,176**

1 aggregate total
2 sold in 2007

Where percentages are shown with <, the figure stated has been rounded.
Thus <50.0% corresponds to 49.99%, for instance.

48 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, 2006					
Full HVB Group	3,340	2,325	77	53	5,795
Balance at Jan. 1, 2006					
Discontinued operations	(1,088)	(1,032)	(77)	(44)	(2,241)
Balance at Jan. 1, 2006					
HVB Group new	2,252	1,293	—	9	3,554
Changes in consolidated group	149	(13)	—	—	136
Changes arising from foreign currency translation	—	(6)	—	—	(6)
Additions	8	89	—	2	99
Reclassifications	(17)	5	—	(8)	(20)
Disposals	(58)	(179)	—	—	(237)
Non-current assets or disposal groups held for sale	(56)	(7)	—	(1)	(64)
Balance at Dec. 31, 2006					
HVB Group new	2,278	1,182	—	2	3,462
Depreciation and write-ups					
Balance at Jan. 1, 2006					
Full HVB Group	(1,296)	(1,739)	(35)	(2)	(3,072)
Balance at Jan. 1, 2006					
Discontinued operations	299	753	35	1	1,088
Balance at Jan. 1, 2006					
HVB Group new	(997)	(986)	—	(1)	(1,984)
Changes in consolidated group	(46)	13	—	—	(33)
Changes arising from foreign currency translation	—	3	—	—	3
Scheduled depreciation	(50)	(92)	—	—	(142)
Non-scheduled depreciation	(22)	(3)	—	—	(25)
Write-ups	—	—	—	—	—
Reclassifications	10	1	—	—	11
Disposals	39	174	—	—	213
Non-current assets or disposal groups held for sale	37	4	—	1	42
Balance at Dec. 31, 2006					
HVB Group new	(1,029)	(886)	—	—	(1,915)
Carrying amounts					
Balance at Dec. 31, 2005					
Full HVB Group	2,044	586	42	51	2,723
Balance at Dec. 31, 2006					
HVB Group new	1,249	296	—	2	1,547

Notes to the Consolidated Balance Sheet continued

49 Intangible assets

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

Analysis of intangible assets

€ millions	GOODWILL FROM SUBSIDIARIES	SOFTWARE OF WHICH: ACQUIRED	SOFTWARE OF WHICH: INTERNALLY-GENERATED	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS FOR INTANGIBLE ASSETS
Acquisition/production cost					
Balance at Jan. 1, 2006					
Full HVB Group	3,956	884	511	206	327
Discontinued operations at Jan. 1, 2006	(2,865)	(417)	(202)	(152)	(39)
Balance at Jan. 1, 2006					
HVB Group new	1,091	467	309	54	288
Changes in consolidated group	—	(44)	—	(49)	—
Changes arising from foreign currency translation	—	(1)	(1)	—	—
Additions	—	30	17	—	52
Reclassifications	—	80	144	—	(224)
Disposals	—	(33)	(118)	—	(1)
Non-current assets or disposal groups held for sale	(5)	(6)	—	—	—
Balance at Dec. 31, 2006					
HVB Group new	1,086	493	351	5	115
Amortisation, write-downs and write-ups					
Balance at Jan. 1, 2006					
Full HVB Group	(1,901)	(686)	(305)	(120)	(96)
Discontinued operations at Jan. 1, 2006	1,234	349	104	86	—
Balance at Jan. 1, 2006					
HVB Group new	(667)	(337)	(201)	(34)	(96)
Changes in consolidated group	—	43	—	35	—
Changes arising from foreign currency translation	—	1	—	—	—
Scheduled amortisation and write-downs	—	(65)	(73)	(2)	—
Non-scheduled amortisation and write-downs	—	(3)	—	—	—
Write-ups	—	—	—	—	—
Reclassifications	—	—	(88)	—	88
Disposals	—	31	118	—	1
Non-current assets or disposal groups held for sale	3	4	—	—	—
Balance at Dec. 31, 2006					
HVB Group new	(664)	(326)	(244)	(1)	(7)
Carrying amounts					
Balance at Dec. 31, 2005					
Full HVB Group	2,055	198	206	86	231
Balance at Dec. 31, 2006					
HVB Group new	422	167	107	4	108

50 Income tax assets

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Current tax assets	240	224
Deferred tax assets	2,505	3,067
Total	**2,745**	**3,291**

51 Other assets

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Positive fair values arising from derivative financial instruments	1,258	3,118
Miscellaneous other assets	1,606	2,117
Prepaid expenses	157	338
Total	**3,021**	**5,573**

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.

52 Balance sheet at December 31, 2006, HVB Group new (pro forma)

	Dec. 31, 2006	Dec. 31, 2005	CHANGE	
Assets	€ millions	€ millions	€ millions	in %
Cash reserve	3,211	3,557	(346)	(9.7)
Assets held for trading purposes	107,211	88,601	+ 18,610	+ 21.0
Placements with, and loans and advances to, other banks	54,977	48,897	+ 6,080	+ 12.4
Loans and advances to customers	169,998	185,241	(15,243)	(8.2)
Allowances for losses on loans and advances	(6,068)	(9,228)	+ 3,160	+ 34.2
Investments	19,845	26,981	(7,136)	(26.4)
Property, plant and equipment	1,547	1,568	(21)	(1.3)
Intangible assets	808	947	(139)	(14.7)
Income tax assets	2,745	2,274	+ 471	+ 20.7
Other assets	3,021	2,820	+ 201	+ 7.1
Non-current assets or disposal groups held for sale	1,004	—	+ 1,004	+ 100.0
Total assets	**358,299**	**351,658**	**+ 6,641**	**+ 1.9**

Notes to the Consolidated Balance Sheet continued

Liabilities	Dec. 31, 2006 € millions	Dec. 31, 2005 € millions	CHANGE € millions	in %
Deposits from other banks	85,672	72,465	+ 13,207	+ 18.2
Amounts owed to other depositors	92,136	93,381	(1,245)	(1.3)
Promissory notes and other liabilities evidenced by paper	76,938	83,784	(6,846)	(8.2)
Liabilities held for trading purposes	59,962	59,775	+ 187	+ 0.3
Provisions	1,683	1,522	+ 161	+ 10.6
Income tax liabilities	1,439	1,347	+ 92	+ 6.8
Other liabilities	5,214	5,636	(422)	(7.5)
Subordinated capital	12,142	13,243	(1,101)	(8.3)
Liabilities of disposal groups held for sale	1,242	—	+ 1,242	+ 100.0
Shareholders' equity	21,871	20,505	+ 1,366	+ 6.7
Shareholders' equity attributable to shareholders of HVB AG	21,019	19,650	+ 1,369	+ 7.0
Minority interest	852	855	(3)	(0.4)
Total shareholders' equity and liabilities	**358,299**	**351,658**	**+ 6,641**	**+ 1.9**

The following assumptions were applied when preparing the pro forma balance sheets for the new HVB Group at the reporting dates of December 31, 2005 and December 31, 2006:

– To simplify things, it was assumed in the pro forma views at the two reporting dates of December 31, 2005 and December 31, 2006 that the gains on disposal determined on the day of the Extraordinary Meeting of Shareholders on October 25, 2006 would also have been realisable on these two reporting dates. Moreover, costs to sell were disregarded in each case.

– Any effects from reinvesting the gains on disposal in the balance sheet and income statement are not included in the pro forma view, as no definite decisions had been made with regard to possible reinvestment and hence no concrete earnings expectations can be assumed. The effects of these transactions are not shown in the income statement for the same reasons.

– Under applicable German tax law, the gain on disposal arising from the sale of shareholdings is not subject to corporate income tax, solidarity surcharge or municipal trade tax. An amount of 5% of the gain on disposal is classified as a non-deductible operating expense and is consequently subject to corporate income plus solidarity surcharge and municipal trade tax. The gain on the disposal of the foreign branch in Vilnius, Lithuania, is subject to an income tax charge of 19%, while the gain on the disposal of the foreign branch in Riga, Latvia, is subject to an income tax charge of 24%. The tax charges have been allocated to the tax provision.

– As HVB Group exercised in the first quarter of 2006 the new option in the revised IAS 19.93A "Employee benefits" to be applied retroactively permitting unrealised actuarial gains or losses to be carried in shareholders' equity outside the profit or loss for the period, the comparison values for the previous years and the statement of changes in shareholders' equity have been adjusted accordingly.

53 Assets of discontinued operations

€ millions	Dec. 31, 2006
Assets	
Cash reserve	2,874
Assets held for trading purposes	17,188
Placements with, and loans and advances to, other banks	32,694
Loans and advances to customers	88,504
Allowances for losses on loans and advances	(2,755)
Investments	18,296
Property, plant and equipment	915
Intangible assets	1,984
Income tax assets	1,022
Other assets	2,725
Total assets	**163,447**

54 Non-current assets or disposal groups held for sale

Compliant with IFRS 5, non-current assets held for sale and the assets of a disposal group held for sale are shown separately in the balance sheet. This item contains the following:

– HVB Payments & Services (PAS)
  The Bank's PAS payments subsidiary was sold to Postbank with effect from January 1, 2007. Under the terms of the deal, Postbank took over the handling of payments for HVB.

– On December 13, 2006, the Management Board of HVB AG announced the sale to Värde Partners, Inc., of a portfolio of non-strategic real estate carried under investments. Consequently, this real estate portfolio is classified as held for sale compliant with IFRS 5. A valuation expense of €130 million carried in net income from investments was incurred in this context, which IFRS 5.41c requires to be disclosed.

– In addition, various other investment properties previously carried under investments have been classified as held for sale. This is also the case for individual buildings which were carried under property, plant and equipment on account of their predominant use for bank operations.

– A resolution was adopted in the fourth quarter of 2006 to sell the Bank's Nordinvest, Norddeutsche Investment-Gesellschaft mbH (Nordinvest), Hamburg, subsidiary. On January 31, 2007, HVB AG and Pioneer Global Asset Management S.p.A. (PGAM) agreed on a sale to PGAM. The goal is integrate Nordinvest into the Pioneer Investments Group.

– On November 7, 2006, HVB AG announced that it had reached agreement with Barclays Bank PLC on the sale of Indexchange AG for €240 million.

– As HVB Group companies concentrate on their respective core competencies, HVB Banque Luxembourg S. A., Luxembourg, will cease to offer depositary banking services from the middle of 2007 in accordance with a resolution adopted during the year under review. Consequently, the balance sheet totals relating to its depositary banking activities have been classified as held for sale.

€ millions	Dec. 31, 2006
Assets	
Cash reserve	—
Assets held for trading purposes	—
Placements with, and loans and advances to, other banks	3
Loans and advances to customers	614
Allowances for losses on loans and advances	—
Investments	343
Property, plant and equipment	22
Intangible assets	4
Income tax assets	5
Other assets	13
Total assets	**1,004**

Notes to the Consolidated Balance Sheet continued

55 Subordinated assets

The following asset items include subordinated assets:

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Placements with, and loans and advances to, other banks	**1,377**	**2,690**
of which:		
to non-consolidated subsidiaries	96	26
to joint ventures	—	—
to associated companies	—	2
to other participating interests	—	—
Loans and advances to customers	**494**	**791**
of which:		
to non-consolidated subsidiaries	—	5
to joint ventures	—	—
to associated companies	—	—
to other participating interests	—	—
Assets held for trading purposes	**2,433**	**1,777**
Investments	**328**	**910**
Total	**4,632**	**6,168**

56 Repurchase agreements

As a seller under repurchase agreements, the new HVB Group entered into sales and repurchase transactions for securities with a carrying amount of €27.0 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 72 "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.

57 Securitisation

Securitisation 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 securitisation programmes is the desire to reduce the risk in the Bank's loan portfolio and to achieve the optimum capital allocation for creating value. The transfer of risk and the ensuing reduction in capital requirements is achieved by collateralisation in the form of guarantees or credit derivatives (credit default swaps, credit-linked notes and so on) in the case of synthetic securitisation, and by selling balance sheet assets (true sale) in the case of traditional securitisation.

The full HVB Group continued its securitisation activities in 2006 with two new transactions: Provide A 2006-1 and Promise XXS 2006-1. The corresponding volume of lending newly outplaced totalled €7.0 billion at year-end, serving to reduce €5.7 billion from risk-weighted assets in accordance with the German Banking Act. At the same time, the Amadeus, Lombard Sec. No. 1, Promise A 2000-1, Promise A 2002-1 and Promise Austria 2002-1 transactions expired during 2006 with an aggregate lending volume of €1.8 billion. This resulted in the reversal of a reduction of €1.6 billion in risk-weighted assets compliant with the German Banking Act.

At December 31, 2006, the total volume of lending in the full HVB Group's full set of ongoing securitisation programmes totalled €30.0 billion (2005: €28.9 billion), serving to deduct €21.4 billion (2005: €19.4 billion in accordance with the German Banking Act) from risk-weighted assets in accordance with the German Banking Act.

With the true sale transactions which have been carried out, namely
GELDILUX-TS-2005 S.A.,
GELDILUX-TS-2003 S.A.,
and SUCCESS-2005 B.V. (Bank Austria Creditanstalt Leasing GmbH), the underlying receivables with a carrying amount of €6.5 billion are still fully shown in the balance sheet in accordance with the elemination regulations of IAS 39. The carrying amount of the associated liabilities in accordance with IAS 39.94 is €6.5 billion.

As a rule, the originator of securitisation programmes retains a small slice of the risk in the form of a first loss piece or an interest subparticipation.

The Bank sold this lowest ranking tranche in the two new transactions Provide A 2006-1 and Promise XXS 2006-1.

In the programmes listed below, the first loss pieces total €203 million and the interest subparticipations €115 million.

ISSUER HVB GROUP NEW	TRANSACTION NAME	LEGAL TRANSACTION MATURITY Transaction call date	TYPE OF ASSET SECURITISED	TOTAL VOLUME OF LENDING € millions	REDUCTION IN RISK-WEIGHTED ASSETS COMPLIANT WITH THE GERMAN BANKING ACT[1] € millions
Bayerische Hypo- und Vereinsbank AG	Amadeus	July 1, 2038 June 28, 2006	Securities portfolio		expired in June 2006
Bayerische Hypo- und Vereinsbank AG	PROMISE-A 2000-1	Feb. 28, 2011 May 30, 2006	Corporate loans		expired in May 2006
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2001-1	Dec. 27, 2039 Dec. 27, 2007	Private mortgage loans	393	370
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2002-1	July 23, 2054 Jan. 18, 2009	Private mortgage loans	2,866	1,162
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2003-1	Oct. 31, 2054 Jan. 23, 2009	Private mortgage loans	2,858	1,156
Bayerische Hypo- und Vereinsbank AG	PROMISE-A 2002-1	July 28, 2012 April 28, 2006	Corporate loans		expired in April 2006
Bayerische Hypo- und Vereinsbank AG	LOMBARD Sec. No. 1	May 15, 2017 Feb. 15, 2006	Corporate loans		expired in March 2006
Bayerische Hypo- und Vereinsbank AG	PROMISE COLOR 2003-1	Feb. 28, 2016 Feb. 28, 2008	Corporate loans	450	419
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2003-1	July 28, 2055 Oct. 28, 2009	Private mortgage loans	2,129	1,386
Bayerische Hypo- und Vereinsbank AG	PROMISE-XXS 2003-1	Sept. 28, 2015 June 28, 2007	Corporate loans	792	720
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2004-1	Nov. 27, 2045 Feb. 27, 2010	Private mortgage loans	2,419	1,497
HVB Banque Luxembourg S. A.	GELDILUX-TS-2003-1	June 15, 2009 Jan. 15, 2007	Euroloans	562	522
Total for 1998–2003 HVB Group new				**12,469**	**7,232**
Bayerische Hypo- und Vereinsbank AG	Wolfgang	Dec. 31, 2040 Jan. 1, 2008	Securities portfolio	505	340
Total for 2004 HVB Group new				**505**	**340**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2005-1	Aug. 25, 2048 Feb. 25, 2011	Private mortgage loans	4,146	2,570
HVB Banque Luxembourg S. A.	GELDILUX-TS-2005-1	Dec. 10, 2012 Series 1: July 10, 2008 Series 2: Jan. 10, 2009 Series 3: July 10, 2010	Euroloans	5,488	5,184
Total for 2005 HVB Group new				**9,634**	**7,754**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2006-1	Aug. 25, 2048 May 1, 2012	Private mortgage loans	2,843	1,851
Bayerische Hypo- und Vereinsbank AG	PROMISE-XXS 2006-1	May 12, 2024 Aug. 12, 2012	Corporate loans	3,065	2,862
Total for 2006 HVB Group new				**5,908**	**4,713**

Notes to the Consolidated Balance Sheet continued

ISSUER HVB GROUP NEW	TRANSACTION NAME	LEGAL TRANSACTION MATURITY Transaction call date	TYPE OF ASSET SECURITISED	TOTAL VOLUME OF LENDING € millions	REDUCTION IN RISK-WEIGHTED ASSETS COMPLIANT WITH THE GERMAN BANKING ACT[1] € millions
Discontinued operations					
Bank Austria Creditanstalt AG	PROMISE Austria-2002	Feb. 28, 2013 May 29, 2006	Corporate loans		expired in May 2006
Bank Austria Creditanstalt Leasing GmbH	Success-2005 B.V.	July 15, 2015 Oct. 15, 2010	Leasing receivables	425	425
Bank Austria Creditanstalt AG	PROMISE XXS-2006-1	May 12, 2024 Aug. 12, 2012		1,074	951
Total discontinued operations				**1,499**	**1,376**
Full HVB Group				**30,015**	**21,415**

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

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

58 Deposits from other banks

Deposits from other banks in Germany and other regions

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Banks in Germany	33,690	37,497
Banks in other regions	51,982	76,242
Total	**85,672**	**113,739**

Deposits from other banks, broken down by maturity

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Repayable on demand	20,420	16,394
With agreed maturities	65,252	97,345
up to 3 months	49,263	65,965
from 3 months to 1 year	4,944	7,304
from 1 year to 5 years	5,075	9,562
from 5 years and over	5,970	14,514
Total	**85,672**	**113,739**

Amounts owed to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	16,191	2,699
Joint ventures	—	311
Associated companies	7	10,730
Other participating interests	155	136
Total	**16,353**	**13,876**

59 Amounts owed to other depositors

Amounts owed to other depositors in Germany and other regions

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Customers in Germany	74,527	75,326
Customers in other regions	17,609	83,095
Total	**92,136**	**158,421**

Amounts owed to other depositors, broken down by maturity –
Savings deposits and home-loan savings deposits

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
With agreed maturities		
up to 3 months	13,696	21,102
from 3 months to 1 year	105	3,166
from 1 year to 5 years	723	5,576
from 5 years and over	1,270	6,867
Total	**15,794**	**36,711**

Other liabilities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Repayable on demand	40,114	65,303
With agreed maturities	36,228	56,407
up to 3 months	26,366	37,117
from 3 months to 1 year	2,033	7,013
from 1 year to 5 years	2,871	4,781
from 5 years and over	4,958	7,496
Total	**76,342**	**121,710**

Amounts owed to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	1,120	1,632
Joint ventures	1	3
Associated companies	6	138
Other participating interests	3,270	2,933
Total	**4,397**	**4,706**

60 Promissory notes and other liabilities evidenced by paper

Promissory notes and other liabilities evidenced by paper,
broken down by type of business

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Debt securities in issue	58,238	83,305
Mortgage bonds	26,066	31,047
Public-sector bonds	2,918	5,042
Other debt securities	28,819	46,194
Money market instruments	435	1,022
Registered notes in issue	18,689	21,477
Mortgage bonds	14,463	16,201
Public-sector bonds	4,135	5,212
Other debt securities	91	64
Other promissory notes and liabilities evidenced by paper	11	1,200
Total	**76,938**	**105,982**

Promissory notes and other liabilities evidenced by paper,
broken down by maturity

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
With agreed maturities		
up to 3 months	12,134	14,487
from 3 months to 1 year	11,613	19,683
from 1 year to 5 years	32,475	42,956
from 5 years and over	20,716	28,856
Total	**76,938**	**105,982**

Promissory notes and other liabilities evidenced by paper,
payable to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	1,388	1,668
Joint ventures	—	—
Associated companies	39	52
Other participating interests	31	104
Total	**1,458**	**1,824**

Notes to the Consolidated Balance Sheet continued

61 Liabilities held for trading purposes

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Negative fair values arising from derivative financial instruments	36,964	45,253
Other liabilities held for trading purposes	22,998	18,385
Total	**59,962**	**63,638**

The negative fair values arising from derivative financial instruments are carried as liabilities held for trading purposes. Also included under other liabilities held for trading purposes 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.

62 Provisions

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Provisions for pensions and similar commitments	190	3,905
Allowances for losses on guarantees and indemnities	249	482
Restructuring provisions	243	564
Other provisions	1,001	721
including:		
long-term liabilities to employees	106	126
Total	**1,683**	**5,672**

Provisions for pensions, HVB Group new

The provisions for pensions and similar obligations include the direct commitments to HVB Group 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 organisations. The pension obligations funded through pension funds or retirement benefit corporations with matching cover are recognised 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 totalled €71 million (2005: €98 million).

For the purpose of calculating the amounts of these commitments, the valuation parameters of the HVB Group were unchanged:

in %	Dec. 31, 2006/ Jan. 1, 2007	Dec. 31, 2005/ Jan. 1, 2006
Interest rate	4.25	4.25
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	2.0
Rate of increase over career	0–1.5	0–1.5

Funding status

€ millions	2006 HVB GROUP NEW
Present value of unfunded pension commitments	134
Present value of funded pension commitments	2,399
Outstanding actuarial loss	—
Fair value of plan assets	(2,343)
Capitalised excess cover of plan assets	—
Recognised pension provisions	**190**

With effect from January 1, 2006, HVB Group has exercised the new option in the revised IAS 19.93 A "Employee benefits" permitting unrealised actuarial gains or losses to be carried in shareholders' equity outside the profit or loss for the period.

Movements in provisions for pension plans shown in the balance sheet are as follows:

€ millions	2006
Balance at Jan. 1, 2006 before change in IAS 19 Full HVB Group	2,797
Effect of initial application of amended IAS 19	1,108
Balance at Jan. 1, 2006 before change in IAS 19 Full HVB Group	3,905
– discontinued operation at Jan. 1, 2006	3,653
Balance at January 1, 2006 HVB Group new	252
Pension expense	52
Payments affecting liquidity	(100)
Allocations to plan assets	—
Excess cover for plan assets	—
Range for treatment not affecting income	(12)
Changes in consolidated group	13
Changes arising from foreign currency translation	—
Non-current assets or disposal groups	
held for sale	(15)
Balance at Dec. 31, 2006 HVB Group new	190

The following table shows the breakdown of pension expense:

€ millions	2006 HVB GROUP NEW
Present value of the pension claims vested	
in the year under review	43
Interest expense	107
Expected income from plan assets	(113)
Losses from changes to plans	15
Total	**52**

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	2006 HVB GROUP NEW
Receivables from (secured by) HVB AG	1
Investment securities	2,342
Fixed-income securities	—
Total	**2,343**

The following table shows the development of the plan assets in the year under review:

€ millions	2006 HVB GROUP NEW
Balance at Jan. 1, 2006	**2,255**
Plan assets of pension plans included for the first time	—
Allocations to plan assets	—
Actual income from plan assets	113
Disbursements to beneficiaries	(95)
Additional allocations in the form of benefits not taken	99
Changes in exchange rates	(2)
Changes in consolidated group	(12)
Non-current assets or disposal groups	
held for sale	(15)
Balance at Dec. 31, 2006	**2,343**

Related party relationships with regard to pension plans

€ millions	2006 HVB GROUP NEW
Funding body for pension plans in the form of	
defined contribution plans	
Placements, loans and advances	—
Allowances for losses on loans and advances	—
Liabilities	28
Net write-downs of loans and provisions for	
guarantees and commitments	—
Funding body for pension plans in the form of	
defined benefit plans	
Placements, loans and advances	—
Allowances for losses on loans and advances	—
Liabilities	40
Net write-downs of loans and provisions for	
guarantees and commitments	—

Notes to the Consolidated Balance Sheet continued

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, 2006 Full HVB Group	**482**	**564**	**721**
Discontinued operations	(150)	(112)	(232)
Balance at Jan. 1, 2006 HVB Group new	**332**	**452**	**489**
Changes in consolidated group	(1)	(41)	350
Changes arising from foreign currency translation	—	—	—
Transfers to provisions	67	26	264
Reversals	(41)	(11)	(63)
Reclassifications	(105)	(61)	29
Amounts used	(3)	(101)	(66)
Non-current assets or disposal groups held for sale	—	(21)	(2)
Balance at Dec. 31, 2006 HVB Group new	**249**	**243**	**1,001**

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 be used in 2007 and 2008 following the partial use in 2006.

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.

63 Income tax liabilities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Current tax liabilities	562	563
Deferred tax liabilities	816	1,328
Total	**1,378**	**1,891**

64 Other liabilities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Negative fair values arising from derivative		
financial instruments	1,569	3,783
Miscellaneous other liabilities	3,415	5,233
Deferred income	230	390
Total	**5,214**	**9,406**

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.

65 Subordinated capital

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Subordinated liabilities	8,514	11,990
Participating certificates outstanding	619	1,830
Hybrid capital instruments	3,009	3,792
Total	**12,142**	**17,612**

Subordinated capital, broken down by maturity

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
With agreed maturities		
up to 3 months	570	459
from 3 months to 1 year	473	549
from 1 year to 5 years	6,022	7,661
from 5 years and over	5,077	8,943
Total	**12,142**	**17,612**

Pursuant to Section 10 (4, 5 and 5a) 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) was carried as core capital, supplementary capital and tier III capital in 2006.

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 liabilities are only repaid after the claims of all primary creditors have been settled.

The Bank incurred interest expenses of €534 million in connection with subordinated liabilities. This item includes proportionate interest of €162 million.

There were no subordinated liabilities payable to related entities in 2006.

Participating certificates outstanding

The participating certificates outstanding comprise the following major issues:

ISSUER	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT, € millions	INTEREST RATE	MATURITY
Bayerische Hypo- und Vereinsbank AG	1997	Bearer participating certificates	409	6.75	2007
Bayerische Hypo- und Vereinsbank AG	2001	Bearer participating certificates	100	6.30	2011

Notes to the Consolidated Balance Sheet continued

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.

If there is a reduction in the amount paid to the holders, the amount which is reduced has to be subsequently paid in the following financial years – as long as such payment does not result in a net loss. However, holders are only entitled to such subsequent payments during the life of the participating certificates.

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

Hybrid capital instruments

At December 31, 2006, the new HVB Group had hybrid core capital of €2,707 million (compliant with the German Banking Act) to bolster its capital base.

Hybrid capital instruments include issues placed by specially-created subsidiaries in the form of capital contributions from silent partners or preferred shares.

These instruments differ from supplementary capital in that they are subject to more stringent conditions in terms of maturity. The terms of issue for capital contributions from silent partners envisage a minimum term of ten years, while an unlimited term has been agreed with the investors for preferred shares. In addition, hybrid capital instruments are not repaid until after supplementary capital (subordinated liabilities and participating certificates outstanding) in the event of bankruptcy.

In contrast to traditional components of core capital such as shares, the claim to a share of profit takes the form of a fixed interest payment in the case of hybrid capital. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long term.

Both the German Banking Supervisory Authority and the Basel Committee on Banking Supervision have expressly confirmed the recognition of hybrid capital for banking supervisory purposes.

66 Liabilities of discontinued operation

The following table shows the breakdown of the liabilities of discontinued operations:

€ millions	2006
Deposits from other banks	50,495
Amounts owed to other depositors	59,641
Promissory notes and other liabilities evidenced by paper	21,898
Liabilities held for trading purposes	5,237
Provisions	4,521
Income tax liabilities	655
Other liabilities	3,597
Subordinated capital	5,634
Total liabilities	**151,678**

67 Liabilities of disposal groups held for sale

The following table shows the breakdown of the disposal group held for sale:

€ millions	2006
Deposits from other banks	8
Amounts owed to other depositors	1,176
Liabilities held for trading purposes	—
Provisions	37
Income tax liabilities	1
Other liabilities	20
Total liabilities	**1,242**

68 Shareholders' equity

Analysis of subscribed capital, authorised capital increase and conditional capital of HVB AG

Breakdown of subscribed capital

At December 31, 2006, the subscribed capital of HVB AG totalled €2,252 million (2005: €2,252 million) and consisted of the following:

	2006	2005
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 on a cumulative basis, as well as a further share in profits of the same amount as the shares of common stock. The claim to payment on a cumulative basis 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.

Authorised capital increase

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT DEC 31, 2006 € millions
2004	April 29, 2009	990	990

The resolution adopted at the Annual General Meeting of Shareholders 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 was entered in the Commercial Register on December 18, 2006.

Conditional capital

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT DEC 31, 2006 € millions
2003	May 14, 2008	375	375

69 Treasury stock

At December 31, 2006, neither HVB AG 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.

Compliant with Section 71 (1) No. 7 of the German Stock Corporation Act, the purchase of treasury stock during the reporting period from January 1 to May 23, 2006 was carried out on the basis of the authorisation issued under the resolutions passed at the Bank's Annual General Meeting of Shareholders on May 12, 2005; the purchase of treasury stock during the period from May 24 to December 31, 2006 was carried out on the basis of the authorisation issued under the resolutions passed at the Bank's Annual General Meeting of Shareholders on May 23, 2006.

For the purposes of securities trading as permitted under Section 71 (1) No. 7 of the German Stock Corporation Act, a total of 3,625,295 shares of treasury stock were purchased by HVB AG and controlled or majority-owned companies at the respective current market prices as part of normal securities trading, and a total of 3,201,833 shares of treasury stock were sold at the respective current market prices.

The treasury stock was purchased at an average price of €30.27 per share and resold at an average price of €30.51 per share. The shares purchased during the period under review amounted to an equivalent of €11 million, or 0.5% of capital stock.

The highest number of shares of treasury stock held by the Bank on any given day during the reporting period was 81,368, equivalent to €0.2 million or 0.01% of capital stock.

Within the scope of lending operations, the Bank and its controlled or majority-owned companies had, in accordance with Section 71e (1) 2 of the German Stock Corporation Act, received a total of 76,175 treasury shares as collateral as of December 31, 2006. This represents €0.2 million, or 0.01% of capital stock.

70 Foreign currency assets and liabilities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Foreign currency assets[1]	62,846	116,933
of which:		
US dollars	42,718	51,852
Japanese yen	4,666	8,732
Swiss francs	5,478	21,318
Foreign currency liabilities (excl. equity capital)[2]	60,740	97,046
of which:		
US dollars	38,035	40,933
Japanese yen	2,423	7,291
Swiss francs	2,534	18,086

1 foreign currency assets of discontinued operations in 2006: €56,987 million
2 foreign currency liabilities of discontinued operations in 2006: €54,355 million

Notes to the Consolidated Balance Sheet continued

The differences in amount between foreign-currency assets and liabilities arise because only on-balance-sheet items are shown in the list. Off-balance-sheet items (i.e. also transactions concluded for hedging purposes) are not included.

71 Trust business

The following tables show the volume of trust business not stated in the consolidated balance sheet.

Trust assets

€ millions	2006	2005
Placements with, and loans and advances to,		
other banks	267	402
Loans and advances to customers	424	1,279
Equity securities and other variable-yield securities	90	6,656
Debt securities	—	2,988
Participating interests	—	35
Property, plant and equipment	—	113
Other assets	—	11
Remaining trust receivables	—	1
HVB Group new	**781**	
Discontinued operations and disposal		
group held for sale	13,462	
Full HVB Group	**14,243**	**11,485**

Trust liabilities

€ millions	2006	2005
Deposits from other banks	8	231
Amounts owed to other depositors	374	10,297
Promissory notes and other liabilities		
evidenced by paper	399	803
Miscellaneous other liabilities	—	154
HVB Group new	**781**	
Discontinued operations and disposal		
group held for sale	13,462	
Full HVB Group	**14,243**	**11,485**

72 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of the new HVB Group 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	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Deposits from other banks	28,977	43,734
Amounts owed to other depositors	5,520	5,058
Promissory notes and other liabilities evidenced		
by paper	—	4,401
Contingent liabilities	188	6,510
Total	**34,685**	**59,703**

The assets pledged as security for own liabilities can be broken down as follows:

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Assets held for trading purposes	12,243	13,168
Placements with, and loans and advances to,		
other banks	—	7,216
Loans and advances to customers	8,878	18,597
Investments	13,564	20,722
Property, plant and equipment	—	—
Total	**34,685**	**59,703**

73 Collateral received that the new HVB Group may sell on or pledge on

As part of repurchase agreements and securities lending transactions, the new HVB Group has received collateral that it may sell on or pledge on at any time without the collateral provider having to be in arrears. The associated fair value in the new HVB Group totals €20 billion.

Notes to the Cash Flow Statement

74 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 prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interest in net income.

In the 2006 financial year, investments in fully consolidated companies were acquired for a purchase price of €216 million, which resulted in an outflow of cash and cash equivalents totalling €156 million. At the same time, proceeds from the disposal of investments totalling €4,783 million were generated, €1,607 million of which was in cash. The following table shows the breakdown of assets and liabilities relating to fully consolidated companies acquired and sold:

FULL HVB GROUP € millions	ACQUIRED	SOLD
Assets	**494**	**18,313**
Cash reserve	41	1,050
Assets held for trading purposes	—	822
Placements with, and loans and advances to, other banks	54	3,406
Loans and advances to customers	113	10,071
Allowances for losses on loans and advances	(6)	(596)
Investments	206	2,690
Property, plant and equipment	15	285
Other assets	71	585
Liabilities	**494**	**18,313**
Deposits from other banks	128	2,861
Amounts owed to other depositors	154	11,053
Provisions	6	89
Other liabilities	206	4,310

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

75 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.

€ billions	2006 CARRYING AMOUNT	2006 FAIR VALUE	2005 CARRYING AMOUNT	2005 FAIR VALUE
Assets				
Cash reserve	3.2	3.2	7.8	7.8
Assets held for trading purposes	107.2	107.2	103.5	103.5
Placements with, and loans and advances to, other banks[1]	41.3	41.1	57.2	57.2
Loans and advances to customers[1]	170.0	170.7	274.6	278.5
Investments[2]	19.8	19.9	45.6	45.9
Other assets[3]	1.3	1.3	5.6	5.6
HVB Group new	**342.8**	**343.4**		
Discontinued operations and disposal group held for sale	160.2	160.6		
Full HVB Group	**503.0**	**504.0**	**494.3**	**498.5**
Liabilities				
Deposits from other banks	(85.7)	(85.6)	(113.7)	(113.8)
Amounts owed to other depositors	(92.1)	(92.4)	(158.4)	(159.1)
Promissory notes and other liabilities evidenced by paper	(76.9)	(78.4)	(106.0)	(108.8)
Liabilities held for trading purposes	(60.0)	(60.0)	(63.6)	(63.6)
Other liabilities[4]	(1.6)	(1.6)	(9.4)	(9.4)
Subordinated capital	(12.1)	(12.4)	(17.6)	(17.9)
HVB Group new	**(328.4)**	**(330.4)**		
Discontinued operations and disposal group held for sale	(144.1)	(143.9)		
Full HVB Group	**(472.5)**	**(474.3)**	**(468.7)**	**(472.6)**

1 fair values calculated taking into account allowances for losses on loans and advances
2 held-to-maturity, available-for-sale and fair-value-option investments
3 positive fair values of derivative financial instruments compliant with IAS 39
4 negative fair values of derivative financial instruments compliant with IAS 39

€ billions	2006 CARRYING AMOUNT	2006 FAIR VALUE	2005 CARRYING AMOUNT	2005 FAIR VALUE
Other items				
Irrevocable credit commitments HVB Group new	**45.2**	**45.2**		
Irrevocable credit commitments				
Discontinued operations and disposal group held for sale	11.7	11.7		
Other items full HVB Group	**56.9**	**56.9**	**52.8**	**52.8**

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the 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 cash flows. In doing so, the Bank applies the market rates applicable for the remaining maturity of the financial instruments.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally acceptable models used to calculate the price of options. The common Black & Scholes (equity, currency and index instruments) or lognormal models (interest instruments) are used to value simple European options. In the case of more exotic instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the exotic instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters.

The fair values of irrevocable credit commitments and contingent liabilities are equivalent to their carrying amounts.

The difference at HVB Group between the fair values and carrying amounts totals €1.0 billion for assets and €1.8 billion for liabilities. The balance of these values is a negative €0.8 billion.

Other Information

76 Key capital ratios (based on German Commercial Code), full HVB Group

Under Section 10, German Banking Act, in conjunction with Section 2, Principle 1, 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 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, risk assets and market risk positions at December 31, 2006 were as follows:

€ millions	2006 FULL HVB GROUP	2005 FULL HVB GROUP
Equity funds[1]		
Tier I		
Shares of common stock	2,208	2208
Additional paid-in capital, retained earnings,		
minority interest, treasury stock	10,298	9,722
Hybrid capital instruments (silent partnership		
certificates and trust preferred securities)		
excluding prorated interest	2,707	3,702
Other	3,101	1,459
Total core capital	**18,314**	**17,091**
Tier II		
Unrealised reserves in land and buildings		
and in securities	192	227
Offsetting reserves for general banking risks	46	49
Cumulative shares of preferred stock	70	61
Participating certificates outstanding	1,283	1,721
Subordinated liabilities	9,157	8,545
Other	(613)	(653)
Total supplementary capital	**10,135**	**9,950**
Deductible items	**(1,745)**	**(1,723)**
Total equity capital	**26,704**	**25,318**
Tier III capital	363	697
Total equity funds	**27,067**	**26,015**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

	2006 FULL HVB GROUP	2005 FULL HVB GROUP
Risk-weighted assets (€ billions)		
On-balance-sheet assets	187.7	200.0
Traditional off-balance-sheet assets	31.5	32.3
Banking-book derivatives	0.1	0.2
Total risk-weighted assets	**219.3**	**232.5**
Total market risk positions (€ billions)	**11.0**	**12.2**

At December 31, 2006, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows:

in %	2006 FULL HVB GROUP	2005 FULL HVB GROUP
Core capital ratio (core capital/risk-weighted assets)	8.4	7.3
Core capital ratio (core capital/		
[risk-weighted assets + 12.5 x market risk positions])	8.0	7.0
Equity capital ratio (equity capital/risk-weighted assets)	12.2	10.9
Equity funds ratio (equity funds/		
[risk-weighted assets + 12.5 x market risk positions])	11.8	10.6

Pursuant to Sections 10 and 10a of the German Banking Act, the Bank's equity funds amount to €27,067 million. The liable equity, comprising core capital and supplementary capital less the deductible items, totals €26,704. Supplementary capital includes unrealised reserves of €192 million pursuant to Section 10 (2b) 1 No. 6 of the German Banking Act.

The Bank's equity funds compliant with KWG rules are calculated on the basis of the individual financial statements of the consolidated companies, taking into account the special provisions of German banking supervisory regulations.

The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS:

FULL HVB GROUP € millions	CORE CAPITAL	SUPPLEMENTAR CAPITAL	DEDUCTIBLE ITEMS	TIER III CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet					
Shareholders' equity	19,988				19,988
Subordinated capital (hybrid capital instruments, participating					
certificates outstanding and subordinated liabilities)	3,409	14,367			17,776
Reconciliation to the equity funds compliant					
with the German Banking Act					
Consolidated profit (loss)	(622)				(622)
Available-for-sale reserve	(1,195)				(1,195)
Hedge reserve	323				323
Cumulative shares of preferred stock	(70)	70			0
Deduction of intangible assets	(2,804)				(2,804)
Use of goodwill privilege under banking supervisory regulations	1,475	(632)			843
Ineligible profit components under banking supervisory regulations	(1,459)				(1,459)
Deductible items due to banking supervisory regulations					
(e.g. market-smoothing, residual maturity limitation, proportionate interest)	(691)	(3,564)			(4,255)
Reclassifications due to banking supervisory regulations		(363)		363	0
Eligible tier III capital unused				0	0
Unrealised reserves in land and buildings and in securities		192			192
Deductible items due to non-consolidated investments			(1,745)		(1,745)
Other effects (e.g. differences in group of consolidated					
companies and principles of consolidation)	(40)	65	0	0	25
Equity funds compliant with German Banking Act	**18,314**	**10,135**	**(1,745)**	**363**	**27,067**

Other Information continued

77 Contingent liabilities and other commitments

€ millions	2006	2005
Contingent liabilities[1]	**24,977**	**39,534**
Rediscounted bills of exchange	0	21
Guarantees and indemnities	24,977	39,513
Loan guarantees	6,436	10,141
Guarantees and indemnity agreements	15,874	25,499
Documentary credits	2,667	3,873
Other commitments	**58,298**	**61,058**
Commitments arising from sale option to resell transactions	0	449
Irrevocable credit commitments	45,243	52,341
Book credits	41,412	45,003
Guarantees	2,600	4,514
Mortgage and municipal loans	1,161	2,681
Bills of exchange	70	143
Delivery obligations from securities lending transactions	11,772	5,940
Other commitments	1,283	2,328
HVB Group new	**83,725**	
Discontinued operations and disposal group held for sale	23,622	603
Full HVB Group	**106,897**	**101,195**

1 contingent liabilities are offset by contingent assets to the same amount

Contingent liabilities payable to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	438	793
Joint ventures	—	323
Associated companies	—	55
Other participating interests	—	—
Total	**438**	**1,171**

Neither contingent liabilities nor other commitments contain any significant items.

In the new HVB Group, the largest single items under other commitments are commitments arising from rental, leasing and maintenance agreements, and from rental of office space and use of technical equipment, amounting to €678 million (2005: €458 million) each year. 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.

Commitments for uncalled payments on shares not fully paid up amounted to €549 million at year-end 2006 (2005: €519 million), and similar obligations for shares in cooperatives totalled €1 million (2005: €1 million). Under Section 22 (3 and 24) of the German Private Limited Companies Act, the Bank was also liable for defaults on such calls in respect of three companies for an aggregate of €1 million (2005: €16 million).

Under Section 26 of the German Private Limited Companies Act and End of 2005 on the basis of its holding in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, the Bank was liable for calls for additional capital of €46 million (2005: €45 million), and of €8 million (2005: €14 million) with regard to CMP Fonds I GmbH at year-end 2006. In addition, under Article 5 (4) of the Articles of Association, 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.

78 Statement of responsibility

HVB 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
HVB Banque Luxembourg Société Anonyme, Luxembourg
HVB Singapore Limited, Singapore
3. Financial companies
Beteiligungs- und Handelsgesellschaft in Hamburg mit beschränkter Haftung, Hamburg
HVB Alternative Financial Products AG, Vienna
4. Companies with bank-related auxiliary services
HypoVereinsFinance N.V., Amsterdam

1 the company provides a Statement of Responsibility with the same wording for direktanlage.at AG, Salzburg, 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 the 2006 financial year or an earlier financial year but for which a Statement of Responsibility had been provided in earlier annual reports. Liabilities of these companies arising after their departure from HVB Group are not covered by either the above Statement of Responsibility or by Statements of Responsibility provided earlier.

HVB AG no longer issues a Statement of Responsibility covering
– Bank Austria Creditanstalt Aktiengesellschaft, Vienna, which left HVB Group on January 9, 2007, or
– AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga), which left HVB Group on January 10, 2007, respectively, and
– Joint Stock Commercial Bank HVB Bank Ukraine, Kiev, with regard to which the transfer of shares is expected to take place at the end of the first quarter of 2007,

but for which previous Annual Reports of HVB AG carried Statements of Responsibility. Liabilities of these companies accruing after they left HVB Group at the date stated in each case are no longer covered by previously issued Statements of Responsibility.

79 Information on relationships with related parties

Transactions involving related parties are always conducted on an arm's length basis.

At the Annual General Meeting of Shareholders on May 23, 2006, the so-called opting-out clause under the Act concerning the Disclosure of Management Board Remuneration was used and, following a proposal by the Management Board and Supervisory Board, it was resolved that in the Bank's annual and consolidated financial statements for the financial years 2006 to 2010, at the latest until March 22, 2011, however, the information required in Section 285 (1) No. 9a and (5) to (9) and Section 314 (1) No. 6a (5) to (9) of the German Commercial Code is not to be disclosed. Hence the emoluments paid to members of the Management Board are not shown on an individualised basis.

Other Information continued

Emoluments paid to members of the Supervisory Board and Management Board and to executives at Bereichsvorstand level

	FIXED SALARY		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVES[1]		TOTAL	
€ millions	2006	2005	2006	2005	2006	2005	2006	2005
Management Board of HVB AG	4	5	5	4	1	7	10	16
Supervisory Board of HVB AG								
for Supervisory Board activities	0.8	1	0	0	0	0	0.8	1
Former members of the Management Board of HVB AG								
and their surviving dependants							11	12
Executives at Bereichsvorstand level							22	29
Severance packages/provisions for severance packages								
for former members of the Management Board								
and executives at Bereichsvorstand level							2	25

1 cash value of the share-based compensation

Details of share-based compensation

	Number
Members of the Management Board of HVB AG	
Options	
Stock options 2005	472,000
Stock options 2006	508,633
Performance shares	
Performance shares 2005	201,000
Performance shares 2006	195,333

For more details of the stock options and performance shares, please refer to Note 32, where the UniCredit Group's long-term incentive programme underlying these instruments is described.

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed compensation shown.

Compensation paid to members of the Management Board or employees of HVB AG for positions on Supervisory Boards of Group companies is to be surrendered to HVB AG.

Under the pension commitments to the members of the Management Board, a total of €560,000 was transferred to provisions for pensions in 2006, €463,000 million of which was deferred compensation invested in a fund in 2006.

At December 31, 2006, HVB AG had pension provisions for members of the Management Board and their surviving dependants compliant with Section 285, German Commercial Code, totalling €92 million. The pension provision for retired members of the Management Board compliant with IFRS totalled €124 million.

No compensation was paid to members of the Supervisory Board in 2006 for services rendered.

In 2006, expense allowances totalling €86,978.73 were paid to members of the Supervisory Board.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2006.

€	FIXED COMPENSATION	VARIABLE COMPENSATION	COMPENSATION FOR COMMITTEE WORK	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo, Chairman	50,000.00	22,400.00	20,000.00	92,400.00	(63,155.40)[6]
Peter König[1], Deputy Chairman	37,500.00	16,800.00	16,328.77	70,628.77	
Dr Lothar Meyer, Deputy Chairman	37,500.00	16,800.00	40,000.00	94,300.00	
Aldo Bulgarelli	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Beate Dura-Kempf[2]	20,410.96	9,144.11		29,555.07	
Sergio Ermotti[3]	9,041.10	4,050.41		13,091.51	(8,948.05)[6]
Paolo Fiorentino	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Dario Frigerio	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Klaus Grünewald	25,000.00	11,200.00		36,200.00	
Anton Hofer	25,000.00	11,200.00	20,000.00	56,200.00	
Friedrich Koch	25,000.00	11,200.00		36,200.00	
Hanns-Peter Kreuser	25,000.00	11,200.00		36,200.00	
Ranieri de Marchis	25,000.00	11,200.00	20,000.00	56,200.00	(38,412.70)[6]
Herbert Munker[4]	4,589.04	2,055.89	3,671.23	10,316.16	
Roberto Nicastro	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Vittorio Ogliengo	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Carlo Salvatori[5]	15,958.90	7,149.59		23,108.49	(15,794.65)[6]
Professor Hans-Werner Sinn	25,000.00	11,200.00		36,200.00	
Maria-Magdalena Stadler	25,000.00	11,200.00		36,200.00	
Ursula Titze	25,000.00	11,200.00		36,200.00	
Jens-Uwe Wächter	25,000.00	11,200.00		36,200.00	
Helmut Wunder	25,000.00	11,200.00		36,200.00	
Total	**550,000.00**	**246,400.00**	**120,000.00**	**916,400.00**	**800,624.30[6]**

1 member of the Audit Committee since March 9, 2006
2 since March 9, 2006
3 since August 22, 2006
4 until March 8, 2006
5 until August 21, 2006
6 after deduction of 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 executives at Bereichsvorstand level at the balance sheet date was as follows:

€ millions	2006	2005
Management Board of HVB AG	5	1
Supervisory Board of HVB AG	1	1
Executives at Bereichsvorstand level	2	7

Interest is payable on all loans and advances made to members of the Management Board and the Supervisory Board, and to the executives at Bereichsvorstand level at usual market rates.

Other Information continued

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

Section 15a 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 €5,000.00 in a given calendar year.

The following transactions have been notified to HVB AG for the 2006 financial year:

NAME, FUNCTION	TYPE OF TRANSACTION	NAME OF SECURITY	GERMAN SECURITIES IDENTIFICATION NUMBER/ISIN NUMBER	COMPLETION DATE	NUMBER	PRICE PER SHARE in €	VOLUME in €
Helmut Wunder, member of the Supervisory Board of HVB AG	Sale	Common bearer stock of Bayerische Hypo-und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 14, 2006	500	33.50	16,750.00

All transactions have been published under Corporate Governance on the Bank's website at www.hvb.com/dealings.

At December 31, 2006, 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 HVB AG.

80 Fees paid to the independent auditors

The following table shows the breakdown of fees of €14 million recorded as expense in the year under review, as paid to the independent auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, for activities performed for the full HVB Group:

€ millions	2006
Fee for auditing of the financial statements	9
Other auditing and appraisal services	1
Tax advisory services	1
Other services	3

81 Employees

The average number of people employed by the Bank was as follows:

	2006	2005
Employees (excluding trainees)	24,848	26,281
Full-time	19,712	21,038
Part-time	5,136	5,243
Trainees	1,244	1,174
Discontinued operations	24,012	31,408

82 Offices

Offices, broken down by region

	JAN. 1, 2006 FULL HVB GROUP	ADDITIONS	REDUCTIONS		CHANGE IN CONSOLIDATED GROUP	DEC. 31, 2006 FULL HVB GROUP	DEC. 31, 2006 DISCONTINUED OPERATIONS	DEC. 31, 2006 HVB GROUP NEW
		NEW OPENINGS	CLOSURES	CONSOLI-DATIONS				
Germany								
Baden-Wuerttemberg	25	1				26		26
Bavaria	394	1		1	36	430		430
Berlin	8				3	11		11
Brandenburg	8					8		8
Bremen	8					8		8
Hamburg	35		1		1	35		35
Hesse	16	1			1	18	1	17
Lower Saxony	27					27		27
Mecklenburg-Western Pomerania	8					8		8
North Rhine-Westphalia	21				1	22		22
Rhineland-Palatinate	22					22		22
Saarland	9					9		9
Saxony	10				4	14		14
Saxony-Anhalt	11	1				12		12
Schleswig-Holstein	73			1		72		72
Thuringia	9				1	10		10
Subtotal	**684**	**4**	**1**	**2**	**47**	**732**	**1**	**731**
Other regions								
Austria	401	2		17	6	392	383	9
Other western Europe	15	2			6	23	4	19
Central and eastern Europa	1,185	81	20		(542)	704	700	4
Africa	2		1			1		1
Americas	14		1		(1)	12	1	11
Asia	15	1	3			13		13
Australia	0					0		0
Subtotal	**1,632**	**86**	**25**	**17**	**(531)**	**1,145**	**1,088**	**57**
Total	**2,316**	**90**	**26**	**19**	**(484)**	**1,877**	**1,089**	**788**

Other Information continued

83 Members of the Supervisory Board and Management Board

Supervisory Board

Alessandro Profumo
Chairman

Peter König
Deputy Chairman

Dr Lothar Meyer
Deputy Chairman

Aldo Bulgarelli

Beate Dura-Kempf
since March 9, 2006

Sergio Ermotti
since August 22, 2006

Paolo Fiorentino

Dario Frigerio

Klaus Grünewald

Günter Guderley
since January 1, 2007

Anton Hofer
until December 31, 2006

Friedrich Koch

Hanns-Peter Kreuser

Ranieri de Marchis

Herbert Munker
until March 8, 2006

Roberto Nicastro

Vittorio Ogliengo

Carlo Salvatori
until August 21, 2006

Professor Hans-Werner Sinn

Maria-Magdalena Stadler

Ursula Titze

Jens-Uwe Wächter

Helmut Wunder

Management Board

Johann Berger
until August 31, 2006

Willibald Cernko
since February 23, 2006

Jan-Christian Dreesen
until February 9, 2006

Rolf Friedhofen

Heinz Laber

Dr Stefan Schmittmann
(deputy Board member
until September 11, 2006)

Ronald Seilheimer

Matthias Sohler

Dr Wolfgang Sprissler
Board Spokesman

Andrea Umberto Varese

Andreas Wölfer

Munich, March 20, 2007

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft

The Management Board

Cernko Friedhofen Laber Schmittmann

Seilheimer Sohler Sprissler Varese Wölfer

Auditor's Report

We have audited the consolidated financial statements prepared by the Bayerische Hypo- und Vereinsbank Aktiengesellschaft, München 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 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 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 and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the 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 20, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Becker
Wirtschaftsprüfer

Pukropski
Wirtschaftsprüfer

Wolfgang Tillmans, Isa Dancing, 1995, HypoVereinsbank collection

Boards and Corporate Governance

Supervisory Board, Trustees and Management Board

SUPERVISORY BOARD

Alessandro Profumo
Chief Executive Officer
of UniCredito Italiano S.p.A., Milan
Chairman

Peter König
Employee, Bayerische
Hypo- und Vereinsbank Aktiengesellschaft,
Haar-Salmdorf
Deputy Chairman

Dr Lothar Meyer
Chairman of the Management Board
of ERGO Versicherungsgruppe AG, Bergisch Gladbach
Deputy Chairman

Aldo Bulgarelli
Attorney,
Verona

Beate Dura-Kempf
Employee, Bayerische
Hypo- und Vereinsbank Aktiengesellschaft, Litzendorf
since March 9, 2006

Sergio Ermotti
Head of Markets & Investment Banking,
member of the Management Committee of
UniCredito Italiano S.p.A., Collina d'Oro
since August 22, 2006

Paolo Fiorentino
Head of Global Banking Services Division,
member of the Management Committee of
UniCredito Italiano S.p.A., Milan

Dario Frigerio
Head of Private Banking and
Asset Management Division,
member of the Management Committee of
UniCredito Italiano S.p.A., Milan

Klaus Grünewald
FB1 unit manager in the Bavarian division
of Vereinte Dienstleistungsgewerkschaft e.V.,
Gröbenzell

Günter Guderley
Employee, Bayerische
Hypo- und Vereinsbank Aktiengesellschaft, Goldbach
since January 1, 2007

Anton Hofer
Employee, Bayerische
Hypo- und Vereinsbank Aktiengesellschaft, Nuremberg
until December 31, 2006

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,
member of the Management Committee of
UniCredito Italiano S.p.A., Milan

Herbert Munker
Employee, Bayerische
Hypo- und Vereinsbank Aktiengesellschaft, Leinburg
until March 8, 2006

Roberto Nicastro
Head of Retail Division,
member of the Management Committee of
UniCredito Italiano S.p.A., Milan

Vittorio Ogliengo
Head of Corporate Division,
member of the Management Committee of
UniCredito Italiano S.p.A., Parma

Carlo Salvatori
Chairman until January 11, 2006 and
member until August 2, 2006 of the
Board of Directors of UniCredito Italiano S.p.A.,
Managing Director since June 30, 2006 of
Unipol Assicurazioni, Parma
until August 21, 2006

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 and Nomination Committee
Alessandro Profumo
Peter König
Dr Lothar Meyer

Audit Committee
Dr Lothar Meyer, Chairman
Günter Guderley, since January 1, 2007
Anton Hofer, until December 31, 2006
Peter König, since March 9, 2006
Ranieri de Marchis
Herbert Munker, until March 8, 2006
Alessandro Profumo

Negotiating Committee
Alessandro Profumo
Peter König
Dr Lothar Meyer
Ursula Titze

1 see also Report of the Supervisory Board

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
until December 31, 2006

Dieter Knauer
Leitender Ministerialrat in the Bavarian State Ministry of Finance, Munich
since January 1, 2007

Deputies

Dr Michael Bauer
Ministerialdirigent in the Bavarian State Ministry of Finance, Munich
until December 31, 2006

Ulrich Exler
President of the Bavarian State Tax Office, Ministerialdirigent a.D., Munich

Dr Ulrich Klein
Leitender Ministerialrat in the Bavarian State Ministry of Finance, Munich
since January 1, 2007

MANAGEMENT BOARD

Johann Berger
born 1960
Corporates & Commercial Real Estate Financing division,
Austria & Central and Eastern Europe
until August 31, 2006

Willibald Cernko
born 1956
Retail division
since February 23, 2006

Jan-Christian Dreesen
born 1967
Retail division
until February 9, 2006

Rolf Friedhofen
born 1958
Chief Financial Officer (CFO)

Heinz Laber
born 1953
Human Resources Management

Dr Stefan Schmittmann
(deputy Board member until September 11, 2006)
born 1956
Corporates & Commercial Real Estate Financing division

Ronald Seilheimer
born 1959
Markets & Investment Banking division

Matthias Sohler
born 1969
Chief Operating Officer (COO)

Dr Wolfgang Sprissler
born 1945
Board Spokesman
Austria & Central and Eastern Europe division[1]

Andrea Umberto Varese
born 1964
Chief Risk Officer (CRO)

Andreas Wölfer
born 1961
Wealth Management division

1 (from September 12, 2006 to January 9, 2007)

Report of the Supervisory Board

Against the backdrop of an improving economic environment in Germany and a sustained increase in the earnings power of the company, the main focus of the Supervisory Board's work in 2006 was the integration of Bayerische Hypo- und Vereinsbank Aktiengesellschaft (HVB) into the UniCredit Group. This applied both to internal structures, which were adapted to UniCredit's divisional organisational structure, and to the positioning of HVB within the corporate group, focusing on the German market as well as investment banking. The steps planned towards integration were able to be implemented as scheduled, taking into account the framework provided by German law. UniCredit's announcement on January 23, 2007 that it was starting a squeeze-out procedure at both HVB and Bank Austria Creditanstalt is another systematic step in the integration process towards becoming the first truly European banking group.

Focus of discussion during the plenary sessions of the Supervisory Board

The Supervisory Board met at eight plenary sessions last year, one of which was an extraordinary meeting. In addition, thirty-seven resolutions were adopted by written circular. Thirty-three of these concerned approval for lending transactions with companies in compliance with Section 136 of the Italian Banking Act (TUB). This banking supervisory regulation which, in essence, is similar to Section 15 of the German Banking Act ("Loans to managers and members of governing bodies") primarily aims at preventing abuse of special privileges granted to corporate officers. The start of 2006 was initially dominated by the events of late 2005. At an extraordinary meeting convened at the request of two of its members, the Supervisory Board received a report on the reasons why Dr Michael Kemmer had made use of the change of control clause in his employment contract and resigned from the Management Board on December 22, 2005. By means of a resolution adopted by written circular, the Remuneration & Nomination Committee of the Supervisory Board was authorised to retain an external legal expert to prepare a report examining the legal consequences of applying the change of control clause. Furthermore, the Supervisory Board resolved in a written procedure not to appeal against the judgement of Munich Regional Court passed on December 22, 2005 which had allowed legal action to be brought by shareholders challenging the approval of the actions of the Supervisory Board for the 2004 financial year. Instead, it decided to re-submit a motion to approve the actions of the Supervisory Board in the 2004 financial year together with a revised Supervisory Board report to the Annual General Meeting of Shareholders for approval on May 23, 2006. As already explained in detail in last year's Report of the Supervisory Board, the court had found fault with the report for the 2004 financial year because it does not contain any information on the final judgment passed in favour of the plaintiffs in the legal action challenging the block voting of Supervisory Board members at the Annual General Meeting on May 14, 2003 through the Bank's abandonment of appeal in July 2004.

Against the backdrop of the integration of HVB into the UniCredit Group, the Supervisory Board received reports on the company's strategy and business development at four meetings during the year based on documents presented by the Management Board. The 2006 annual plan, the 3-year plan based on the new divisional structure of the operating business and, towards the end of the year, a preliminary report on the plan drawn up for 2007 were the subject of extensive deliberations at these meetings. Moreover, the Supervisory Board paid special attention to the implementation of each of the steps serving to integrate HVB into the UniCredit Group in 2006. First of all, the most important integration programmes were presented to the Supervisory Board in February. This notably concerned the organisational adjustments needed to match UniCredit's divisional structure with the aim of enhancing corporate management, thus forming the foundation for sustainable earnings growth for all companies in the corporate group. At its meeting in July, the Supervisory Board gained an overview of the status of the divisionalisation, which was completed shortly afterwards, from the short reports provided by the members of the Management Board responsible.

Another step in the re-orientation of the individual corporate units of the UniCredit Group was taken when the Supervisory Board approved the new "Bank of the Regions" agreement notably with Bank Austria Creditanstalt (BA-CA). The Business Combination Agreement signed by HVB and UniCredit on July 12, 2005 had already defined the basis of this new agreement, under which BA-CA becomes the UniCredit sub-holding responsible for Austria and central and eastern Europe. During its July meeting, the Supervisory Board then dealt with a first important change in the Bank's holdings. The Business Combination Agreement already contained an announcement stating that a decision regarding whether HVB's asset management companies should be held directly by Pioneer Global Asset Management S.p.A., a UniCredit subsidiary, in future would be taken as a structural measure. An appraisal identified that the planned pooling of the asset management activities would yield high synergy potential for the corporate group and that an attractive sale price could be obtained by HVB. At the same July meeting, the Supervisory Board approved the sale of the three Activest companies in Germany, Luxembourg and Switzerland to Pioneer on the basis of the appraisal prepared by an independent auditor.

Another major step in the integration of HVB and BA-CA into the UniCredit Group came when the Supervisory Board approved the transfer of BA-CA to UniCredit and the restructuring of HVB's shareholdings in central and eastern Europe (transfer of HVB Bank Ukraine to UniCredit, transfer of the shares in International Moscow Bank, transfer of HVB Bank Latvia to BA-CA and transfer of HVB's branches in Vilnius and Tallinn to HVB Bank Latvia). At the Supervisory Board meeting on September 11, 2006, the Management Board explained the major points of the six underlying purchase and transfer contracts which were then submitted to the Extraordinary Shareholders' Meeting held on October 25, 2006 for approval. The Supervisory Board had access to the contracts and all the Management Board reports regarding the transactions together with the expert appraisals. During the meeting, the Management Board explained the background to the transactions to the Supervisory Board: their purpose is to simplify the corporate structure of the UniCredit Group, provide for clearly defined responsibilities and align the individual Group units with their respective core markets. For HVB, this means focusing as part of intragroup specialisation on business in Germany and investment banking, for which it is to become the competence centre within the UniCredit Group. In addition, Munich will remain responsible for corporate banking throughout the Group. Also at this meeting, the external auditors commissioned by the Management Board explained the appraisals of each of the transactions to the Supervisory Board and described the appraisal methods applied in detail. In this connection, the Supervisory Board was able to satisfy itself that the appraisals were conducted in compliance with principles recognised in theory, in practice and in court rulings. Moreover, the Supervisory Board had a fairness opinion prepared by an investment bank, which confirmed that the valuations are fair. At the meeting, the Chief Legal Officer of HVB informed the Supervisory Board about the legal admissibility of the transactions with regard to possible disadvantages under corporate law and the Management Board reported on an investment bank's assessment of the strategic investment opportunities in the next few years. After all the lines of argumentation had been extensively considered in the course of the discussion, a lawyer from a prestigious legal firm additionally called in to act as legal advisor informed the Supervisory Board that, on the basis of the information provided, the transactions could be approved from a legal perspective. As already announced at this Supervisory Board meeting, the Board of Directors of UniCredit confirmed in a resolution on September 12, 2006 that HVB might use the gains realised on the sale of the shareholdings to continue to develop domestic operations through organic growth or acquisitions, and that the intention was to turn HVB into a competence centre for investment banking within the UniCredit Group. In this last regard, HVB is to host investment banking activities for the next seven years at least. It was also decided that resolutions to divide HVB into separate legal entities during the (five-year) term of the Business Combination Agreement signed by UniCredit and HVB on June 12, 2005 would require a majority of fourth fifths of the members of the HVB Supervisory Board. Based in part on these resolutions and the arguments outlined above, the HVB Supervisory Board approved the transactions on the evening of September 12, 2006 by written circular.

Report of the Supervisory Board continued

In the course of the integration into the UniCredit Group, the Management Board also presented the Group Managerial Golden Rules and the Integrity Charter to the Supervisory Board. Compliance with the former is required on a Group-wide basis under the supervisory provisions of Banca d'Italia, whilst the latter defines the standards of conduct expected of all employees. Moreover, the Supervisory Board solicited a report on the restructuring of the Markets & Investment Banking division towards the end of the year. This enabled the Supervisory Board to gain an overview of the business model and each phase of implementation.

During 2006 the Supervisory Board also solicited reports on the further reduction of the Real Estate Restructuring segment (RER) set up at the end of 2004. Workout portfolios of the real estate finance business with a volume of €15.4 billion were pooled in this segment. The portfolio, which includes the Aphrodite loan portfolio that was the subject of resolutions adopted by the Annual General Meeting of May 23, 2006, was reduced by more than €10.4 billion by means of sales and our own workout activities. Another topic of discussion was setting up a new portfolio of non-strategic receivables amounting to €20.5 billion which is to be reduced with priority due to the lack of cross-selling opportunities. Furthermore, the Management Board informed the Supervisory Board about the sale of a portfolio of non-strategic real estate holdings, which is consistent with the Bank's strategy of disposing of business areas that are not part of its core competence.

The Supervisory Board received an extensive risk report from the Chief Risk Officer (CRO) and solicited another report towards the end of the year on the risk strategy, risk situation and risk development, taking special account of individual sectors. Based on the reports and documents presented, the Supervisory Board was able to gain an extensive overview of the development of credit risk, market risk, operational risk and risk provisioning.

A further topic of discussion was succession planning and personnel development. Finally, the Supervisory Board considered changes and measures in the field of shareholdings - particularly the outsourcing of payment processing – and, at several meetings, also the various actions brought by shareholders of the Bank for rescission, annulment and the provision of information in connection with the Annual General Meeting of Shareholders of May 23 and the Extraordinary General Meeting held on October 25, 2006.

In individual cases, the Supervisory Board requested supplementary written and oral information, which the Management Board provided in each instance. Given the volume of information and the frequency of its meetings, however, the Supervisory Board saw no reason to inspect the Company's books or written matter in addition to the documents already made available. The Supervisory Board approved transactions requiring its approval in 37 cases, 33 of which related to transactions requiring approval under Section 136 of the Italian Banking Act.

Corporate governance

The Supervisory Board again addressed corporate governance topics in depth in 2006. The internal regulations were amended after the tasks of the former Strategy and Business Development Committee and the Risk Committee were transferred to the plenary session and the Audit Committee at the end of 2005. In addition, the internal regulations were adapted to cater for some new provisions under the German Corporate Governance Code. To carry out the annual efficiency review, the Chairman of the Supervisory Board sent a questionnaire to Supervisory Board members, the results of which were extensively discussed at the following Supervisory Board meeting. One outcome of the survey was that the Supervisory Board had a sufficient number of independent members within the meaning of section 5.4.2 of the German Corporate Governance Code according to its own evaluation. The Supervisory Board also considered any possible conflicts of interest. Thus, when voting on the Supervisory Board's approval of the internal sale of three Activest companies to Pioneer Global Asset Management S.p.A., two members of the Supervisory Board did not take part on account of their positions with Pioneer and UniCredit. The issue of any possible conflicts of interests was likewise discussed by the Supervisory Board with regard to the voting on the sale and transfer of HVB operations in Austria, central Europe and eastern Europe to UniCredit together with its subsidiaries. Irrespective of the fact that all the transactions were conducted at market conditions, potential conflicts of interest were avoided by appropriate voting abstentions.

Compliant with the German Corporate Governance Code, the Supervisory Board discussed and examined the structure of the remuneration system for the Management Board. Changes to the annual bonus were made when adjusting HVB AG's structure to the remuneration system of UniCredit. 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, whereby four of the Code's recommendations were not followed and another only applied in part in 2006. Further details on this issue are contained in the joint Corporate Governance Report of the Management Board and the Supervisory Board (see the section of this Annual Report headed "Corporate Governance and Compensation Report").

Apart from absences on a few occasions as a result of sickness or other appointments, all members of the Supervisory Board took part in the plenary sessions as a general rule. No member of the Supervisory Board attended fewer than half of the Supervisory Board meetings in 2006.

Main focus of committee work

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

Remuneration & Nomination Committee

The Remuneration & Nomination Committee met three times in 2006. In addition, a resolution was adopted by telephone vote and two resolutions adopted by written circular. At its meetings, it discussed executive appointments. A topic of discussion was also remuneration levels for the Management Board, in which connection details were defined for the remuneration and targets for 2006. The Remuneration & Nomination Committee repeatedly solicited reports on the status of negotiations with Ms Novakovic, Dr Jentzsch and Dr Kemmer, who applied the change of control clause in their employment contracts at the end of 2005 in the course of the takeover by UniCredit. Based on legal opinions prepared by two external legal advisors, the Remuneration & Nomination Committee finally approved the agreements with the three former Management Board members after intensive deliberations. Moreover, the Remuneration & Nomination Committee granted its approval to Management Board members who wished to accept seats on supervisory boards of other companies and considered loans requiring approval by circular.

Audit Committee

The Audit Committee had four meetings in 2006. Dr Lothar Meyer, Chairman of the Management Board of ERGO Versicherungsgruppe AG, chairs this committee. In particular, the Audit Committee examined the preliminary audit of the annual financial statements and consolidated financial statements, and the report on relationships with related parties, 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 were not detrimental to the auditors' independence. 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. In addition, the committee defined the type and scope of non-auditing tasks to be performed by the auditors. In the course of the year, it again solicited reports on the status of the fees paid and fees expected.

Report of the Supervisory Board continued

Another topic of discussion in the Audit Committee were the reports of the Audit department on the internal auditing results from the first half and the third quarter of 2006. Furthermore, the auditor's report on the annual audit of the securities account business was discussed in detail and did not lead to any objections requiring disclosure. After the tasks of the former Risk Committee were transferred to the Audit Committee at the beginning of 2006, the committee had the Chief Risk Officer (CRO) submit an extensive portfolio report at each meeting and had the development of credit risk, market risk and operating risk explained on the basis of the documents.

Compliant with the Minimum Requirements for the Credit Business of Credit Institutions (MaK), the MaRisk report was submitted to the committee at each meeting. The committee also had the credit risk strategy explained to it in great detail. Moreover, the committee was able to satisfy itself from a report that the liquidity and funding situation was satisfactory. Based on the reports 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.

Negotiating Committee

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 2006 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 the 2006 financial year 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 fulfilment 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 HVB AG 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 lead auditor reported on the findings of the audit and provided detailed answers to the questions of the members of the Supervisory Board at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. In addition, the Management Board explained the financial statements in detail at these meetings. The Supervisory Board concurred with the results of the audit. It determined that, on the basis of its own examination of HVB AG'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 20, 2007, the Supervisory Board therefore approved the annual financial statements prepared by the Management Board. At the same meeting, the Supervisory Board also approved the 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.

UniCredito Italiano S.p.A. has held a majority interest in the share capital of HVB AG since November 17, 2005. Consequently, the Management Board has produced a report on relationships of Bayerische Hypo- und Vereinsbank AG with related companies for the 2006 financial year in accordance with Section 312 of the German Stock Corporation Act. The report contains the following concluding statement by the Management Board:
"We declare that, based on the circumstances known 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 or disadvantages have been compensated,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relationships with related parties and the related audit report by KPMG were also forwarded to the Supervisory Board. In the course of the preliminary audit, the Audit Committee and then the Supervisory Board considered these documents in depth at the meeting devoted to the annual financial statements. KPMG took part in the deliberations of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. 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 of Bayerische Hypo- und Vereinsbank AG with related parties in the 2006 financial year prepared by the Management Board compliant with Section 312 of the German Stock Corporation Act, which did not identify any deficiencies, no objections are to be made about the final declaration of the Management Board in this report.

Further explanations pursuant to Section 171 (2) 2 of the German Stock Corporation Act (Section 289 (4), Section 314 (4) of the German Commercial Code)

The share capital of HVB consists of 736,145,540 shares of common bearer stock and 14,553,600 shares of registered preferred stock without voting rights. The shares of preferred stock, which constitute a holding of 1.9% of the share capital, result from the merger with Bayerische Staatsbank in 1971 and are held solely by UniCredit. The shares of preferred stock are not listed and can only be transferred with the approval of the Company. Shares of preferred stock have no voting rights and receive a retroactively payable advance share in profits and a dividend equivalent to the amount due for common shares.

In 2005, UniCredit submitted a tender offer which was accepted by a large majority of the shareholders. As a result of this offer, UniCredit has held 93.9% of the share capital of HVB since November 17, 2005. On January 23, 2007, UniCredit announced that it now held 95% of the share capital of HVB and intended to initiate a squeeze-out procedure. Assuming that this announcement is also implemented, UniCredit will hold 100% of the share capital of HVB in the foreseeable future.

HVB does not have any shares with special privileges granting control rights. Insofar as HVB employees hold shares in HVB, there are no special rules governing the exercise of their control rights. All holders of shares with voting rights can exercise their voting rights in person or through a proxy, or authorise a designated proxy of the Company to carry out their instructions.

Report of the Supervisory Board continued

Under Section 84 of the German Stock Corporation Act, the Supervisory Board appoints Management Board members for a maximum of five years. The Supervisory Board is entitled to revoke the appointment to the Management Board for good cause. Under Article 7 of HVB's Articles of Association, the Management Board of the Bank must consist of at least two members. In line with HVB's organisational structure in divisions, there are currently nine members of the Management Board. The terms of office of seven members of the Management Board expire on December 31, 2008 and of the two other members of the Management on February 22 and March 31, 2009, respectively. None of the Management Board contracts contain a change-of-control clause.

According to Section 179 of the German Stock Corporation Act, any amendment of the Articles of Association requires a resolution to be passed by the Annual General Meeting of Shareholders. Under Section 181 (3) of the German Stock Corporation Act, an amendment to the Articles of Association does not take effect until entered in the Commercial Register. The amendment to Article 4 of the Articles of Association resolved by the Annual General Meeting on May 23, 2006 has been challenged and hence not yet entered in the Commercial Register. The Annual General Meeting can transfer the authority to make amendments to the Articles of Association which only concern the wording, but not the content, to the Supervisory Board. Under Article 21 (3) of HVB's Articles of Association, this authority was granted to the Supervisory Board. The Supervisory Board generally makes use of this right for capital increases from the authorised capital, for example, which lead to an amendment of Article 5 of the Articles of Association (share capital).

The authorised capital increase of €990 million still existing in full at the time the present Report of the Supervisory Board was approved on March 20, 2007 was resolved by the Annual General Meeting in 2004 and may be used up to April 29, 2009. The authorised capital increase was entered in the Commercial Register on December 18, 2006. In particular, it allows for a capital increase against non-cash contributions with the exclusion of shareholder subscription rights. At the same time, conditional capital of €375 million is available to grant common shares of HVB to holders of debt securities or participating certificates with an option or conversion right and/or conversion obligation. The authorisation granted to the Management Board by the Annual General Meeting in 2003 to issue appropriate debt securities or participating certificates up to May 14, 2008 has not been used either. In accordance with Section 71 (1) No. 7 of the German Stock Corporation Act, the company was authorised to buy or sell treasury stock for the purpose of securities trading by the resolution of the Annual General Meeting of May 23, 2006. The Company made use of this authorisation on more than one occasion in 2006. The information in this regard is provided in the notes to the 2006 annual financial statements and the notes to the consolidated financial statements. This authorisation will become null and void when the squeeze-out is entered in the Commercial Register. There is currently no authorisation compliant with Section 71 (1) No. 8 of the German Stock Corporation Act to purchase treasury stock for other purposes, such as to withdraw it.

There are no significant agreements at HVB that are subject to the condition of a change of control following a tender offer.

No compensation agreements have been reached with members of the Management Board or employees in the event of a tender offer.

Personnel changes

The following people were appointed to the Management Board with effect from January 1, 2006 following the business combination with UniCredit: Jan-Christian Dreesen, Rolf Friedhofen, Heinz Laber, Ronald Seilheimer, Matthias Sohler, Andrea Umberto Varese and Andreas Wölfer. Dr Wolfgang Sprissler, who already served on the Board as Chief Financial Officer, was elected to succeed Dieter Rampl, who retired from the Management Board with effect from December 31, 2005, as Spokesman of the Management Board after consulting the Remuneration & Nomination Committee of the Supervisory Board. In addition, Dr Stefan Schmittmann was elected deputy member of the Management Board with effect from January 1, 2006. Jan-Christian Dreesen amicably resigned from office for personal reasons on February 9, 2006. Willibald Cernko was elected to the Management Board as his successor with effect from February 23, 2006. On August 31, Johann Berger resigned from the Management Board at HVB and from the Management Committee of UniCredit after he considered that his task of combining the commercial real estate finance and corporate banking operations in one division based on his proposal had been completed. Johann Berger had been a member of the Management Board since April 1, 2005, gaining much credit particularly for reducing the workout portfolios of the real estate financing operations pooled in the Real Estate Restructuring segment. The Supervisory Board would like to thank Johann Berger for his successful work on the Management Board. Johann Berger's duties on the Management Board were assumed by Dr Schmittmann, who was appointed a regular Management Board member with effect from September 12, 2006.

At the Annual General Meeting of May 23, 2006, 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 of UniCredit, were re-elected to the Supervisory Board for their remaining term of office, being until the end of the Annual General Meeting of Shareholders in 2008. The gentlemen named had been previously appointed to the Supervisory Board in the course of the business combination with UniCredit under an order issued by Munich Registry Court on November 29, 2005. Alessandro Profumo was re-elected Chairman of the Supervisory Board at the Supervisory Board meeting held on May 23, 2006 following the Annual General Meeting of Shareholders.

Herbert Munker and Anton Hofer resigned from the Supervisory Board with effect from March 8 and December 31, 2006, respectively. Beate Dura-Kempf and Günter Guderley, who had been elected deputy members of Herbert Munker and Anton Hofer by the Bank's employees according to the provisions of the German Co-Determination Act, were elected to the Supervisory Board in their places. With effect from August 21, 2006, Carlo Salvatori announced his resignation from the Supervisory Board. Based on an order issued by Munich Registry Court on August 22, 2006, Sergio Ermotti, Head of Markets & Investment Banking of UniCredit, was appointed to the Supervisory Board in his place. The Supervisory Board would also like to use this opportunity to thank the members who have left the Supervisory Board for their successful service on this body. Their great personal commitment and extensive professional experience was a decisive gain for work on the Supervisory Board.

Rolf Heffner passed away on November 14, 2006. He had been a member of the Management Board of Bayerische Hypotheken- und Wechsel-Bank from 1975 to 1984 and then a member of the Bank's Advisory Board until 1993. Johann Rüth passed away on December 28, 2006. He was appointed to the Management Board of Bayerische Staatsbank in 1961 and, after the merger with Bayerische Vereinsbank, was a member of the merged bank's Management Board until 1979. He then served as a member of the Bank's Advisory Board until 1990. Karl Wüst passed away on January 31, 2007. He had been a member of the Management Board of Bayerische Hypotheken- und Wechsel-Bank from 1973 to 1976 and remained closely connected with the Bank as a member of its Advisory Board until 1988. With tireless commitment, great skill and sound judgement, the deceased gentlemen made an exemplary contribution to the Bank's development. 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 all their hard work in the past year, which was essentially marked by the integration of HVB into the UniCredit Group and a sustained increase in the earnings power of the Company. The Supervisory Board wishes the Management Board and the employees every success for the future.

Munich, March 20, 2007

The Supervisory Board

Alessandro Profumo
Chairman

Corporate Governance and Compensation Report

CORPORATE GOVERNANCE: GUIDING PRINCIPLE

Good corporate governance entails the responsible management of enterprises. It is of vital importance for achieving corporate objectives and a sustained increase in company value, which in turn strengthens the confidence of shareholders and investors in the capital market. Exemplary corporate governance is not characterised 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 co-operation 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. In 2006, HVB AG complied with the recommendations given by the German Corporate Governance Code as amended on June 2, 2005 and June 12, 2006 with five exceptions, and will comply with it in future 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 December 5, 2006. The full text of the statement, complete with comments on the deviations, is reproduced below under the heading “2006 statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act”. The statement of compliance has also been made permanently available to shareholders on the Company’s website.

HVB AG follows the series of suggestions provided in the Corporate Governance Code with three exceptions:

– On co-determined supervisory boards, the shareholder representatives and employee representatives are required to prepare Supervisory Board meetings separately, if appropriate in conjunction with members of the Management Board. In 2006, no preparatory meetings were held by the shareholder representatives and no regular preliminary talks took place on the employee representatives’ side.

– 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. A large majority of our Supervisory Board members are required to surrender the Supervisory Board compensation, which means that no individual member of the Supervisory Board would profit from a corresponding regulation. Hence, we do not believe that a rule governing compensation with a long-term incentive is advisable for our Supervisory Board.

The German Securities Trading Act, as amended by the German Act on the Improvement of Investor Protection and the German Act on the Implementation of the EU Transparency Directive, 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. As a member of the UniCredit Group, HVB also adopted the Integrity Charter of UniCredit last year. The Integrity Charter is a common set of values connecting all the companies in the UniCredit Group. It contains guidelines on employees' conduct at the workplace and lays down obligatory standards of behaviour for all employees in companies belonging to the UniCredit Group. In addition, the Code of Conduct adopted several years ago by the Management Board of HVB remains in force. This code summarises existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all HVB employees.

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 obliged 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. To avoid any conflicts of interest, individual members of the Supervisory Board did not take part in corresponding voting procedures in 2006. Further details in this connection are provided in the Report of the Supervisory Board in this Annual Report. A summary of the mandates held by members of the Supervisory Board on other statutory supervisory boards or comparable supervisory bodies is published in the notes to the annual financial statements of HVB AG. In view of the composition of the Supervisory Board, sworn interpreters are present at Supervisory Board meetings to simultaneously translate the contributions made by each Supervisory Board member to ensure that they are understood.

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 set up three committees. The composition and tasks of the committees are as follows:

Remuneration & Nomination Committee

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

Corporate Governance and Compensation Report continued

Audit Committee

– 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. The regular reports prepared by the internal auditing department on its findings are another topic addressed by the Audit Committee. As required in the Corporate Governance Code, this committee has also performed the tasks carried out previously by the Risk Committee since January 1, 2006. The risk situation and the early identification of risks are of fundamental importance for the company's continuing existence. The Minimum Requirements for the Risk Management at 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, the management must review the risk strategy at least once each year and discuss it with the Supervisory Board.

  This ensures that the Supervisory Board is provided with detailed reports on a regular basis, particularly on the risk strategy, credit risks, market risks and operational risks as well as liquidity and reputation risks.

Negotiating Committee

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

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 AG and UniCredit, an arrangement was made to adapt the organisational structures of HVB AG to those of UniCredit in order to create clear leadership and management structures across the entire group. The restructuring of the divisions was mostly completed by the end of July 2006. In the period from January 1 to August 31, 2006, the Management Board had ten members, one of whom was a deputy member. Since then the Management Board of HVB has consisted of nine regular members. These are the Board spokesman, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the Chief Operating Officer (COO) and the Head of Human Resources Management (HRM), who also acts as Director of Labour Relations, and the heads of the other four operating divisions: Retail, Wealth Management, Corporates & Commercial Real Estate Financing, and Markets & Investment Banking. Thus the new structure and breakdown of responsibilities on the Management Board of HVB AG match the organisational structure in the other units of the UniCredit Group, which is divided into customer groups (business divisions) and functions. The Board spokesman, Dr Sprissler, is also a member of UniCredit's Management Committee, which advises and supports the Chief Executive Officer of UniCredit in implementing management decisions.

The Management Board of HVB AG 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 before the meeting. Given the composition of the Supervisory Board, presentations, reports and other documents are issued in two languages.

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 the 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 2006 financial year:

All transactions have been published under Corporate Governance on the Bank's website at www.hvb.com/dealings.

Members of the Management Board did not hold any shares of HVB AG at December 31, 2006. At December 31, 2006, the members of the Supervisory Board held less than 1% of the entire stock issued by HVB AG.

Directors' dealings

NAME, FUNCTION	TYPE OF TRANSACTION	NAME OF SECURITY	GERMAN SECURITIES IDENTIFICATION NUMBER/ISIN NUMBER	COMPLETION DATE	UNITS	PRICE PER SHARE	VOLUME
Helmut Wunder, member of the Supervisory Board of HVB AG	Sales	Common bearer stock of Bayerische Hypo- und Vereinsbank AG	WKN: 802200 ISIN DE 0008022005	September 14, 2006	500	€33.50	€16,750.00

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 can exercise their voting rights in person or through a proxy (such as a shareholder association or a bank), or authorise 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, capital-raising and conversion 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. Risk control and risk management are combined under the area of responsibility of the Chief Risk Officer, who reports to the Audit Committee of the Supervisory Board on a regular basis. Please refer to the Risk Report 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.

Corporate Governance and Compensation Report continued

2006 statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act
The Supervisory Board and the Management Board issued the following statement of compliance on December 5, 2006, which has also been made permanently available on the website of HVB AG.

"The Management Board and Supervisory Board of Bayerische Hypo- und Vereinsbank Aktiengesellschaft ('HVB AG') hereby declare that the recommendations of the 'Government Commission German Corporate Governance Code', as amended on June 2, 2005 and June 12, 2006, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette was complied with in fiscal 2006, with the following deviations:

– Annexes 1.2, 1.3.3, 1.3.4–1 to 1.3.4–12 and 3.1 to the Master Agreement of January 16, 2006 as well as the relevant annexes to the Hive-Down Agreement of March 29, 2006 (cf. agenda items 13 and 14 of the Annual General Meeting of May 23, 2006) have not been published on the Internet for the reasons stated in the invitation to the Annual General Meeting. Accordingly, the recommendation in Section 2.3.1 (3) of the Code was not followed.

– Section 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 in this regard.

– According to Section 4.2.3 (6) of the Code, stock options and comparable instruments shall be related to demanding, relevant comparison parameters. In addition, according to Section 4.2.3 (8) the Supervisory Board shall agree for extraordinary, unforeseen developments a possibility of limitation (cap).

  As "HVB AG" is a Group member company of UniCredito Italiano S.p.A., in 2006 the remuneration of the members of the Management Board of "HVB AG" was handled on a similar basis as that used in the UniCredit Group. As in the past, remuneration comprises three components: an individual basic salary, an annual performance-based bonus, and an annual long-term incentive. The long-term incentive plan of UniCredit comprises stock options on UniCredit shares and performance shares in the form of UniCredit shares. In departure from Section 4.2.3 of the Code, this long-term incentive plan provides neither for parameters to be drawn on for comparison purposes, nor – in relation to the stock options – for any performance targets; moreover, no form of limitation (cap) was agreed for extraordinary, unforeseeable developments.

– According to Section 4.2.4 (2) of the Code, as amended on June 2, 2005, the particulars of remuneration of Management Board members are to be disclosed individually in the Notes to the Consolidated Financial Statements.

  In fiscal 2005, 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 was continued. In the Notes to the Consolidated Financial Statements and in the Corporate Governance Report, the remuneration components, namely the fixed remuneration, performance bonuses and long-term incentives, were disclosed. In our view, the disadvantages would outweigh the advantages for the company if we reported remuneration on a more individualized basis.

  Meanwhile, at the Annual General Meeting of May 23, 2006, the so-called opting-out clause under the Act concerning the disclosure of Management Board remuneration was used and, following a proposal by the Management Board and Supervisory Board, it was resolved that in the Company's Annual and Consolidated Financial Statements for fiscal 2006 through 2010, at the latest until May 22, 2011, however, the information required in Section 285 (1) No. 9 a and (5) to (9) and Section 314 (1) No. 6 a (5) to (9) of the Commercial Code is not to be disclosed.

– According to Section 5.4.3.(2), an application for the judicial appointment of a Supervisory Board member shall be limited in time up to the next annual general meeting.

In 2006, this recommendation was only followed in the sense that when the judicial appointment of Mr. Ermotti was applied for, he was to be appointed a member of the Supervisory Board until the following ordinary General Meeting. In contrast, Mr. Ermotti's election as a member of the Supervisory Board was not on the agenda of the Extraordinary Shareholders' Meeting of October 25, 2006.

For clarification purposes, the appraisals by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, of the enterprise value of the HVB AG units sold in Austria, central and eastern Europe (cf. the specific agenda items of the Extraordinary Shareholders' Meeting of October 25, 2006) were not published on the Internet in line with the parameters laid down by PricewaterhouseCoopers in order to confine access by non-shareholders to these appraisals. However, the Management Board and Supervisory Board of HVB AG do not perceive this as a deviation from Section 2.3.1 of the Corporate Governance Code, in terms of which the reports and records required for the General Meeting by law are also to be published on the Company's website.

The Management Board and Supervisory Board of Bayerische Hypo- und Vereinsbank Aktiengesellschaft ("HVB AG") further declare that the recommendations of the "Government Commission German Corporate Governance Code", as amended on June 12, 2006, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette will also be complied with in future, with the exception of Section 3.8 (3) (deductible under D&O insurance) and Section 4.2.3 (no parameters for comparison purposes and – in relation to stock options – no performance targets or forms of limitation (caps) to UniCredit shares within the scope of the long-term incentive plan)."

COMPENSATION REPORT

In compliance with the German Corporate Governance Code, the basic principles underlying the system of compensation for the Management Board of Bayerische Hypo-und Vereinsbank (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.

1. Structure of compensation paid to members of the Management Board for 2006

The compensation paid to members of the Management Board is determined by the Remuneration & Nomination Committee of the Supervisory Board. The direct compensation has three components comprising fixed and variable elements: fixed compensation, variable compensation as a bonus featuring profit-related components (short-term incentive) and a long-term incentive.

The variable components are especially important as these are linked to the achievement of the targets agreed for the financial year and the targets in the strategic plan and can exceed the fixed salary. Competitive profit-related compensation and postponing payment to the near or far future as a result of participation in the long-term incentive plan of the UniCredit Group is intended to ensure that the management is bound to the company.

To ensure that the compensation for the responsibilities assumed by Management Board members is commensurate with market conditions, an external specialist performed a market survey on behalf of HVB AG which included similar companies. The compensation paid to members of the Management Board for 2006 was stipulated by the Remuneration & Nomination Committee taking account of this survey.

1.1 Fixed salary

The fixed salary is equivalent to the level paid in similar companies. It is disbursed in 12 monthly amounts.

1.2 Bonus (short-term incentive)

The bonus is a short-term incentive, the size of which depends on certain targets agreed at the beginning of the year with all members of the Management Board being met. In 2006, these targets were specified in detail in the course of the year after completion of the three-year planning. The targets are shown in scorecards and include team targets, core targets and integration targets.

Corporate Governance and Compensation Report continued

The team target for all members of the Management Board is based on the results achieved by the HVB sub-group. Some Management Board members responsible for regional divisions also have a divisional target as an additional team target. The main emphasis is placed on what are known as core targets, i.e. especially significant targets from the Management Board members' own area of responsibility. The most important tasks arising during the process of integrating HVB AG into the UniCredit Group are covered by the integration targets.

Targets mainly relating to quantities, but also some quality targets, are agreed with the members of the Management Board. A relatively narrow range is defined for meeting the quantitative targets. If the lowest value of this range is not achieved, no points are awarded for the target. If the highest value is achieved, the Management Board member receives the highest number of points previously defined for this target. The Remuneration & Nomination Committee decides on the quality targets, taking into account the vote given for the target achievement by the head of the division or the function in which the Board member works.

The weighted total amount of points gained from each target results in the target achievement. A bonus is paid if a specified minimum number of points is achieved. Compliant with UniCredit's treatment of this issue, the maximum bonus will be defined as the reference value from 2007. This maximum bonus can be utilised whenever a total number of 120 points is achieved in the scorecard. This means that the bonus has a maximum upper limit and a correspondingly lower percentage of the maximum bonus will be disbursed in future if targets are fully met.

The bonus for one member of the Management Board also includes a long-term incentive. In this case, the amount exceeding the target bonus is disbursed only after two years have passed if the Management Board member concerned is still working for HVB AG at this point (retention award).

1.3 Long-term incentive

Each Management Board member takes part in the Stock Option & Performance Shares Plan of the UniCredit Group (long-term incentive plan of the UniCredit Group).This plan consists of two components.

On the one hand, each Management Board member is granted a certain number of options which can be exercised if the beneficiary is still working for the UniCredit Group after four years (vesting). Each option entitles the Management Board member to purchase a UniCredit share at a price which was fixed before the option was issued. The option may be exercised within a period of nine years after vesting. In 2006, the Management Board of HVB AG was granted a total of 508,633 stock options.

On the other hand, each Management Board member is promised a specific number of UniCredit shares (to be tansferred free-of-charge) on condition that the relevant targets in UniCredit's strategic plan are met after three years have passed and the beneficiary is still working for the UniCredit Group. The targets were combined in baskets. There are baskets for the UniCredit Group and for each division. Each basket has five targets, of which three must have been met.

Members of the Management Board working in operating activities receive the shares only if the division has achieved its target. They receive 50% of the shares if only the division has met its targets but 100% of the shares if the Group has also met its targets. The other Management Board members receive the shares if the Group has achieved its targets. The Management Board of HVB AG received 195,333 performance shares in 2006.

HVB AG reimburses the cost of participating in the long-term incentive plan to UniCredit.

The entitled person pays the taxes on the benefits gained, i.e. the value of the share less the fixed purchase price when the stock option is exercised and the value of the share for performance shares upon allotment.

One member of the Management Board, who also has a service contract with UniCredit, only receives a fixed compensation from HVB AG. In other words, he receives neither a bonus nor a long-term incentive. Furthermore, because of the functions he performs at UniCredit this member of the Management Board receives a fixed basic salary from this company; the respective bonuses and participation in the long-term incentive plan for the senior executives of the UniCredit Group are further components of this Board member's compensation which are to be paid by UniCredit. HVB AG reimburses the compensation costs to UniCredit.

Another Management Board member, who also has a service contract with Bank Austria Creditanstalt (BA-CA), receives the same direct components of compensation from HVB AG as the other Managmenet Board members. However, the amount of his compensation takes account of the fact that this Management Board member also works on a smaller scale for BA-CA and thus receives similar compensation in due proportion from BA-CA.

One member of the Management Board, who resigned from the Management Board in 2006 and as a member of UniCredit's Management Committee also had a service contract with UniCredit, received only a fixed salary and an allocation to a retirement pension from HVB in the 2006 financial year

Compensation paid to members of the Management Board for positions on supervisory boards of Group companies is surrendered to HVB AG.

The Annual General Meeting of Shareholders of May 23, 2006 invoked what is referred to as the opt-out clause of the Act on the Disclosure of Management Board Remuneration and resolved that the remuneration received by Management Board members would not be disclosed on an individualised basis.

The compensation paid to members of the Management Board for the 2006 financial year totalled €10 million.

1.4 Compensation paid to members of the Management Board

	FIXED SALARY		PERFORMANCE-RELATED COMPONENTS		LONG-TERM INCENTIVE[1]		TOTAL	
€ millions	2006	2005	2006	2005	2006	2005	2006	2005
Members of the Management Board of HVB AG	4	5	5	4	1	7	10	16
Members of the Supervisory Board of HVB AG for supervisory board work	0.8	1	0	0	0	0	0.8	1
Former members of the Management Board of HVB AG and their surviving dependents							11	12
Severance pay/provisions for former members of the Management Board and executives at Bereichsvorstand level							2	25

1 monetary value of equities-based compensation

Details of share-based compensation

MEMBERS OF THE MANAGEMENT BOARD OF HVB AG	UNITS	MONETARY VALUE in €	MONETARY VALUE in €
		Fair value of each option	Fair value on the date
Options		on the date of granting	of granting in total
Stock options 2005	472,000	1.0548	497,865.60
Stock options 2006	508,633	1.269	645,455.28
		Fair value of each performance	Fair value on the date
Performance shares		share on the date of commitment	of commitment in total
Performance shares 2005	201,000	4.461	896,661.00
Performance shares 2006	195,333	5.574	1,088,786.14

The fair value on the date of granting is recorded as an expense on the basis of the expected number of options exercised/performance shares granted over the period or vesting period of the respective programme.

Corporate Governance and Compensation Report continued

1.5 Pension commitments
Besides direct remuneration, Management Board members have received pension commitments. Except for three members of the Management Board, the Management Board members take part in the fund-linked deferred compensation scheme (FDC) which is also available to the Bank's employees. HVB AG has fixed the contribution as 20% of the fixed salary and the short term incentive, subject to a cap of €200,000 per year. It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from HVB AG.

HVB AG credits the deferred compensation amounts to the Management Board member's capital account and invests them in a fund, currently the Pioneer Total Return Fund. HVB AG guarantees an annual return of 2.75%. A higher yield is initially used for allocation to a fluctuation reserve amounting to 10% of the separate funds for FDC. Any surplus return is credited to the Management Board member in due proportion. The fluctuation reserve is used to offset any actuarial losses.

When the beneficiary becomes entitled to receive benefits, the capital credit balance is converted into a pension for life. In the process, the actuarial calculations applicable at the time, in particular the life expectancy, are taken as a basis. An annual adjustment of 1% is granted for the pension; this fulfils the Bank's obligation to adjust pension commitments. Alternatively, the capital can be disbursed if the eligible Management Board member has applied for this two years before the insured event occurs.

Notwithstanding the pension arrangements described, HVB AG had undertaken to provide one member of the Management Board a retirement pension for a fixed amount each year. Contributions will be paid to a pension fund for another member of the Management Board. HVB AG has not agreed a pension commitment with a further member of the Management Board. HVB AG has not agreed a pension commitment with a further member of the Management Board.

A total of €560,000 was transferred to provisions for pensions in 2006, €463,000 of which was deferred compensation invested in a fund in 2006. The compensation paid to former members of the Management Board amounted to €11 million in 2006. At December 31, 2006, the reserves in the HVB sub-group for pension commitments to former members of the Management Board and their surviving dependants stood at €92 million. In accordance with IFRS, the value of the reserves for pension commitments for retired members of the Management Board amounts to €124 million.

1.6 Fringe benefits
Other fringe benefits are of no material significance. The members of the Management Board can use their company car for private purposes. The Bank pays the premiums for an accident insurance policy valid 24-hours a day and a sum insured of €511,000 in the event of death and €1,024,000 in the event of complete disability. Furthermore, members of the Management Board receive the same preferential terms for bank services as the Bank's employees.

1.7 Commitments in the event of the termination of Management Board activities
If a contract is not extended for reasons for which the member of the Management Board is not responsible, a transitional allowance of at least one year's salary (fixed salary and bonus), but a maximum of three years' salary depending on the length of service, is usually paid; the maximum amount is paid after 20 years. The transitional allowance is limited to the annual salaries (fixed salary and bonus) still outstanding until the age of 62 in each case. In the event that his contract is not extended, one member of the Management Board will not receive any benefits from HVB AG on account of another contract he has in the corporate group; another can receive a retirement pension.

2. Compensation paid to members of the Supervisory Board
The compensation paid to members of the Supervisory Board is regulated in Article 15 of the 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 23, 2006. 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 €25,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no-par share. 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 €120,000 payable upon conclusion of the financial year, which is used to compensate committee members on the basis of a corresponding Supervisory Board resolution. According to this, the members of the Audit Committee receive annual compensation of €20,000 each for the 2006 financial year. The chairman of the committee receives 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 value-added tax payable on their Supervisory Board functions. Where they sit on the Management Committee of UniCredit, the members of the Supervisory Board surrender 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 chairman of the Supervisory Board has an office complete with staff at his disposal. In 2006, expense allowances totalling €86,987.73 were paid to members of the Supervisory Board. No remuneration was paid in the 2006 financial year for services provided personally.

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2006.

Compensation of members of the Supervisory Board

€	FIXED COMPENSATION	VARIABLE COMPENSATION	COMPENSATION FOR COMMITTEE WORK	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo, Chairman	50,000.00	22,400.00	20,000.00	92,400.00	(63,155.40)[6]
Peter König,[1] Deputy Chairman	37,500.00	16,800.00	16,328.77	70,628.77	
Dr Lothar Meyer, Deputy Chairman	37,500.00	16,800.00	40,000.00	94,300.00	
Aldo Bulgarelli	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Beate Dura-Kempf[2]	20,410.96	9,144.11		29,555.07	
Sergio Ermotti[3]	9,041.10	4,050.41		13,091.51	(8,948.05)[6]
Paolo Fiorentino	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Dario Frigerio	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Klaus Grünewald	25,000.00	11,200.00		36,200.00	
Anton Hofer	25,000.00	11,200.00	20,000.00	56,200.00	
Friedrich Koch	25,000.00	11,200.00		36,200.00	
Hanns-Peter Kreuser	25,000.00	11,200.00		36,200.00	
Ranieri de Marchis	25,000.00	11,200.00	20,000.00	56,200.00	(38,412.70)[6]
Herbert Munker[4]	4,589.04	2,055.89	3,671.23	10,316.16	
Roberto Nicastro	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Vittorio Ogliengo	25,000.00	11,200.00		36,200.00	(24,742.70)[6]
Carlo Salvatori[5]	15,958.90	7,149.59		23,108.49	(15,794.65)[6]
Professor Hans-Werner Sinn	25,000.00	11,200.00		36,200.00	
Maria-Magdalena Stadler	25,000.00	11,200.00		36,200.00	
Ursula Titze	25,000.00	11,200.00		36,200.00	
Jens-Uwe Wächter	25,000.00	11,200.00		36,200.00	
Helmut Wunder	25,000.00	11,200.00		36,200.00	
Total	**550,000.00**	**246,400.00**	**120,000.00**	**916,400.00**	**800,624.30[6]**

1 member of the Audit Committee since March 9, 2006
2 since March 9, 2006
3 since August 22, 2006
4 until March 8, 2006
5 until August 21, 2006
6 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

Munich, March 20, 2007

The Management Board The Supervisory Board

The HVB Share

Solid share performance

The HVB share again posted a significant increase in 2006, climbing 29.0% over the year as a whole to reach a price of €33.03 per share at December 31, 2006. Thus it has risen a remarkable 65% since the business combination with UniCredit was announced on June 12, 2005, showing that the market has truly appreciated the strategic choice made by management.

Our share also put in a solid performance in 2006 when seen against our benchmark indexes, the MDAX and the Prime Banks, whose rises of 28.6% and 21.8% respectively during 2006 failed to fully match the Bank.

The new three-year plan for both the UniCredit and HVB groups, the first since the business combination became a reality, was presented to the financial community in Munich on July 5, 2006. This was clearly very well received, as the HVB share clearly outperformed both the benchmark indexes in the month following the presentation, rising by 15% as against 2.1% for the MDAX and 1.2% for the Prime Banks index.

The weights of the HVB share in the MDAX index and the Prime Banks index increased accordingly, to 1.58% and 1.67% respectively in 2006 (2005: 1.56% in the MDAX and 1.58% in the Prime Banks).

Improved credit ratings

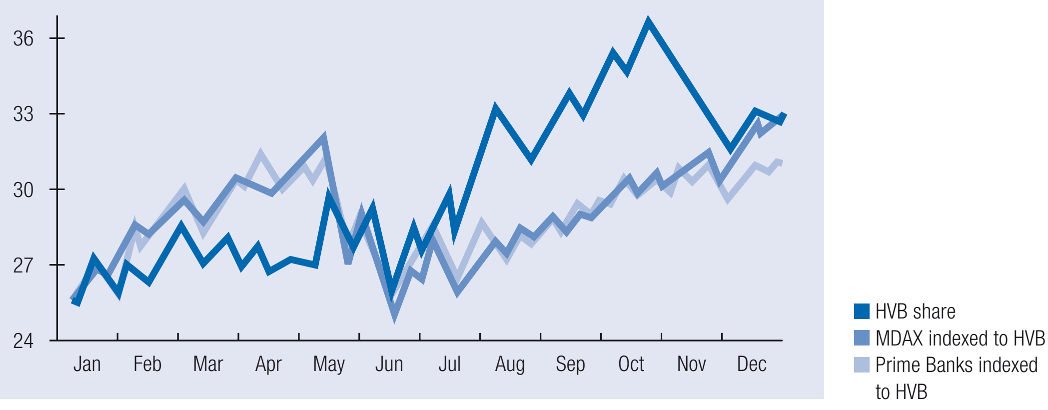
Two of the three main agencies covering us, S&P and Fitch, improved their views of HVB Group during 2006 to reflect the stronger outlook and financial strength of the Bank. S&P reviewed the outlook from negative to stable (maintaining its A/A-1 rating), whilst Fitch improved the outlook from stable to positive and the financial strength rating from C/D to C.

Shareholder structure virtually unchanged

The shareholder structure remained virtually unchanged during the year, with the main shareholder, UniCredit, owning 93.93% of capital stock. The remaining 6.07% of our shares were free float, held by mainly institutional investors and some private investors.

The average daily trading volume during the year declined significantly from the high level recorded in 2005 (which can be attributed in part to the demand associated with the business combination with UniCredit), but the stock remained relatively liquid despite the limited free float, with the daily trading volume averaging 443,000 shares in 2006.

HVB share relative to MDAX and Prime Banks
(HVB share from January 1 to December 31, 2006, in €)



Weightings

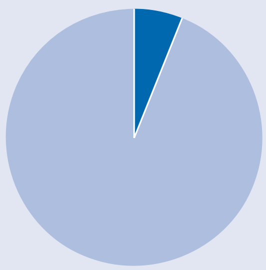
	WEIGHTING	RANKING
MDAX	1.58%	27
Prime Banks index	1.67%	6

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

in €	2006	2005
Average number of shares (millions)	750.7	750.7
Number of shares at Dec. 31 (millions)	750.7	750.7
Earnings per share (adjusted)[1]	2.88	1.55
Earnings per share	5.89	0.86
Dividend per share of common stock	0.40	0.25
Dividend per share of preferred stock	0.064	0.064
Share price at year end	33.03	25.61
High	36.65	26.85
Low	25.52	16.30

1 2006 figures adjusted for the defined non-recurring effects
2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances

Shareholder structure since November 17, 2005[1] (in %)



UniCredit 93.93
Free float 6.07

1 750,699,140 outstanding shares, of which 14,553,600 preferred shares held by UniCredit

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	PUBLIC PFANDBRIEFS	MORTGAGE PFANDBRIEFS
Moody's	A2	P-1	stable	Aa1	Aa1
S & P	A	A-1	stable	AAA	—
Fitch Ratings	A	F1	positive	AAA	AAA

Investor relations activities still significant

The Investor Relations team remained active on many fronts in 2006, keeping a communication channel constantly open with equity and fixed-income analysts, investors and the rating agencies. As of December 31, 2006, our share was still being covered by nine analysts from prestigious banks and brokers, despite the limited free float, reflecting its still relatively high liquidity together with interest in the HVB equity story and the German markets. We participated in the main German banking conferences and held meeting in Frankfurt, London, New York and our corporate headquarters in Munich.

At the end of January 2006 and in May/June 2006, HVB AG successfully issued two global Pfandbriefe – the "Global No. 10" with a volume of €1.5 billion and a maturity of 7 years and the "Global No. 11" with the same volume and a maturity of 10 years – with Investor Relations co-organising the associated roadshow through Europe.

Significant efforts were made to co-ordinate the Bank's investor relations activities with those of UniCredit Group, with a view to explaining the two groups' new strategy and structure to market participants in the best possible way.

Summary of Annual Financial Data

€ millions	HVB GROUP NEW 2006	HVB GROUP NEW 2005	FULL HVB GROUP 2006	FULL HVB GROUP 2005
Operating performance				
Net interest	3,148	3,166	5,886	5,576
Dividends and other income from equity investments	251	259	479	533
Net interest income	**3,399**	**3,425**	**6,365**	**6,109**
Net fees and commission	1,753	1,723	3,468	3,198
Net trading, hedging and fair value income	768	376	1,230	656
Net other expenses/income	32	(311)	104	(322)
Net non-interest income	**2,553**	**1,788**	**4,802**	**3,532**
TOTAL REVENUES	**5,952**	**5,213**	**11,167**	**9,641**
Payroll costs	(2,216)	(2,212)	(3,895)	(3,733)
Other administrative expenses	(1,166)	(1,260)	(2,132)	(2,185)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(313)	(413)	(573)	(690)
Operating costs	**(3,695)**	**(3,885)**	**(6,600)**	**(6,608)**
OPERATING PROFIT	**2,257**	**1,328**	**4,567**	**3,033**
Provisions for risks and charges	(164)	(87)	(267)	(98)
Write-down on goodwill	—	—	—	—
Restructuring costs	(60)	(438)	(308)	(546)
Net write-downs of loans and provisions				
for guarantees and commitments	(933)	(979)	(1,661)	(1,482)
Net income from investments	671	69	3,170	392
Other non-operating expenses	(153)	—	(184)	—
PROFIT BEFORE TAX	**1,618**	**(107)**	**5,317**	**1,299**
Income tax for the period	125	(14)	(117)	(262)
NET PROFIT	**1,743**	**(121)**	**5,200**	**1,037**
Minorities	(103)	(6)	(780)	(395)
NET PROFIT	**1,640**	**(127)**	**4,420**	**642**
Earnings per share (adjusted)[1]	1.50	0.39	2.88	1.55
Earnings per share	2.18	(0.17)	5.89	0.86

1 figures for 2006 and 2005 adjusted for the defined non-recurring effects (see Income Statement, HVB Group compliant with IFRS 5)

	HVB GROUP NEW		FULL HVB GROUP	
	2006	2005	2006	2005
Key indicators (%)				
Return on equity after taxes, adjusted[1]	15.2	3.8	18.5	10.2
Return on equity after taxes	22.1	(1.7)	37.8	5.6
Cost-income ratio (based on total revenues)	62.1	74.5	59.1	68.5
Balance sheet figures (€ billions)[2]				
Total assets	358.3	351.7	508.0	493.7
Shareholders' equity	21.9	20.5	20.0	15.4
Key capital ratios compliant with German Banking Act[2]				
Core capital (€ billions)	15.1	15.4	18.3	17.1
Risk-weighted assets (€ billions)	137.4	150.8	219.3	232.5
Core capital ratio (%)	11.0	10.2	8.4	7.3
Employees	25,738	27,353	50,659	61,251
Offices	788		1,877	2,316

SHARE INFORMATION	2006	2005
Share price (€)		
Year-end (€)	33.03	25.61
High (€)	33.20	26.85
Low (€)	32.50	16.30
Market capitalisation (€ billions)	24.8	19.2

1 figures for 2006 and 2005 adjusted for the defined non-recurring effects (see Income Statement, HVB Group compliant with IFRS 5)
2 HVB Group new: pro forma figures

Summary of Quarterly Financial Data

HVB Group (compliant with IFRS 5)

€ millions	Q1 2006	Q2 2006	Q3 2006	Q4 2006
Income/expenses				
Net interest income	852	851	803	893
Net fees and commissions	538	447	371	397
Net trading, hedging and fair value income	297	185	191	95
Net other expenses/income	27	16	(4)	(7)
TOTAL REVENUES	**1,714**	**1,499**	**1,361**	**1,378**
Operating costs	(964)	(906)	(919)	(906)
OPERATING PROFIT	**750**	**593**	**442**	**472**
Provisions for risks and charges	(21)	(25)	(27)	(91)
Write-down on goodwill	—	—	—	—
Restructuring costs	—	(3)	(16)	(41)
Net write-downs of loans and provisions for guarantees and commitments	(210)	(202)	(226)	(295)
Net income from investments	89	49	551	(18)
Other non-operating expenses	—	—	—	(153)
PROFIT BEFORE TAX	**608**	**412**	**724**	**(126)**
Income tax for the period	(192)	(123)	(60)	500
NET PROFIT	**416**	**289**	**664**	**374**
Minorities	(24)	(27)	(14)	(38)
NET PROFIT OF HVB GROUP NEW	**392**	**262**	**650**	**336**
Profit after tax of discontinued operations	382	1,083	297	1,695
Minorities in profit of discontinued operations	(123)	(290)	(105)	(159)
NET PROFIT OF FULL HVB GROUP	**651**	**1,055**	**842**	**1,872**
Earnings per share (€)[1], full HVB Group	0.87	0.72	0.43	0.86

1 Q2 2006 adjusted for restructuring costs and the gain on the disposal of HVB Splitska banka; unadjusted earnings per share total €1.40
Q3 2006 adjusted for restructuring costs and the gain on the disposal of the Activest companies; unadjusted earnings per share total €1.12
Q4 2006 adjusted for restructuring costs; change in method of accounting for net write-downs of loans and provisions for guarantees and commitments; gains on disposal of BPH Group and Munich Re; valuation expenses for the announced disposal of a portfolio of non-strategic real estate; and other non-operating expenses; unadjusted earnings per share total €2.50

Full HVB Group

	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006
Key indicators (%)				
Return on equity after taxes, adjusted[1]	—	21.0	17.7	18.5
Return on equity after taxes	22.8	30.0	29.8	37.8
Cost-income ratio (based on total revenues)	56.4	57.0	58.6	59.1
Balance sheet figures (€ billions)				
Total assets	498.2	486.8	495.1	508.0
Shareholders' equity	16.3	16.6	18.5	20.0
Key capital ratios compliant with German Banking Act				
Core capital (€ billions)	17.1	16.9	17.1	18.3
Equity funds (€ billions)	25.6	25.3	25.6	27.1
Risk assets (€ billions)	231.7	233.5	236.0	219.3
Core capital ratio (%)	7.4	7.2	7.3	8.4
Equity funds ratio (%)	10.5	10.3	10.4	11.8
Share information				
Share price (€)	27.24	28.28	34.50	33.03
Market capitalisation (€ billions)	20.4	21.2	25.9	24.8
Employees	62,696	62,716	60,881	50,659
Offices	2,461	2,489	2,378	1,877

1 figures for 2006 adjusted for restructuring costs; change in method of accounting for net write-downs of loans and provisions for guarantees and commitments; gains on disposal of BPH Group, HVB Splitska banka, the Activest companies and Munich Re; valuation expenses for the announced disposal of a portfolio of non-strategic real estate; and other non-operating expenses

Summary of Annual Financial Data

€ millions	FULL HVB GROUP 2005	2004	2003	2002
Operating performance				
Net interest income	5,885	5,662	5,881	5,936
Provisions for losses on loans and advances	1,513	1,795	2,313	3,292
Net interest income after provisions				
for losses on loans and advances	4,372	3,867	3,568	2,644
Net commission income	3,240	2,845	2,795	2,672
Trading profit	926	728	820	787
General administrative expenses	6,582	6,118	6,371	6,896
Balance of other operating income and expenses	(143)	23	620	180
OPERATING PROFIT (LOSS)	**1,813**	**1,345**	**1,432**	**(613)**
Net income from investments	321	14	(1,806)	587
Amortisation of goodwill	—	165	1,134	395
Restructuring costs	546	250	—	283
Allocation to special provisions for bad debts	—	2,500	—	—
Balance of other income and expenses	(289)	(357)	(638)	(149)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES/PROFIT				
(LOSS) BEFORE TAX	**1,299**	**(1,913)**	**(2,146)**	**(853)**
Taxes on income	262	224	296	(3)
NET INCOME (LOSS) AFTER TAXES	**1,037**	**(2,137)**	**(2,442)**	**(850)**
Minority interest in net income (loss)	(395)	(288)	(197)	41
NET INCOME (LOSS) ADJUSTED				
FOR MINORITY INTEREST	**642**	**(2,425)**	**(2,639)**	**(809)**
Earnings per share (adjusted, €)[1]	1.55	0.70	0.54	(0.77)
Earnings per share	0.86	(3.48)	(4.92)	(1.51)

1 2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances; 2004 figures adjusted for amortisation of goodwill, restructuring costs and allocation to special provisions for bad debts; 2003 figures adjusted for amortisation 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; 2002 figures adjusted for amortisation of goodwill

	FULL HVB GROUP			
	2005	2004	2003	2002
Key indicators (%)				
Return on equity after taxes, adjusted[1]	10.2	3.9	2.1	(2.8)
Return on equity after taxes	5.6	(19.3)	(19.7)	(5.4)
Cost-income ratio (based on total revenues)	68.5	66.1	63.0	72.0
Balance sheet figures (€ billions)				
Total assets	493.7	467.4	479.5	535.8
Total volume of lending	332.6	324.6	338.3	375.8
Shareholders' equity	15.4	14.0	10.3	11.3
Key capital ratios compliant with BIS rules[2]				
Core capital (€ billions)	16.0	15.7	14.4	14.6
Equity funds (€ billions)	27.4	27.1	25.6	25.9
Risk assets (€ billions)	245.5	238.6	241.8	285.6
Core capital ratio (%)	6.5	6.6[3]	5.9	5.1
Equity funds ratio (%)	10.9	10.4	9.7	8.2
Share information				
Share price (€)				
Year-end (€)	25.61	16.70	17.62[4]	15.22
High (€)	26.85	21.13	19.26[4]	42.55
Low (€)	16.30	12.86	5.47[4]	11.75
Market capitalisation (€ billions)	19.2	12.5	9.8[5]	8.2
Employees	61,251	57,806	60,214	64,254
Offices	2,316	2,036	2,062	2,073

1 2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances; 2004 figures adjusted for amortisation of goodwill, restructuring costs and allocation to special provisions for bad debts; 2003 figures adjusted for amortisation of goodwill, current income and expenses from norisbank, Bank von Ernst, Bankhaus BethmannMaffei and the non-scheduled items defined in the consolidated financial statements for 2003; 2002 figures adjusted for amortisation of goodwill

2 as per approved financial statements

3 6.2% including the effects of consolidation to be incorporated from the start of 2005

4 HVB share price adjusted for rights markdown

5 before capital increase

Financial Calendar

IMPORTANT DATES 2007

Publication of the 2006 annual results	March 22, 2007
Annual General Meeting of Shareholders	June 26 (27), 2007*
ICM International Congress Center Munich	
Neue Messe Munich-Riem, 81823 Munich, Germany	
First-quarter earnings	May 9, 2007
Second-quarter earnings	August 3, 2007
Third-quarter earnings	November 13, 2007

* The Annual General Meeting of Shareholders has been convened for June 26, 2007 and also for June 27, 2007 as a precautionary measure in the event that it cannot be concluded on the first day.

Contacts

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e-mailing ir@hvbgroup.com
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for the first, second and third quarters
Sustainability Report
You can obtain .pdf files of all reports on our website:
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www.hvb.com/interimreport
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Franco Fontana, Puglia, 1978, UniCredit Group collection

Annex: UniCredit Group

UniCredit Group at a Glance

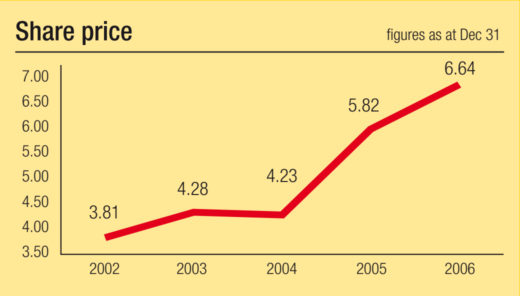
The First Truly European Bank

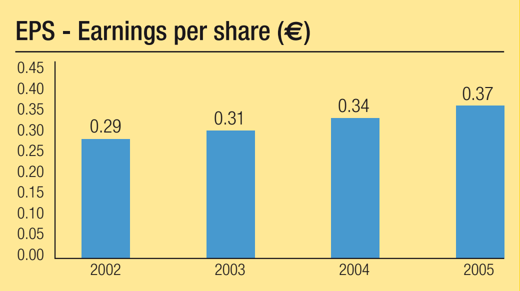
Highlights

UniCredit Group is one of the largest banking and financial services organizations in Europe.

In Europe we are one of the leaders in terms of business size and unique in terms of strategic positioning.

Over the years the UniCredit Group has built up a proven track record of value creation:





Customers: 35 mn

Employees[1]: over 142,000

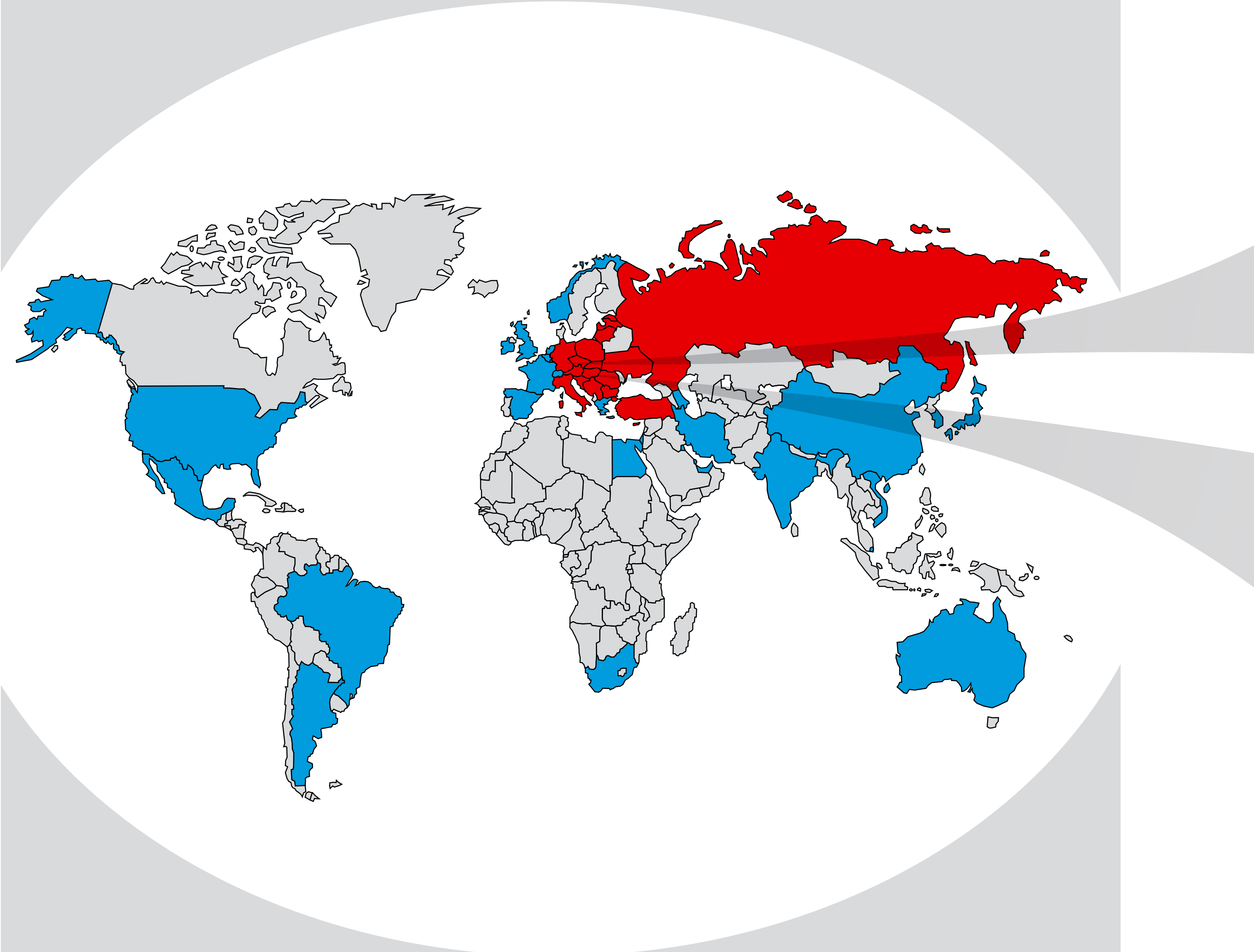
Branches[2]: over 7,200

Banking operations in 20 countries

1. “Full time equivalent”. KFS Group considered at 100%.
2. KFS Group considered at 100%.

UniCredit Group at a Glance continued

The Geographic Presence

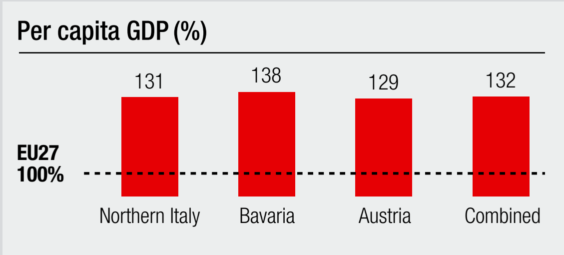


We are a global player with coverage in 5 continents

Countries where the Group operates via control of local banks or in which it has a significant equity interest.

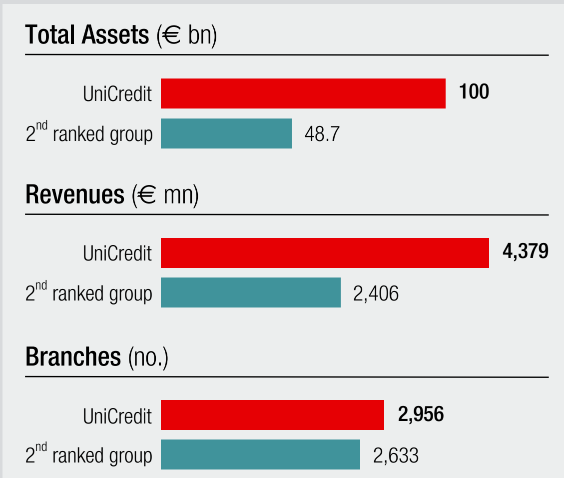
Countries where the Group operates via its own branches, representative offices, small banking subsidiaries, or investment centers (Pioneer).

The UniCredit Group has a leading position in one of the richest areas in Europe: Bavaria, Austria and Northern Italy.



Source: CE inforegio Report as at February 2007 (based on the latest available information).

The Group is leader also in Central and Eastern Europe, an area featuring fast rates of economic growth and the fastest growth rates for banking revenues.
The Group has a significant competitive edge in Central and Eastern Europe: in terms of total assets, revenues and the number of branches.



Source: UniCredit New Europe Research Network - As at end 2005.
Note: 100% of total assets and revenues for controlled companies (stake>50%) and share owned for non-controlled companies; 100% of branches (excluding representative offices); including proforma and acquisitions in 2006.

UniCredit Group at a Glance continued

The Business Model

UniCredit Group

Retail Division	Corporate Division	Private Banking & Asset Management Division	Markets & Investment Banking Division	Poland Markets Division	CEE Division	Global Banking Services Division

UniCredit has adopted a division-based organisational model that leverages to the utmost the competitive advantages derived from its geographic and business structure, and puts these directly at the service of our customers everywhere in Europe and abroad. The Group's full exploitation of these advantages will also enable it to improve operating efficiency in several areas and to achieve substantial growth in Economic Value Added (EVA) with significant contributions from all business divisions.

UniCredit has identified specialisation as a key success and differentiation factor for establishing a competitive advantage in the European market.

The Group has therefore adopted a division-based business model that can respond with maximum efficiency to the needs of different market segments by offering personalised service models as well as by giving operating divisions full responsibility for determining their own strategies.

The creation of value for UniCredit's customers and other stakeholders is augmented by specialised product factories which can exploit the significant opportunities offered by global businesses and which can, at the same time, create and derive added value in every market in which the Group operates.

The Group has established centres of excellence in selected product areas at the international level (Asset Management, Investment Banking and global product lines such as leasing and consumer credit) in order to make products increasingly competitive and of the highest quality.

UniCredit has taken the strategic decision to manage commercial banking as a multi-site business in Italy, Germany and Austria and to focus on emerging markets (Poland and CEE) at the local level in order to take full advantage of all the growth and value creation opportunities in those markets.

The Group's aim is to be recognised as a domestic player in every market in which it operates by placing a strong emphasis on its presence in local communities.

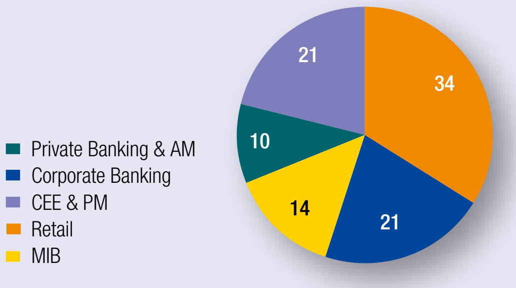
Key Strategies

- The **Retail Division** will increase its revenues by building on the successful strategy in Italy and by focusing on cost containment in Germany and Austria, achieving high sales productivity through segmented service models and global product factories.
- Growth in the **Corporate Division** will be based on greater penetration of the existing customer base, on expansion into new geographic areas and on strong support from the development of leasing and trade finance services in CEE countries.
- **Private Banking** will adapt the business model already successfully implemented in Italy for the German and Austrian markets. This will increase penetration of the Group's customer base and reduce the cost of acquiring new customers.
- In the **Asset Management Division**, UniCredit Group will realise the significant growth potential in the institutional customer and asset management segments, thanks to acquisitions made in recent years which have resulted in a considerable expansion to the range of products offered. In the retail segment, the Group will leverage the high quality of its advisory services to improve the strength and duration of existing relationships.
- In the **CEE and Poland Markets Divisions**, UniCredit will take full advantage of its powerful distribution network to exploit profitable opportunities arising from the region's excellent growth prospects. These opportunities will be particularly significant in business areas such as consumer credit, credit cards and asset management.
- The **Markets & Investment Banking (MIB) Division** serves as the Group's global product factory and competence centre for all global financial markets and investment banking services. Its true competitive advantage will be its affiliation with a Group that has a broad base in numerous European markets. UniCredit has significant investment banking positions in Italy, Germany and Austria and an extensive presence in CEE countries. It is in this area that the division is poised to grow significantly with the aim of becoming the preferred investment bank for corporate customers.
- **Global Banking Services** provides strategic support for the sustainable growth of the Group's businesses. The division's objective is to deliver high quality & efficiency services while guaranteeing operational excellence and optimising Group's internal processes and cost structures by promoting a culture that focuses on cost management, processes reengineering and the continual search for best practices.

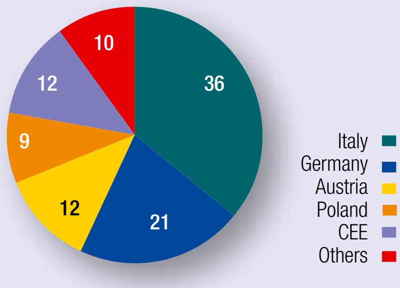
The Group is committed to continuing its development of highly specialised global product factories in support of the Group's commercial activities and to serve as well-established counterparties of outside customers.

The Group will also focus on optimising the allocation of capital, with a strong emphasis on high-growth areas and areas with the greatest potential for the creation of value. Synergies made possible by the size achieved will allow the Group to maintain rigorous control of costs, which in turn will provide the resources needed to support businesses with the highest growth potential.

Revenues by Division (%)



Revenues by Geographic Area (%)



UniCredit is characterised by the strong diversification of its revenues by business and geographic area. Commercial banking continues to be our main business. Retail banking is the most important source of revenues, generating one-third of the total, followed by corporate banking, which accounts for roughly 20% of total. The Group is highly focused on international markets, as demonstrated by its revenue breakdown by geographic market. Italy remains the principal market for the Group, but substantial revenues are derived also from Germany, the CEE countries and Austria.

UniCredit Group at a Glance continued

Integrity: a Condition of Sustainability

While profit generation is an essential pre-requisite for ensuring business success and growth, in UniCredit's view it is not, however, sufficient per se.
Profit must be generated with the integrity that promotes reputation, both internally and externally in order to create sustainability.

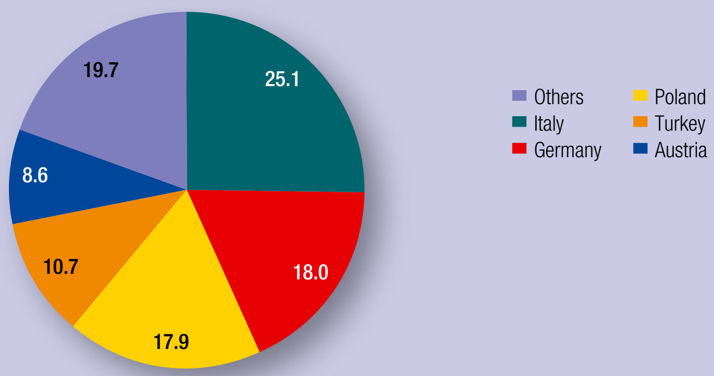
UniCredit Group emphasizes the entrepreneurial ability of its employees. To do that the Group does not simply rely on an effective governance mechanism, but also on a set of shared values to which colleagues can relate in their working life.

The Integrity Charter enshrines the body of these shared values which represent our "Foundations of Integrity": Fairness, Respect, Freedom, Transparency, Reciprocity and Trust.

For each of the main stakeholder groups making up the business (employees, investors, customers/suppliers, local communities), UniCredit has explained how to interpret those values which are considered essential to transform profit into value in a sustainable way.

The aim is to provide a useful behavioural framework for the resolution of the dilemmas that employees inevitably encounter during their everyday activities, and to help them to make responsible and consistent professional decisions.

Employee distribution[1] (%)



1 for employees nationality
Source: internal data as at 31 December 2006.

At UniCredit Group, cultural diversity is embraced and seen as a differentiating strength.

The percentage of people coming from the main geographical regions in which UniCredit operates is well balanced.


UniCredit Group
THE INTEGRITY CHARTER
Values Expressed Through Our Behavior ...
... Building Our Reputation ...
... For All of Our Stakeholders
Fairness
Transparency
Respect
Reciprocity
Freedom
Trust
Our key enabler
to transform
our profits
into
sustainable value
Our Colleagues
Our Customers
Our Suppliers
Our Investors
The Local Communities in which We Operate
It is this group identity, together with our strong performance and sense of innovation, which sets us apart from our competitors.
Fairness in relation to Local Communities
UniCredit Group

HypoVereinsbank

Member of

UniCredit Group

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