HypoVereinsbank
UniCredit Group

2007 Annual Report

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

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HypoVereinsbank
UniCredit Group

The art experience

2007 was a formative year for the bank's international activities in culture. It was a year that saw intense engagement in all the territories in which we operate.

We believe that culture, when viewed as a strategic resource, can bring tremendous value and foster new ideas. These new ideas are fundamental to innovation and sustainable social and economic growth.

In this year's annual report, we have decided to focus on images of the international events which comprised our work with important partners in art and culture rather than on individual pieces from our collection. Notable among these were events in partnership with the Education Department of the Castello di Rivoli Contemporary Art Museum.

These initiatives involving the broader public in art experiences illustrate the importance UniCredit Group attaches to entertain and promote an active dialogue with the communities in which our group operates. The large gatherings pictured in this report were held in city squares and museums and involved thousands of people. What you see is a single spontaneously generated expression of thousands of hands united together in a joyful and creative concert.

Contact with international artists and leading facilitators of culture, through diverse languages, styles and techniques, shows how art stimulates the development of relational and cognitive skills and the potential of the individual. Art, above all, generates significant positive energy which can connect people, bridge differences and promote dialogue. It offers an extraordinary repertoire for learning, exploring, experimenting and interpreting the present to build the future.

Art brings people together.

Which is why we say: ART TALKS.

2007 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 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. The rebranding exercise begun in 2008 should be seen in this context; it exemplifies the **independent identity** of HypoVereinsbank in Germany within the UniCredit Group. 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 entrepreneurialism.
  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

Key indicators	2007[1]	2006[1]
Return on equity after taxes, adjusted[2, 3]	13.3%	11.1%
Return on equity after taxes[2]	17.6%	15.9%
Return on equity before taxes, adjusted[2, 3]	17.9%	12.7%
Return on equity before taxes[2]	25.0%	16.1%
Cost-income ratio (based on total revenues)	54.1%	62.1%

Operating performance	2007[1]	2006[1]
Operating profit	€3,035m	€2,257m
Profit before tax	€2,962m	€1,618m
Net profit	€2,050m	€1,640m
Earnings per share, adjusted[3]	€2.03	€1.50
Earnings per share	€2.60	€2.18

Balance sheet figures	31/12/2007	31/12/2006[4]
Total assets	€422.1bn	€343.6bn
Shareholders' equity	€24.0bn	€21.9bn

Key capital ratios compliant with German Banking Act (KWG)	31/12/2007	31/12/2006[4]
Core capital	€23.6bn[5]	€21.6bn[6]
Risk-weighted assets	€131.6bn	€137.4bn
Core capital ratio	17.9%[5]	15.7%[6]

	31/12/2007	31/12/2006[1]
Employees	24,784	25,738
Branch offices	846	788

Share information		31/12/2007	31/12/2006
Share price:	Reporting date	€43.45	€33.03
	High	€45.36	€36.65
	Low	€32.30	€25.52
Market capitalisation at reporting date		€34.9bn	€24.8bn

1 without discontinued operations
2 return on equity relating to 6.8% tied equity capital as a proportion of average risk-weighted assets
3 2007 and 2006 adjusted for the defined non-recurring items (see "Non-recurring effects in the income statement of the new HVB Group" in Management's Discussion and Analysis)
4 HVB Group new pro forma: figures of continued operations
5 pro forma: based on approved annual financial statements including the transfer of €3.7 billion to reserves to be resolved at the Annual General Meeting of Shareholders
6 pro forma: including the inflow to shareholders' equity from the disposal of discontinued operations

Ratings	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	PFANDBRIEFS PUBLIC	PFANDBRIEFS MORTGAGE	CHANGED/ CONFIRMED
Moody's	A1	P-1	stable	C–	Aa1[1]	Aa1[1]	18/5/2007
S & P	A+	A-1	stable	—	AAA	—	30/11/2007
Fitch Ratings	A	F1	positive	B/C	AAA	AAA	23/11/2007

1 on "review for possible upgrade" since May 14, 2007

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Strategy, Business Model and Results

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Letter from the Chairman

"Germany, as a key home market, continued to play a vital role within the UniCredit Group."

Ladies and gentlemen,

2007 was another strong year for HypoVereinsbank and for the UniCredit Group.

Although these results were expected, it is particularly gratifying to report our strong performance in light of the significant financial turmoil that has swept over a large part of the financial world.

The fact that the subprime mortgage crisis only had a relatively minor impact on the UniCredit Group's and on HVB's financial picture is, I believe, a tribute to our risk management, to the stability of our business model, and to the well-diversified portfolio we maintain across all of our business lines.

Germany, as a key home market, continued to play a vital role within the UniCredit Group. HVB retained its core competency for the German market within the UniCredit Group; beyond that, it gained responsibility for the Group's international investment banking activities.

An important milestone was achieved last year with the full implementation in Germany of the divisionalised business model. This proved effective both in building regional strength in our retail business and in providing an international focus for our corporate customers and investment banking businesses. This strong focus on customer needs has always been, and always will be, the driving force behind HVB's divisional model as it is for the whole Group. We are a performance-driven company and we have found that our commitment to create value for our company can only be as strong as our commitment to create value for our customers.

In 2007, we also continued work to streamline our business operations and made significant improvements in cost efficiency, derived from efforts to redesign and optimise operational processes and from synergies in strategic sourcing.

These are some of the many reasons why our image as a major player in the German banking market improved, both in general terms and as an employer of choice for high potentials and young professionals.

I am pleased to report that throughout the network there is an increasing commitment to corporate social responsibility. This strong commitment is being demonstrated in every office in which we work and in every community that we serve.

Our Integrity Charter plays a key role in affirming the highest standards of conduct throughout HVB as they do across the entire UniCredit Group. It is a living document that helps assure our core values are clearly understood. They form a part of every business decision we make and they are consistent with the values in place in the UniCredit Group.

Letter from the Chairman (Continued)

This same set of values underpins our new master-brand strategy, which was developed in 2007 and is being launched now, also in Germany.

This important initiative to create a shared identity will allow us to build a more unified and stronger franchise network. It will also boost the sense of belonging for our employees and make us more recognisable to our customers and other stakeholders, both locally and across borders.

We know that in unity there is strength. And through unity we have a greater opportunity to deliver on our promise to customers and make our shared success sustainable.

I want to thank the Management Board and the employees of HypoVereinsbank, whose commitment helped the company to achieve these excellent results in 2007. Together, we have what it takes to exploit the opportunities that lie ahead of us, and reach our ambitious targets again in 2008 – even in today's challenging business environment.

Best regards,

Alessandro Profumo
Chairman

Letter to our Shareholders

"All in all, we achieved a satisfactory operating profit last year."

Dear shareholders,
business partners
and friends of HVB,

Behind us lies a challenging year of highs and lows. A year during which the economic upturn in Germany continued apace. A year during which domestic unemployment fell sharply and the government managed to balance its books for the first time in years. And last but not least, a year during which German companies clearly demonstrated their global competitiveness. Record exports together with high investment rates and rising revenue and profit curves all speak a clear language. We were able to exploit these beneficial underlying conditions to enhance our position in the market. Our business model, which draws upon the regional and global strengths of our banking group in equal measure, underpinned our success. All in all, we achieved a really good operating profit that we can be proud of last year.

What we have also inherited from 2007 is the crisis on the US property market, the turbulence on the international financial markets this triggered and its effects on the global economy – effects that will make themselves felt well into the current financial year. Like the UniCredit Group as a whole, our institution is only directly affected to a relatively minor extent by the underlying US property crisis. Nevertheless, the consequential turmoil on the financial markets and its side-effects have of course had an impact on our income statement. It made operations much harder for us – especially in the Structured Credit unit of our investment banking business – in the second half of 2007 in particular, preventing us from recording even better results from our operating activities than of late. Prospects for economic growth have also suffered a severe setback. So it is crucial for all players on the financial markets to draw the right conclusions from the distortions that have become apparent. The awareness of risk needs to change. Risks need to be suitably appraised and priced again, the limits of the ability to bear risk clearly drawn. The capital markets must become more transparent and their complexities unwound, wherever this is possible.

This idea of "unwinding complexities" was also an important one for our institution last year. As part of the strategic focusing on our core business, we have disposed of further peripheral activities and pared back financial investments. Among other things, this entailed selling our securities handling and custodial operations to Caceis, the leading French financial service provider. In addition, we disposed of our remaining interest in Munich Re. We are convinced that concentrating on the segments where we have special expertise and recognised market strength will promote and secure the long-term success of our bank.

Letter to our Shareholders (Continued)

We have also made good progress on implementing the "new" HypoVereinsbank. In the first quarter of the year under review, our shares in Bank Austria Creditanstalt and our other bank holdings in central and eastern Europe were transferred within the Group.

This was followed in April 2007 by the transfer of the investment banking operations of Italy-based UniCredit Banca Mobiliare (UBM) to HypoVereinsbank. After the successfully completed reorganisation of the investment banking activities of HypoVereinsbank, Bank Austria Creditanstalt and UniCredit in the Markets & Investment Banking division, this was the first step towards the legal combination of the investment banking activities at HypoVereinsbank. Thus we've made tremendous progress on turning HypoVereinsbank into the Group-wide competence centre for investment banking and reinforcing our position as one of the major investment banks in Europe.

The squeeze-out procedure initiated last year by UniCredit to acquire all the HypoVereinsbank shares has not yet been brought to a close. At our Annual General Meeting in June 2007, the squeeze-out was approved by just under 99% of the share capital present, but a series of legal proceedings are still pending in this regard and concerning the sale of Bank Austria Creditanstalt within the corporate group. You will find further details on these issues in the Risk Report included in the present Annual Report.

The outstanding legal issues have not, however, adversely affected our business model or our ability to act on the markets. HypoVereinsbank's membership of the UniCredit Group has enabled us to gain a clear positioning on the German banking market and an even more advantageous starting point for our international investment banking activities.

In the future, we also want to make this "new" HypoVereinsbank visible by giving it a makeover and will consequently add the UniCredit Group's logo to the new "HypoVereinsbank" lettering. The future public face of our bank will make two things clear: firstly, that HypoVereinsbank with its experience and expertise will continue to be responsible for the German market. And secondly, that we belong to one of the most powerful banking groups in Europe. A banking group which, after having successfully taken over Capitalia in Italy, is one of the leading banking groups in the euro area and one of the largest banks in the world.

"Aspire after unity, but seek it not in uniformity," as Friedrich von Schiller so aptly put it. And this saying could also apply to the business philosophy of the UniCredit Group: by combining with UniCredit, we have created a leading European banking group. A banking group that can build on its strengths effectively and serve the interests of its customers with an enhanced market presence. It is self-evident that a coordinated business model and a uniform network facilitate cost-effective working methods which promote the rapid transfer of best practice across borders and open up a European banking network to our Group's customers.

During the integration process, we took great care to ensure that the advantages of this uniform positioning were able to unfold with no loss of time and expense, and especially without losing our own identity. HVB now combines the benefits of regional proximity with a strong international presence even more effectively than before.

Our three sales divisions focused on the German market – Retail, Corporates & Commercial Real Estate Financing and Wealth Management – have geared their work to three strategic core elements.

First of all, we have made significant investments in further organic growth. For example, we have increased our regional presence, in particular for our corporate customers and very wealthy private customers, and established ourselves more strongly in attractive regional markets in Germany with new facilities. We have also started to develop new customer groups for our Bank by offering additional, specific advisory and relationship management services. For example, we launched a special range of banking services for Turkish people living in Germany at selected branches in the year under review. In addition, we continued our successful new customer campaign with attractive entry products, such as the HVB Welcome Account for retail customers.

Secondly, we have continued to fine-tune the management of our customer segments, the foundations of which we already laid by the divisionalisation in 2006. We now have structures that enable us to optimally meet the diverse requirement profiles of clearly defined customer groups through appropriate specialist know-how and a range of products tailored to the respective customer needs.

And thirdly, we intensively exploit the advantages afforded us by our position in the UniCredit Group and the new opportunities this has produced for cross-border cooperation. For example, for credit card and asset management operations we can call on UniCredit Consumer Financing Bank and Pioneer Investments. These firms provide high-class products at inexpensive prices, thus making it possible for the Group to tap synergies across international borders. In addition, our international corporate customers benefit from the uniform, cross-border advisory and service models that a leading European corporate bank can offer them.

Nevertheless, whether and the extent to which our business policies will meet with success essentially depends on one factor: customer satisfaction. Only satisfied customers will do good business with us in the long term. This is why this factor is the focal point of our action on the marketplace. We systematically measure the satisfaction of our customers on a regular basis and take account of the results when designing our pay models. I am pleased that we met with a very favourable response in this area in particular during 2007. Readers of the trade journal Markt und Mittelstand voted us Mittelstand bank of the year. And we also won a top spot in a survey of retail customers' satisfaction with the advice provided by their bank carried out by an independent body in 2007. These achievements bolstered our market position and encouraged our employees to keep performing to the best of their abilities.

Letter to our Shareholders (Continued)

The challenging goals that HypoVereinsbank has set itself can only be achieved with highly motivated employees. I am very pleased that our institution has such a performance-driven workforce. We did pretty well in the financial year just ended and – what is perhaps even more important – we set the stage for further success. This was only possible because everyone demonstrated commitment and worked extremely hard. So at this point I would like to thank the employees of HypoVereinsbank and their representatives very sincerely for all their hard work and their commitment in a demanding economic environment.

The success of our company's and its employees' work in the past year can be deduced from our pleasing operating performance for 2007. In what was a difficult financial environment at times, we were able to smoothly build on the constant improvement in our operating results. We also have an excellent system of cost and risk management.

Thanks to a tangible rise in total revenues and a slight decrease in operating costs, our cost-income ratio declined to around 54%. This represents a significant improvement of eight percentage points over 2006 and should send out a positive message across the industry. We also succeeded in vastly reducing expenses for our loan-loss provisions, putting the total at the lowest level recorded since our Bank switched to IFRS accounting standards. Net profit increased by one quarter compared with 2006, to more than €2 billion. Our return on equity after taxes totalled a pleasing almost 18%. (Please refer to the Financial Review later in this Annual Report for more financial information.)

In response to the good operating performance, the Management Board will propose to the Annual General Meeting that the dividend be increased to €0.50 per share of common stock for the 2007 financial year (2006: €0.40).

We are determined to continue this success in the current 2008 financial year – in spite of what are likely to remain difficult economic conditions. Our Bank is well positioned, our business model has the right structures, products and, last but not least, people to continue to expand our market positioning. Being embedded in a European banking group will give us additional propelling force in the convergence of Europe.

In the words of Theodor Fontane: "One has to arrange it so that the goal comes towards oneself." This we understand as success not simply occurring by itself, but that we have to encourage it through our own actions, the early detection and active exploitation of opportunities, whilst taking account of risks, and an intelligent organisation. And we have made great efforts to make sure that our goals and successes come quite a bit closer.

We intentionally do not want to measure our success in euros alone and our targets in earning potential alone. This is why, with the Integrity Charter, we have drawn up a binding set of rules for our conduct with one another and with customers, suppliers, investors and in the towns and communities in which we operate. We also want to put our ethical objectives and principles into practice using this instrument. And we want the society in which we operate to share our success. For this reason, we prioritise corporate social responsibility and want to be perceived as a responsible member of the community. I am convinced that with this conduct we will come closer to our goals because economic success can only be achieved on a broad, holistic and generally accepted basis. Our Bank is well prepared to realise success in every possible dimension into the future as well – even if we anticipate having to face greater economic risks worldwide and in Germany in the 2008 financial year.

Best regards,

Wolfgang Sprissler

Summary of Divisional Results

All the divisions contributed to the year-on-year improvement in operating profit in 2007. Revenues were higher, and we succeeded in working cost-efficiently in all the divisions at the same time.

Profit before tax was up by 83.1% in total compared with last year, driven by the following factors:

- Retail division: a slight increase in total revenues helped to boost profits; we also succeeded in reducing operating costs by 3.3%. The cost-income ratio improved by 4.1 percentage points to reach 78.6%.
- Wealth Management: adjusted total revenues were up 10.5% on the back of much higher interest, fee and commission income. Operating costs rose slightly; the cost-income ratio improved by an appreciable 5.4 percentage points to 59.6%.
- Corporates & Commercial Real Estate Financing: there was a strong 3.1% rise in total revenues coupled with a slight decline in operating costs. The cost-income ratio totalled 37.0%. Our already very successful Corporates subdivision generated even higher revenues than last year; at the same time, the Commercial Real Estate Financing subdivision succeeded in increasing its operating profit by around 3% after stabilising its earnings.
- Markets & Investment Banking: total revenues rose a slight 1.4% despite the turmoil on the financial markets in the second half of the year, and operating costs declined by a minor 0.4%. The cost-income ratio was reduced by one percentage point to 51.0%.

The Global Banking Services division made a significant contribution to HVB Group's profitability thanks to efficient cost management. This can be attributed to the electronic purchasing platform together with savings in the Payments and Security Services back office units and information technology.

Divisional highlights[1]

€ millions	RETAIL	WEALTH MANAGEMENT[3]	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	MARKETS & INVESTMENT BANKING
Total revenues				
2007	1,761	483	1,474	2,179
2006	1,732	437	1,430	2,148
Operating costs				
2007	(1,385)	(288)	(546)	(1,112)
2006	(1,432)	(284)	(548)	(1,116)
Operating profit				
2007	376	195	928	1,067
2006	300	153	882	1,032
Profit before tax				
2007	264	207	761	1,572
2006	111	143	604	886
Cost-income ratio[2] in %				
2007	78.6	59.6	37.0	51.0
2006	82.7	65.0	38.3	52.0

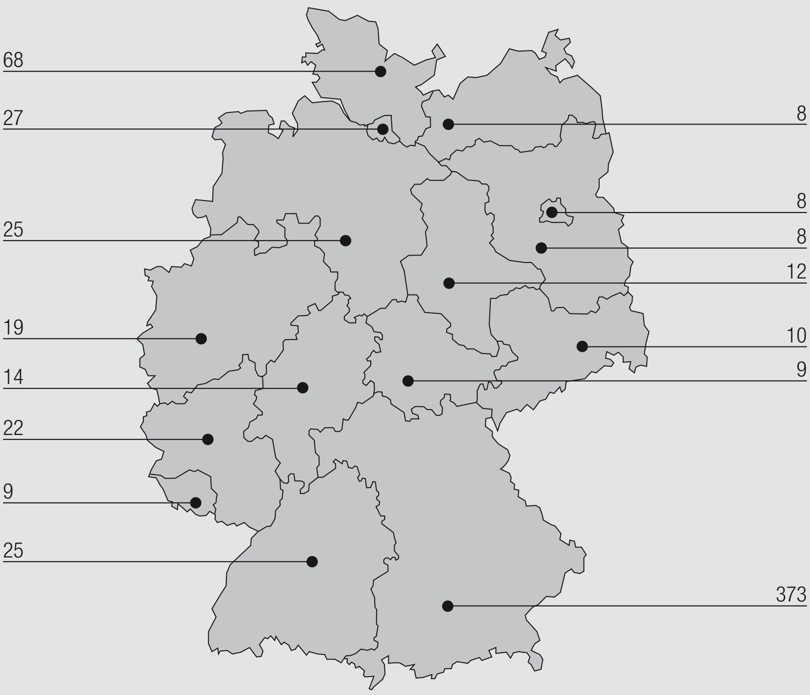
1 please refer to Note 27, “Income statement broken down by division”, in the notes to the consolidated financial statements for more detailed information
2 based on total revenues
3 income statement of the Wealth Management division adjusted for “deconsolidation effects“; please refer to Note 27, “Income statement broken down by division”, in the notes to the consolidated financial statements in the present Annual Report

Retail Division

Solid structure for further growth

The divisionalisation of the Bank in 2006 gave rise to a solid structure for growth. A further crucial step in turning around the German retail business was taken during 2007.

Retail: offices in Germany



Offices by state

STATE	DEC. 31, 2007	%
Baden-Wuerttemberg	25	3.9
Bavaria	373	58.6
Berlin	8	1.2
Brandenburg	8	1.2
Hamburg	27	4.2
Hesse	14	2.2
Lower Saxony	25	3.9
Mecklenburg-Western Pomerania	8	1.3
North Rhine-Westphalia	19	3.0
Rhineland-Palatinate	22	3.5
Saarland	9	1.4
Saxony	10	1.6
Saxony-Anhalt	12	1.9
Schleswig-Holstein	68	10.7
Thuringia	9	1.4
Total	**637**	**100.0**

FOCUS ON CUSTOMER SATISFACTION AND CUSTOMER PROXIMITY

We are positioned to provide a demand-tailored range of products and services for our homogenous customer groups as a basis for long-term customer satisfaction and to significantly step up efficiency in production and handling. The small business customer segment, which includes all customers with annual revenues of up to €3 million, has been fully integrated into the Retail division. This goes hand in hand with a strengthening of our network of branches, achieving even greater customer proximity to our business customers and professionals, and providing comprehensive customer care from a single source for corporate and private demand profiles. At the same time, we retained the successful relationship models for business customers in the form of standardised products marketed via the telephone distribution channel as well as local, customised solutions. We significantly expanded our specialisation on the target group of healthcare professionals in 2007.

SOLID EARNINGS PERFORMANCE IN THE RETAIL DIVISION

In 2007, we recorded an operating profit of €376 million before loan-loss provisions, thus providing a strong contribution towards HVB's total profit. Total revenues rose by 1.7% while operating costs fell by 3.3%. Profit before tax more than doubled to reach €264 million. (Please refer to the Financial Review and the segment reporting in the notes to the consolidated financial statements for more financial information.)

REFINEMENT OF THE BUSINESS MODEL FOR MASS MARKET CUSTOMERS

We made a major advance in the mass market customer segment by restyling the comprehensive HVB BasisDialog advisory process. A leaner, more focused, automated version of this financial planning tool has been in use since the start of 2007. The HVB WillkommensKonto has established itself as one of the leading current account packages in Germany. We have now entered into several distribution cooperation deals and received several awards (from Börse Online, CHIP and GELD-Idee, among others). In addition, we have expanded the HVB service model for the German market in two key sub-segments: the HVB WillkommensKonto Start is geared specifically to students and apprentices aged between 18 and 30; and the HVB KidsKonto is aimed at an even younger target group.

In the field of consumer finance, our HVB Sofortkredit product was renamed HVB KomfortKredit. This new product meets the specific needs of our customers in the middle retail customer segment, offering genuine value added, such as the reimbursement of the interest payable on the January instalment, given repayment as agreed.

Ethnic Turkish customers started benefiting from our cooperation with YapiKredi in 2007. Thus we offer bilingual banking services under a single roof in several German cities. 12 HVB branches now have separate Yapi Corners set up for Turkish-speaking customers. At the same time, the three existing branches of YapiKredi have been integrated into the HVB network. Our new offering has been well received; it is now possible to make inexpensive online transfers to Turkey using HypoVereinsbank accounts.

Furthermore, we have added an innovative advisory concept to our sales platform for new customers. The new business relationship manager specifically serves customers who only use a single product with us, concentrating especially on cross-selling and new customer acquisition.

Retail Division (Continued)

HIGH QUALITY ADVISORY SERVICES IN THE PRIVATE BANKING SEGMENT

During 2007, we revised the HVB VermögensDialog and HVB PremiumDialog advisory tools in the private banking segment, thus enhancing our all-round advisory concept. Kundenmonitor Deutschland, which has tracked the customer orientation of companies for many years, subsequently recognised HVB for the quality of the advisory services it offers for capital investments. The already very good results in this segment were boosted by the development of further innovative products. In terms of pension products, with the HVB AktivRente we offer our customers the security of a guaranteed annuity plus the possibility of an attractive return. This product was only launched in the fourth quarter of 2007, but already booked revenues of nearly €220 million in its first three months.

Sales of our investment certificates have also developed extremely well. The best results were recorded by our two top sellers: HVB 6% Zins Ass (€500 million) and Express Zertifikat (€300 million). Among investment funds, our US Life 3 product (€80 million) met with considerable success.

SMALL BUSINESS CUSTOMERS AND PROFESSIONALS SATISFIED BY PROFESSIONAL SERVICE

We launched the HVB BusinessClass quality initiative in the segment covering small business customers and professionals, defined as all customers with annual revenues of up to €3 million. The focus is on all-round service for our business customers, covering all their private and professional needs. This initiative is supported by a systematic, computer-aided advisory dialogue. In what we call the HVB BusinessDialog, we spotlight the professional and personal goals and desires of our customers. The HVB BusinessDialog also incorporates balance sheet data of the company concerned in our financial analysis. This enables us to accurately determine and support the financing requirements for further growth.

The HVB WillkommensKonto Business was added to our range of business accounts last year. A key advantage of this account is that terms can be set flexibly, depending on the size of the private and business assets that the customer (or his family) maintain with HVB overall. And our customer does not require a separate deposit account to take advantage of this benefit.

BESPOKE BUSINESS MODEL FOR HEALTHCARE SEGMENT

We expanded our bespoke business model for the specific target group of healthcare professionals in 2007. HVB has highly experienced experts in this segment who constantly update their skills relating to all aspects of the healthcare market. The relationship manager informs the customer promptly about current market changes and the latest innovations in the growing healthcare market. The intensive, pro-active advisory approach guarantees competent support throughout the lifecycle. Thus we fully cover all financial requirements – from the setup phase (e.g. funding a new surgery) through to possible expansion (e.g. taking over a second practice).

ALTERNATIVE SALES CHANNELS WITH EXPANDED RANGE OF SERVICES

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.

FOCUS ON CUSTOMER SATISFACTION IN ALL SEGMENTS

We measure customer satisfaction in our branches at regular intervals. Among other factors, our sales staff receive incentives based on the results of these surveys. We succeeded in improving our rating in the TRI*M customer satisfaction index by three points to 64 for the Retail division. This is the visible outcome of the motivation and training of our sales force together with the successful roll-out of customer-oriented advisory tools which enhance and efficiently structure the dialogue between customer and bank. An expansion of quality management and customer dialogue also helped in this respect. Consequently, we made considerable progress in 2007 towards our goal of becoming market leader in terms of customer satisfaction.

PRESSING AHEAD WITH CUSTOMER ACQUISITION

Offering a unique account package helped us to win almost half a million retail and small business customers for the account packages we offer under the HVB WillkommensKonto brand in 2007. Products like HVB KombiAnlage and the HVB Immobiliendarlehen property loan denominated in Swiss francs also contributed to success. 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 2008.

Focused segment growth in retail and small business banking

Customer segment	Strategies
Retail customers	• Focus on attractive customer groups • Simplified product range • Reinforced new customer acquisition
Private banking	• Greater use of capital-guarantee products • Systematic expansion of customer contact
Small business customers	• Focus on investment requirements • Streamlined credit processes

Retail Division (Continued)

SOLID GROWTH RATES IN SECURITIES OPERATIONS

We succeeded in repeating the dynamic growth in securities operations recorded in 2006. With revenues up more than 7%, this line of business was once more one of the engines of growth for the division in 2007. Strong gains were made in all product areas.With gross revenues in excess of €2.8 billion, the business involving structured products enjoyed especially lively growth. Above all, security-oriented certificates and structured bonds were particularly popular, making a significant contribution to growth.

UNICREDIT CONSUMER FINANCING (FORMERLY CLARIMA) IN GERMANY

The UniCredit Group's position in the German consumer lending business was expanded with the help of HVB when the German office of UniCredit Consumer Financing (UC Fin.) was set up. UC Fin. is targeting new products and sales channels.

In particular, UC Fin. last year gained responsibility as the product supplier for all new credit cards placed by HVB with private individuals. This move also included assuming the associated credit risk. Besides taking over and refining consumer finance offerings, UC Fin. is supporting our efforts to win new customers with systematic cross-selling. This is applicable for all customers acquired directly by UC Fin.

The Retail division is gaining the support of the successful consumer loan specialist of the UniCredit Group in the form of UC Fin. In Italy, UC Fin. is the market leader for personal loans, among the top three in the credit card segment and can report double-digit growth in consumer finance. With UC Fin.'s backing, the Retail division is aiming to continue its record of success in 2008.

SUCCESSFUL DEVELOPMENT OF INSURANCE OPERATIONS

Our insurance business performed strongly, posting earnings growth of almost 11% from life and pension policies. One of the main drivers were products built on the state-subsidised Riester pension, a private retirement savings plan, which posted over 8% growth in terms of volumes sold. The HVB AktivRente, an innovative pension investment plan rolled out on October 1, 2007, was very warmly received by our customers. A state-subsidised variant of this product is also available.

We adapted our portfolio of insurance products to cater for the needs of our small business customers. Overall, we succeeded in selling insurance products to a broad section of each customer segment, hence sustainably boosting fee and commission income.

STRONG CONTRIBUTION FROM DEPOSIT-TAKING OPERATIONS

Deposit-taking operations were one of the primary sources of income for the division once more in 2007. Consistent pricing policies helped us to again substantially raise the interest contribution on the deposits side by almost 6.5%. In the process, the quality of deposits was improved, thus guaranteeing future income. HVB KomfortSparen, a new savings plan introduced in November 2005, attracted a volume of €730 million on 420,000 accounts by 2007. Around 95% of these customers make regular deposits.

REAL ESTATE FINANCE PROMOTES 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 2007. With the new contracts, we also boosted the cross-selling rate, which increased both the proceeds gained from each customer relationship and customer loyalty.

FURTHER EXPANSION OF ELECTRONIC BANKING AND CASH MANAGEMENT

HVB significantly expanded the electronic banking and cash management services it provides for its customers in 2007. Thus, customer payments rose to 390 million items in Germany (up 7% on last year) and 1.3 million items abroad (up 16% on last year). The gross contributions from payments increased by nearly 2%. Thus we improved the earnings situation in this line of business, contrary to the market trend, despite falling margins.

OUTLOOK: FURTHER OPTIMISATION OF THE ADVISORY CONCEPT

A new sales concept was devised and systematically implemented in 2007 to meet the various advisory needs of our customers. This served to enlarge and optimise the range of services provided by our sales force. In 2008, we aim to build on this foundation to increase revenues and enhance our cost-efficiency. 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, expanding our sales footprint and reaching passive customers by applying a new relationship management concept. We will also invest in the continuing professional development of our workforce.

The HVB WillkommensKonto is one of the leading current account packages in Germany. Finance journal Börse Online tested the top ten branch current accounts for criteria such as free cash withdrawals, high credit interest and low debit interest. Our WillkommensKonto came out best overall. We also received an award in an account survey carried out by GELDidee. We were named Best in Test in the nationwide banks category.

Computer magazine CHIP tested 20 online banks for security and service. HypoVereinsbank received honours for providing the cheapest online account as part of its WillkommensKonto package. The value-for-money of this multifunctional account was rated very good.

Kundenmonitor Deutschland has been testing customer satisfaction, quality of the customer relationship and its effects on customer loyalty since 1992. In a sector benchmark of banks and savings banks, HypoVereinsbank emerged as the best bank in terms of the quality of expert advice given.

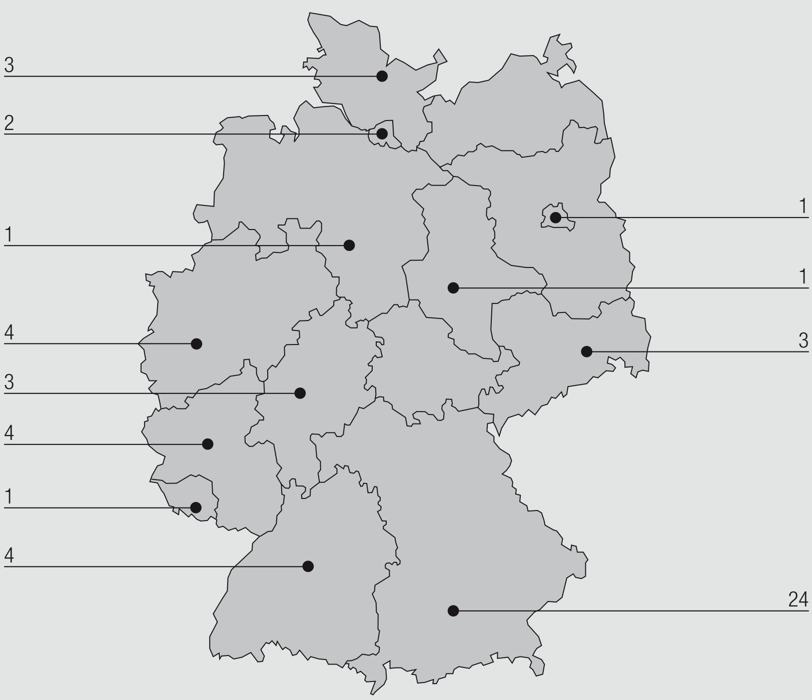
HypoVereinsbank is one of the top issuers of structured investment products in Germany and became a founding member of the Derivatives Forum in 2004. Our certificates have won a number of prizes in recent years. In 2007, we won an award as the best issuer of Express Certificates from ZertifikateJournal, Die Welt, Welt am Sonntag and Scoach, among others. We also won first place in the certificates prize awarded by FOCUS-MONEY for our Express certificates and in the conservative strategy certificates class.

Wealth Management Division

All-round advisory methods and innovative sales channels

Despite the difficult market environment, we succeeded in significantly improving our operating performance. Our integrated business model and the high level of customer satisfaction made a major contribution to this development.

Wealth Management: offices in Germany



Offices by state

STATE	DEC. 31, 2007	%
Baden-Wuerttemberg	4	7.8
Bavaria	24	47.0
Berlin	1	2.0
Hamburg	2	3.9
Hesse	3	5.9
Lower Saxony	1	2.0
North Rhine-Westphalia	4	7.8
Rhineland-Palatinate	4	7.8
Saarland	1	2.0
Saxony	3	5.9
Saxony-Anhalt	1	2.0
Schleswig-Holstein	3	5.9
Total	**51**	**100.0**

SUSTAINED EARNINGS GROWTH

The Wealth Management division manages customer assets totalling €76 billion. It consists of HVB Wealth Management (WEM), DAB bank, Wealth Management Capital Holding (WealthCap) and the private banking activities of HVB Banque Luxembourg.

The division's strategy is geared to serving affluent customers and meeting the demands they make on their "bank of choice".

- For example, WEM offers holistic, customised and personal advisory services at 44 locations and seven representative offices in Germany.
- DAB bank is the leading provider of direct brokerage services and the market leader in Germany as a trading platform for independent asset managers.
- Wealth Management Capital Holding structures and issues complex equity investment products which are exclusively tailored to cater for Wealth Management's target group.
- The private banking activities of HVB Banque Luxembourg provide customers with attractive solutions in the financial centre of Luxembourg.

EARNINGS PERFORMANCE IN THE WEALTH MANAGEMENT DIVISION

Investment patterns were shaped by the subprime crisis in the US mortgage banking sector. Customers' lack of confidence in the current capital market environment caused a significant increase in cash positions. Despite the difficult market conditions, the division managed to contribute €207 million in profit before tax to the overall results of HypoVereinsbank. Adjusted for non-recurring income of around €17 million from the sale of FMS Bank, profit before tax amounted to €190 million. This represents a 33% rise year-on-year. This result no longer includes the asset management activities of the Activest Group, which was sold to Pioneer Investments in 2006 and deconsolidated with effect from July 1, 2006.

At €483.2 million, there was a 10.5% year-on-year rise in total divisional revenues in 2007 compared with the income statement for 2006 adjusted for the effects of deconsolidation. Net interest income and net fees and commissions increased by a dynamic 8.9% and 8.3%, respectively, over 2006. Rising 1.4%, operating costs remained below the rate of inflation, although the division made significant investments in the hiring and training of employees and in more attractive remuneration than generally offered by the market. Cost reductions were achieved with the support of the Global Banking Services division, especially in the field of IT, back office and infrastructure/logistics. The cost-income ratio now stands at 59.6% – a 5.4 percentage point improvement (see the Financial Review and the segment reporting in the notes to the consolidated financial statements for further financial information).

HVB WEALTH MANAGEMENT: THE PATH TO QUALITY LEADERSHIP

HVB Wealth Management (WEM) provides holistic, customised and competent advisory services for customers and customer groups with liquid assets of more than €500,000, and the Family Office caters for groups of families with complex estates worth in excess of €30 million. In Germany, the share of the moneyed classes in the total assets of the population is rising continually. HVB Wealth Management is profiting from this trend and the dynamic annual growth of around 6% in the market. Moneys under management increased by 25.8% compared with last year, to €2.5 billion. Attractive products marketed by our Wealth Management Capital Holding subsidiary helped to win new customers for WEM.

WEM is seeking quality leadership in the German market. Its strategic goal is to provide a convincing proposition to affluents for WEM services through a comprehensive range of advisory services, attractive independent products and excellent customer service and to increase its market share in the highly competitive wealth management environment. Several awards from independent bodies over the last year confirm that the

Wealth Management Division (Continued)

company is on the right track just eighteen months after the division was set up.
- FOCUS-MONEY and n-tv awarded the best grade "very good" after test purchases.
- In a market survey performed by Fuchsbriefe, WEM achieved second place in the Top Portfolio Management category in three risk classes.
- Model portfolios have repeatedly been awarded five-star marks by the Institut für Vermögensaufbau/firstfive for their "excellent risk-return ratio".
- The Deutsches Institut für Service-Qualität (DISQ) made active wealth management its overall winner.

In 2007, the future WEM business model was specified in the Drive for Excellence priority programme:
- The all-round advisory method was refined and subdivided into demand-based interview modules (WEM Dialogues), which facilitate a systematic approach when preparing customised solutions. The redefined business model requires at least two personal appointments to be conducted for each customer group.
- With its risk-return analyzer, HVB Wealth Management has a superb instrument for optimising the securities accounts of customers in terms of the balance between risk and return. This can be used to show customers whether their personal securities account is efficiently structured or whether the risk-return ratio should be optimised.
- First Mandat, a newly developed asset management tool that is MiFID compatible, has been optimised to take account of the flat tax on capital income applicable in Germany from 2009.
- With FirstKonto, an attractive product package has been created consisting of a free current account, a premium credit card and attractive interest on deposits.
- A significant improvement in the service and processing times of credit applications has been achieved by building up a credit unit working exclusively for Wealth Management.
- In addition, WEM established its own complaints management in order to professionally process customer complaints at service levels appropriate for the target group.

WEM 2008: ORGANIC GROWTH

An important foundation stone was laid for further organic growth during the year under review. With new facilities in North Rhine-Westphalia (Essen and Münster), Lower Saxony (Bielefeld) and Freising to the north of Munich, WEM now has a sales network consisting of 44 locations and seven further representative offices. Almost 90% of the target customers in Germany can be reached within one hour's travelling time and thus personally served without a great deal of time or effort. WEM clearly stands out from many major competitors thanks to its extensive presence in all regions with a high degree of target-group density and thus customer proximity. Moreover, the number of relationship managers will be increased by one quarter in 2008. This will enable more new customers to be won and existing customers to be better served, and will ensure seamless availability and immediate processing of customer orders at all locations.

In Germany, 2008 will be overshadowed by the flat tax on capital income which will tax price gains on securities at a flat rate of 25% from 2009 and lead to the abolition of the speculation period. This year, many investors will want to set up their portfolios for as long a term as possible in order to avoid reallocations and the realisation of price gains at this stage. There will also be an opportunity to advise customers to change from individual securities to products optimised in terms of this new tax, such as our First Mandat asset management offering. HVB Wealth Management will seek to systematically exploit these opportunities.

The strategic focus for the coming year is geared towards increasing the share of regular, recurring income in total revenues in order to be less dependent on transaction proceeds and an uncertain capital market environment. For this reason, key business objectives include continuing to expand asset management and reallocating customer assets to attractive fund products. A new German-speaking representative office in Zurich extended our footprint to cover an important marketplace.

The most important customer event in 2008 will be the only ladies' professional golf tournament to be staged in Germany on the European Tour – the HypoVereinsbank Ladies German Open – at the end of May. HVB Wealth Management will function as the main sponsor at this event and will thus consolidate its leading role in an important target group – the golf community – while also acting as the new main sponsor of the German Golf Association.

DAB BANK: MARKET LEADER IN SECURITIES OPERATIONS

DAB bank recorded record results for the fifth time in a row last year. The volatile markets had an extremely favourable impact on the propensity of investors to trade. The Group handled 11.5 million transactions in total, representing a 5.7% increase over last year. This result shows that the success of DAB bank, which itself has no exposure to the subprime sector, was not negatively impacted by the financial crisis at any time.

In terms of customer assets under management, the number of securities accounts and the number of transactions, DAB bank is already the leading direct bank for securities operations in Germany and Austria. Focusing on securities transactions, DAB bank provides all customer groups with the largest possible range of independent products. In the process, the front-end loads of all 7,000 funds offered in the retail sector enjoy a discount of at least 50% without exception. DAB bank offers much higher discounts on the 30 most popular funds on the bestseller list and extremely competitive call money conditions. By purchasing a majority interest in SRQ FinanzPartner AG, one of the fastest growing asset advisory companies in Germany, DAB bank has also gained an excellent position in the growth market of financial consulting since the end of 2006.

In 2008, DAB bank will concentrate even more specifically on its core business. Whereas its competitors are increasingly more broadly positioned, DAB bank remains clearly focused on securities operations. Products such as current accounts or special interest rates round off the portfolio. The aim of these products is to make DAB bank even more attractive for the active securities investor.

WEM's core competencies are built around the customer's needs

All-round, personal advice

Customer view of own prosperity

Personal goals and desires for self and future generations

- Securing and building up **liquid assets**
- Structuring profitable **real estate investments**
- Providing **security** for risks to prosperity
- Ensuring **balanced liquidity and financing situation**

HVB WEM core competencies

Built on strong basic products (payments and deposits)

- All-round advice in modular form
- Asset management for delegators
- Active advisory for people wanting advice
- Real estate management
- Provision management
- Financing management
- Succession management

Wealth Management Division (Continued)

WEALTH MANAGEMENT CAPITAL HOLDING: SUCCESSFUL PLACEMENT IN ATTRACTIVE ASSET CLASSES

2007 was a successful first year for Wealth Management Capital Holding GmbH (WealthCap), after the three initiators of closed-end funds in HVB Group (H.F.S., HFF and Blue Capital) were merged. In the first half of 2007, WealthCap succeeded in syndicating two real estate funds – Metro America and HFS 10 – with investments in the United States and Germany. At the same time, the private equity product line was expanded to include two further funds. Two life insurance funds – Life Britannia 1 and Life US 3, which invest in British endowment policies and US term life insurance policies, respectively – were successfully placed. With Infrastructure 1, WealthCap has occupied a new asset class. Starting from autumn 2007, this infrastructure fund-of-funds which also permits co-investments will expand the already wide range of products in the future.

All in all, WealthCap continued to consolidate its position as one of the largest initiators of closed-end funds in Germany in 2007, with equity placements of around €339 million, an investment volume of about €572 million and more than 15,000 new investors. The previous year's result for trading operations on the secondary market was clearly surpassed. With a volume of around €112 million placed on the secondary market and more than 2,800 transactions, WealthCap is a top player in this market segment as well.

To date, an investment volume of about €9.7 billion has been issued in total. This volume coupled with the 152,000 or so investors currently served will enable WealthCap to continue to expand its position among the largest initiators of closed-end funds. Apart from inviting subscriptions for a private equity fund at the beginning of the year, the continuation of the product series in the field of closed-end real estate funds and the expansion of the product range to include an aircraft leasing fund are planned for 2008.

HVB BANQUE LUXEMBOURG PRIVATE BANKING: FOCUS ON HEDGING STRATEGIES AND NEW CUSTOMER ACQUISITION

Operations involving affluent private customers in Luxembourg were significantly influenced by market trends as the year wore on. Demand for certificates with hedging strategies was greater. The willingness of customers to invest in actively managed products has increased, partly because such products have outperformed the market in recent years.

With 17% growth in volumes, the Insurance Management unit has performed above trend. By cooperating with WEM Germany, it proved possible to satisfy the increased demand from German customers for structuring pensions and transferring wealth using the innovative TermFix product. The European licence granted to us in 2007 to operate as an independent insurance broker will allow us to distribute insurance policies anywhere in the European Union in the future.

A 9% increase in deposits supported the favourable earnings trend. These factors combined with the consistent exploitation of market opportunities to significantly boost earnings year-on-year (up 13%), notably in asset management, even though a slight outflow of customer assets was recorded at the same time. There was also greater demand for the range of services provided by our FamilyTrust Management Europe S.A. subsidiary. Corporations were established to pool cross-country assets. And family office services became increasingly popular.

In 2008, our activities will primarily focus on the acquisition of new customers. The innovative products of the Bank and intensive cooperation with the Group's network will reinforce growth. The newly established Group Sales Coordination unit will proactively support the Group's relationship managers as they sell these Luxembourg products. The both stable and flexible regulatory environment in Luxembourg is a further guarantee that this line of business will continue to grow.

Wealth Management distinguishes six target customer groups, two of which share a common relationship model/cooperation 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 range of wealth management products and services (with focus on investment)
Professionals/SMEs	Individual	• Full range of wealth management 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 range of wealth management products and services (investment and financing)
Corporate customers (public-sector corporations)	Institutional	• Specific asset management products and services/professional portfolio management

Customer allocated fully to Wealth Management

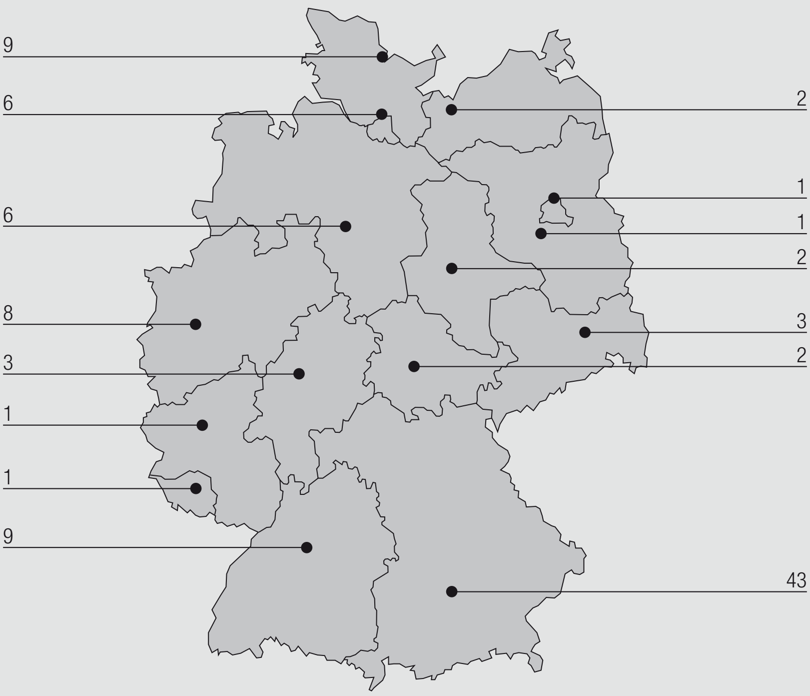
Revenue share (customer not allocated fully to Wealth Management)

Corporates & Commercial Real Estate Financing Division

A successful year of regional expansion and customer acquisition

Major achievements in the 2007 financial year included regional expansion and increased customer acquisition. Thanks to innovative products and intensive employee training, we succeeded in significantly improving the range of services we offer and providing greater support for the cross-border transactions of our customers.

Corporate Banking: offices in Germany



Offices by state		
STATE	DEC. 31, 2007	%
Baden-Wuerttemberg	9	9.3
Bavaria	43	44.3
Berlin	1	1.0
Brandenburg	1	1.0
Hamburg	6	6.2
Hesse	3	3.1
Lower Saxony	6	6.2
Mecklenburg-Western Pomerania	2	2.1
North Rhine-Westphalia	8	8.2
Rhineland-Palatinate	1	1.0
Saarland	1	1.0
Saxony	3	3.1
Saxony-Anhalt	2	2.1
Schleswig-Holstein	9	9.3
Thuringia	2	2.1
Total	**97**	**100.0**

GROWTH STRATEGY PRODUCES STRONG RESULTS

The business environment for our Corporates & Commercial Real Estate Financing division was favourable overall in the year under review. Germany continued to be one of the world's biggest export countries in 2007. This trend was accompanied by a rise in direct cross-border investments and was evidence of the increasing globalisation of production activities and companies.

HVB benefited strongly from this development, 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.

The turnaround in operations involving professional real estate customers bore fruit for the first time in 2007, which was a persistently difficult year for this segment. The objective of stabilising revenue by compensating for portfolio shrinkage was achieved by booking lucrative new business which continued to optimise the portfolio and by intensifying cross-selling. The success in commercial real estate financing, especially in the second half of 2007, is built on accelerated and profitable growth. Business involving derivatives was substantially increased. And Corporates & Commercial Real Estate Financing benefited overall from pooling in the structured finance sector and succeeded in winning and promptly handling larger transactions. The risk position remained below the previous year's figure after the portfolio was streamlined in 2006.

The earnings situation in the division clearly shows that the growth strategy pursued since September 2006 with the GO – Growth Opportunities programme is taking effect. Expansion in western Germany is also part of this growth strategy: five new locations (Heilbronn, Reutlingen, Ravensburg, Aachen and Siegen) have been opened since December 2006. All in all, over 10,000 new customers have been won. In addition, the division recruited over 50 new sales staff.

EARNINGS PERFORMANCE OF THE CORPORATES & COMMERCIAL REAL ESTATE FINANCING DIVISION

The Corporates & Commercial Real Estate Financing division generated revenue of €1,474 million in 2007 and hence managed to achieve profit before tax of €928 million. With a net operating profit of €761 million, the division has thus made a significant contribution to the consolidated profit of HVB Group (25.7%). The solid 3.1% improvement in total revenues compared with 2006 is attributable to higher net interest income (up 2.4%) and a very satisfactory upward trend in net fees and commissions (up 2.8%). At €546 million, operating costs have fallen slightly (down 0.4%) compared with the previous year. A €122 million decline (46%) was recorded for net write-downs of loans and provisions for guarantees and commitments.

The Corporates & Commercial Real Estate Financing division achieved a cost-income ratio of 37% in 2007, which matches the benchmark in German corporate banking (see the Financial Review and the segment reporting in the notes to the consolidated financial statements for further information).

It is remarkable that this result was achieved despite a slight deterioration in the business environment in the second half as a result of the macroeconomic conditions and in view of the tension on credit and capital markets. Also, competition in classic corporate banking intensified in 2007 against the backdrop of a volume of lending which continued to stagnate into the second quarter.

INNOVATIVE PRODUCTS AND ENHANCED SERVICES

There was strong demand for products from the Global Financial Services (GFS) business line, notably in cash management and e-business, liquidity and investment advisory, financial risk management and structured finance. Our aim is to tap even more of the potential in this area and foreign trade operations in particular during 2008.

Corporates & Commercial Real Estate Financing Division (Continued)

We were able to continue to expand the customisation of product solutions and strategic dialogues with customers by offering specific training to employees, rolling out a new market database and improving advisory and analytic tools. Use of these tools on customers' premises also facilitated the forward-looking optimisation of net working capital and a calculation of the level of debt appropriate for the cash flow.

An important success factor continues to be industry expertise. This optimises our risk management and widens our understanding of customer needs. To this end, we conducted two comprehensive industry surveys: on the top-performing automotive supply sector and on the market outlook for renewable energy. In 2007, we pooled our activities in the field of renewables in separate competence centres.

In summary, it can be noted that the business model is built on three basic principles: specialisation through customer segmentation; increasing globalisation of processes and products; and greater customer proximity. The key driving force behind success is clear customer allocation based on various service models tailored to cater for the requirements in each case. Some of the greatest growth potential is found in direct access to customers with global operations.

CROSS-BORDER BUSINESS WITH GROWING POTENTIAL

More than half of the 75,000 corporate customers served by the Corporates and Commercial Real Estate Financing division – there are around 240,000 in the three domestic markets of the UniCredit Group – have international operations. They have either already invested abroad or they operate in international markets or they use products such as international payments and trade finance in their daily business.

This tendency is reflected in more than just the business strategy of the division. For Germany, this means that cross-border transactions will continue to expand: almost 5,000 German HVB customers were served in our core markets of Italy, Austria and the CEE countries in 2007. This represents a remarkable increase of over 30%. In addition, a growing number of Mittelstand companies invested in neighbouring countries to the east of Germany for the first time or started expansion investments in 2007. The reasons for this were the improved economic conditions in Germany and the consistently strong growth rates in eastern Europe. Demand was lively for products such as new accounts, integrated cash management solutions and simple access to leasing and factoring services. We introduced even faster access to one of our network banks for our customers' subsidiaries with the new Cross Border Plus Credit.

The network of the UniCredit Group, which continued to grow in the year under review notably in Italy (with the takeover of Capitalia), Ukraine and Kazakhstan, created a further advantage for cross-border transactions. Most of the local mergers of CEE sister banks and their rebranding under the UniCredit logo were completed by the end of the year.

OUTLOOK: STRONGER FOCUS ON CUSTOMER SEGMENTS

The Corporates & Commercial Real Estate Financing division expects the effects of the uncertainties and tension on international credit and capital markets to continue to be felt in 2008 and market activities to be dominated by significant price rises in liquidity and stricter lending conditions. The Basel II requirements will also fully apply in 2008 and impact customer transactions. We must proceed on the assumption that this will again lead to a more risk-adjusted margin trend. A slight increase in the market for office space and a decline in vacant properties must be expected in the commercial real estate market. Overall, we assess the housing market trend as being good – although varying widely between regions.

To meet these market challenges, the Corporates & Commercial Real Estate Financing division has started the new financial year with a new organisational structure adjusted to make it now more focused on the different needs and challenges of our customer segments. As they have similar products and processes, we have pooled the large caps with commercial real estate financing and mid caps, small caps and public-sector customers into two sales channels each. Apart from these two sales channels, Global Shipping, a separate specific-industry sales and product organisation, is located at important maritime financing centres. At the same time, by restructuring the holding of the Corporates division, we have created the foundation for a European corporate bank so as to better meet the expectations of our customers, the majority of whom have international operations.

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

Customer segment	Product range
Large caps Turnover > €250m	• Tool-based analysis and advisory instruments • Focus: international operations and capital market
Mid caps Turnover €15m – €250m	• Tool-based analysis and advisory instruments • Focus: international operations, structured finance and derivatives
Small caps Turnover €3m – €15m	• Finance • Cash management • Trade finance • Derivatives
Public-sector customers	• Structured finance, especially PPP • Derivatives • Asset management products
Commercial real estate customers	• Classical property finance, including interest rate hedging • Structured loans and syndication • Portfolio transactions • Real estate M&A

Markets & Investment Banking Division

Competence centre for global financial markets and investment banking services

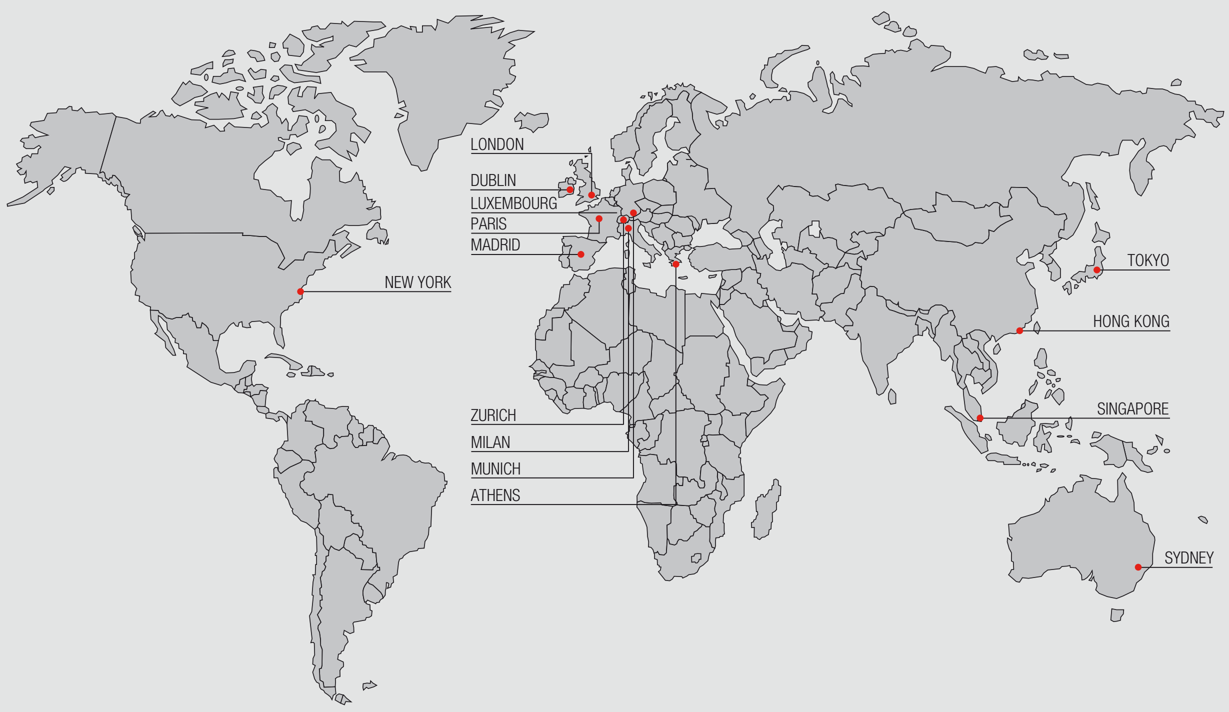
Markets & Investment Banking (MIB) coped well with the challenging 2007 business year. Thanks to its broadly diversified business portfolio and its clear regional focus, the division delivered robust financial results despite the overall market development in the second half of 2007.

MIB: A WELL DIVERSIFIED BUSINESS MODEL
The embedded position of MIB within UniCredit Group and the concentration on core markets and capabilities give us the competitive advantage of a broad business diversification. Furthermore, the focus on product innovations has stimulated strong customer demand across our franchise.

With the framework for our MIB division in place, 2007 was also a significant year for the execution of core strategic initiatives in various business areas as well as several integration initiatives.

In line with the UniCredit Group strategy to consolidate all investment banking activities under HVB in Munich with a view to streamlining corporate governance, gaining critical mass in different segments and building a tailor-made infrastructure, HVB successfully completed the integration of the UniCredit Banca Mobiliare (UBM) investment banking platform. This was a significant milestone in the reorganisation of our investment banking activities.

Markets & Investment Banking: operating offices worldwide



MIB is divided into five organisational units:

- The Markets area comprises all trading, structuring and distribution activities.
- The Investment Banking area combines coverage and origination-based business, as well as financing and loan syndication.
- Principal Investments is the global competence centre for proprietary investments in alternative assets.
- The Chief Operating Officer heads all centralised business support functions.
- MIB Market and Credit Risks manages divisional credit risk underwriting, market risk, risk reporting and policies, and collateral management.

2007: RESILIENT PERFORMANCE UNDER CHALLENGING CONDITIONS

The first full business year for MIB, created as an HVB business division in July 2006, was characterised by extremely positive market developments in the first half and very difficult conditions in credit markets in the second half of 2007.

The first half of the year saw high revenues across the industry, well up on the corresponding period of 2006. Our record results – we almost doubled profit before tax year-on-year – were partly derived from the sale of IndexChange and the initial consolidation of UBM's investment banking activities. The second half saw tremendous disruptions in several areas of the capital markets, increased volatility, weaker activity levels in some areas and heavy markdowns on investment banks' own exposures to certain assets. The distortion of credit markets led to a negative impact on performance by our structured credit activities. Nevertheless, MIB achieved robust performance in all other major business lines, especially in FICC, Equities, Financing and Principal Investments – where some business lines' activity acted as natural hedges.

MIB generated revenues of €1,719 million in the first half of 2007, exceeding the equivalent figure for the first six months of 2006 by €580 million or 50.9%. The total was boosted by the initial consolidation of UBM's investment banking activities, which have been incorporated since April 1, 2007.

The second half of 2007 saw a market correction triggered by the US subprime crisis – a situation seen only once in about fifteen years. This resulted in a shift in revenues – especially in the fourth quarter – from net trading income, impacted mainly by mark-to-market valuations, to net interest income and net fees and commissions. As a result we saw a sharp 73% decrease in revenues in the second half compared with the first half of 2007.

Nevertheless MIB managed to increase total operating revenues for 2007 by €31 million or 1.4% – a robust performance in a very challenging market environment.

Costs remained under control in 2007: operating expenses were almost unchanged at €1,112 million (2006: €1,116 million) and MIB's cost-income ratio improved slightly to 51%. Operating profit for 2007 was 3.4% up on 2006, amounting to €1,067 million

The comparison of pre-tax profit in 2007 with the previous-year figure is affected by two one-off effects: the sale of Indexchange (€219 million) in the first quarter and the disposal of Financial Markets Service Bank (€259 million) in the last quarter of the year. For this reason, pre-tax profit was significantly higher than in 2006, showing an increase of €686 million, or 77%, to reach €1,572 million.

MARKETS: STEADY PERFORMANCE AND A SERIES OF AWARDS

The main business lines within Markets are FICC, Structured Derivatives, Equities and Structured Credit. Our business is focused on gaining new business in core markets: Germany, Austria, Italy and the CEE countries. We plan to expand our market share across the entire value chain of the capital markets. Despite difficult market conditions in the third and fourth quarters of 2007, we maintained our reputation as a high value provider of complex solutions to global clients. Testimony to our reputation were the awards that we won in different business areas.

Markets & Investment Banking Division (Continued)

DEVELOPMENT OF IMPORTANT BUSINESS LINES WITHIN MARKETS

- Fixed Income, Commodities and Currencies (FICC) was able to professionally manage the difficult market situation in the second half of 2007 and contributed an excellent result. A clear highlight within Interest Rate Management was the successful launch of the Jumbo Global #12 Pfandbrief in November.
- The Structured Derivatives business developed equally well. Driven by prompt product development and time-to-market cycles for innovative solutions in the equities and index derivatives area, Structured Derivatives continued to broaden its competitive position. Its good performance was rewarded by the number one ranking for "Structured Products", awarded the second time in a row. We also gained the Derivatives and Risk Management Advice award given by Germany's RISK magazine.
- Despite the shaky market environment in the second half of 2007, Equities reported a successful year driven by an exceptional performance in its equity finance franchise, its solid institutional sales business as well as a very satisfactory commission income development in brokerage and electronic execution activities on the back of high volatility and increased trade volumes.

MIB: total revenues (€ millions)

- Structured Credit had a good start to the year. The turning point for the business was clearly set by the US subprime crisis, which triggered a revaluation of the whole asset class after an unbroken 15-year growth run. ABS turned from a very liquid primary and secondary market driven by the constant demand from financial institutions, conduits, structured investment vehicles (SIVs) and asset-backed securities (money market) funds into a very illiquid, distressed market with substantial supply overhang. After a brief respite in October, spreads widened again towards year-end, putting significant mark-to-market pressure on investment and trading positions.
- Corporate Treasury Sales managed to enlarge the footprint of UniCredit in the market for corporate treasury products, thanks to the well diversified customer base across different countries and the wide variety of asset classes offered to customers. Bank customers were serviced by offering new and innovative solutions, with an ongoing focus on active management of opportunities and risks. Strong emphasis was laid on a customer-oriented approach and on improving financial advisory services to meet higher client requirements. Throughout the year, corporate demand for interest rate products was positively influenced by the ECB's tightening bias and a flat euro interest rate curve. Calm and stable financial markets in many peripheral countries sustained clients' appetite for high yields, generating strong flows of derivative transactions on these currencies. An excellent cooperation with the leveraged finance origination teams in the Investment Banking area allowed the unit to exploit cross-selling opportunities, generating new business flows with large corporate customers. These deal flows serve as an example of how the Group-wide cooperation within the MIB division yielded synergy effects for all participating units.

INVESTMENT BANKING: OVERALL SUCCESS DESPITE DIFFICULT MARKET CONDITIONS

Despite the difficult market environment in the second half of the year, Investment Banking (IB) met its year-end targets. This is mainly due to the record result delivered by Financing, which once again served as the main contributor to Investment Banking revenues. The team's knowledge of regional markets, depth of transaction experience and access to a wide variety of investors continue to be the foundations of its success, especially in the difficult market environment.

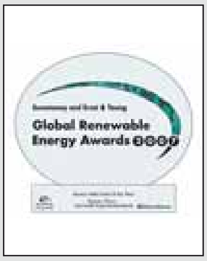
2007 was also the year in which IB systematically built up mergers & acquisitions (M&A) expertise in its core markets, resorting to selective talent hiring. We aim to be one of the major M&A players with a leading role in cross-border M&A in core markets.

DEVELOPMENT OF THE MAIN BUSINESS UNITS WITHIN INVESTMENT BANKING

- Financing – consisting of acquisition leveraged finance, project finance, structured commodity finance and other structured transactions – succeeded in substantially increasing its revenues and profit contribution compared to the previous year, despite the turmoil in financial markets during the second half of the year.
- The Corporate Solutions team successfully managed to support the corporate relationship network in generating lead transactions on the lending and capital market. This is evidenced by some landmark transactions like Tognum and TUI in Germany, and Barilla and Enel in Italy.
- Loan Syndication shifted over €15 billion of market risk in 2007, spread across approximately 160 deals. 2007 was a seminal year for IB's leveraged finance syndications business, where we underwrote a total of €37.8 billion, completing landmark transactions such as Pro-Sieben (€6.9 billion), Kion (€3.7 billion), Boots (€17.4 billion) and CBR (€1.5 billion). Against a 22% increase in global project finance volumes, the Project & Commodity Finance team doubled its underwritings to €5.2 billion through some 21 bookrunning mandates. Here, despite challenging market conditions, MIB Loan Syndication sold down significantly below target levels. With regard to M&A-related financings, UniCredit was able to win prominent lead mandates in deals such as the €35 billion ENEL acquisition of Endesa and the $1.5 billion Luxottica acquisition of Oakley.

Landmark leveraged finance transaction

As mandated lead arranger, bookrunner and agent, MIB played a leading role in the biggest leveraged buyout transaction ever in Germany. The deal underscores MIB's strong market position in the leveraged buyout market.



Breeze III – Senior Debt Deal of the Year 2007

The innovative concept underlying the Breeze transactions is unique in the field of structured bond financing. The award was given to HVB for the second time in a row, showing that HVB is the undisputed market leader for renewable energy finance on the capital markets.

Deutsches Risk Award for Structured Products

Structured investment products are one of MIB's key strengths. Our competence and product strategy have been recognised by various prestigious awards, including the Zertifikate Award, FOCUS-MONEY's Certificates Prize and the Deutsches Risk Ranking. We help to actively shape the market by participating fully in association work.

Award for Global Research

HVB German Equity Research confirmed its performance in several places in Börsen-Zeitung's EquityAnalystAwards this year, also being named Best Research House in Germany. In addition, various external rankings by AQ and Handelsblatt in conjunction with US-based Starmine demonstrated that HVB is among the leading German brokers in terms of quality.

Markets & Investment Banking Division (Continued)

CAPITAL MARKETS: IMPORTANT MANDATES AND LEADERSHIP IN CORE MARKETS

Debt Capital Markets (DCM) again succeeded in bringing a large number of mandates to the market in its core product – covered bonds – acting as lead manager/lead arranger/bookrunner. Syndicated bonds for Greece, Italy and the European Investment Bank (including the Climate Awareness Bond) were well received by the market.

Structured New Issues is the clear market leader in arranging bond transactions for windfarm portfolios. Breeze has become the brand name for these tailor-made transactions. So far, more than €1 billion have been placed on the markets by Breeze Finance. Breeze won the Euromoney and Ernst & Young Renewable Energy Award for the Senior Debt Deal of the Year for the second time in succession. Breeze Finance is also proof of the UniCredit Group's commitment to sustainability.

Equity Capital Markets (ECM) continued the successful course of previous years, maintaining its position among the top ten players in terms of transactions as bookrunner in the German equity capital market. In addition to the IPO of POLIS Immobilien AG as the first listed company concentrating exclusively on commercial real estate, a further highlight of 2007 was the successful capital increase of Premiere AG, which utilised an innovative price fixing procedure. This was a so-called segregated price fixing mechanism in accordance with German transparency and disclosure law (TransPuG). Another milestone was reached in the equity-linked sector with the placement of the Tui bond amounting to almost €700 million.

In 2007, we also confirmed our leadership position in ECM in Italy. Successful transactions ranged from IPOs (important mandates were Damiani, Il Sole 24 Ore and D'Amico) to right issues (including the prestigious Gemina and Credito Valtellinese mandates) and accelerated bookbuilt offers (Fastweb).

CLIENT-ORIENTED REGIONAL COVERAGE

The rationale behind the new regional IB set-up is a stringent focus on the client. Regional clusters are focused on Germany, Italy, Austria, emerging Europe and the United States, with France, Spain, Switzerland and the UK as sub-clusters. Non-core-market clients are covered in a different set-up, where special attention is paid to emerging global players in the corporates and financial sector.

IB Germany's organisational set-up combines Coverage, Credit Analysis (market side) and Corporate Finance Advisory. The model was developed in order to align MIB's regional coverage organisation, meaning that all regional clusters will closely follow this structure.

PRINCIPAL INVESTMENTS – A NEW BUSINESS AREA

Effective from June 2007, MIB established a third business area – Principal Investments (PI). This area bundles the Group's proprietary investment activities in alternative assets.

The PI portfolio performed extremely well in 2007. With investments in private equity funds, direct equity investments and hedge fund investments, the portfolio is well diversified.

GLOBAL RESEARCH – STRONG EXPERTISE IN CLEARLY DEFINED SEGMENTS

UniCredit Global Research supports clients in strategic and tactical asset allocation, security selection and risk management. Our unrivalled expertise in core and emerging European markets leverages UniCredit's leading role in the region as the first truly European bank. Once again, we achieved a high degree of media coverage and won several awards in 2007.

Our major research segments were:

- Global Equity Research – operating from Munich, Milan, Vienna, London and centres in the emerging Europe region (EME), the UniCredit MIB Equity Research team provides in-depth local analysis of a wide universe of nearly 400 German, Italian, Austrian and EME companies. Our emphasis is on high-quality research generating salient ideas and ground-breaking sector themes. We produce regular country, global strategy and EME strategy reports.
- Global Credit Research – this covers eurozone and European credit markets and developments, with a focus on and strength in Germany, Austria, Italy and the CEE countries, across sectors, single issuers and product types, for both primary and secondary trading. We provide a special thrust in structured credits through single-name research, regulatory treatment of transactions and analysis of hybrid structures. We have an integrated credit strategy for the whole credit universe, with active coverage of new and innovative instruments, as well as advisory services for customer-specific portfolio optimisation.
- Global Economics & Fixed Income/FX Research – our team analyses and forecasts macroeconomic developments and trends in fixed income and FX markets in the G10 and major emerging markets, as well as key commodities. Our key areas of expertise are the eurozone and EEMEA, where UniCredit is the undisputed leader. We provide high quality analysis, cutting edge quantitative tools and a range of trading strategies, both through a strong and diversified publication range and through products tailored to the needs of our clients.
- Cross Asset Research – we provide our clients with investment recommendations across all major asset markets. In addition, we offer model portfolios that support clients with strategic and tactical asset allocation decisions and currency overlay management. We also support our clients with quantitative analysis of their cross-asset portfolios or investment strategies using advanced mathematical methods. Our quantitative cross-asset research covers strategies for liability management and asset allocation, risk budgeting using modern optimisation approaches and scenario generation using stochastic models.

OUTLOOK:

2008 will present MIB with significant challenges in a highly complex financial environment, characterised by the need for normalisation of the credit market environment, therefore, the much hoped-for return to normal market conditions in structured credit and an intensified fight for market share, especially in high growth areas. Macroeconomic risks can derive from possible recessions in the United States and Japan, leading to a global slowdown with repercussions for our core markets in Europe.

We will continue to build our business model on the three pillars of high diversification, core product strength and a clear regional focus. We see strong growth potential in the CEE countries and in a number of business areas, ranging from project finance and fixed income to debt capital markets and structured issues. Furthermore, the speed of integration, improvements of distribution capabilities and cross-selling opportunities within MIB and the entire UniCredit Group are key structural enablers for success in 2008. Given the increased uncertainties in the capital markets with further deteriorated credit spreads across an enlarged number of asset classes at the beginning of the year we remain very cautious in our outlook.

Liquidity Management and Refinancing

The Pfandbrief

Reliable funding for secure liquidity management

The turmoil on the markets for mortgage-backed securities (MBS) in the second half of 2007, coupled with the higher premiums demanded by investors for unsecured bank bonds since the spread of the subprime crisis, has made it more difficult for German financial institutions to access capital and has made the capital far more expensive. The situation for Pfandbrief issuers, on the other hand, is vastly different to that of other financial institutions. These banks have constant access to the capital market at favourable terms, thanks to the Pfandbrief. The high level of security enjoyed by the Pfandbrief and its strong market penetration make it a particularly secure form of investment in times of crisis. Thus the spreads on Pfandbriefs have hardly widened at all since August 2007.

Pfandbriefs have a long and uniquely stable credit history. Since the German Mortgage Banking Act – the predecessor of the German Pfandbrief Act – came into force more than a hundred years ago, there has never been a default on a Pfandbrief. Given the recognised quality of Pfandbriefs at home and abroad, unlike with MBS issuers are consquently able to secure liquidity at favourable terms, even during difficult times.

Alongside what are known as benchmark issues in excess of €1 billion (also known as Jumbo Pfandbriefs), Pfandbrief banks in Germany also issue large of volumes of traditional bearer Pfandbriefs and registered Pfandbriefs. These meet with constant, strong demand among investors at home and abroad. This is underpinned by the permanent roots and long-standing tradition of the Pfandbrief on the German market among clients from insurers, banks, and pension and investment funds.

In the period from August to December 2007 alone – this period being overshadowed by a difficult liquidity situation in parts of the interbank market due to the subprime crisis – the Pfandbrief banks borrowed €41 billion on the market with traditional bearer Pfandbriefs and registered paper. Together with Jumbo issues and volume increases, the issues totalled an aggregate of €49 million. During the same period, however, there were next to no transactions in some other refinancing products. This documents the clear superiority of Pfandbriefs in terms of both credit quality and reputation on the market.

Added to this is the fact that the refinancing costs for Pfandbriefs hardly rose at all during this period compared with the first seven months of 2007. Thus Pfandbriefs across an average of all maturities continued to trade at 10 basis points below EURIBOR, whereas collateralised securities and other foreign products similar to Pfandbriefs (covered bonds) saw their spreads expand by 40 to 80 basis points (see also the chart on the next page). It is to be feared that the spreads on these products will persist at a higher level in the future, whereas the stable development of German Pfandbriefs can be expected to continue.

This stability is the outcome of various factors:
- the strict statutory quality requirements,
- the disciplined, investor-friendly issuing practices of the Pfandbrief banks, and
- unique market and product maintenance by the issuing banks, who have pooled their strengths in a single association that is involved in the lawmaking process and ensures compliance with the high quality standards.

Taken together, this all results in efficient and transparent market conditions.

The German Pfandbrief Act offers Pfandbrief investors a tightly knit safety net. The statutory foundation for the issue of Pfandbriefs is built on the principle of investor protection. Thus, only banks that meet the strict requirements for a precisely defined Pfandbrief licence are permitted to issue Pfandbriefs. The outstanding mortgage, ship and public Pfandbriefs must be covered by mortgage, ship and state loans of at least the same amount. This eligible cover is listed in a register of covering assets. Should the issuer file for bankruptcy, the claims of the Pfandbrief creditors have seniority as a result of a prior right to the covering assets listed in the register. The creditors' claim is secured by a senior right to the covering assets. Thus the covering assets represent a separate, distinct portfolio of fund assets to which only the holders of Pfandbriefs have access.

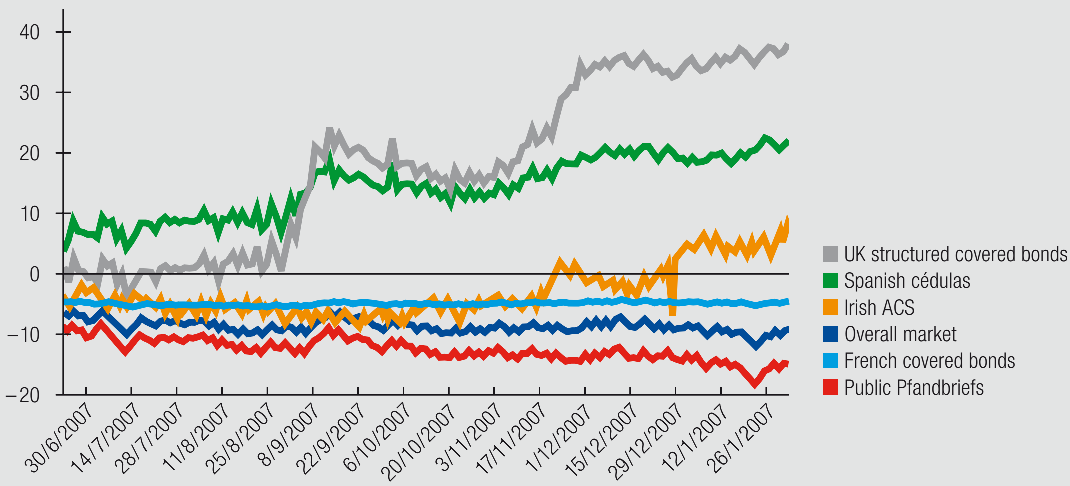
Pfandbrief operations are specifically supervised by the German Financial Supervisory Authority (BaFin). In addition to ongoing supervision on the basis of the German Banking Act, a separate Pfandbrief department at the Financial Supervisory Authority monitors compliance with the provisions of the German Pfandbrief Act. The obligation to publish key figures for the covering assets on a quarterly basis makes the composition of the covering assets transparent and comparable over the course of time. The standardisation brought about by the German Pfandbrief Act gives the Pfandbrief market, which was worth around €890 billion as of December 2007, a depth that is only surpassed by the market for government bonds.

The portfolio of residential covering assets from the United States totalled €200 million when the subprime crisis broke, representing around 0.01% of all covering assets for mortgage Pfandbriefs. The high credit standards of the German Pfandbrief Act prevent low quality loans from finding their way into the covering assets used by Pfandbrief issuers. In the case of the mortgage loans, only 60% of the mortgage lending value of the financed property, calculated conservatively, is eligible to serve as cover and can be refinanced by a Pfandbrief. The issuers are obliged by law to check whether the value of the properties and ships for which the loans were made would be affected where there is a risk of falling prices.

In the case of state loans, strict selection criteria ensure the sustainable stable value of the covering assets. Thus only loans and receivables issued by public-sector borrowers from the European Union, EEA states, the United States, Canada, Japan and Switzerland may be included as cover, provided the state liability unquestionably exists.

To conclude, the Pfandbrief market is open to issuers constantly, even in times of turmoil on the financial market. The strict capital market standards of the German Pfandbrief Act prevent subprime risks from finding their way into the covering assets, resulting in a safe and liquid market.

Covered bond spreads (basis points)



Global Banking Services Division

Corporate service centre

The new Global Banking Services (GBS) division was set up at the outset of 2006. It combines services of key importance for ensuring business success. The services subsumed under GBS include IT, organisation, purchasing, logistics and facility management as well as back-office functions for loans, accounts, payments and securities handling.

COST MANAGEMENT SURPASSES TARGETS

Strict cost management was part of the driving force behind our business success in recent years. In 2005, HVB launched the Process Redesign and Optimisation (PRO) programme, which was successfully concluded in the year under review. Over 500 individual measures have been carried out under PRO, both within HVB AG and at its subsidiaries. We even succeeded in slightly surpassing the targeted cost reductions of €280 million.

All in all, we managed to lower operating costs slightly to €3,576 million under the HVB Cost Management Programme in 2007 (2006: €3,695 million). We achieved this cost reduction despite special factors such as the increase in German VAT and the integration of UniCredit Banca Mobiliare (UBM) in our Markets & Investment Banking division. The savings relate to all major cost types.

We will apply strict cost and productivity management again in 2008 and thus continue to boost HVB's profitability.

STRATEGIC SOURCING GERMANY

Far-reaching savings were achieved in the Strategic Sourcing Germany unit in a number of the Bank's projects. Hence, purchasing made a valuable contribution to sustainably achieving HVB's cost targets. In the year under review, we generated proportionate cost reductions of €40 million. This was reinforced by using the purchasing platform produced by i-Faber S.p.A., a UniCredit Italy subsidiary.

As the first unit in GBS to do so, Strategic Sourcing Germany carried out a cross-border customer survey on service quality jointly with Austria and Italy. The outcome proves that Strategic Sourcing Germany has a very high level of customer satisfaction and that it networks closely with the various departments.

The objective for 2008 is to further improve early integration, especially in projects. To this end, customer management will again be expanded in purchasing, whilst efforts will also focus on intensifying the international networking between the Global Sourcing area and all parts of the UniCredit Group. Furthermore, much attention will be paid to employee development in purchasing in 2008.

Constant reduction of HVB Group operating costs (€ millions)

BACK OFFICE: FOCUS ON EFFICIENCY ENHANCEMENTS AND COST REDUCTIONS

We consistently implemented our strategy based on our core competencies in all back office units in 2007.

On the payments side, preparations for the introduction of the first stage of the Single European Payments Area (SEPA) were successfully completed. Our customers have been able to submit and receive SEPA payments via any distribution channel since January 28, 2008. The transfer of payments handling from HVB's Payment and Services subsidiary (PAS) to Postbank's Betriebscenter für Banken subsidiary (BCB) was implemented as planned, while retaining the same quality and scope of services.

In securities services, the year under review saw implementation start on the strategic re-orientation of HVB in this line of business. After an intensive selection procedure, HVB signed the contracts on the disposal of the clearing and custody business to Paris-based CACEIS S.A.S. in July 2007. In the course of implementation, formal steps such as anti-trust approval were initiated and organisational, technical and legal requirements met. At the end of 2007, the transaction was successfully concluded by transferring Financial Services Markets Bank to CACEIS. This step will enable HVB to sustainably reduce complexity and also to preserve competitive cost structures at a continued high standard of quality; it will also benefit from the expertise of CACEIS as a global specialist.

An essential component of the consolidation strategy in finance and treasury is the introduction of uniform systems and the optimisation of the level of standardisation. This strategy was consistently put into practice in 2007 by implementing the money market area on the target platform. Projects were also launched in the area of derivatives in order to achieve the target architecture.

The measures initiated under the PRO project to streamline back office processes for our branch network and real estate financing were completed as scheduled in 2007:

- In our branch network, the consolidation of facilities was continued and processing further concentrated. A clear cut in production costs was generated by consistently automating handling processes. The digitisation and automated processing of documents sustainably reduced the number of follow-up processes in back offices.
- In real estate finance, sustainable cost reductions were achieved alongside a significant reduction in processing facilities by optimising business processes. In addition to optimisation measures, innovative technical solutions were introduced, such as the electronic loan file.

In our operations supporting foreign branches, back offices were largely consolidated at all locations where UCI and HVB both have a presence. Moreover, the global consolidation of processing activities for FX/MM products, derivatives and structured loans was initiated in a few select locations upon the start of the Target Operating Model project (TOM). This will generate synergy effects for the Group whilst reducing operational risks in the process.

Global Banking Services Division (Continued)

INFORMATION TECHNOLOGY: POOLING STRENGTHS AND EXPANDING GROUP-WIDE COOPERATION

IT spending was again reduced year-on-year in 2007, to €595 million. We achieved significant cost reductions in the corporate units and banking operations in particular, partially to the benefit of the divisions.

Besides the successful implementation of key IT requirements caused by statutory and regulatory changes (e.g. MiFID), focal points were set in the divisions as follows:

- IT investments in the Retail division concentrated on supporting the growth strategy, including for new products, and on optimising sales planning and management.
- The Wealth Management division continued to expand its own advisory service and portfolio management platform and strengthen sales in this area with improved planning and management tools.
- In the Corporates & Commercial Real Estate Financing division, implementing the GO growth initiative and expanding the leading position in the areas of Payments/eBusiness and Financial Risk Management by specific IT investments were the focus of attention.
- IT measures in Markets & Investment Banking centred on front and back office integration on a Group-wide uniform IT platform. At the same time, a significant expansion of investments in innovative capital market products and in risk management was continued.

Another important step in 2007 was the Group-wide consolidation of IT platforms. By taking the decision to relocate the HVB computer centre from Munich to Verona and to introduce the cross-border core banking system, EuroSIG, two significant milestones were defined and the first steps taken towards implementing them in 2008 and 2009.

After the merger of our two IT subsidiaries, HVB Info and HVB Systems, to form HVB Information Services (HVB IS) in April 2006, attention was focused on introducing an IT service model harmonised throughout the Group and increasing cooperation between IT companies within the Group. Thanks to cross-border process optimisation and interface reduction, the foundation was laid for sustainable synergy effects in HVB and throughout the Group.

LOGISTICS & FACILITY MANAGEMENT: NEW STRUCTURES FOR GREATER EFFICIENCY

The Corporate Logistics & Facility Management service unit (CLF) was restructured as planned in 2007. All issues concerning buildings and logistic processes are pooled under the four strategic pillars: Real Estate Asset Management, Facility & Infrastructure Management, Security & Business Continuity Management and Logistic Services.

In addition, Real Estate Development & Disposition markets non-strategic real estate (buildings and land not required for commercial operations) rapidly and efficiently.

The new CLF unit has set itself the goal of maintaining a high standard of quality at lower costs (savings of around €80 million are planned for the period between 2007 and 2010), optimising use of real estate and continuing to prioritise sustainability.

The following developments took place in the four strategic departments:

1. Real Estate Asset Management: The objective of this department is to provide optimum and simultaneously efficient buildings and workstations. In other words, to sustainably optimise the strategic real estate portfolio, to improve cooperation between departments due to their geographical proximity and at the same time to better exploit the office space available. At the end of 2007, implemention of the new floor space and workstation standards was started in the greater Munich area. This project, which involves work on the part of all CLF units, is expected to be completed throughout Germany in 2010. It will then be possible to save hundreds of millions of euros each year in this area.

2. Facility & Infrastructure Management: The extensive servicing of a large branch network is a complex task. In 2008, for example, the introduction of the new logo will have visible effects on all facilities. Illuminated signs must be replaced everywhere and business premises retrofitted. As CLF has also set itself high sustainability goals for real estate management, the new logos will be equipped with energy-saving LED technology. This will cut energy costs and preserve the environment. In the wide range of day-to-day operations, great significance is attached to consistently reducing costs and continually enhancing real estate-related services.

3. Logistic Services: Services such as mail delivery, bookkeeping, cash and voucher logistics affect all HypoVereinsbank facilities in Germany. These are key functions in the Bank as an "organism", without which efficient banking operations would not be possible. Where so much is moved, it is always possible to optimise something – in terms of quality, processes and costs.

4. Security & Business Continuity Management: Security is a key issue for banks. It is irrelevant whether the annual general meeting, a branch or other areas of the bank require protection. New threats and potential risks due to computer crime, terrorism, climate risks and other crisis phenomena are analysed by specialists, and discussed and assessed within the UCI Group. Employees are then informed and trained, and countermeasures taken on this basis. This is how the security and operational readiness of the Bank and its employees are safeguarded at all times – by a crisis team composed of experts trained to deal with emergencies.

Total IT spending (€ millions)[1]

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

Human Resources

Two years together

HypoVereinsbank (HVB) and UniCredit made good progress in 2007 on their ambitious goal of building the "first truly European bank". One of the year's highlights was the intensification of cross-border exchanges within the UniCredit Group. This was reinforced by stronger communication between the individual divisions as well as between the various hierarchical levels within HVB.

HVB AG workforce

2001	27,173
2002	26,163
2003	22,630
2004	21,640
2005	21,338
2006	20,506
2007	**20,715**

LIVING VALUES: INTEGRITY CHARTER AND PEOPLE SURVEY

The Integrity Charter represents the basic set of values for the UniCredit Group. All employees are expected to observe the six basic values – fairness, transparency, respect, reciprocity, freedom and trust. These serve as a yardstick for our actions both within the bank and towards our various stakeholders: customers and suppliers, investors, and towns and cities in which we operate.

The second corporate-wide Integrity Charter Day was held on October 1, 2007. As last year, managers and staff from all areas of HVB talked about how to observe and implement these values. The Integrity Charter is an integral part of our continuous professional development and management training programmes. This means it is permanently established in our corporate culture. Ombudspeople have been available since the beginning of 2007 to whom the employees of HVB AG and its subsidiaries can turn in confidence in the event of conflict.

The year under review was also dominated by the action plans adopted as a result of the first UniCredit Group-wide People Survey. The results of this survey, which was held in October 2006, were released in February 2007. After this date, more than 700 workshops were held to discuss the results of the survey and draw up action plans.

Thus, all units at HVB and its subsidiaries devised obligatory steps to be carried out locally. The measures primarily concerned areas like collaboration and management within the unit and questions of training and continuing professional development.

This was accompanied by an increase in communication between hierarchical levels. In this context, several steps were taken to intensify the dialogue between managers and staff:

- Management Board meetings were held at various locations to enable the dialogue between Board members and staff to take on a regional dimension.
- Members of the Management Board also became involved in other initiatives, such as "Walk the talk" and "Breakfast with Juniors". In particular, this helped to intensify exchanges with the next generation of specialists and managers.
- Branch managers and other executives swapped jobs for a week and worked in individual branches in order to become acquainted with the challenges of the shop floor and increase contact with customers and staff alike.

DEMANDING TRAINING PROGRAMMES

The success of our bank depends heavily on the skills and motivation of our people. The central task of our Talent Centre consists of acquiring, developing and constantly encouraging junior talent. This holds true for apprentices, trainees and student interns. In this context, we consider it very important to permanently tie junior talent to our organisation.

Our training policy is built on targeted measures to recruit and train junior talent for careers as bankers, office personnel and IT experts. This includes attending recruitment fairs and holding applicant training sessions in schools. In 2007, we succeeded in slightly increasing the 7% junior talent ratio we set for apprentices and trainees.

Among other things, the apprentices are mentored using the following instruments:

- A one-week intensive seminar at the start of their training – known as First Steps – serves to communicate information about the structures and processes in our bank as well as the Integrity Charter. This also includes creative workshops, a sports programme and exchanges with the Management Board and managers.
- A two-day event entitled Second Steps was held for the first time in 2007 for people who had completed their first year of training. This event was used to expand selling skills and develop soft skills like rhetoric and stress-resistance. Apprentices and managers discussed market strategies and product development. Separately, our apprentices provided feedback on the quality and areas for improvement of our training programme.
- A number of one-off events were also held, including "Azubis go International" which saw a group of apprentices spend two weeks outside Germany gaining insights into business processes and customer relationships in other Group countries.

We offer our top apprentices with university entrance qualifications two ways of taking degree courses while still working as soon as they have finished their basic training: The Financial Services Management course at the Catholic University of Eichstätt-Ingolstadt leads to a Bachelor of Arts degree, which we offer in conjunction with a trainee programme. We similarly sponsor a Bachelor's degree at Frankfurt School of Finance and Management as part of a trainee programme. Here the focus is on business administration, finance and management, and the degree gained at the end is a Bachelor of Science.

Our trainee programme provides opportunities for university graduates to enter any of the four divisions and the competence lines. The individual programmes last between 12 and 18 months. The Talent Centre provides an opportunity for trainees to meet up and to interact with senior managers once a year at the Trainee Day. The 2007 Trainee Day focused on the topic of growth.

Our trainee programme has been successively expanded over the last few years. We also recruit graduates from the new bachelor courses and create attractive entry opportunities for young professionals. These people take fast-track programmes normally lasting six months and are supervised by experienced managers.

During the year under review, the Talent Centre attended 30 recruitment fairs in Germany and abroad with a view to acquiring the best junior talent for our bank. In addition, case study workshops communicate a true-to-life view of the requirements in the individual divisions to potential candidates. We supervise potential trainees in our HVB Student Network, offering course and career advice as well as arranging workshops and trainee assessment centres. Together with Bank Austria and Banca d'Impresa, we organised a European Corporate Tour for members of our Student Network and some of our own trainees with a view to giving these up-and-coming bankers an insight into corporate banking operations in Germany, Austria and Italy.

Share of women at HVB AG, 2007 (%)

1 A, B and C levels

Human Resources (Continued)

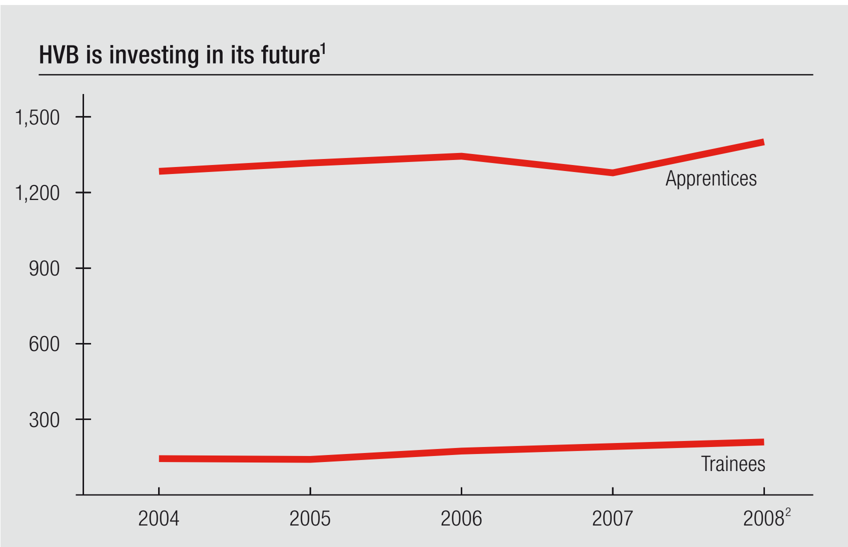
We also offer student interns a variety of entry and contact possibilities. These range from a one-day practical, known as Job-Dates, to student internships lasting from one week to six months. 470 student interns worked at HVB in the year under review. In order to set up more contacts with gifted students, we organised two "economic summits" for older schoolchildren in 2007 to give them a good overview of career prospects in Europe.

Our image as an employer also influences the quality of applications we receive. We recorded pleasing results in two rankings during the year under review. We achieved third place in a study into the recruitment of managers carried out by the Institut für Gegenwartsforschung, coming out top among the major private banks. We were one of the big winners in a ranking of the top 100 employers in Germany drawn up by *manager magazin,* climbing 26 places up the list. This has helped us to attain a much better position as an employer on the labour market. Thus we achieved a hiring rate of 2.5% of all applicants among apprentices and around 7% among trainees in the year under review.

WIDE-RANGING DEVELOPMENT PROGRAMMES, EXPANSION OF MENTORING

The annual performance review is the focal point of our staff development strategy. The personal performance of the employee is assessed in a dialogue with his or her supervisor together with future prospects and the continuing professional development required to achieve this. The potential areas of deployment of top performers are evaluated in group assessment centres lasting several days.

Whereas specialist training is carried out by individual divisions or competence lines, the Development and Top Executives unit is responsible for management-specific training. We offer both potential and experienced managers a broad range of communications and leadership seminars. These are complemented by a large number of language



1 HVB AG
2 Projection

courses set up in response to the growing international nature of the UniCredit Group. We also support our managers with individual coaching sessions and leadership transition coaching for employees who are taking on their first managerial positions.

Our JUMP! junior management programme offers interesting prospects for young professionals. 110 junior managers applied to take part in this programme in the year under review, of whom 33 were finally accepted.

Women make up more than half (55%) of HVB AG's workforce. At present, women account for around 27% of all managers. We have established a specific mentoring programme for female employees with a view to raising the proportion of women in senior management and to encouraging more talented female staff. In Munich and Frankfurt, we also participate in Cross Mentoring, an intercompany initiative aimed at fostering talented young women.

INTERNATIONAL CAREER PROSPECTS IN THE FIRST TRULY EUROPEAN BANK

Alongside the broad selection of development programmes offered by HVB, our membership of the UniCredit Group opens up a diverse range of international career prospects for our people. Worthy of mention in this context are the UniQuest talent programme, the Group-wide Executive Development Plan (EDP) for senior and middle managers, the Talent Management Review aimed at identifying managerial potential and the UniFuture development programme for senior executives.

The Group's Leadership Competency Model for all hierarchy and seniority levels acts as the definitive framework for all of these career and development tools.

CHANGE PROCESSES REMAIN INTENSE

A number of staff movements and reorganisations again took place in 2007. After the previous segment structure had been adjusted to match UniCredit's divisional structure in 2006, changes during the year under review primarily took place in administrative functions such as purchasing, real estate and information technology. Added to this was the sale of HVB's securities handling operations to the France-based Caceis Group, as a result of which around 550 employees left the corporate group. We succeeded in securing wide-ranging employment promises for our former staff.

We likewise designed the final phase of the Process Redesign and Optimization project (PRO) in a socially compatible manner. Launched in 2005, this efficiency-enhancement programme aimed at optimising and streamlining processes called for the elimination of around 2,100 positions by 2007, mostly in service units. This target was reached in full. On top of this, further synergy effects will be realised by the end of 2008 through the elimination of 1,800 positions as part of the integration process within the UniCredit Group. Service and administrative units will be affected. This project is also running to plan.

Human Resources (Continued)

The elimination of positions in our bank is made easier by natural fluctuation, which totalled 8.3% at HVB AG in the year under review. We also offer generous early retirement packages and the chance to work part-time in the run-up to retirement. Where at all possible, we would like to continue paring back our personnel resources without having to resort to compulsory redundancies.

Part-time employment is at the heart of our successful system of flexible capacity management. We have constantly increased the proportion of people working part-time over the last few years to reach 21.4% at HVB AG in 2007. In addition, we offer telecommuting positions. 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 HR management agency, HVB Profil, also made a significant contribution to capacity management in the year under review. HVB Profil has access to a pool of employees who are assigned flexibly to various areas of HVB. Again last year, this work focused on supporting the various organisational and staffing changes, including taking on our apprentices, and recruiting suitable qualified people for HVB Group.

We continued to refine our system of performance incentives during the year under review. In agreeing to a deterministic bonus for the sales divisions, we modified variable pay to comply with UniCredit Group standards. For the staff, the "determination" of the bonus means that the amount of the bonus is definitively set in line with target achievement. Furthermore, from the beginning of the year the employee obtains greater transparency, predictability, dependability and, for measurable targets, independence from a supervisor's decision. Sales staff in particular can look forward to higher potential bonuses as a result.

STRICT CONTROLS LEAD TO SHARP FALL IN PAYROLL COSTS

The extent to which we succeeded in reducing the payroll costs of HVB Group through systematic controls in 2007 is impressive. Payroll costs totalled €2,067 million after €2,216 million in 2006. At the end of the year, 24,784 people worked for HVB Group, 20,715 of whom for the AG.

As in previous years, a responsible relationship was again evident in 2007 between our HR managers and employee representatives, most notably the Central Works Council and the Speaker's Committee for Senior Executives. We would like to express our specific thanks to everyone involved in this constructive co-determination process.

WORK-LIFE BALANCE AND SOCIAL PROGRAMMES

HypoVereinsbank seeks to strike a fair balance between its own interests as an employer and the diverse interests of its employees. These employee interests cover everything from partnership and family through to the performance of voluntary work in political, social or cultural arenas.

The compatibility of family and career is one of the top priorities of our HR policy. We support our people both financially and with advice during family-related leaves of absence. A total of 1,091 employees took parental leave in the year under review.

We have also introduced a series of measures that promote a work-life balance, including flexible working hours and allowances for child care together with support in finding care for older dependants. Our family service provider operates throughout Germany, offering seminars and advice on matters like early re-entry to the labour force, living wills and dealing with debt as well as help in finding alternative child care. Furthermore, in September 2007 we supported the opening of an international kindergarten with multilingual staff for children aged between one and six.

A further priority is to help mothers and fathers re-integrate into the bank when returning from parental leave. The re-entry rate was around 70% in the year under review. For this commitment, the charitable Hertie Foundation has certified HVB AG under its Work & Family audit more than once.

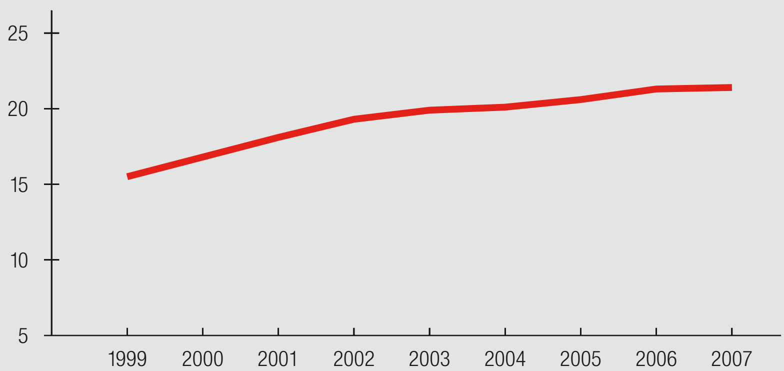
Our company health management strategy is dedicated to the well-being and productivity of our people. We also promote health awareness in the Bank by means of platforms like the Health Forum. The Forum organises seminars and information events, notably aimed at boosting employees' awareness of their own responsibility. The social services we provide assist staff in times of crisis and other difficult situations, including addiction, mental instability and interpersonal tensions. Our social services also offer coaching for managers to help them deal with the employees concerned.

OUTLOOK: CAREER PROSPECTS AND GREATER VALUE ORIENTATION

Our membership of the UniCredit Group opens up a diverse range of additional career opportunities for our people. HVB is also committed to systematically expanding its own development tools, like JUMP! and mentoring for women. Furthermore, we intend to reinforce our involvement in international development tools, such as EDP.

A further priority of our HR management strategy is to deepen value orientation. Thus, the second Group-wide People Survey was conducted at the start of 2008. We will use the results of this survey to reinforce the awareness of our people for the Integrity Charter values by setting up action plans and workshops.

Proportion of part-time workers at HVB AG
(%)



Corporate Social Responsibility

Living values towards all stakeholders

Following the integration of HVB into the UniCredit Group (UCG), the focus has turned to the common framework of values defined in the Integrity Charter. We have undertaken to comply with the six basic values: fairness, transparency, respect, reciprocity, freedom and trust. These form the foundation for the way we work with stakeholders, such as customers and investors, and for the way we deal with the towns and communities in which we operate.

CORPORATE SOCIAL RESPONSIBILITY: FROM MISSION TO ACTION PLAN

Our goal is to become the most successful bank in Europe in the long run. On the one hand, this entails efficient, forward-looking corporate management. At the same time, though, we are also committed to responding to the expectations and desires of our stakeholders. For this is the only way to achieve sustainable success. The Integrity Charter is the focal point of our values orientation. It forms the basis for our corporate identity, and has already been communicated to the entire workforce on several occasions in workshops, brochures and opinion polls (see also the section entitled "Human Resources").

To achieve our goals of economic success and social integrity, all the divisions are required to act in accordance with the principles of sustainability. We use a series of indicators to measure our own socio-ecological performance and employ tools to assess reputation risk and help us deal with critical issues (issues management).

SUSTAINABILITY BOOST FOR THE CSR MANAGEMENT SYSTEM

In the past, our innovative system of sustainability management resulted in HVB being included in the leading indexes, including the Dow Jones Sustainability Indexes and the FTSE4Good Europe and Global indexes. This tradition is being continued within the UniCredit Group, which similarly features in these indexes. In this regard, it is beneficial that the CSR strategies and ethical principles of HVB are a perfect fit with those of the UniCredit Group. This provides a good starting point for exercising social responsibility.

At HVB, we continue to operate on the basis of a network structure. The Management Board provides the set of values and the guidelines. The CSR Management unit is directly responsible for coordinating all activities, maintaining the network within the divisions and central units at HVB and advising them with regard to product design and liability. Other activities involve coordinating with UniCredit Italy and other members of the UniCredit Group as well as benchmarking and controlling the agreed targets and work programmes. The CSR team reports to the Management Board of HVB at regular intervals. Another task performed by our CSR team involves maintaining a dialogue with stakeholder groups.

SUSTAINABLE BANKING PRODUCTS: EXPANSION OF EQUATOR PRINCIPLES COMMITMENT, FURTHER SUCCESSES WITH THE FINANCING OF RENEWABLE ENERGY

We belong to a small group of financial service providers worldwide who recognised the dangers of climate change and the importance of renewable energy at an early stage, and acted accordingly. Thus, we were part of the group that established the Equator Principles. This group consisted of ten banks which, in June 2003, set up a global industry standard for major project finance deals aimed at ensuring compliance with the social and ecological principles of the World Bank Group. This makes it easier to assess the potentially negative effects of bank-funded projects for society and the environment and to ameliorate the consequences of such projects.

An environmental assessment must be prepared for projects with a high or medium-sized risk, whereby the scope of the analysis and the package of measures to be taken depends on the degree of risk determined. Until June of the year under review, HypoVereinsbank chaired what is known as the Working Group, a consortium of core Equator Principles banks, and continues to be a leading, active member.

The dialogue we foster with non-governmental organisations (NGOs) and other stakeholders also serves to minimise credit risks. Among other things, these dialogues led to the development of sector-specific principles in sensitive fields such as nuclear power and armaments.

We also played an important role in renewable energy. For several years now, HVB has been financing a wide array of wind farms, hydro-electric plants, biomass power plants, sewage treatment plants, desalination plants and water purification plants. Here, too, we were one of the pioneers. We were the first bank to successfully market a self-contained portfolio of wind farms as a corporate bond. Following on from three such issues with a total volume of a good billion euros, the next issue is already in the pipeline. We also financed innovative projects in the fields of solar energy, biomass and biogas last year.

We have further expanded and optimised our nationwide market presence with our new competence centre for renewable energy. In the year under review, we succeeded in expanding our portfolio. In the field of project finance, we recorded €721 million for new projects, while our total portfolio for all areas of finance stood at €1,175 million at the end of 2007.

Furthermore, we reinforced our sector expertise in the field of renewable energy by commissioning two special studies:
- Power for Germany – power supply in the 21st century
- Renewable Energy – financing practices and market perspectives

CLIMATE CHANGE: A GROWING SEGMENT

Climate change is one of the key issues facing society, policymakers and business today. HVB has been heavily involved in this area for several years and has defined a number of action areas. Alessandro Profumo, Chairman of HVB's Supervisory Board, signed the Declaration on Climate Change of the United Nations Environment Programme (UNEP FI) on behalf of the UniCredit Group in 2007. A total of 23 international financial services providers are among the signatories.

We are currently working on a climate strategy with a view to pooling and expanding our activities in this field. The action areas we have targeted to date in our core business are:
- Emissions trading services: trading, strategic advice, hedging concepts and funding
- Involvement in the Carbon Disclosure Project, which aims to publicise the climate risks of large companies (HVB was listed together with UniCredit in the Climate Disclosure Leadership Index for the first time in 2007, putting it among the leading banks worldwide in terms of active commitment to climate protection)
- Funding of projects relating to renewable energy
- Application of World Bank standards and the Equator Principles in project finance
- Sustainable wealth management and marketing of certificates on the HVB Sustainability Index
- Creation of investment funds based on environmental technology
- Marketing of modernisation loans encouraging the energy-efficient renovation of buildings

CARBON TRADING: A CUSTOMER-SPECIFIC OFFERING

The European Emissions Trading System (ETS) launched at the start of 2005 caps emissions of greenhouse gases using a market approach for the first time. To support companies affected by emissions trading in their trading activities and at the same time profit from the resulting business opportunities, our Markets & Investment Banking division formed a department called Carbon Solutions.

Corporate Social Responsibility (Continued)

We offer our customers throughout the European Union a full range of trading products and services tailored to the specific situation of the company concerned in order to make emissions trading easier. This includes both forward and spot trading of emission rights or credits as well as options and repo transactions. In this context, we act as a direct trading partner for carbon allowances and not as a broker. Our Europe-wide banking network links a number of companies, some of which have greater demand for, and others a surplus of, emissions permits. Our experience shows that the bank commitment is necessary if emissions trading is to be successful and corresponding reductions in emissions are to be achieved. Our desire is to play a major role in this process.

WEALTH MANAGEMENT: NEW STRATEGY FOR SUSTAINABLE INVESTMENTS

In 2007, we incorporated the Sustainable Investment unit within our Wealth Management division (WEM) into our core business. The rising demand from customers, coupled with the persistently strong performance of sustainable investment products and growing public interest in environmental and climate issues, led to this decision.

At the same time, HVB has devised a wide range of sustainable products over the last few years, making it now possible to cover customer requirements. Incorporation in the core business was accompanied by a number of measures:

- All WEM staff throughout Germany were informed about sustainable investments and the reasons for incorporating the activities in the core business.
- Advisors specialising in sustainable products were appointed in each WEM branch in Germany, and an external training course for green investment advisors was started for this group of people.
- All WEM customers throughout Germany were informed about the rewards of the "sustainable" asset class in a customer letter.
- A series of customer events was run complete with a separate campaign entitled "Verantwortung leben".
- A further innovative asset-management product was launched with a sustainable orientation.

The new strategy sets us clearly apart from the competition as we, as a bank, can now address all customers in the field of wealth management and draw their attention to the potential of the "sustainable" asset class. By contrast, other institutions expect their customers to ask about appropriate products. We consider our approach to be the most promising.

New sustainable products were also brought to market on the retail side. These included a climate certificate on a basket of three funds and the "Aktivrente Eco", a form of savings based on Pioneer's Global Ecology fund that takes account of the new German flat tax on capital income. The success of the new strategy in the Wealth Management division demonstrates the prospects for a similar approach on the retail side.

SUSTAINABLE BANKING OPERATIONS: COST CUTTING AND RISK MINIMISATION

Preserving resources and cutting costs are the two objectives on which our banking operations are built. A further priority is to minimise risk. The ecological impact of banking operations lies primarily in the areas of building services, office operations, mobility, waste and procurement.

Our priorities in sustainable banking operations include:

- reducing consumption
- avoiding emissions of pollutants, most notably greenhouse gases
- environmentally aware construction involving renewables
- creating healthy interior environments

We rely on a large number of internal communication measures to encourage our employees to act in environmentally aware ways. These include electronic tips and environmental guidelines.

Our procurement system also complies with sustainability standards. When purchasing office and business equipment, selecting company cars or hiring service companies, HVB takes account of cost-effectiveness and functionality as well as social and ecological criteria. These factors, together with the price of the goods purchased, 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 provided by suppliers is incorporated in the contract, should the supplier be awarded work.

SOCIAL COMMITMENT: DONATION MANAGEMENT AND CORPORATE CITIZENSHIP…

For years now, HVB has supported a large number of social institutions, projects and not-for-profit initiatives. This enables us to contribute to social development in the regions in which we operate and to forge deeper ties with local stakeholders. At the same time, we sponsor charitable institutions and relief organisations. One example is our traditional Christmas donation: in December 2007, ten different organisations were chosen and the €100,000 in donations divided up between them. The awarded organisations and facilities work in the fields of the vocational training and integration of disabled people, providing assistance in medical emergencies, family crises or social hardship, hospice work, development aid and the environment.

We are also one of the major corporate patrons 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.

A gift-matching programme was inaugurated during the year under review. Under this scheme, employees can apply for private donations they make to charities to be matched by the Bank. The concept proved popular with more than just numerous HVB people: the corporate scheme is open to all 140,000 employees of the UniCredit Group. The matching donations were disbursed by Unidea, the social foundation of the UniCredit Group.

We also bear corporate responsibility towards society. Consequently, in our capacity as the first truly European bank, the main concept we aim to promote is that of Europe. With this in mind, we set up the HVB Europa Forum, which was staged for the fourth time this year, drawing some 300 invited guests from the worlds of business, politics, culture and society to our prestigious event. The Forum facilitates an exchange of views on opportunities and challenges in Europe.

Environmental management system certification

HypoVereinsbank's environmental management system 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).
The certification process enabled us to optimise the existing environmental management system and to devise further measures to save energy and spare resources. At the Arabellastrasse facility in Munich, for instance, the annual demand for electricity was reduced by around 300,000 kWh simply by replacing the lift control with a destination control system. HypoVereinsbank's certification was confirmed in 2007 during the re-auditing process.

Corporate Social Responsibility (Continued)

We remain convinced that microfinance is the key means of providing development aid in regions with particularly weak infastructure (such as developing and newly industrialised countries). We are continuing to pursue the microfinance project which we initiated in Sri Lanka together with GTZ following the tsunami disaster of December 2004. This also forms the launchpad for other microfinance projects.

…INVOLVEMENT IN SUSTAINABILITY INITIATIVES…

A commitment to sustainability projects in both Germany and abroad forms a focal point of our sustainability management programme:

- We have become involved in the UN Decade of Education for Sustainable Development by being a founder member of BenE Munich, one of 50 regional centres of expertise for sustainable development affiliated to the United Nations University.
- We are an active member of the Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen (VfU), the Forum Nachhaltige Geldanlagen, the Arbeitskreis für Umweltbewusstes Management (BAUM) and the Finanzforum Klimawandel, a cooperative effort of German financial services providers and the Federal Ministry of Education and Research.
- At international level, we participate in the Finance Initiative of the United Nations Environment Programme and are cofounder 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, information and learning tools, best practice models and other initiatives.

…AND COMMITMENT TO ART AND CULTURE

HypoVereinsbank has a long tradition of commitment to art and culture. As a member of the UniCredit Group, HypoVereinsbank promotes cultural diversity in Europe. The focal points of our cultural involvement include the fine arts, music and science.

Our art collection comprises more than 25,000 works, which are on display for our customers and employees in our network of branches. We have made valuable paintings available on permanent loan to top museums like the Alte Pinakothek in Munich. A permanent feature of Munich's cultural life, the Kunsthalle run by the Hypo Foundation of Culture is one of the top art exhibition halls in Germany and has already hosted a large number of prestigious exhibitions.

On the music side, not only are we one of the patrons of the major festivals held in Bayreuth, Munich and Salzburg, we also support regional festivals in places like Rheingau, Passau and Würzburg. One major highlight in 2007 was the second guest performance by Milan's Filarmonica della Scala orchestra in Germany – a series of concerts organised by HVB and UniCredit that perfectly symbolises the desire to promote Europe's cultural diversity.

Another key aspect of our commitment to culture is sponsorship for young people, notably in the form of the "Förderpreis Deutscher Film" German film prize and the "Jugend kulturell" cultural sponsorship programme. Moreover, the Bank's cultural foundation, the Hypo-Kulturstiftung, presents a highly regarded award for the preservation of historic monuments each year.

OUTLOOK: EXPANDING CSR MANAGEMENT AND OUR ACTIVITIES RELATING TO CLIMATE CHANGE AND INVESTMENT

Our commitment is no less strong in the commercial activities of HVB, particularly in lending and investing operations. Here, the key concepts for us are the Equator Principles and renewable energy. We intend to pool and rapidly expand our activities relating to climate change and implement a climate strategy. In terms of sustainable investments, we are continuing to enlarge our strategy in the Wealth Management division by recommending a greater proportion of sustainable investments in the overall portfolio. In the other divisions, new product launches in the field of certificates and others will continue in 2008.

Among other things, we have undertaken to comply with World Bank standards (Performance Standards and EHS Guidelines) with a view to upholding the basic values of our Integrity Charter and observing international ecological and social standards in our everyday operations.

To close gaps, we devise sector policies covering areas like the armaments industry or nuclear energy.

Harmonising our CSR management system with that of the UniCredit Group will remain one of our top priorities in 2008. The task here will be to intelligently pool the strengths of both sides. The stakeholder dialogue and other communications measures will be further refined within this framework. Implementing the certified environmental management system throughout the corporate group will be a major focal point for the next few years. Experience gained by the certified companies (HVB, Vereinsbank Victoria Bauspar AG and UniCredit Italy), especially in terms of energy efficiency, will act as an example in this context. Three further HypoVereinsbank facilities will be certified compliant with ISO 14001 during 2008.

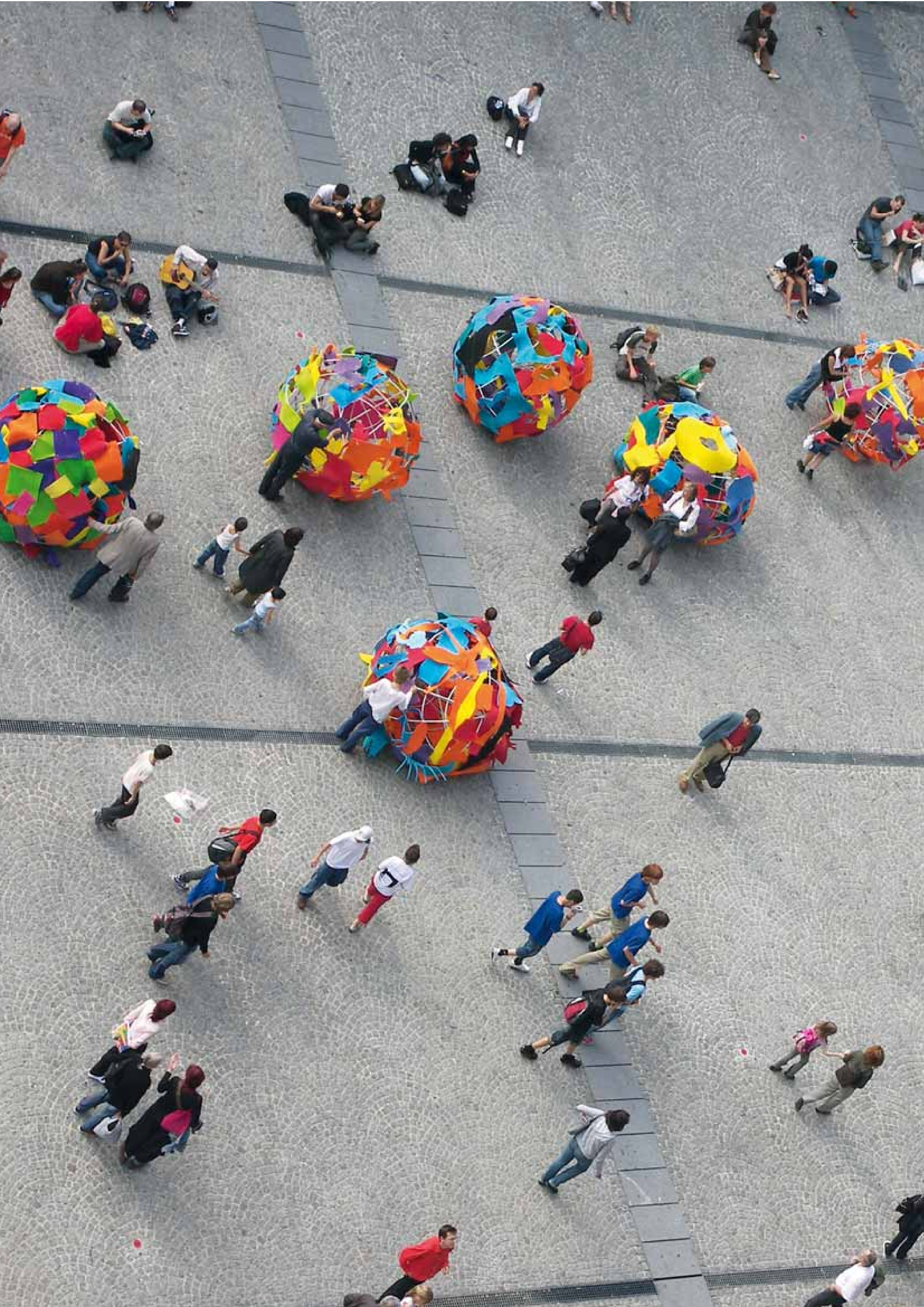
HypoVereinsbank ratings and rankings

RATING AGENCY/INVESTOR	RATING	SCALE	RANKING	YEAR
Dow Jones Sustainability Indexes[1]	UCG listed			
FTSE4Good Europe / Global[1]	UCG listed			
Climate Leadership Index[1]	UCG listed			
oekom research	B–	A+ to D–	4th out of 60 banks	2006
WWF / oekom research: Environmental ranking				
for the protection of primeval forests	B+	A+ to D–	3rd out of 11 banks	2003
scoris Dax30 Rating	69	1 to 100	8th out of 30 companies	2005
Zürcher Kantonalbank	AA	AAA– C		2005

1 HVB's performance is a key factor in the ranking of the UniCredit Group

CSR Management is devising activities relating to the social commitment of HVB jointly with the divisions and service areas. The gift-matching programme will be part of a new corporate citizenship strategy at HypoVereinsbank. Besides gift matching and corporate giving, corporate volunteering programmes and selected flagship projects will send out visible signals. Specifically, the goal is to promote the younger generation as well as education. Voluntary work performed by our people will be supported and encouraged as part of employee programmes. This enables us to reinforce our profile as an international corporate citizen at the same time as boosting the motivation of our people.

HVB will continue to highlight the principles of sustainability, for example, as part of the UN Decade of Education for Sustainable Development in cooperation with the city of Munich. The prime objective of the Decade of Education is to enable citizens and groups to independently organise their lifestyles and economic activities in a sustainable way.



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Financial Review

General comments on the business situation

In a challenging year and a difficult financial environment, we succeeded in achieving a performance at HVB Group that we can be proud of. Our business model, which draws upon the regional and global strengths of our banking group in equal measure, underpinned our success. The subprime crisis on the US real estate market only directly affected us to a minor extent. But the resulting financial market turbulence and its impact did not leave our income statement unscathed. (Please refer to the "Development of HVB Group in a difficult capital market environment" in this section for details on the effects of the financial market crisis.) Overall, we managed to significantly increase the profit generated by our continuing operations (profit of the new HVB Group) over last year, by one quarter to €2,050 million. Profit before tax increased a sharp 83.1%, to €2,962 million. The results for 2006 and 2007 were marked by non-recurring items, but even adjusted for these items and for the restructuring costs recognised in the income statement, profit, at €1,603 million, is around 42% higher than the adjusted total of €1,128 million for the previous year. At the same time, profit before tax, at €2,232 million, is still almost a billion euros or a pleasing 77.7% higher than the adjusted previous-year figure of €1,256 million.

Thus we were able to build on the constant improvement in our operating results in recent years to record a rise of 34.5% in our operating profit to more than €3 billion. After a highly successful earnings trend in the first half of 2007, total revenues rose 11.1% year-on-year, to €6,611 million, despite the extraordinary turmoil on the financial markets and the ensuing adverse effects on results in the third and fourth quarters of 2007. Thanks to this tangible growth in earnings resulting particularly from a pleasing rise in net interest income, coupled with the reduction in operating costs, we improved the cost-income ratio (percentage of total revenues made up by operating costs) by a significant 8 percentage points to 54.1%. This good operating performance enabled us to easily meet the ambitious goals of achieving a tangible increase in total revenues and thus an improvement in the cost-income ratio mentioned in Management's Discussion and Analysis of the consolidated financial statements at December 31, 2006 (see page 68 of the 2006 Annual Report). The expectations we cited for net write-downs of loans and provisions for guarantees and commitments in the Outlook of the 2006 Annual Report remaining stable were surpassed by far. At €536 million, net write-downs of loans and provisions for guarantees and commitments fell a sharp 42.6% to reach the lowest figure recorded since HVB Group started to use IFRS accounting standards.

At this point, we would expressly like to thank our employees and their representatives for all their hard work. Their willingness to embrace change and at the same time to help secure our business success – even in a difficult and uncertain environment – forms the foundation for our strong performance. This gives us the confidence in our own capabilities we need to master the challenges of the future as well.

Underlying conditions

General economic trends in 2007

The first half of 2007 was still marked by very robust growth in the global economy. During this period, the pace of growth in the euro area was very close to the upper limit of expectations, while the first signs of a slowdown became evident in the United States. In the second half of 2007, the market environment and the outlook for the global economy deteriorated noticeably. The turbulence on the financial markets, originating from defaults in structured credit products in the US subprime segment, led to liquidity bottlenecks in the money market. They exacerbated the crisis on the US housing market and finally threatened to spread to other areas of the economy and put a brake on growth there too. The US Federal Reserve (Fed) subsequently lowered its target rate for the first time in September by 50 basis points (bp), from 5.25% to 4.75%, and then again in October and December, by 25bp in each case, to 4.25%. Despite these steps, the markets began to factor in the greater probability of a recession and, consequently, further rate cuts. At the same time, the dollar weakened against all major currencies, and particularly against the euro.

Investors responded to the financial crisis with a flight to quality. With fears of a recession on the rise, yields of long-term bonds fell substantially. Commodities also benefited from the repricing of risk on the financial markets. Thus, the price of oil broke the $100 per barrel mark at the start of 2008.

The economy in the euro area had started the second half of 2007 with relatively strong fundamentals. But the concurrence of the trends already described (cyclical downturn in the United States, appreciation of the euro and increasing commodity prices) initially hit consumer confidence and the business climate, and then also the actual economic data to varying degrees. Industrial production in Germany decreased moderately. In the process, the services sector appears to have been affected more heavily than manufacturing. After initial signs of decline, manufacturing stabilised again, especially in Germany. Gross domestic product (GDP) again expanded by a solid, calendar-adjusted 2.6% in 2007. Important stimulus came from the capital goods industry (machinery, plant and vehicles: up 8.4%). The rise in net exports contributed 1.4 percentage points to GDP growth. In contrast, private consumption was 0.3% less than last year. The labour market continued to develop well. In addition, the current account surplus rose to 8% of GDP as a result of the sharp increase in exports, while the inflation rate quickened to 2.3%. Long-term interest rose by 40bp to reach 4.4% by year-end 2007.

Sector conditions

German stock markets and investment fund markets posted sharp price increases in the first half of 2007, which created a very favourable environment for German banks to generate non-interest-related earnings. During the second half of the year, however, the prolonged period of uncertainty and the high volatility which arose when the financial markets were in turmoil served to depress the markets. The ongoing corrections on the financial markets led to a sustained decline in investors' tolerance of risk. The potential growth in non-interest-related earnings declined as a result.

Interest income in the German banking sector remained under pressure in a stagnating credit market. Furthermore, the interest margin (difference between lending and deposit rates) continued to narrow. Whereas lending operations only grew in the corporate banking segment, the demand for credit from private households and small and mid-sized companies declined in 2007.

Net write-downs of loans and provisions for guarantees and commitments developed relatively well in 2007, at least as far as the corporate sector is concerned. At the same time, the number of company bankruptcies fell while consumer bankruptcies continued to rise.

Development of HVB Group in a difficult capital market environment

Triggered by the loss in value of asset-backed securities based on subprime mortgages in the United States, there was a significant decrease in investors' appetite for risk. This resulted in liquidity bottlenecks in the money market accompanied by a massive widening of credit spreads.

We are only directly affected to a minor extent as we have very little subprime exposure. Nevertheless, our income statement has not been left unscathed by the turmoil on the financial markets as a result of the indirect effects arising from the massive widening of spreads. This has mainly affected our structured lending products in the trading book based on European underlyings such as asset-backed securities (ABS) and collateralised debt obligations (CDOs). We are also active in the market for syndicated loans (leveraged buy-out loans (LBO)), which we classify as loans and receivables.

HVB Group does not have any material exposure to companies specialising in insurance for issuer risks (monoliners).

Financial Review (Continued)

Effects of the financial market crisis on the performance of HVB Group

Now that all the synthetic CDOs and most of the ABS securities have been classified as held for trading, the changes in valuation of these products are almost exclusively reflected in net trading income in the income statement.

We nevertheless generated net trading income of €592 million (2006: €768 million), although the total was directly depressed by €344 million mostly due to net losses on the valuation and realisation of ABS products.

In addition, the Structured Credit unit was also adversely affected by the general widening of credit spreads. This was offset, however, by positive effects from other trading units, as listed in Note 33, “Net trading income” in the notes to the consolidated financial statements contained in the present Annual Report.

Moreover, losses of €67 million were posted under net income from investments for the ABS portfolios classified as held-to-maturity and available-for-sale. A deduction of €52 million has been included in the available-for-sale reserve (known as revaluation reserves) in shareholders’ equity for fair value fluctuations of ABS securities classified as available-for-sale for which the impairment criteria defined in IAS 39.59 were not met and for which no write-downs needed to be made in other respects.

LBO loans are measured as receivables at amortised cost. They are examined at regular intervals to determine whether an impairment loss needs to be recognised as defined in IAS 39.58, depending on the individual internal rating. This resulted in only minor impairments being recognised at an individual exposure level for the LBO loans on account of the good quality of the borrowers. Where there are no attractive market opportunities due to the current state of the markets, we plan to retain in our portfolio that part of the portfolio that we had originally intended to outplace. For this reason, we consider the risk of the income statement being affected by market prices that are lower than the carrying amount to be acceptable, to the extent that, as seems to be the case at present, the market prices are accounted for exclusively by widening credit spreads and not by worsening customer creditworthiness.

Valuation of ABS and synthetic CDOs

HVB has applied the same valuation criteria and methods to the portfolios named above as in previous years. We have kept the valuation categories defined in IAS constant for these portfolios, which means that the majority of the gains and losses on valuation are recognised under net trading income in the income statement.

In terms of the valuation methods applied, we distinguish between prices actually quoted on an active market (mark-to-market, Level I), the derivation of market prices by providers of market data or the use of the latest market transactions for an identical financial instrument or a comparison of the current fair value of a different but largely identical financial instrument (mark-to-matrix, Level II), and the application of in-house valuation models (mark-to-model, Level III).

Most of the listed ABS portfolio is valued using actually traded prices (Level I) based on independent market data (Level II) as there is currently no active market. In this context, we employ prices from independent market data providers and analysis by investment banks as part of independent price verification.

Synthetic CDOs have liquid underlyings, which means that a market price can be calculated in this instance on the basis of data from an active market by applying generally recognised models (Level I).

Asset-backed securities were not valued purely on the basis of internal models (Level III).

For more details regarding the classification and valuation of financial instruments, please refer to Note 6, “Financial instruments”, in the notes to the consolidated financial statments in the present Annual Report.

Risk management

Whereas the underlying conditions on the money and capital markets were perfectly satisfactory in the first half of 2007, the situation changed from August onwards. In response to the turmoil on the financial markets described above, risk premiums had to be adjusted, which led to a severe shortage of liquidity on the money market across the board and the collapse of the asset-backed commercial paper market. Despite this difficult market phase, HVB Group was able to maintain a healthy liquidity situation at all times.

The fact that HVB is a major issuer of Pfandbriefs had a positive influence on the Bank's liquidity situation, as it could make use of this reliable refinancing instrument. The strict credit standards of the German Pfandbrief Act prevent low quality loans from being included in the covering assets used by Pfandbrief issuers. These statutory quality standards, coupled with the transparency and well-developed market infrastructure of the Pfandbrief, have strengthened international demand for this capital market product. This means that Pfandbrief issuers have constant access to the capital market at favourable terms. Refinancing costs in the second half of 2007 were hardly higher than in the first half of the year. Thus, Pfandbriefs across an average of all maturities continued to trade at 10 bp below EURIBOR, whereas collateralised securities and other foreign products similar to Pfandbriefs (covered bonds) saw their spreads widen by 40 to 80 bp.

Conduit business is also affected by the developments on the credit and capital markets. Conduits for which we have the majority of the risks and rewards have been included in the consolidated financial statements for 2007 with an asset volume of €5.4 billion. Liquidity facilities of only €0.1 billion have been promised to conduits for which we do not have the majority of the risks and rewards.

Besides the comments regarding liquidity risk made here with regard to the financial market crisis, the Risk Report contains further comments regarding credit and market risk.

Operating performance of HVB Group

Results of continued operations

The earnings performance of the continued operations of HVB Group is discussed in detail below. The details are based on the consolidated income statement presented on page 126 of the present Annual Report.

Net interest income

Net interest income increased by 19.2% year-on-year, to €3,753 million.

This rise was driven strongly by the inflow of funds from the disposal of discontinued operations. Compared with the previous year, the total includes the cessation of the funding expenses together with the inflow of the contractually agreed interest payments on the purchase price for the period between the Extraordinary Shareholders' Meeting in October 2006 and the actual disposal date, and the investment of the gains realised on the disposals.

The investment banking activities of UniCredit Banca Mobiliare S.p.A.[1] (UBM) transferred to HVB AG in April 2007 had a negative impact on net interest income on account of the refinancing of the trading portfolios. These expenses are directly related to the pleasing trading profit arising from these investment banking activities.

These were offset by far higher trading-generated interest components in other parts of the Markets & Investment Banking division within HVB AG.

Excluding the factors listed above (liquidity advantages from the disposal of companies, the effect of initial consolidation arising from the transfer of UBM's investment banking activities and trading-generated interest components) and without the favourable effects in the fourth quarter of 2007 from the initial consolidation of special purpose entities, net interest income was slightly higher than in 2006.

Interest income from dividends and similar income from equity investments increased by €125 million to €376 million, mainly as a result of a substantial rise in dividend payouts from private equity funds.

1 the effects arising from the transfer of UBM have the same impact as the effects of initial consolidation and are called such below

Financial Review (Continued)

Net fees and commissions

We earned €1,721 million in net fees and commissions in the year under review. There was a slight 1.8% decline year-on-year as a result of the absence in 2007 of the gains on the disposal of the Activest companies in the middle of 2006 and the sale of Norddeutsche Investment-Gesellschaft mbH (Nordinvest) and Indexchange in January 2007. Adjusted for currency, initial consolidation and deconsolidation effects, net fees and commissions rose a slight 1.2% over last year's level. In adjusted terms, all the operating divisions contributed to this increase, even if the previously strong momentum in the Markets & Investment Banking division slackened in the second half of 2007 due to the uncertainties on the financial markets.

Net trading income

After a spectacular start in the first half of 2007 with excellent quarterly results (Q1: €350 million, Q2: €469 million), the effects of the turmoil on financial markets had a negative impact on net trading income in the second half (Q3: €38 million, Q4: a loss of €265 million). In total, net trading income, at €592 million, is 22.9% lower than the previous year's high figure due to the difficult market conditions. The adverse effects of the financial market turbulence are reflected in the net gains on financial instruments in particular. This resulted in losses of €344 million arising from realisation gains and valuation expenses for ABS portfolios and other expenses in the Structured Credit unit. Nevertheless, it proved possible to partially offset these losses with sharp rises in the results of other trading units such as Fixed Income, Currency and Commodities (FICC). At €326 million, the contribution to dividend income generated by trading operations was roughly at the same high level as last year. The gains on realisation in private equity business increased strongly year-on-year, rising €81 million to reach €119 million.

All in all, the inclusion of the investment banking activities of UBM made a positive contribution of €375 million to net trading income in 2007.

Net other expenses/income

Net other expenses/income totalled €169 million in 2007 (2006: €32 million). The total for the year under review includes net income of €78 million from the largest item, being a real estate transaction initiated by us entailing the discontinuation of potential obligations in conjunction with the relinquishment of property and buildings rented by the Bank and the disposal of finance lease properties. At the same time, the total includes a net gain from income and current expenses regarding investment properties and from rental income less current expenses from mixed usage buildings. Income from IT services performed for third parties by our HVB Information Services GmbH subsidiary helped to boost net other expenses/income.

Operating costs

Operating costs fell by 3.2% year-on-year, to €3,576 million. Within operating costs, payroll costs and depreciation on property, plant and equipment decreased while other administrative expenses increased. The decline in payroll costs essentially results from the reduction in the headcount and less expense for profit-related bonus payments in the Markets & Investment Banking division. The rise in other administrative expenses is attributable in part to the increase in the German VAT rate to 19% and price increases. Adjusted for the effects of initial consolidation and deconsolidation, total operating costs fell by 5.0%.

Operating profit

The rise of HVB Group's operating profit by more than one third to reach €3,035 million reflects a continued improvement in profits from our operations in the year under review as already begun in previous years, despite the difficult market situation in the second half of 2007. The rise in operating profit compared with the same period last year is a result of both higher total revenues stemming from liquidity inflows from the disposal of the discontinued operations and successful cost-cutting 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 8.0 percentage points to 54.1%.

Provisions for risks and charges

Net additions to provisions for risks and charges totalled €161 million in the year under review after €164 million in 2006. The largest individual items in 2007 were provisions in the total amount of €130 million set up to cover potential take-back obligations arising from real estate transactions and legal risks arising fom banking operations. The total also includes a net addition to other provisions and accruals for risks and charges in non-lending business and provisions for litigation risks.

Last year, the largest individual item was 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 needed to be set aside to meet contractual obligations arising under what are defined by IAS 37.66 as onerous contracts. In addition, further provisions were required in the previous year for rental guarantees, other provisions and accruals for risks and charges as well as provisions for litigation risks in 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 2007.

Restructuring costs

For the 2007 financial year, HVB Group has recognised a net reversal of €13 million under restructuring costs in the income statement. At the same time, the costs for restructuring measures initiated in the year under review by the Markets & Investment Bank division (€27 million) and in the Group Corporate Centre (€12 million) were more than offset by proceeds from the reversal of restructuring provisions set up in previous years in the Group Corporate Centre (€23 million due to the PRO efficiency enhancement programme, €20 million from the pooling of IT activities and €18 million from the pooling of asset management operations). Restructuring costs in 2006 amounted to €60 million.

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

At €536 million, net write-downs of loans and provisions for guarantees and commitments fell a sharp €397 million, or 42.6%, to reach the lowest figure recorded in the history of IFRS accounting in HVB Group. Moreover, all the divisions can report a decline in net write-downs of loans and provisions for guarantees and commitments. In the Markets & Investment Banking division, a net reversal was recorded overall in the year under review due to significantly higher reversals of loan-loss provisions set up in earlier years. No net write-downs of loans and provisions for guarantees and commitments were required for major cases. Moreover, net write-downs of loans and provisions for guarantees and commitments were also reduced on account of the success in reducing the remaining holdings of the former Real Estate Restructuring segment.

Net income from investments

Net income from investments amounted to €611 million at December 31, 2007. The total includes gains of €219 million on the sale of Indexchange to Barclays Bank PLC and of €47 million on the sale of Nordinvest to the Pioneer Group realised in the first quarter of 2007. In addition, the gain of €113 million on the sale of the remaining shares in Munich Re posted in the second quarter of 2007 had a positive effect on net income from investments. The gain on the disposal of FMS Bank generated in the fourth quarter amounted to €292 million.

Net income from investments of €671 million in 2006 primarily contained the gains realised on the sale of the Activest companies (€543 million), the partial sale of our shareholding in Munich Re (€217 million), gains realised from the reduction of shareholdings in Babcock & Brown Limited (€55 million) and in Lufthansa AG (€40 million). These gains were partially offset by valuation expenses of €130 million arising from the disposal of a non-strategic real estate portfolio announced by the Management Board of HVB AG in December 2006 and by deconsolidation losses and write-downs on investment properties.

Financial Review (Continued)

Other non-operating expenses
Expenses of €153 million arising from a change in the parameters used to calculate the fair value of financial instruments classified as held for trading and at fair value through profit and loss were only shown in a separate line item in the income statement called "Other non-operating expenses" in 2006 (changes in accounting estimates, compliant with IAS 8.32 et seq.). This involved an effect, which was non-recurrent in this magnitude, arising from the initial application of the fair-value discount which took account of other factors influencing the calculation of the fair value. In the year under review, negative changes of €6 million in the fair-value discount are recorded under net trading income in the income statement.

Profit before tax
Profit before tax increased by 83.1% year-on-year, to €2,962 million. Even when adjusted for the favourable non-recurring effects from the interest payable on the purchase price as a result of the disposal of discontinued operations (€93 million), from the gains on the disposal of Indexchange (€219 million), Münchener Rückversicherungs-Gesellschaft AG (€113 million) and FMS Bank (€292 million) and adjusted for the restructuring costs shown in the income statement, the profit before tax of €2,232 million in the year under review still exceeds the 2006 figure by almost a billion euros, or 77.7%. These effects are listed in the section entitled "Non-recurring effects in the income statement of the new HVB Group" below.

Income tax for the period
Income tax for the period increased to €794 million, after we recorded tax income of €125 million in the previous year, mainly due to the strong rise in profit before tax over 2006.

In addition to offsetting the tax losses carried forward, tax refunds for previous years and tax-free earnings had a beneficial effect on the low current income tax for the period (€326 million) in relation to the profit before tax of €2,962 million.

Expenses of €468 million arising from deferred taxes are attributable to negative valuation effects due to the 2008 corporate tax reform (one-time charge of €195 million), the use of tax loss carryforwards and the reversal of temporary differences.

The income of €125 million reported under income tax for the period in the previous year stemmed largely from an increase in the deferred income tax assets recognised on the domestic loss carryforward of HVB AG which were not previously disclosed, tax-free earnings and the capitalisation of discounted corporate income tax credit from previous years in accordance with new tax regulations.

Minorities and net profit
Minorities account for €118 million of the net profit of €2,168 million. After deducting the minorities, we generated a profit of €2,050 million, which is one quarter higher than the profit of the previous year. Adjusted for the non-recurring effects described in the section entitled "Non-recurring effects in the income statement of the new HVB Group" below, there was a sharp increase of around 42% in net profit, at €1,603 million, compared with the adjusted profit of €1,128 million for the previous year.

Non-recurring effects in the income statement of the new HVB Group
As in 2006, the results of the new HVB Group were marked by non-recurring effects in the year under review.

The following list shows the non-recurring effects in 2007:
– Gain of €93 million on the interest payable on the purchase price relating to the sale of discontinued operations recognised in net interest income for the period between the Extraordinary Shareholders' Meeting in October 2006 and the actual time of the sale.
– Gains of €219 million on the disposal of Indexchange Investment AG (Indexchange), €113 million on the disposal of Münchener Rückversicherungs-Gesellschaft AG (Munich Re) and €292 million on the disposal of Financial Markets Service Bank GmbH (FMS Bank) included in net income from investments.
– Restructuring costs of €13 million carried in the income statement (net reversals).
– Income tax for the period was depressed by additional non-recurrent income tax of €195 million due to the application of the 2008 German Corporate Tax Reform Act adopted in the third quarter of 2007.

The non-recurring effects in 2006 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 Munich Re (€217 million) recognised 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 of €55 million for losses on specific loans and receivables 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 classified as held for trading and at fair value through profit and loss (fair-value discount) shown in other non-operating expenses.

The adjusted income statement for the new HVB Group prepared on the basis of the non-recurring effects listed above (including the associated income tax effects in each case) is as follows:

	2007	2006	CHANGE	
INCOME/EXPENSES	€ millions	€ millions	€ millions	in %
Net interest income	3,660	3,148	+ 512	+ 16.3
Dividends and other income from equity investments	376	251	+ 125	+ 49.8
Net interest income	**4,036**	**3,399**	**+ 637**	**+ 18.7**
Net fees and commissions	1,721	1,753	(32)	(1.8)
Net trading income	592	768	(176)	(22.9)
Net other expenses/income	169	32	+ 137	>+100.0
Net non-interest income	**2,482**	**2,553**	**(71)**	**(2.8)**
TOTAL REVENUES	**6,518**	**5,952**	**+ 566**	**+ 9.5**
Payroll costs	(2,067)	(2,216)	+ 149	(6.7)
Other administrative expenses	(1,250)	(1,166)	(84)	+ 7.2
Amortisation, depreciation and impairment losses on intangible and tangible assets	(259)	(313)	+ 54	(17.3)
Operating costs	**(3,576)**	**(3,695)**	**+ 119**	**(3.2)**
OPERATING PROFIT	**2,942**	**2,257**	**+ 685**	**+ 30.4**
Provisions for risks and charges	(161)	(164)	+ 3	(1.8)
Write-down on goodwill	0	0	0	0.0
Restructuring costs	0	0	0	0.0
Net write-downs of loans and provisions for guarantees and commitments	(536)	(878)	+ 342	(39.0)
Net income from investments	(13)	41	(54)	
Other non-operating expenses	0	0	0	0.0
PROFIT BEFORE TAX	**2,232**	**1,256**	**+ 976**	**+ 77.7**
Income tax for the period	(511)	(25)	(486)	>+100.0
NET PROFIT	**1,721**	**1,231**	**+ 490**	**+ 39.8**
Minorities	(118)	(103)	(15)	+ 14.6
NET PROFIT OF HVB GROUP NEW	**1,603**	**1,128**	**+ 475**	**+ 42.1**

Financial Review (Continued)

Profitability ratios
The return on equity of the new HVB Group is reported in accordance with the customary definition in the UniCredit Group (based on 6.8% of the tied equity capital related to the average risk-weighted assets). The respective profit variable in the equation is adjusted by the imputed interest calculated on what is known as the average capital surplus. The interest rate used is the same as that employed in each case when assessing the equity capital allocated to companies assigned to several divisions (2007: 3.8%; 2006: 3.4%). We define capital surplus as the difference between the IFRS capital components – subscribed capital, additional paid-in capital and other reserves, including the gain realised on the disposal of the discontinued operations – and the capital amount based on 6.8% of the tied equity capital related to the average risk-weighted assets.

HVB Group generated a return on equity of 17.6% after taxes and 25.0% before taxes in 2007. Adjusted for the non-recurring effects mentioned above, the ratios – at 13.3% after taxes and 17.9% before taxes – are significantly higher than the figures reported last year, despite the financial market turmoil (December 31, 2006: 15.9% return on equity after taxes, adjusted: 11.1%; and 16.1% return on equity before taxes, adjusted: 12.7%). Overall, this reflects the strength and robustness of our business model, even in the financial market crisis.

Profit of discontinued operations
The transfers of Bank Austria Creditanstalt AG (BA-CA), Joint Stock Commercial Bank Ukraine (HVB Bank Ukraine), Closed Joint Stock Company International Moscow Bank (IMB) (renamed ZAO UniCredit Bank, Moscow, in December 2007, but still referred to as IMB below), AS UniCredit Bank (formerly HVB Bank Latvia AS, Riga) and the HVB AG branches in Tallinn, Estonia and Vilnius, Lithuania agreed by the Management Board and Supervisory Board on September 12, 2006, which were approved by the Extraordinary Shareholders' Meeting on October 25, 2006, represent a discontinued operation as defined by IFRS 5. Hence the results of the discontinued operations are not shown in the income statement until after the net profit and minorities of the new HVB Group (continued operations).

Following the transfer of the companies and sub-groups defined as discontinued operations – the BA-CA Group, IMB, AS UniCredit Bank and HVB Bank Ukraine – in the first quarter of 2007 and their deconsolidation with effect from January 1, 2007, the HVB AG branches in Tallinn and Vilnius were completely transferred in the third quarter of 2007. Hence, the profit from the activities of the Tallinn and Vilnius branches up to the economic completion date of March 1, 2007 are shown in the separate income statement items "Net profit after tax of discontinued operations" and "Minority interest in the net profit of discontinued operations" in the HVB Group income statement in 2007 alongside the gains on the deconsolidation of the transferred sub-groups and companies, including the respective taxes and minority interests, after the profit of the new HVB Group. The comparative figures for the previous year, on the other hand, still contain the results of the business activities of the transferred companies.

Discontinued operations account for €3,698 million of HVB Group's net profit of €5,748 million (2006: €4,420 million) after deduction of the minority interest, as a result of the gains realised on the deconsolidation of the BA-CA Group, IMB, AS UniCredit Bank, HVB Bank Ukraine and the HVB AG branches in Tallinn and Vilnius. In the previous year, profit after tax and after the minority interest of the discontinued operations amounted to €2,780 million, which benefited from non-recurring effects to a large extent. These non-recurring effects reflected under profit before tax, which are described in greater detail in the 2006 Annual Report (page 106), amounted to €1,868 million for discontinued operations.

Appropriation of profit
We have transferred €1,674 million of the unappropriated profit of €5,748 million to reserves in the full HVB Group, including the contributions to income by discontinued operations (disposal gains). The consolidated profit (which is the profit available for distribution of HVB AG) amounts to €4,074 million. We will propose to the Annual General Meeting of Shareholders that a dividend of €402 million be paid to the shareholders and that a further €3,672 million be transferred to retained earnings. The total dividend payout of €402 million is equivalent to a dividend of €0.50 per share of common stock and per share of preferred stock and an advance dividend of €0.064 per share of preferred stock. Hence, in view of our good operating performance, we have increased the dividend per share of common stock by one quarter compared with the previous year (€0.40).

Segment results by division
The contributions of the divisions to the profit before tax of the new HVB Group of €2,962 million were as follows:

Retail	€264 million
Wealth Management	€207 million
Corporates & Commercial Real Estate Financing	€761 million
Markets & Investment Banking	€1,572 million
Other/consolidation	€158 million

In the third quarter of 2007, the activities of the following units were pooled in the Corporates Division within the UniCredit Group in order to leverage future growth opportunities: Correspondent Banking, Documentary Business, Forfaiting, Structured Trade, and Export Finance & International and Domestic Corporate Payments. Consequently, for the first time at the end of September 2007 these operations were shown separately in the segment report of HVB Group under the new Global Financial Services (GFS) subdivision within the Corporates & Commercial Real Estate Financing division with retroactive effect from January 1, 2007. As the activities involved were previously assigned to the Markets & Investment Banking division, the change has produced shifts in terms of segment allocations and the reporting of business volumes, income and expenses between Markets & Investment Banking and Corporates & Commercial Real Estate Financing for the above operations and associated customers.

At the same time, a number of other, smaller reorganisations have taken place in line with the efforts to give the divisions a clear strategic orientation. This resulted in modified segment allocations in all the segments. The figures for the comparative periods in the year under review and the previous year have been adjusted to reflect these changes.

The income statements for each division and comments on the performance of each division are described in Note 27, "Income statement broken down by division", of the present Annual Report. The components and targets of the divisions are described in detail in Note 26, "Notes to segment reporting by division".

Financial situation

Total assets

The total assets of HVB Group amounted to €422.1 billion at December 31, 2007, which represents a decline of €85.9 billion, or 16.9%, compared with the 2006 year-end total. On the assets side, assets of discontinued operations and non-current assets or disposal groups held for sale decreased by €164.2 billion. This sharp decline results from the transfers of the material companies and assets still included in this item at December 31, 2006. This concerns the BA-CA Group, IMB, AS UniCredit Bank, HVB Bank Ukraine and the HVB AG branches in Tallinn and Vilnius defined as discontinued operations as well as the companies Indexchange, HVB Payment & Services GmbH (PAS) and Nordinvest still classified as non-current assets or disposal groups held for sale at the end of 2006, and a non-strategic real estate portfolio.

The decline in total assets resulting from these sales as described was partially offset by the increase in volumes arising from the transfer of UBM's investment banking activities to HVB AG. At December 31, 2007, the volume of the transferred assets totalled €78.5 billion (effect of initial consolidation). In particular, this caused financial assets held for trading to rise by €73.2 billion to €180.9 billion.

In addition, the main increases on the assets side involved a rise of €5.0 billion in loans and receivables with banks and €2.6 billion in held-to-maturity investments, while loans and receivables with customers fell by €3.8 billion.

In the same way as on the assets side, the decline in total liabilities was also largely attributable to the deconsolidation of the companies and operations included under liabilities of discontinued operations and of disposal groups held for sale. This item fell by €152.9 billion. This decline was offset in part by the initial consolidation effect caused by the investment banking activities transferred from UBM. This effect, in particular, helped financial liabilities held for trading to rise by €54.5 billion to €115.2 billion. At the same time, deposits from customers increased by a significant €15.9 billion while debt securities in issue decreased by €8.0 billion.

Financial Review (Continued)

The €4.0 billion rise in shareholders' equity to €24.0 billion can be attributed primarily to the net profit of around €5.7 billion generated in 2007, which benefited from the gain of €3.7 billion on the disposal of the companies and sub-groups defined as discontinued operations. Likewise, minority interest is down by €2.5 billion on account of the deconsolidation of the companies and sub-groups defined as discontinued operations. At the same time, shareholders' equity rose by €1,060 million on account of the capital increase implemented in the course of the transfer of the investment banking activities of UBM against a contribution in kind (subscribed capital up €155 million, additional paid-in capital up €905 million). Furthermore, other reserves increased by €2.9 billion, whilst the reserves arising from the change in valuation of financial instruments decreased by a total of €0.9 billion. The change in reserves arising from changes in the valuation of financial instruments can be attributed to declines of €0.3 billion in the cashflow hedge reserve and of €0.6 billion in the AfS reserve. Most of the change in the AfS reserve (€0.4 billion) reflects the effect of deconsolidating the discontinued operations. Disposals of available-for-sale holdings (such as shares in Munich Re) also served to reduce the total. The aggregate AfS reserve of €0.6 billion includes negative fair value fluctuations of only €52 million relating to the turmoil on the financial markets arising from asset-backed securities classified as available-for-sale for which the impairment criteria defined in IAS 39.59 were not present and for which no other write-downs needed to be taken.

On June 26/27, 2007, the Annual General Meeting of Shareholders adopted a resolution to pay a dividend of €301 million out of the net profit available for distribution for 2006 of €622 million. This 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. The remaining amount of €321 million was transferred to other reserves in compliance with the resolution adopted by the Annual General Meeting of Shareholders.

Risk assets, key capital ratios and liquidity of HVB Group

At €131.6 billion, the risk-weighted assets of HVB Group (without market risks) compliant with the German Banking Act (KWG) were down by €87.7 billion compared with the 2006 year-end total. Major factors contributing to this included the deconsolidation of various subsidiaries (BA-CA Group, IMB, AS UniCredit Bank, HVB Bank Ukraine, etc.) and the securitisation activities listed below.

Opposite effects arose from the transfer of the major assets and associated liabilities of UBM to HVB AG in April 2007.

HVB Group continued its securitisation activities in 2007 with four new transactions: Geldilux-TS-2007; EuroConnect Issuer LC 2007-1; EuroConnect Issuer SME 2007-1; and Building Comfort 2007-1. The corresponding volume of lending newly outplaced totalled €11.4 billion at year-end, serving to reduce €7.7 billion from risk-weighted assets in accordance with the German Banking Act. At the same time, the Promise-XXS-2003-1, Provide-A-2001-1 and Geldilux-TS-2003 transactions expired during 2007 with an aggregate lending volume of €1.0 billion. This had a positive impact of €0.9 billion on risk-weighted assets compliant with the German Banking Act.

At year-end 2007, the core capital of HVB Group compliant with the German Banking Act totalled €19.9 billion and equity capital €25.9 billion. This gives rise to a core capital ratio (excluding market risk positions) of 15.1% and an equity funds ratio of 17.8%.

A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 of the German Banking Act. This figure is the ratio of cash and cash equivalents available within a month in relation 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 2007 (2006: 1.2).

Corporate acquisitions and sales

In the course of the strategic re-orientation of the Bank, the shares we held in Bank Austria Creditanstalt AG were transferred to UniCredit on January 9, 2007, the shares we held in Joint Stock Commercial Bank Ukraine were transferred to Bank Pekao S.A. on March 30, 2007 and the shares we held in Closed Joint Stock Company International Moscow Bank and AS UniCredit Bank (formerly HVB Bank Latvia AS, Riga) were transferred to BA-CA on January 11 and January 10, 2007, respectively. Furthermore, the HVB AG branches in Tallinn, Estonia and Vilnius, Lithuania were sold to AS UniCredit Bank, Riga in the third quarter of 2007 with effect from March 1, 2007.

For the purpose of pooling the investment banking activities of the entire UniCredit Group at HVB, the investment banking operations of UniCredit Banca Mobiliare S.p.A. (UBM) were transferred to HVB on April 1, 2007 against the issue of new shares of common stock.

Indexchange Investment AG, Munich, was sold to Barclays Bank PLC for around €240 million on February 8, 2007. As part of the process of pooling the asset management activities in the UniCredit Group, Norddeutsche Investment-Gesellschaft mbH, Hamburg, was transferred to Pioneer Global Asset Management S.p.A. on January 31, 2007.

Moreover, HVB Payments & Services GmbH, Munich was sold to Deutsche Postbank AG with effect from January 1, 2007 and Financial Markets Service Bank GmbH, Munich was sold to the French service provider CACEIS with effect from December 31, 2007.

The comments made above cover the most important changes in the group of consolidated companies of HVB Group. Further changes in the group of companies included in the consolidated financial statements are provided under Note 4, "Companies included in consolidation".

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. HVB AG has been an affiliated company of UniCredito Italiano S.p.A., Rome (UniCredit), since November 2005 and hence a major part of UniCredit Group from that date as a subgroup. The business combination of HVB AG with UniCredit is based on the Business Combination Agreement (BCA) concluded on June 12, 2005, which automatically expires five years after completion of the exchange offer, unless extended by UniCredit.

Based on the resolution adopted by the Supervisory Board and the Management Board on September 12, 2006 to sell the shares held by the Bank in Bank Austria Creditanstalt AG (BA-CA) and other units in central and eastern Europe, which was approved by our shareholders at the Extraordinary Shareholders' Meeting on October 25, 2006, the shares held in Bank Austria Creditanstalt AG were transferred to UniCredit, the shares we held in Joint Stock Commercial Bank Ukraine (HVB Bank Ukraine) were transferred to Bank Pekao S.A. and the shares we held in Closed Joint Stock Company International Moscow Bank (IMB) and AS UniCredit Bank (formerly HVB Bank Latvia AS, Riga) were transferred to BA-CA in the first quarter of 2007; the sale of the HVB AG branches in Tallinn, Estonia and Vilnius, Lithuania to AS UniCredit Bank was completed in the third quarter.

On March 30, 2007, the Board of Directors of UniCredit Banca Mobiliare S.p.A. (UBM) and the Management Board and Supervisory Board of HypoVereinsbank approved the contribution of the investment banking activities of UBM, based on a valuation report by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC), against the issue of 51,684,532 new shares of common stock. The transfer took effect on April 1, 2007. This transaction was an essential step towards pooling the investment banking activities of the entire UniCredit Group within HVB.

Financial Review (Continued)

At the Bank's Annual General Meeting of Shareholders on June 26/27, 2007, a majority of 98.77% of the votes cast approved the transfer to UniCredit of the shares in HypoVereinsbank held by minority shareholders as part of a squeeze-out procedure in exchange for a suitable cash compensation (€38.26 per share).

Until the completion of the squeeze-out, which takes effect when entered in the commercial register, HVB AG's shares of common stock will continue to be 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.

Numerous legal proceedings were initiated notably by shareholders of HVB AG following the transfer of the BA-CA, IMB, AS UniCredit Bank and HVB Bank Ukraine subsidiaries and the HVB AG branches in Tallinn and Vilnius. These lawsuits are discussed in detail in the section entitled "Operational risk" in the Risk Report.

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

Breakdown of subscribed capital

In connection with the transfer of the investment banking activities of UniCredit Banca Mobiliare S.p.A., Milan (UBM), by means of a capital increase against contributions in kind, the subscribed capital of HVB AG rose by €155,053,596.00 as against year-end 2006. The capital increase was entered in the Commercial Register on April 3, 2007. The subscribed capital of HVB AG has totalled €2,407,151,016.00 since then and is divided into 787,830,072 no par shares of common bearer stock (€2,363,490,216.00) and 14,553,600 no par non-voting shares of registered preferred stock (€43,660,800.00). A proportionate amount of capital stock of €3.00 is attributable to the no-par shares. The shares are fully paid in. The common bearer stock makes up 98.19% of capital stock and the preferred stock 1.81%.

Under Article 6 (1) of the Company's Articles of Association, the common stock consists of bearer or registered shares. No ordinary registered shares are issued at present. When new shares are issued, the Management Board may, with the approval of the Supervisory Board, determine whether and how many bearer or registered shares are to be issued under Article 6 (1) of the Articles of Association. 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 confers one vote at the Annual General Meeting of Shareholders.

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. The shares of preferred stock, which are not listed, arise from the merger with Bayerische Staatsbank in 1971 and are now held solely by UniCredito Italiano S.p.A., Rome (UniCredit). The right to issue further shares of non-voting preferred stock with equal rights remains reserved.

Further rights and duties of holders of common and preferred shares are specified in the German Stock Corporation Act (AktG), in particular in Sections 12, 53a et seq., 118 et seq. and 186 AktG.

Restrictions concerning voting rights or the transfer of shares

Under Article 6 (2) of the Articles of Association in conjunction with Section 68 (2) of the German Stock Corporation Act, 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, own shares do not confer any rights to the Company. We are not aware of any restrictions regarding the exercise of voting rights or the transfer of shares that might arise from agreements between shareholders.

Under paragraph 6.2 of the Business Combination Agreement (BCA) concluded with HVB on June 12, 2005, UniCredit undertook not to arrange the sale, transfer or any other disposal of HVB shares which were purchased under or in connection with the merger to a third party not included in their joint group. Unless extended by UniCredit, the BCA ends automatically five years after the completion of the exchange offer.

Direct and indirect holdings of capital exceeding 10% of the voting rights

According to the German Securities Trading Act, every investor who obtains, exceeds or falls below a certain level of shares in the voting rights of the Company through acquisition, disposal or in any other manner must notify this to the Company and to the German Federal Financial Supervisory Authority.

According to the notification under Section 21 of the German Securities Trading Act of November 22, 2005, UniCredit has held a total of 93.9% of the capital stock and 93.8% of the voting shares of common bearer stock in the Company, 0.001% of which indirectly, since November 17, 2005. UniCredit's ad-hoc announcement dated January 23, 2007, indicated that its interest in the capital stock of HVB AG had in the meantime risen to 95%.

On April 10, 2007 – after the completion of the capital increase against contributions in kind – UBM, a fully owned subsidiary of UniCredit, notified the Company compliant with Section 21 of the German Securities Trading Act that it had held a total of 6.56% in voting shares of common bearer stock of HVB AG since April 3, 2007. On May 16, 2007 – when the Annual General Meeting of Shareholders was convened in 2007 – and during the Annual General Meeting on June 26 and 27, 2007, at which one of the resolutions adopted on June 27 concerned the transfer of shares of minority shareholders to UniCredit, UniCredit held 88.8% of the voting capital directly and a further 6.56% indirectly (via its UBM subsidiary), making a total of 95.36%. The direct and indirect interest held in the capital stock of HVB AG has stood at around 95.45% since then.

In 2005, UniCredit submitted a tender offer which – as can be seen by the participating interests listed – was accepted by a large majority of the shareholders. On January 23, 2007, UniCredit announced that it would initiate a squeeze-out procedure at HVB. The resolution adopted by the Annual General Meeting on June 26/27, 2007 to transfer the shares of minority shareholders to UniCredit in exchange for a reasonable cash settlement (€38.26 per share) has been challenged by a large number of minority shareholders. Once the resolution adopted by the Annual General Meeting of Shareholders has been entered in the Commercial Register of the Company, UniCredit will hold 100% of the capital stock of HVB.

Shares with special privileges granting control powers

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

Type of control of voting rights in case of employee holdings

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

Legal regulations and provisions of the Articles of Association on the appointment and dismissal of Management Board members and amendments to the Articles of Association

The appointment and dismissal of members of the Management Board is based on the legal provisions set out in Sections 84 and 85 of the German Stock Corporation Act (AktG) and Section 31 of the German Co-Determination Act. According to these provisions, Management Board members are appointed by the Supervisory Board for a maximum of five years. Repeated appointment or an extension of their term of office is permitted. Pursuant to Section 31 of the German Co-Determination Act, a majority of at least two thirds of the members of the Supervisory Board is required for the appointment of Management Board members. If no appointment is made on this basis, the Negotiating Committee of the Supervisory Board must submit a proposal for the appointment within one month of the vote. The Supervisory Board then appoints the members of the Management Board by a majority vote of its members. If this again fails to lead to an appointment, the chairman of the Supervisory Board has two votes in a renewed voting round. Section 84 (3) of the German Stock Corporation Act empowers the Supervisory Board to revoke the appointment of a member to the Management Board for good cause. Under the German Banking Act, proof must be furnished to the Federal Financial Supervisory Authority and Deutsche Bundesbank before the intended appointment of Management Board members confirming that they have adequate theoretical and practical knowledge of the Bank's business and managerial experience (Section 24 (1) No. 1 and Section 33 (2), German Banking Act).

The Management Board of HVB AG consists of at least two members compliant with Article 7 of the Articles of Association; furthermore, the Supervisory Board determines the number of Management Board members. In line with HVB AG's organisational structure in divisions, there are currently ten members of the Management Board. The terms of office of eight members of the Management Board expire on December 31, 2008 and the terms of office of the two other members expire on February 22 and March 31, 2009, respectively. Members of the Management Board of HVB AG are usually appointed for a term of three years or less.

Financial Review (Continued)

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. Under Section 181 (3) of the German Stock Corporation Act, an amendment to the Articles of Association does not take effect until it is entered in the Commercial Register. The amendment to Article 4 of the Articles of Association resolved by the Annual General Meeting of Shareholders on May 23, 2006 has been challenged and hence not yet entered in the Commercial Register. The Annual General Meeting of Shareholders can transfer the authority to make amendments to the Articles of Association which only relate to the wording, but not the content, to the Supervisory Board (revised wording). Under Article 21 (3) of the Articles of Association of HVB, the Supervisory Board was granted this authorisation. The Supervisory Board generally makes use of this right for capital increases from the authorised capital increase, for example, which lead to an amendment of Article 5 of the Articles of Association (share capital).

Powers of the Management Board, in particular to issue or buy back shares

The Management Board is directly responsible for managing the Company and works with the other executive bodies of the Company and employee representatives in a spirit of trust for the benefit of the Company. It develops the strategic orientation of the Company, coordinates this with the Supervisory Board and is responsible for putting it into practice.

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) under Article 5 (2) of the Articles of Association. The Management Board, with the approval 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 278,315,468 shares in a total par value of €834,946,404.00. 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.

Should common shares and preferred stock be issued, a subscription right to preferred stock only exists for the preferred stockholder, excluding any subscription right to common shares. In doing so, the issue may not increase the percentage share of preferred stock in the capital stock.

Under Article 5 (2) of the Articles of Association, the Management Board is authorised, with the approval of the Supervisory Board, to exclude from the subscription rights of shareholders (I) fractional amounts, (II) up to a maximum aggregate nominal amount of €15 million to allow for up to 5 million individual shares (common bearer shares) to be issued to employees, (III) a maximum aggregate nominal amount of €210 million by the issue of up to 70 million individual shares (shares of common bearer stock) against cash contributions; the amount of issue for the new shares of common bearer stock may not be substantially lower than the market price of the Company's shares; (IV) a maximum aggregate nominal amount of €834,946,404.00 against contributions in kind for the acquisition of companies or company participations through the issue of up to 278,315,468 individual shares (shares of common bearer stock).

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 HVB or dividend bonds (with or without option or conversion right/obligation) compliant with Section 221 of the German 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 million. The authorisation also comprises the possibility of issuing profit-sharing rights and debt securities by HVB assuming the role of guarantor through subsidiaries with an option or conversion right and/or conversion obligation into shares of common bearer stock of HVB.

A subscription right is normally to be granted to the shareholders. However, the Management Board is authorised, with the approval of the Supervisory Board, to exclude the shareholders' subscription rights (I) for any fractional amounts, (II) in order to grant to holders of option or conversion rights a subscription right to the extent to which they would be entitled after exercising the option or conversion rights or after performing the conversion obligations, (III) if the issue price of the debt securities or profit-sharing rights does not fall substantially below their theoretical market value determined on the basis of recognised actuarial methods, whereby the common shares issued or to be issued to serve the option or conversion rights or in the event of a conversion obligation may not exceed 10% of the Company's share capital including the common shares which are issued with the authorised capital in accordance with Section 186 (3) of the German Stock Corporation Act excluding the subscription right.

The option or conversion price for a share of common stock stated in euros must – even for a variable exchange ratio/conversion price – amount to at least 80% of the average market price of the common share of HVB on the stock market on the five days preceding the date of the resolution by the Management Board on specifying the conditions of issue for the debt securities or profit-sharing rights. Alternatively, if subscription rights are traded, the minimum option or conversion price for a share of common stock can also be determined so that it is equivalent to at least 80% of the average market price of the HVB share of common bearer stock on at least three days on which the subscription rights are traded on the Frankfurt Securities Exchange except for the two last stock market days of rights trading. The average value of the closing prices fixed in electronic trading on the Frankfurt Securities Exchange applies as the relevant stock market price for the purposes of this regulation (final auction in the XETRA trading system). Section 9 (1) of the German Stock Corporation Act remains unaffected. The Management Board is authorised to stipulate further details on the issue procedure and on the features of issues and/or to determine the majority shareholdings issuing the debt securities after consulting the Bank's governing bodies. Under Article 5 (4) of the Articles of Association, a conditional capital increase of €375 million is available to grant shares of common stock to the holders of debt securities and participating certificates issued in accordance with the authorisation granted on May 14, 2003. The Management Board has not used this authorisation to date.

Furthermore, the Management Board is authorised compliant with Section 71 (1) No. 7 of the German Stock Corporation Act to buy and sell own shares for trading purposes by a resolution adopted at the Annual General Meeting of Shareholders held on June 26/27, 2007. The Company made use of this authorisation on more than one occasion in 2007. The information in this regard is provided in the notes to the 2007 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 own shares for purposes other than trading with own shares, such as to withdraw them.

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

Significant agreements of the Company subject to the condition of a change of control following a tender offer

In October 2007, Bayerische Hypo- und Vereinsbank AG, Munich, and UniCredit Consumer Financing Bank S.p.A., Milan, entered into a cooperation agreement in the credit card business. Both parties are entitled to terminate the contract with three months' notice if one or both of the parties no longer belongs to the UniCredit Group. HVB AG receives commission at current market rates for the placement of new credit cards with customers of the Retail division. This had no major impact on the Bank's results in the year under review on account of the short cooperation period. Collaboration in other areas in addition to the placement of credit cards is planned for 2008.

Compensation agreements reached by the Company with members of the Management Board or employees in the event of a tender offer

No compensation agreements have been reached with members of the Management Board or employees in the event of a tender offer. None of the Management Board contracts contain a change-of-control clause.

Main products, sales markets, competitive position and facilities

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

Following the transfer of the business activities in Austria, central and eastern Europe to UniCredit and the integration of the investment banking activities of UBM with effect from April 1, 2007, significant progress was made on the strategic positioning of HVB Group as the competence centre for operations in Germany and for Group-wide investment banking activities. The integration of UBM is a major step towards pooling the investment banking activities of the entire UniCredit Group within HVB AG. At the same time, we are strengthening our position as one of the most important investment banks in Europe.

Financial Review (Continued)

Attractive opportunities for internal and external growth may also arise from the reinvestment of funds made available by the transfer of business activities in Austria and central and eastern Europe. HVB Group is continuing to monitor the German banking market in particular and analyse the possibilities for external growth through appropriate acquisitions. Opportunities presenting themselves for organic growth in the core regions of Germany, Benelux and Scandinavia are analysed in each case, and if these would be profitable for HVB Group, are then pursued.

HVB Group is very well positioned in the German banking market, which is characterised by its size and financial strength, benefiting from the tailored business models of all four divisions. This includes our strong market positioning and our excellent profile in the corporate banking segment, which make it possible to gear successful projects precisely to changing market trends. Based on a clear strategic orientation, the individualised approach in the difficult retail and business banking segment has already met with some success. The asset management service launched under the name of Wealth Management leverages the outstanding know-how of the UniCredit Group's fund company, Pioneer Investments. The Markets & Investment Banking division (MIB) also benefits from the restructuring of our operations as a Group-wide competence centre within the UniCredit Group, although its results were adversely affected in the second half of 2007 by the global crisis on the capital markets. We will be able to further expand our business models and banking services to make them more profitable in the future by integrating the Group-wide resources of the UniCredit Group.

HVB Group is part of an international banking group which offers its financial services on the European market in particular. Hence, to preserve a clear profile, the "HypoVereinsbank" brand will be maintained under the UniCredit Group's master strategy for a European banking brand, but at the same time our affiliation with the UniCredit Group will also be visually demonstrated by a uniform, corporate branding. This will enable us to combine our regional and divisional strength and competence with the additional potential provided by an international banking group. The new branding is to be rolled out in stages during 2008.

A breakdown of our offices by region is shown in Note 88, "Offices", in the notes to the consolidated financial statements.

Organisation of management and control, and internal management

The Management Board of HVB AG is the management body of HVB Group. It is directly responsible for managing the Company. 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 divisional responsibilities on the Management Board of HVB AG reflect the organisational structure of HVB AG, which is divided into customer groups (business divisions) and functions. The respective divisional responsibilities are set out in a schedule of responsibilities and in the internal regulations, which also specify the requirements for the adoption of resolutions and the required majorities. In connection with the integration of investment banking activities in HVB AG, the Supervisory Board of HVB AG appointed Stefan Ermisch, who is Chief Operating Officer of the Markets & Investment Banking division of the UniCredit Group, to act as a new member of the Management Board of HVB AG with effect from March 21, 2007. In particular, he is responsible for the organisation and integration of the global investment activities of UniCredit Group in HVB AG. The appointment of Stefan Ermisch reflects the increasing importance of investment banking at HVB AG.

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 2007, 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 89, "Members of the Supervisory Board and Management Board".

One of HVB Group's most important objectives is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the dual management principle. This is explained in depth in the Overall Bank Management section of the Risk Report.

Basic features of the remuneration system

Structure of compensation paid to members of the Management Board

It is the task of the plenary sessions of the Supervisory Board to discuss and regularly review a proposal put forward by the Remuneration & Nomination Committee of the Supervisory Board on the structure of the compensation paid to members of the Management Board. Details of the compensation are determined by the Remuneration & Nomination Committee. The direct compensation has three components, and comprises 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 success in meeting the targets agreed for the financial year and the targets in the strategic plan and can far 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 UniCredit, which looked at management board compensation and included similar companies. The compensation payable to members of the Management Board of HVB AG for 2007 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. The targets are shown in scorecards and include team targets, core targets and competency targets. The normal weighting is: team targets 20%, core targets 50% and competencies 30%.

There are no more than two team targets. One is based in principle on the after-tax profit of HVB Group and the other in principle on the economic value added (EVA) of HVB Group. In the case of Management Board members who are responsible for a business division, the core targets normally consist of the contribution of the HVB division to the profit of the UniCredit Group division and the EVA of the HVB division. For the other members of the Management Board, this component generally comprises two financial or operating targets. The two competency targets are defined in line with the responsibility of the respective members of the Management Board on the basis of nine management competence factors, which include growth orientation, team culture, promotion of diversity, ability to implement, and so on.

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, zero points are awarded for the target. If the highest value is achieved, the Management Board member receives the highest number of points 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.

Financial Review (Continued)

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 target value and maximum bonus have been defined as reference values since 2007. This maximum bonus can be claimed whenever a total number of 120 points is achieved in the scorecard. This means that the bonus has a maximum upper limit. If targets are met by 100%, the lower target value is paid.

Each Management Board member takes part in the Stock Option & Performance Shares Plan (long-term incentive plan) of the UniCredit Group. This plan consists of two components.

First, 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 four years (vesting) after the allotment. 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 six years after vesting (or nine years after vesting in the case of options issued up to and including 2006). In 2007, the Management Board of HVB AG was granted a total of 880,324 stock options (1,052,604 when including Group employment contracts under which the Management Board member receives his compensation for his activities as HVB Management Board member in part from a UniCredit Group company).

Second, 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 three years after the allotment 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, three of which must have been met.

Members of the Management Board working in operating activities only receive the shares if the division has achieved its targets. 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 commitments for 265,730 (320,795 with corporate employment contracts) performance shares in 2007. HVB AG normally reimburses the cost of participating in the long-term incentive plan to UniCredit at the time of vesting.

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 85, "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 Disclosure of Management Board Remuneration and resolved that the remuneration received by Management Board members would not be disclosed on an individualised basis.

Besides direct remuneration, Management Board members have received pension commitments. Except for four 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.

Different arrangements to the pension scheme described have been agreed for a few Management Board members. These are explained in the Compensation Report in the present Annual Report.

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 of three years' salary 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. Different arrangements for individual members of the Management Board are explained in the Compensation Report in the present Annual Report.

Irrespective of the expiry of the employment contract at the end of the initially agreed term, the contracts of the members of the Management Board do not contain any severance arrangements in the event of premature termination of Management Board activities without good cause. Neither do the contracts contain any commitments to make payments in respect of the early termination of Management Board activities as a result of a change in control (change of control clause).

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 2007 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 85, "Information on relationships with related parties", in the notes to the consolidated financial statements in the present Annual Report.

Events after December 31, 2007

Since the financial markets have if anything deteriorated in the first couple of months of 2008 with the widening of credit spreads in the market as a whole, and consequently the trading activities of HVB Group continue to be affected by mark-to-market adjustments, we do not expect results in the first quarter of 2008 to be on a par with the last quarter of 2007.

Dr Thomas Heidel, the special representative appointed at the Annual General Meeting of Shareholders on June 26/27, 2007, has filed claims for damages against UniCredit S.p.A., Alessandro Profumo, Dr Wolfgang Sprissler and Rolf Friedhofen. For more details, please refer to the section entitled "Operational risk" in the Risk Report.

Outlook

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

Financial Review (Continued)

General economic outlook for 2008

A slowdown in the US economy is under way. In January 2008, the Fed cut rates drastically by 125bp in order to take out insurance against the risks of a recession. In our scenario, US GDP growth is expected to decline to around 1.5% this year from the 2.2% average in 2007. Tighter credit conditions due to the turmoil on the financial markets should contribute to the slowdown. We expect the first half of the year to follow the trend of the final quarter of 2007. Whereas consumer spending will slow, we believe that net exports will rise slightly. The Fed will probably cut its federal funds rate again from 3% today to 2.5% to prop up growth in the US economy, which should slowly pick up again during the second half of 2008.

European economies should be less exposed to the direct effects of the global financial crisis. Nonetheless, the slowdown in the United States will have consequences for the euro-area economy. This situation is exacerbated by the strong appreciation of the euro over the closing months of last year. We foresee economic growth in the euro area slowing to 1.4% in 2008, with domestic demand (more consumer spending than investment) healthier than external demand. The ECB will probably relax its policy stance a little, reducing its funding rates by a total of 50bp with a first cut already taking place before summer. The dollar will remain weak until the US economy shows the first signs of recovery in mid-2008.

In this context, Germany should once again confirm its success in terms of competitiveness and ability to withstand external shocks in 2008. At 1.5%, its rate of growth should be slightly above the euro-area average. Whereas investment growth should moderate a little in the wake of current uncertainties, we expect private consumption to be slightly stronger than in 2007.

Sector development 2008

The turmoil on the financial markets is likely to continue having a strong impact on the earnings of European banks, including German financial institutions. Above all non-interest-related earnings will be affected on account of the widespread uncertainty and volatility on the financial markets. Even if there are no indications of poorer credit quality to date, we assume that risk provisioning levels will have to rise, primarily in response to an expected slight rise in corporate bankruptcies. In Germany, the somewhat more dynamic interest-dependent business should have a stabilising effect on banks' profitability.

General economic outlook for 2009

Following on from the expected recovery in the second half of 2008, the US economy should accelerate again in 2009, although the record levels of the past are unlikely to be equalled, especially in consumer spending. The German economy is likely to pick up slightly, partly in response to a positive trend in construction investments triggered off by the ECB easing monetary policy.

Key planning data for 2008

Our plans are based on the following assumptions:
- Global economic expansion will slow somewhat.
- Growth in gross domestic product will be close to 1.8% in Germany.
- The harmonised inflation rate (Harmonised Index of Consumer Price – HICP – for the euro area) in Germany will be 1.5%.
- Long-term interest rates in the euro area with terms of one to ten years will be of the order of 4.35%.
- In terms of credit quality, insolvencies might accelerate in Germany as the three-year downward trend in corporate bankruptcies seems to have come to a halt recently.

Development of HVB Group

HVB Group assumed in its plans prepared at the end of 2007 that the financial markets would return to normal again during the course of 2008, recovering from the effects of the recent turmoil.

Based on this assumption and a slight change in the group of consolidated companies, we anticipated a further tangible increase in total revenues, with operating costs rising only moderately, which would lead to an improvement in the cost-income ratio and operating profit.

In the meantime, a normalisation on the financial markets is not in sight in the short term, meaning that the developments of HVB Group in 2008 described above entail major uncertainties. We expect profit in the first quarter of 2008 to be below the level of the final quarter of 2007. The performance over the year as a whole remains dependent on the further course of the turmoil on the financial markets and is impossible to definitively forecast for this reason.

We do not expect the low level of net write-downs of loans and provisions for guarantees and commitments for 2007, which arose from the net reversal in the Markets & Investment Banking division and the disposals from the remaining portfolio of the former Real Estate Restructuring segment, to be repeated in 2008. Nevertheless, we assume that net write-downs of loans and provisions for guarantees and commitments will be below the levels of 2006 and 2005.

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

Within the scope of the business combination with the UniCredit Group and following the sale of business activities in Austria, central and eastern Europe, Russia, Ukraine and the Baltic states, there are exciting new opportunities for HVB Group to continue growing organically following 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, partly with the planned integration of the investment banking activities of the former Capitalia Group in 2008, and pooling further investment banking activities at HVB AG.
- 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 expansion opportunities arising on the market.
- 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 business 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 optimisation of operating costs achieved by strict cost management in Germany,
- an improvement in cross-selling potential in all customer groups, and
- reducing risk by disposing of individual non-strategic assets.

Risk Report

HVB Group as a risk-bearing entity

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

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

Management and monitoring of risks 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-related 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, credit portfolio reviews 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,
– coordination between 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 2007, 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 five meetings. The Supervisory Board received timely, detailed reports on all risks relevant to the Bank and on the performance of the loan portfolios and risk 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 (CRO)
The following departments, which perform tasks for HVB Group as well as HVB AG, are under the responsibility of the Chief Risk Officer (CRO):

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 systems 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. Also assigned to this area are the functions related to lending policies, the process standards as required by the Minimum Requirements for Risk Management (MaRisk), and the competence centre for professional credit qualification.

The Monitoring sub-department within Risk Control in the CRO division began operating on June 1, 2007. It has taken over the responsibility from the restructuring units for the watch list with regard to the risk-relevant lending business (individual lending business) and works in consultation with the front office and back office functions on the strategic handling of the watch list exposures. The Monitoring department has no credit approval authority. For business customers in the non-risk relevant lending business (standard lending business) a separate monitoring unit was formed in December 2007 that will go into operation in 2008. Responsibility for non-risk relevant retail business (standard lending business) was transferred from CRO to the Retail division in the middle of fiscal 2007. The Monitoring department in the CRO division was set up with the objective of identifying high-risk exposures at an earlier stage to improve opportunities for initiating risk-mitigating measures, find indicators for the optimisation of the existing early warning system and ultimately to reduce the need for loan loss provisions. The monitoring processes are intended to ensure uniform, targeted management of non-performing exposures and a risk-appropriate description of the loan portfolio with high transparency in terms of possible risks.

Risk Report (Continued)

Credit & Risk Management

– The Credit & Risk Management department pools the operational functions of the lending decision and monitoring processes for the risk-bearing lending business as defined in MaRisk. This includes the corresponding domestic lending units as well as those in Europe, North America, Latin America, South America and Asia. The core tasks of these units consist in particular of the systematic rating analysis based on segment-specific rating processes, the auditing and valuation of the collateral provided and the preparation of structured reasons and documentation of lending decisions. In addition, these units are also responsible for ongoing monitoring of the credit exposures. The individual steps in the risk management process are provided with the necessary support through sophisticated IT systems. To further enhance the degree of specialisation of domestic lending units, organisational measures were carried out in 2007 to align them consistently with divisional requirements. This also takes into account the more stringent requirements for needs-focused risk management. Moreover, these units are supported by industry specialists who are involved in the decision-making process for credit exposures larger than €5 million, especially for the lending business of the Corporates & Commercial Real Estate Financing division, and across the board for the lending business of the Markets & Investment Banking division, and thus represent an integral element in our principle of industry sector-oriented risk management.

Real Estate Valuation and Consulting

– The Real Estate Valuation and Consulting department focuses on the valuation of individual properties and portfolios, regular updates as well as the monitoring and review 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 regarding mortgage collateral for the Pfandbrief business as well as the determination of equity capital pursuant to the German Solvency Ordinance.

Planning/Controlling & Service Functions

– The new Planning/Controlling & Service Functions department was established with effect from the beginning of May 2007 in the course of organisational changes in the CRO division. It responsibilities include:
  – planning loan loss provisions for HVB AG and HVB Group,
  – preparing regular loan loss provision forecasts and risk status reports for HVB AG and HVB Group,
  – implementing the reporting system of HVB AG and HVB Group in connection with loan loss provisions,
  – preparing standard reports and special analyses and the implementation of controlling for the restructuring and workout portfolios in HVB AG and certain special portfolios, and
  – controlling and managing the cover funds of HVB AG.

Chief Financial Officer

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

Regulatory Reporting

– The Regulatory Reporting department, which was responsible for reporting to the regulatory bodies with jurisdiction over the banking sector, was divided effective February 1, 2007 as part of the general restructuring measures and integrated into the Accounting, and Planning and Controlling 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. In addition, as a result of the breaking up of the previously separate Regulatory Reporting department, the Accounting department is responsible for key reporting obligations to regulatory bodies with jurisdiction over the banking sector such as Principle II (governing the liquidity of credit institutions) and the report under the German Liquidity Ordinance replacing it, and in particular the evidence of large exposures, loans in excess of €1.5 million and loans to directors.

Planning and Controlling

– The Planning and Controlling department, whose responsibilities include budgeting, cost controlling and personnel controlling as well as the segment report, primarily took over the regulatory reporting obligations under Principle I (backing of risk assets and market risk positions with own funds), and the German Solvency Ordinance replacing it, from the Regulatory Reporting department.

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. It keeps track of the current situation on the money markets and capital markets and the liquidity and refinancing requirements. The internal costs of funds for the lending and deposit business are continually reviewed for appropriateness and regularly adjusted to reflect internal and external factors. Asset Liability Management is also responsible for the balance sheet structure and measures to optimise regulatory capital. In addition, it is responsible for the risk management of our financial investments. The measures implemented in connection with these functions serve to support HVB Group'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 the handling of all internal audit activities for the subsidiaries.

  MaRisk stipulates 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 the audit findings and all major 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, 2007.

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% confidence level across all risk types. As of January 2008, we will raise the confidence level for risk calculations to the uniform rate of 99.97% applied throughout the UniCredit Group.

This aggregation takes into account risk-reducing diversification 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 the German Solvency Ordinance and the Minimum Requirements for Risk Management). In addition, we continued with the harmonisation of methodologies initiated in the course of integration into the UniCredit Group.

Risk Report (Continued)

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, further steps were taken to harmonise the dual management principle with the management principles applied by the UniCredit Group. For instance at the level of individual transaction management, the KPIs (key performance indicators), economic value added (EVA) and risk adjusted return on risk adjusted capital (RaRoRac) were implemented in sales management. In 2008, these KPIs will be integrated into the product calculations after completion of transactions.

EVA expresses in monetary units the ability to create additional value. It is calculated as the difference between the net profit (less minorities) and the return expectations on invested capital (used core capital plus intangible assets) or economic capital.

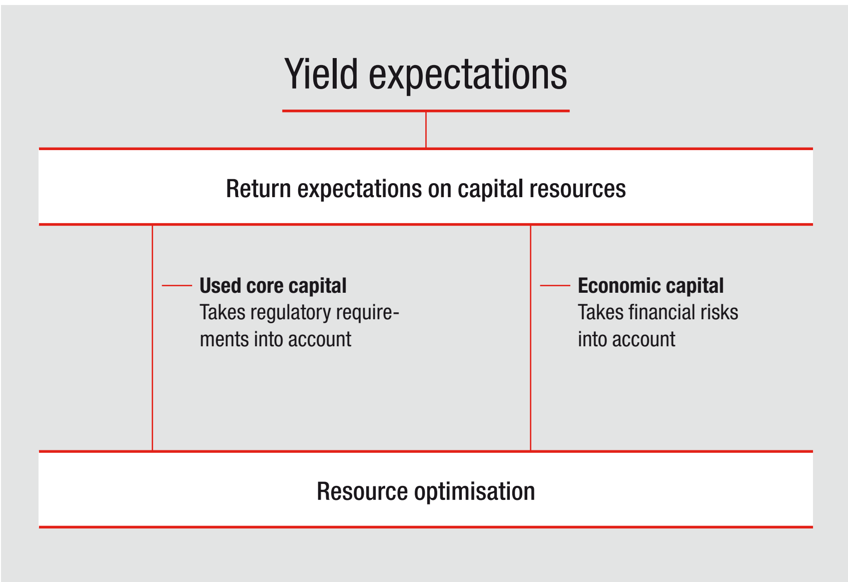
RaRoRac is the ratio of EVA to used core capital, and indicates the value created for each unit of used allocated capital.

In addition, the hands-on management of sales within the divisions is handled individually within each division.

2 Regulatory capital adequacy

Used core capital

For purposes of planning and controlling, the divisions are required to have core capital backing for credit and market risks equal to an average of 6.8% of equivalent risk assets. Furthermore, the expected return on investment is derived from the average used core capital. In line with the management logic of UniCredit Group the core capital exclusive of hybrid capital (= core tier 1 capital) is used for this purpose. As of 2008, a core capital backing averaging 6.4% will be applied, based on the risk assets as defined in Basel II (including equivalent risk assets for operational risks).



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 1 (ratio of core capital to risk-weighted assets)
– Core capital ratio 2 (ratio of core capital to the sum of risk-weighted assets and market risk positions weighted by a factor of 12.5)
– 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)

In 2007, the ratios were calculated on the basis of Basel I. In 2008, we will also convert overall bank management to Basel II, thus including the operational risks in the calculation of capital ratios.

More detailed information on these ratios in 2007 is contained in the Financial Review and in the notes to the consolidated financial statements (Note 82) in the present Annual Report.

To determine the appropriate capital funding, we have essentially defined the following process:
– Based on our multi-year plan, we prepare a rolling eight-quarter projection for ongoing forecasting of our capital ratios in accordance with the German Banking Act on a monthly basis.
– 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 about 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 of the Bank. 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.

During 2007, the aggregate economic capital (including minority interests) for HVB Group increased from €4.2 billion at December 31, 2006 to €4.7 billion at December 31, 2007, taking into account all risk-reducing diversification effects of HVB Group.

Besides the simple withdrawal of the share of the economic capital of €3.8 billion attributable to the Bank Austria Creditanstalt Group (BA-CA), the sale of BA-CA also resulted in narrower diversification effects for the remaining HVB Group.

Economic capital after portfolio effects
(confidence level 99.95%)

	2007		2006	
	€ millions	in %	€ millions	in %
Broken down by risk type				
Market risk	235	5.0	174	4.2
Credit risk	1,956	41.8	1,763	42.3
Business risk	579	12.4	595	14.3
Operational risk	855	18.3	791	19.0
Risks arising from the Bank’s own real estate portfolio	494	10.6	259	6.2
Risks arising from the Bank’s shareholdings/financial investments	559	11.9	584	14.0
HVB Group	**4,678**	**100.0**	**4,166**	**100.0**
Capital cushion to cover risks HVB Group	**22,037**		**17,899**	
Utilisation, in % HVB Group	**21.2**		**23.3**	

Risk Report (Continued)

Consequently, nearly half of the increase in HVB Group's economic capital in 2007 is attributable to the decrease in diversification effects through the disposal of Bank Austria Creditanstalt Group. Another part of the increase is reflected in the risk from the Bank's own real estate portfolio, resulting primarily from the initial consolidation of the Euro ImmoProfil special property fund. The current capital market trends are resulting, among other effects, in higher economic capital values for market risk and credit risk. In the economic capital value for the Bank's shareholdings and financial investments, the effects from additional private equity investments and the disposal of our stake in Münchener Rückversicherungs-Gesellschaft AG offset one another. In the divisional breakdown, a significant decrease in the item "Other/consolidation" is evident. This results from the allocation of shareholdings and financial investments to the divisions, which show corresponding increases. In the Markets & Investment Banking division, which continues to account for the greatest share of economic capital, the above-named effects have a cumulative impact.

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 an internally defined forecasting horizon as a component of our planning process. The detailed 12-month budget planning carried out in 2007 is based on the parameters and targets of the three-year budget planning period. As a result we are in compliance with the essential components of the Internal Capital Adequacy Assessment Process (ICAAP).

According to our internal definition, the capital cushion is made up of IFRS capital components, participatory certificates and hybrid capital, reserves and the actual result. Minority interests are included and goodwill is deducted. The capital cushion for HVB Group amounted to €22.0 billion at the end of 2007 (comparable value for the previous year: €17.9 billion, including the effect from the sale of BA-CA). The year-on-year rise results primarily from higher transfers to reserves together with a decrease in the AfS reserve and lower participating certificates outstanding and hybrid capital instruments. The decline compared with the half-year figures is primarily attributable to the lack of a resolution to date on the appropriation of Group profits. A proposal will be submitted to the shareholders at the Annual General Meeting for a decision. For the first time the Bank will not calculate revaluation reserves for real estate for regulatory purposes at December 31, 2007. As a result, the capital cushion was €0.2 billion smaller both year-on-year and compared with the half-year figure. With an aggregate economic capital of €4.7 billion, this represents a utilisation of approximately 21.2% of the cushion. The significant reduction in the utilisation ratio (36.1% with a capital cushion of €21.9 billion including the share of the capital cushion attributable to the Bank Austria Creditanstalt Group) for HVB Group compared with the previous year can be largely attributed to the disposal of the Bank Austria Creditanstalt Group which resulted both in a reduction in economic capital (down by €3.8 billion from €7.9 billion at December 31, 2006) and an increase in the capital cushion over last year's level from the creation of provisions.

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 HVB Group over the entire financial year.

Economic capital after portfolio effects
(confidence level 99.95%)

	2007		2006	
	€ millions	in %	€ millions	in %
Broken down by division				
Retail	594	12.7	571	13.7
Wealth Management	142	3.0	138	3.3
Corporates & Commercial Real Estate Financing	854	18.3	688	16.5
Markets & Investment Banking	2,173	46.5	1,545	37.1
Other/consolidation	915	19.5	1,224	29.4
HVB Group	**4,678**	**100.0**	**4,166**	**100.0**

4 Risk strategy

For 2007, the Management Board approved a risk strategy in line with the business strategy, taking into account all risk types relevant to HVB Group, the economic capital and the ability to cover risks. For 2008, this was carried out taking into account the increased importance of the Markets & Investment Banking division resulting from the transfer of the important assets and associated liabilities of UniCredit Banca Mobiliare S.p.A. (UBM).

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 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 under 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-income 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.

Risk Report (Continued)

The credit equivalent for counterparty risk is defined as the potential future exposure, and results from the profile of potential future prices/market values that can be assumed by the OTC transactions of a trading partner, taking into account netting and collateral agreements as well as portfolio effects. The future market values are determined on the basis of the Monte Carlo simulation of the internal market risk model. The results are scaled according to the maturity of the transactions or the margin period (in case of dynamic collateral agreements). When determining the potential future exposure, a high distribution quantile (99%) is used for limiting purposes, while an expected positive exposure is used as a calculation basis for the internal credit risk model (see the section entitled "Internal credit risk model" below).

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 subsidiaries of HVB AG have their own rating and scoring processes tailored to their own business activities.

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). Loan-loss provisions are created for rating classes 8– and higher. Process-based rating classes are determined up to class 8. The rating classes 8–, 9 and 10 are determined by setting appropriate performance status flags resulting in the derivation of a default rating class.

The rating and scoring processes are subject to continual monitoring. They are validated annually and are recalibrated or fundamentally revised as required. This ensures regular monitoring and review of all rating processes.

In 2007 we focused primarily on the following areas:
– further development for retail and business customers,
– revision of the rating process for retail customers,
– introduction of Group-wide ratings within HVB AG,
– elimination of special fixed ratings, and
– revision and limitation of override scenarios and reasons for forming rating groups.

In the case of new lending, a rating class must be determined for the borrower beforehand using the appropriate rating process.

The obligation to determine a rating applies regardless of whether the loan is subject to mandatory disclosure pursuant to Section 18 of the German Banking Act. The rating must be adjusted at least once a year on the basis of up-to-date rating documents. In case of material economic changes or changes to the exposure relevant to risk, an interim update of the rating must be performed without delay.

The rating is released by the responsible approval authority.

A transformation table is used for the transformation of external issuer ratings, so that internal ratings can be compared with external ratings. For this purpose we only use ratings from S&P, Moody's or Fitch.

Collateral and collateral management

– The methods used by the Bank to reduce loan default risk are based on the strict regulatory standards governing the so-called IRB Advanced Approach.

Taking the Bank's General Lending Policy as the guiding principle, our collateral management follows a body of regulations that begins by formulating a strategy. When procuring loan collateral from our customers or guarantors, we exercise particular care to ensure that the collateral agreement is legally enforceable.

The most significant collateral types in terms of value are land charges, guarantees and pledges of financial collateral, which together account for approximately 90% of all valued collateral. Valuation is carried out for each collateral type according to specific valuation rules on the basis of empirically determined liquidation quotas. In addition, cost quotas are determined for all collateral types using a fixed calculation basis, taking into account the time needed for liquidation and the discount effect over that time period. In this way, a value is determined that is comparable with the fair value approach. In the case of securities, we make use of our own haircut estimates. Rounding off the body of regulations are various monitoring activities, the tracking of collateral-related default data and regular analyses (for example regarding risk concentrations).

The Bank has a central collateral system in which all relevant data on collateral agreements and collateral allocations are managed and collateral valuations are carried out.

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.

The internal credit risk model underwent further development in 2007. It was implemented on a new IT platform so that it will be possible as of 2008 to determine the credit value at risk and regulatory capital requirements according to Basel II in terms of the input parameters (PD, LGD and EAD) and on a basis consistent with the available data. Country risk is also assessed using a portfolio model.

Expected loss

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

To calculate the expected loss, the exposure at default is calculated as stipulated by Basel II. For loan default risk and country risk, this amount is equal to the line 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. They comply with the strict quality requirements of Basel II (IRB Advanced Approach).

Risk Report (Continued)

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 not exceeding a 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, as well as inflation scenarios and events such as extreme changes in the financial markets. The results of selected scenario evaluations are used to manage and limit loan default and country risk.

Risk-based and market-oriented pricing
– To manage risk and profitability in lending business, pricing methods and tools are used that take into account all cost components, the expected standard risk costs and the capital costs. Because the calculation is based on the relevant risk parameters, and must be carried out before a credit transaction is finalised, lending decisions can be made under risk/return considerations. Regular comparisons were also carried out between the internal margin expectations and the current capital market prices for loans, particularly against the backdrop of turmoil on the financial markets.

Implementation of Basel II
– A core element of the 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 again improved the methods for risk assessment through the use of scoring and rating processes, adjusting and streamlining the internal processes accordingly. We re-implemented some processes or revised their methodology, including the internal assessment approach for the securitisation and retail segments. In addition we successfully implemented the UniCredit group-wide rating systems and associated processes within HVB AG during the year under review. For some subsegments such as sovereigns or banks, the UniCredit Group uses standardised rating systems to ensure globally consistent risk assessment and management in these segments. The necessary processes were implemented technically and used extensively in the existing and new business of the corresponding segments, and related processes were developed and implemented on a Group-wide basis. At the same time, we were able to deactivate the processes previously used for these segments in HVB Group.

We also finalised the processes for estimating loss quotas and exposures. These processes utilise information both from the Bank's own experience in liquidation of collateral and externally available benchmarks. We also participate in various data pooling activities and have also succeeded in utilising results from these activities internally. For example we assess our collateral on the basis of recovery rates determined using empirical/statistical methods.

In the area of validation and calibration of the rating systems, we reviewed the developed methodological concepts, completed any necessary fine-tuning and applied these concepts at regular intervals.

In the year under review we also adapted the so-called Basel II calculation engine to the requirements of the German Solvency Ordinance (SolvV). On this basis HVB Group already made interim calculations of risk-weighted asset parameters in an orderly production process in accordance with Basel II and utilised them for management purposes.

The requirements of Pillar 2 of the Basel II capital adequacy regulations 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 risks. In the meantime UniCredit Holding has started with related activities and is working with us to develop and implement them. This may result in adaptations or further developments of our measures. Consequently, our plans call for the implementation of consistent, Group-wide UniCredit standards for these areas and issues before the end of 2008.

The overall targets set for the Basel II project in 2007 were achieved on schedule. Consequently, the German Financial Supervisory Authority (BaFin) and the Bundesbank were able to begin their work to certify the IRB Advanced Approach in March 2007. The related auditing activities for counterparty default risk were completed in December 2007. The banking supervisory authorities have not yet made their final assessment.

In addition to counterparty default risk we have also finalised the subject of operational risk in the Basel II context. We made intensive preparations for the regulatory assessment for the implementation of the Advanced Measurement Approach (AMA) during 2007. Our compliance with the related requirements was assessed and approved by the German Financial Supervisory Authority (BaFin) and the Bundesbank in mid-2007. Please refer to the section entitled, "Operational risk" for details.

Measuring country risk

– At HVB Group, we measure country risk mainly by using country ratings. Along with the probability of default (PD) and the loss given default (LGD), the measurement of country risk takes into account the structure of transactions in terms of its relevance to country risk. As part of the business combination with UniCredit Group, the sovereign rating processes in HVB Group were converted to the Group-wide processes used in the UniCredit Group in 2007.

  A portfolio model building on this information is used to calculate the value-at-risk (VaR) 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. The use of an internal portfolio model thus enables us even today to achieve important management effects that go beyond the Solvency Ordinance.

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, credit 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 credit risk and related limits. Although the syndication of credit risk concentrations took longer than planned in some cases in 2007 due to the turmoil on the financial markets, the top 20 exposures in terms of the size of their uncovered exposure relevant to concentration risk accounted for a low 4.9% of such uncovered exposures of HVB Group at the end of 2007 (2006: 3.9%).

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. 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.

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

Risk Report (Continued)

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 MaRisk, the Management Board and the Audit Committee of the Supervisory Board must receive a report on the credit portfolio at least on a quarterly basis and on an ad hoc basis as situations arise. In addition, risk reports are produced with a special focus on specific divisions, products or industries.

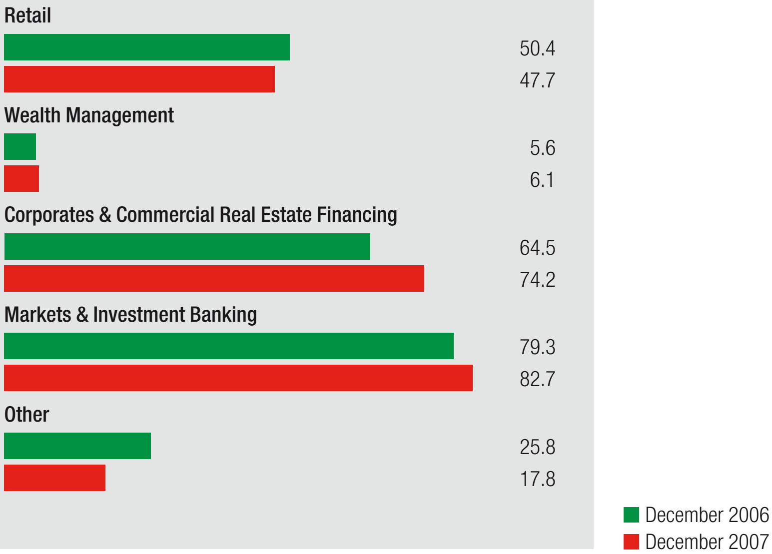
Quantification and specification

After an increase of 2.4% in the credit exposure and counterparty exposure of HVB Group in the first half of 2007, the exposure declined by 1.8% in the second half of the year. All in all, exposure was up a slight €1.2 billion (0.5%) over December 2006.

The structure of the loan portfolio in terms of industries essentially remained stable. Relatively large declines were seen above all in the categories of retail customers (€9.4 billion) and other (€3.1 billion). They were offset mainly through increased exposures in the segments food/consumer goods/services (€6.1 billion), construction (€3.1 billion), mechanical engineering/steel (€2.1 billion) and chemicals/health/pharmaceuticals (€1.6 billion).

The core portfolio, defined as the full HVB Group portfolio minus the remaining exposures assigned to the former Real Estate Restructuring segment, increased by 1.3% in 2007 to €228.5 billion. The Corporate & Commercial Real Estate Financing division showed the sharpest increase in exposures in 2007, up €9.7 billion (+15%). This increase is attributable to rising exposures in the corporate customer business and the formation of the Global Financial Services subdivision. Increases were also seen in the Markets & Investment Banking (€3.4 billion) and Wealth Management (€0.5 billion) divisions. Our exposure in the Retail division decreased by €2.7 billion (5.4%). The decrease under Other is primarily due to the disposal (as planned) of the non-strategic portfolio.

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



There was a slight decline of 2.4%, or €2.6 billion, in the rating classes 1–4. The €3.5 billion increase in the rating classes 5–8 raised the share of this segment in the total portfolio by one percentage point. Exposures in rating classes 9 and 10 declined by €0.7 billion to €5.9 billion.

Of the total exposure of HVB Group, overdue loans with no loan-loss provision accounted for €4.5 billion (2.0%). However, €2.5 billion (55.6%) of that total were short-term 1–5 day overdrafts.

The decrease in collateral values is attributable to the regular updating of the valuations as well as a decrease in the exposure in the non-strategic loan portfolios.

The distributions of expected loss and value-at-risk show a slight shift in the risk contributions of the divisions. In the Retail division there was a small increase in the expected loss flanked by a small decline in value-at-risk. The risk share in Markets & Investment Banking rose further and now makes up more than half of the total value-at-risk of HVB Group Core on account of the large volumes involved. The risk share of Corporates & Commercial Real Estate Financing also increased. In Wealth Management the expected loss and value-at-risk was largely stable at a low level.

HVB Group had net write-downs of loans and provisions for guarantees and commitments amounting to €0.5 billion for 2007. More details on net write-downs of loans and provisions for guarantees and commitments can be found in notes (38), (50), (51) and (52) to the consolidated financial statements in the present Annual Report.

Breakdown of loan default exposure and counterparty exposure by industry sector

		€ billions
	2007	**2006**
Industry sector		
Retail customers	41.7	51.1
Banks and insurers	41.5	42.1
Construction	37.7	34.6
Food, consumer goods, services	30.6	24.5
Chemicals, health, pharmaceuticals	13.7	12.1
Transportation	11.3	10.4
Utilities	11.0	11.5
Public sector	10.1	8.6
Mechanical engineering, steel	8.4	6.2
Other	6.0	9.1
Automotive	5.3	4.9
Electrical, IT, communications	4.9	6.0
Media, printing, paper	4.5	4.7
Mineral oil	4.2	3.9
HVB Group	**230.9**	**229.7**

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

						€ billions
	EXPOSURE HVB GROUP CORE 2007					
CLASSES AS PER IFRS 7.6[1]	FREE OF CREDIT RISK	NOT RATED	RATING CLASSES 1–4	RATING CLASSES 5–8	RATING CLASSES 9–10	TOTAL
Loans and receivables	8.6	7.2	80.0	87.2	5.7	188.7
Loans and receivables with customers	5.3	6.8	66.2	85.3	5.6	169.2
Loans and receivables with banks	3.3	0.4	13.8	1.9	0.1	19.5
Held for trading	0.5	0.8	9.7	0.7	0.0	11.7
Guarantees/credit commitments[2]	0.2	1.0	17.5	9.2	0.2	28.1
Total	**9.3**	**9.0**	**107.2**	**97.1**	**5.9**	**228.5**
HVB Group Core (2006)	**7.8**	**7.9**	**109.8**	**93.5**	**6.6**	**225.6**

1 for reasons of clarity, classes without figures are not shown. Allocations to classes for Group subsidiaries are approximated using product- and industry-related information
2 includes guarantees and unused credit lines booked to separate accounts

Risk Report (Continued)

Breakdown of collateral values by rating class – core portfolio

€ billions

CLASSES AS PER IFRS 7.6[1]	COLLATERAL VALUES HVB GROUP CORE 2007					
	FREE OF CREDIT RISK	NOT RATED	RATING CLASSES 1–4	RATING CLASSES 5–8	RATING CLASSES 9–10	TOTAL
Loans and receivables	0.2	4.1	26.4	45.4	1.9	78.0
Loans and receivables with customers	0.2	4.1	25.3	44.4	1.9	75.9
Loans and receivables with banks	0.0	0.0	1.1	1.0	0.0	2.1
Held for trading	0.0	0.0	0.1	0.1	0.0	0.2
Guarantees/credit commitments[2]	0.1	0.1	3.2	1.2	0.0	4.6
Total	**0.3**	**4.2**	**29.7**	**46.7**	**1.9**	**82.8**
HVB Group Core (2006)	**0.4**	**2.2**	**33.7**	**50.5**	**2.2**	**89.0**

1 for reasons of clarity, classes without figures are not shown. Allocations to classes for Group subsidiaries are approximated using product- and industry-related information
2 includes collateral for exposures for guarantees and unused credit lines booked to separate accounts

Breakdown of loan default exposure and counterparty exposure by days overdue – core portfolio

€ billions

CLASSES AS PER IFRS 7.6[1]	EXPOSURE HVB GROUP CORE 2007					
	PROPERLY SERVICED	OVERDUE 1–30 DAYS NO LOAN-LOSS PROV.	OVERDUE 31–60 DAYS NO LOAN-LOSS PROV.	OVERDUE 61–90 DAYS NO LOAN-LOSS PROV.	DEFAULT	TOTAL
Loans and receivables	177.7	3.9	0.2	0.3	6.6	188.7
Loans and receivables with customers	158.3	3.9	0.2	0.3	6.5	169.2
Loans and receivables with banks	19.4	0.0	0.0	0.0	0.1	19.5
Held for trading	11.7	0.0	0.0	0.0	0.0	11.7
Guarantees/credit commitments[2]	27.8	0.1	0.0	0.0	0.2	28.1
Total	**217.2**	**4.0**[3]	**0.2**	**0.3**	**6.8**	**228.5**

1 for reasons of clarity, classes without figures are not shown. Allocations to classes or past due classes for Group subsidiaries and individual cases are approximated using product- and industry-related information or in the same way as at HVB AG
2 includes guarantees and unused credit lines booked to separate accounts
3 thereof approx. €2.5 billion in exposures 1–5 days past due

Breakdown of collateral values by days overdue – core portfolio

€ billions

CLASSES AS PER IFRS 7.6[1]	COLLATERAL VALUES HVB GROUP CORE 2007					
	PROPERLY SERVICED	OVERDUE 1–30 DAYS NO LOAN-LOSS PROV.	OVERDUE 31–60 DAYS NO LOAN-LOSS PROV.	OVERDUE 61–90 DAYS NO LOAN-LOSS PROV.	DEFAULT	TOTAL
Loans and receivables	74.3	1.2	0.1	0.1	2.3	78.0
Loans and receivables with customers	72.2	1.2	0.1	0.1	2.3	75.9
Loans and receivables with banks	2.1	0.0	0.0	0.0	0.0	2.1
Held for trading	0.2	0.0	0.0	0.0	0.0	0.2
Guarantees/credit commitments[2]	4.6	0.0	0.0	0.0	0.0	4.6
Total	**79.1**	**1.2**	**0.1**	**0.1**	**2.3**	**82.8**

1 for reasons of clarity, classes without figures are not shown. Allocations to classes for Group subsidiaries are approximated using product- and industry-related information
2 includes collateral for exposures for guarantees and unused credit lines booked to separate accounts

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

in %

	EXPECTED LOSS		VALUE-AT-RISK	
	2007	2006[1]	2007	2006[1]
Division				
Retail	20.8	20.1	9.7	11.8
Wealth Management	1.5	1.3	0.9	1.1
Corporates & Commercial Real Estate Financing	25.7	22.6	26.7	25.9
Markets & Investment Banking	31.4	32.4	54.9	48.3
Other/consolidation	20.6	23.6	7.8	12.9
HVB Group	**100**	**100**	**100**	**100**

1 VaR was back-calculated for the portfolio excluding units disposed of (BA-CA and CEE Group companies)

Risk Report (Continued)

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.

The significant increase in the volume of derivative transactions as compared with year-end 2006 is primarily due to the transfer of the investment banking business of UBM to HVB AG effective April 1, 2007.

At year-end 2007, the total nominal amount of worldwide derivative transactions of HVB Group amounted to approximately €4,517 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 HVB Group at year-end 2007 totalled €59.8 billion (December 31, 2006: €36.4 billion).

In accordance with the regulatory Solvency Ordinance, and taking into account the risk-reducing effects of existing, legally enforceable bilateral netting agreements and collateral provided by borrowers, credit equivalents (counterparty risk including add-on) for HVB Group totalled €30.5 billion (December 31, 2006: €20.1 billion, compliant with Principle I) and the remaining risk after risk weighting amounted to €8.3 billion (December 31, 2006: €5.9 billion, compliant with Principle I).

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

Derivatives transactions

€ millions

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS	2007	2006	2007	2006	2007	2006
Interest rate derivatives	**1,362,728**	**1,157,907**	**861,505**	**3,382,140**	**1,467,841**	**32,992**	**19,062**	**31,725**	**20,502**
OTC products									
Forward rate agreements	123,856	31,928	—	155,784	50,505	52	22	53	11
Interest rate swaps	1,006,041	876,886	773,974	2,656,901	1,162,515	29,662	16,927	28,457	18,213
Interest rate options									
– purchased	76,335	118,944	50,717	245,996	74,144	3,269	2,084	1	—
– written	65,737	112,379	36,814	214,930	64,719	5	—	3,214	2,278
Other interest rate derivatives	122	—	—	122	298	4	3	—	—
Exchange-traded products									
Interest rate futures	84,048	17,770	—	101,818	57,462	—	—	—	—
Interest rate options	6,589	—	—	6,589	58,198	—	26	—	—
Foreign exchange derivatives	**337,019**	**106,440**	**38,483**	**481,942**	**259,269**	**9,402**	**3,872**	**8,581**	**3,679**
OTC products									
Foreign exchange forwards	203,318	25,112	339	228,769	134,433	3,690	1,758	3,680	1,951
Cross-currency swaps	35,381	67,483	36,939	139,803	91,390	4,299	1,723	3,603	1,391
Foreign exchange options									
– purchased	49,214	6,678	579	56,471	15,347	1,413	391	—	—
– written	49,106	7,167	626	56,899	18,099	—	—	1,298	337
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	—	—	—	—	—	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Equity/index derivatives	**108,461**	**124,649**	**10,232**	**243,342**	**205,253**	**13,560**	**10,396**	**16,929**	**10,602**
OTC products									
Equity/index swaps	21,140	7,231	316	28,687	19,400	892	484	652	228
Equity/index options									
– purchased	20,138	24,017	1,745	45,900	47,947	7,324	6,629	2	—
– written	28,501	45,456	5,689	79,646	67,971	8	—	10,966	6,836
Other equity/index derivatives	—	—	—	—	330	—	17	—	—
Exchange-traded products									
Equity/index futures	4,020	75	—	4,095	9,819	4	—	8	—
Equity/index options	34,662	47,870	2,482	85,014	59,786	5,332	3,266	5,301	3,538
Credit derivatives[1]	**38,829**	**267,951**	**98,252**	**405,032**	**252,068**	**3,081**	**2,748**	**3,473**	**3,231**
Other transactions	**1,534**	**2,420**	**671**	**4,625**	**3,071**	**723**	**295**	**669**	**291**
Total	**1,848,571**	**1,659,367**	**1,009,143**	**4,517,081**	**2,187,502**	**59,758**	**36,373**	**61,377**	**38,305**

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

Risk Report (Continued)

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €791,925 million (thereof credit derivatives: €18,465 million).

Derivatives transactions by counterparty type

€ millions

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2007	2006	2007	2006
Central governments (and central banks)	321	232	298	187
Banks	46,256	24,920	47,417	26,237
Financial institutions	11,071	9,076	11,817	9,744
Other companies and private individuals	2,110	2,145	1,845	2,137
Total	**59,758**	**36,373**	**61,377**	**38,305**

Credit derivatives

€ millions

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	2007	2006	2007	2006	2007	2006
Banking book	**154**	**1,290**	**7,715**	**9,159**	**14,299**	**7**	**485**	**272**	**798**
Protection buyer									
Credit default swaps	117	839	6,401	7,357	8,839	4	462	137	53
Total return swaps	—	—	725	725	2,000	—	—	130	327
Credit-linked notes	34	58	464	556	625	3	2	1	2
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	—	294	125	419	2,746	—	21	1	415
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	3	99	—	102	89	—	—	3	1
Other	—	—	—	—	—	—	—	—	—
Trading book	**38,675**	**266,661**	**90,537**	**395,873**	**237,769**	**3,074**	**2,263**	**3,201**	**2,433**
Protection buyer									
Credit default swaps	13,492	124,985	47,947	186,424	110,290	2,701	393	325	1,614
Total return swaps	5,367	2	214	5,583	13,567	39	329	2	—
Credit-linked notes	82	120	588	790	651	6	15	3	4
Other	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	14,552	141,480	41,736	197,768	99,564	326	1,524	2,837	477
Total return swaps	5,126	—	—	5,126	13,242	—	—	33	327
Credit-linked notes	56	74	52	182	455	2	2	1	11
Other	—	—	—	—	—	—	—	—	—
Total	**38,829**	**267,951**	**98,252**	**405,032**	**252,068**	**3,081**	**2,748**	**3,473**	**3,231**

Credit derivatives by reference asset

	NOMINAL AMOUNT					€ millions
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	OTHER	TOTAL 2007	TOTAL 2006
Public-sector bonds	22,505	—	542	—	23,047	14,793
Corporate bonds	355,599	742	638	—	356,979	225,498
Equities	—	—	—	—	—	—
Other assets	13,864	10,692	450	—	25,006	11,777
Total	**391,968**	**11,434**	**1,630**	**—**	**405,032**	**252,068**

Multi-name credit derivatives, relating to baskets or indices, accounted for a share of 59.9%; single-name credit derivatives made up 40.1% of the total. Details at the level of the UniCredit Group can be found in the consolidated financial statements for the corporate group.

Country risk year-on-year

In the year under review, the exposures of HVB Group entailing country risk increased by €6 billion to €54 billion.

Approximately 95% of the total exposures are from countries with rating classes 1–4. Exposures in rating classes 5–8 accounted for a volume of just €2.6 billion (with 76% of that amount in rating class 5).

The regional diversification of the HVB Group portfolio is very satisfactory. Low-risk regions such as western Europe and North America accounted for 61% of the exposure, a situation also reflected in the top ten list of countries.

The disposal of the Bank Austria Creditanstalt Group and the newly defined core markets for HVB Group resulted in a new portfolio structure. This development and a corresponding increase in exposures, for instance in Russia and Turkey, led to a rise in value-at-risk for countries in eastern Europe.

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

	EXPOSURE		VALUE-AT-RISK[2]	€ millions
	2007	2006	2007	2006
Rating				
Rating 1–4	51,386	45,244	38	36
Rating 5–8	2,616	2,714	35	29
Rating 9	0	3	0	0
HVB Group	**54,002**	**47,961**	**73**	**65**

1 net of collateral; excluding transactions with loan-loss provisions
2 value-at-risk recalculated (99.95% and 1 year holding period) on the basis of HVB's portfolio after the disposal of BA–CA

Risk Report (Continued)

Country exposure[1] by region and product category

€ millions

	Lending		Trading		Issuer risk		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Region								
Western Europe	8,363	6,868	17,727	17,931	1,053	749	27,143	25,548
Asia/Pacific	4,523	4,033	5,376	3,058	207	134	10,106	7,225
Central and South America	1,760	2,578	3,437	2,115	974	1,270	6,171	5,963
North America	1,749	1,755	2,864	2,156	951	302	5,564	4,213
Eastern Europe	3,628	3,785	827	640	100	63	4,555	4,488
Africa	392	327	71	190	0	7	463	524
HVB Group	**20,415**	**19,346**	**30,302**	**26,090**	**3,285**	**2,525**	**54,002**	**47,961**

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

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

€ millions

	Exposure		Value-at-risk[2]	
	2007	2006	2007	2006
Country				
UK	18,811	18,595	1	0
USA	4,163	2,510	0	0
Switzerland	4,095	3,633	0	0
Cayman Islands, off-shore	3,175	3,662	9	10
Singapore	2,651	653	0	0
Australia	1,947	395	0	0
Russia	1,821	1,531	13	10
Cayman Islands, on-shore	1,781	1,174	2	1
Denmark	1,584	812	0	0
Turkey	1,380	1,288	15	12
HVB Group	**41,408**	**34,253**	**40**	**33**

1 net of collateral; excluding transactions with loan-loss provisions
2 value-at-risk recalculated (99.95% and 1 year holding period) on the basis of HVB's portfolio after the disposal of BA–CA

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.

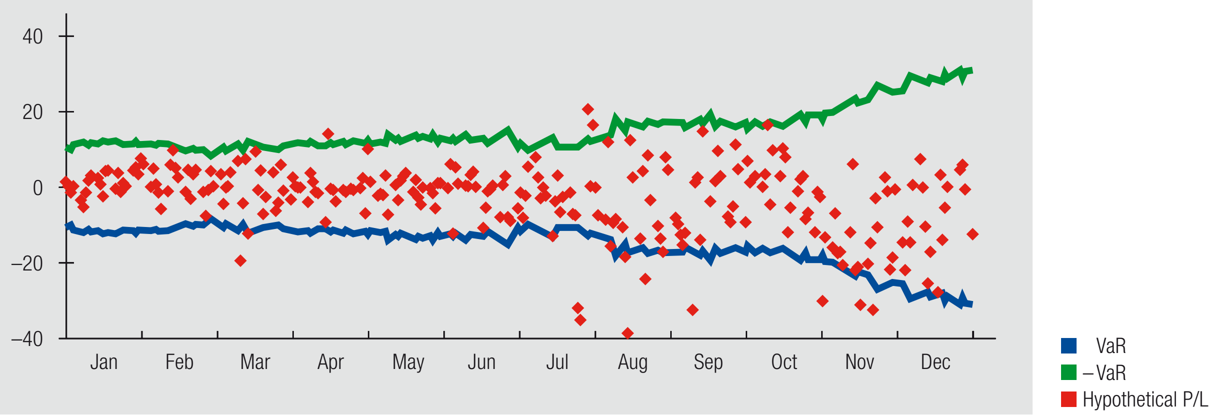
Measurement methods

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 diversification effects 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. With the transfer of the major assets and associated liabilities of UBM to HVB AG in the second quarter of 2007, the UBM portfolios were included in the Bank's internal market risk measurement as of April 2, 2007 based on their sensitivity. For 2008 we plan to take into account the portfolios of the former UBM at the individual transaction level both for internal reporting purposes and for regulatory reporting. Currently the regulatory reporting is based on the sum of the results from the internal model of HVB AG and the internal model of the former UBM.

In addition, other appropriate procedures are applied within HVB Group, primarily based on value-at-risk approaches.

Back-testing of internal model: Trading activities HVB AG 2007
(€ millions)



Risk Report (Continued)

We check the appropriateness of the methods used to measure market risk by means of periodic back-testing that compares the value-at-risk calculations with the market value changes (hypothetical P/L) derived from the positions. There was only one backtesting exception in the first half of the year to report [see diagram "Back-testing of internal model: Trading activities HVB AG 2007 (€ millions)"]. On that date the hypothetical loss was greater than the forecast value-at-risk value. Ten more exceptions were generated in the second half of the year. The very high number of exceptions was the result of the observable, unusually strong market volatility. The exceptions were caused primarily by the sharp swings in the credit spread and, to a lesser extent, in the equities segment. Our analyses show that the exceptions are largely due to the unusual situation in the markets. The exceptions resulted for the most part from rare events that could not be forecast by the model, or specifically by the regulatory requirement that uniformly weighted time series be used for the determination of the risk parameters. Consequently we believe that our internal risk model still meets a high standard of quality, as reflected in the unchanged scaling factor.

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 rates, 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.

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. All HVB AG transactions are collated in an overall value-at-risk overnight and checked against the risk limits. The risk limits are approved annually by the Management Board of HVB Group and are not permitted to be exceeded. The overall limit of HVB Group was reduced from €100.5 million to €65.5 million in 2007.

Whenever limits in subportfolios are exceeded, an escalation process is triggered immediately and the reduction of the positions in question monitored. A limit overshoot was reported for the Markets unit in 2007 as a result of the increased volatilities and the widening of the credit spread; however, the total market risk of HVB AG remained below the specified limit at all times. 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. The most significant stress result at December 31, 2007, at minus €738 million, arises from a 50% widening of the credit spread.

Quantification and specification

The table below shows the aggregate market risks of our trading positions in HVB Group for last year. Due to diversification effects, the integration of the major assets and associated liabilities of UBM did not result in any significant change in market risk for trading activities. The increase in market risks in the third quarter, and especially in the fourth quarter, resulted from higher volatilities for credit spreads, and not from an increase in the portfolios.

At €0.2 billion, the economic capital for market risks at HVB Group has increased since last year because of the current developments in the capital markets.

Market risk of HVB Group

(value-at-risk, 99% confidence level, one-day holding period)

€ millions	AVERAGE 2007[1]	DEC. 31, 2007	SEPT. 30, 2007	JUNE 30, 2007	MARCH 31, 2007	DEC. 31, 2006
HVB Group	**24**	**36**	**24**	**19**	**17**	**22**

1 arithmetic mean

Market risk from trading positions of HVB Group

(value-at-risk, 99% confidence level, one-day holding period)

€ millions	AVERAGE 2007[1]	DEC. 31, 2007	SEPT. 30, 2007	JUNE 30, 2007	MARCH 31, 2007	DEC. 31, 2006
Interest rate positions (incl. credit spread risks)	16	31	14	9	8	12
Foreign exchange positions	3	3	3	3	4	3
Equity/index positions	8	8	9	9	7	4
Diversification effect[2]	(9)	(11)	(10)	(8)	(8)	(6)
HVB Group	**18**	**31**	**16**	**13**	**11**	**13**

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

At year-end, the banking book of HVB Group contained market risks of €19 million with a one-day holding period (2006: €13 million).

A downward shift in yield curves by 100 basis points (interest sensitivity) at the end of the year resulted in a decrease in value of €2.335 million (0.01% of regulatory equity capital) in the banking book of HVB Group (2006: €32.518 million).

Value change in case of an interest shock of –100 BP

at December 31, 2007

HVB GROUP BANKING BOOK	€ millions
Total	(2.335)
up to 1 year	(9.170)
1–5 years	5.269
more than 5 years	1.523

A 10% devaluation of all foreign currencies (FX sensitivity) results in a decrease in the portfolio value by €24.77 million (0.11% of regulatory equity capital) in the banking book of HVB Group (2006: a decrease of €25.04 million).

Value change in case of a 10% FX devaluation

at December 31, 2007

HVB GROUP BANKING BOOK	€ millions
Total	(24.77)
USD	(4.52)
GBP	1.35
AUD	(20.03)
CHF	(0.19)
JPY	(3.61)
SGD	1.00
HKD	2.25
Other	(1.02)

Risk Report (Continued)

A 20% decline in all equity and hedge fund prices results in a decrease in the portfolio value by €108.83 million (0.5% of regulatory equity capital) in the banking book of HVB Group (2006: €176.61 million).

Value change in case of a 20% decrease in equity prices
at December 31, 2007

	€ millions
HVB GROUP BANKING BOOK	
Total	(108.83)
Equity products	(1.57)
Hedge funds	(107.26)

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

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

In compliance with the Circular of November 6, 2007 of BaFin, the change in the market value of the banking book in case of a sudden and unexpected interest shock of +130/–190 basis points is compared with the Bank's eligible equity funds. With a notional utilisation of 0.01% (2006: 0.31%) of its regulatory equity capital at December 31, 2007, HVB Group is well below the reportable outlier value of 20% stipulated by the banking supervisory authorities.

In addition, 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 interest shock of 100 basis points would result in an €88 million decrease in net interest income within the next 12 months (2006: €81 million).

Market liquidity risk
Market liquidity risk (the risk that the Bank will be able to liquidate assets on the market only at a discount) is managed by the people responsible for the various portfolios as they perform their defined market-related tasks. As a result, it is included in the measurement of market risk; please therefore refer to the measurement and monitoring instruments listed for market risks.

Fair value adjustments (FVAs) are used to reflect the valuation uncertainties relating to the market liquidity of securities and derivatives in the accounts for both the trading book and the banking book. Among other things, the fair value adjustments include a premium for close-out costs and non-liquid positions related to the assessment of fair values.

The effects of the turmoil on the financial markets are shown indirectly through the decreased valuations of ABS transactions resulting from lower market liquidity and wider spreads for securities and CDS positions of financials. The direct exposure in the subprime loan segment is negligible.

3 Liquidity risk

Risk management
Conditions on the money markets and capital markets were quite good in the first half of 2007. However, the situation changed as of August. Risk premiums were adjusted in response to the turbulence in the subprime loan segment in the United States. This resulted in a severe liquidity shortage on the money markets.

Despite this difficult market phase, HVB Group was able to maintain a healthy liquidity situation at all times in 2007. Our liquidity management measures proved to be robust in 2007. Based on the analyses we have carried out so far, we expect our overall liquidity to remain adequate.

Liquidity risk is defined in terms of three risk categories:

Short-term liquidity risk

– For short-term liquidity risk (the risk that the Bank will not be able to meet its payment obligations in full or in time), we have put in place a limit system operating under conservative assumptions that limits the relevant balances within HVB Group.

  Following the transfer of the major assets and associated liabilities of UBM to HVB Milan, these assets and liabilities were integrated into our limit system.

  The requirements of the regulatory Principle II and the German Solvency Ordinance replacing it were met at all times in 2007 by the relevant units of HVB Group.

Funding risk

– Funding risk (the risk that additional refinancing funds will be available only at higher market interest rates) at HVB Group is quite low due to our broad funding base with regard to products, markets and investor groups.

  Consequently we were in a position to obtain adequate funding for our lending operations at all times, even in difficult market phases such as those we experienced in the second half of 2007.

Market liquidity risk

– The management of market liquidity risk (the risk that the Bank will be able to liquidate assets on the market only at a discount) is described in the section dealing with market risk.

  The rules and principles of liquidity management are specified in a Liquidity Policy of HVB Group passed by the Management Board, which is in compliance with the UniCredit Group policy, and are implemented by the operational business units. Implementation – for short-term liquidity risk and funding risk – is coordinated and monitored for HVB Group by the Group Asset Liability Management division.

Measurement methods

Short-term liquidity risk

To measure short-term liquidity risk, daily cash flows are reported and offset against the available liquidity reserves, which consist primarily of the available highly liquid securities. The cumulative balance of all relevant components is backed with limits of up to one month for HVB Group units.

Furthermore, stress scenarios based on the liquidity profiles of the units of HVB Group are simulated, and the limits are adjusted accordingly if required.

In addition to this internal measurement methodology, HVB AG and its domestic subsidiaries (with banking operations) are subject to the regulatory standards defined in the German Liquidity Ordinance for short-term liquidity risk.

Funding risk

To measure funding risk, long-term funding needs are determined through a coordinated process, taking the planned new business volumes into consideration. The long-term funding needs, which are used for setting the funding targets, additionally take into account the assets and liabilities falling due in the planning period. This mechanism ensures a balanced maturity structure of assets and liabilities within defined maturity buckets. The funding plan is updated as required.

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 incongruencies, which are limited over defined maturity periods through limits and refinancing targets. Compliance with the allocated limits is monitored on a daily basis, and the long-term incongruencies are monitored monthly.

We keep appropriate liquidity reserves on hand for defined stress situations.

Risk Report (Continued)

The target volumes and instruments derived from the funding targets are implemented in a cost-effective manner by the units actively operating on the market in consultation with Asset Liability Management.

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 and regulates the distribution of responsibilities, internal reporting requirements, decision-making powers and potential countermeasures.

Quantification and specification

Variable underlying conditions prevailed in the year under review. The money and capital markets were dominated by high volatility, particularly in the second half of 2007. Risk premiums on capital markets for funding costs widened substantially compared with 2006, especially in the second half of 2007. Despite the market turbulence, the liquidity situation of HVB Group remained at a comfortable level at all times over the course of the year.

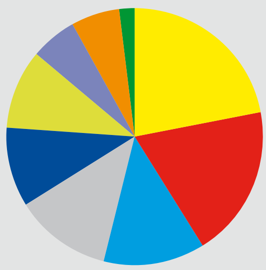
Short-term liquidity

– Within the framework of our short-term liquidity limit system, which operates under conservative assumptions, we showed an overall positive balance of €23.8 billion (2006: €9.9 billion) in HVB Group for the next banking day at the end of December 2007. 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 €17.4 billion at year-end (2006: €7.6 billion).
  The requirements of the regulatory Principle II and the German Liquidity Ordinance replacing it were met at all times by the relevant HVB Group units during the year under review. The funds available to HVB AG exceeded its payment obligations for the following month by an average of €31.1 billion in 2007 (2006: €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 ensured that we were able to obtain adequate funding for our lending operations even during difficult market phases. HVB Group obtained longer-term financing with a volume of €10.4 billion (2006: €10.7 billion) on the capital market during 2007. With their high credit quality and liquidity, our Pfandbrief mortgage bonds still remain one of the most important funding instruments. For a general analysis of maturity dates and residual maturities, see notes (62), (63) and (64) to the consolidated financial statements in the present Annual Report.

Liability[1] diversification of HVB Group (in %)



Total assets of HVB Group €422 billion; covered bonds and unsecured funding as per tables below

1 the values in the chart and the following table are not comparable with the carrying amounts in the balance sheet shown in the consolidated financial statements

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

Breakdown of covered bonds, HVB Group

		€ billions
	2007	2006
Mortgage Pfandbriefs	17.8	19.0
Jumbo Pfandbriefs	18.2	21.5
Public Pfandbriefs	5.5	5.2
Public Jumbos	1.9	1.9
HVB Group total	**43.4**	**47.6**

Breakdown of unsecured funding, HVB Group

		€ billions
	2007	2006
Promissory notes	8.6	9.2
Bank deposits	36.2	37.3
Certificates of deposit and commercial papers	9.2	10.3
Other liabilities evidenced by paper (capital market)	17.3	19.1
Subordinated liabilities (capital market)	11.0	12.1
HVB Group total	**82.3**	**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 of HVB AG. 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 cooperation with these departments.

The main activity of our Operational Risk Control unit in 2007 was the final preparation of HVB AG and some important Group subsidiaries for the regulatory assessment of the implementation of the Advanced Measurement Approach (AMA). Our compliance with the requirements was assessed and approved by BaFin and the Bundesbank in mid-2007. We are still expecting to receive formal approval.

By the middle of 2008, AMA capability will be implemented for further subsidiaries.

In addition, as part of the integration activities of UniCredit Group in the year under review, the harmonisation of the applied standards and procedures was completed and a uniform Group-wide body of regulations was established.

Measurement methods

We employ the loss distribution approach to quantify the operational risk of HVB AG and our AMA subsidiaries. The model uses internal and external loss data to determine the loss distributions. We use scenario analysis to compensate for the shortage of data in some areas involving rare, high losses. A Monte Carlo simulation is used to calculate the value-at-risk figures, taking into account risk-reducing measures such as insurance. By taking into account factors related to internal control and the business environment, we adapt the measurements to the current risk profile.

Risk Report (Continued)

Methodological adjustments were made in the course of implementing Basel II in the UniCredit Group. The calculation is now performed in accordance with the Group-wide AMA measurement model, which is applied across the entire UniCredit Group. The development of the model was closely based on the previous HVB model. The AMA model was assessed by the Bank of Italy.

One major difference as compared with the past HVB Group methodology is the use of correlation effects between the Basel II loss event categories. This has the effect of significantly reducing the economic capital of HVB Group.

In addition, the Group-wide diversification effects across the UniCredit Group are taken into account when calculating the capital at the UniCredit holding company level. However, economic capital management and reporting of HVB Group are carried out on a standalone basis.

For our subsidiaries not included in the AMA, the default values are used and extrapolated to the necessary confidence level.

Risk monitoring

We carried out the first comprehensive risk surveys in HVB AG and major subsidiaries of HVB Group during the year under review. All important risks were identified and recorded along with risk-reducing measures. These risk surveys will now be reviewed and updated regularly. Continual monitoring of the risk situation is being carried out on the basis of an early warning system which, as far as possible, is built on indicators.

Joint scenarios for potential major loss events were also identified in the course of the integration activities of the UniCredit Group. The further development of scenarios and early warning indicators will be a key issue in 2008.

Operational Risk Control keeps the Chief Risk Officer, the Management Board of HVB Group and the Audit Committee of the Supervisory Board informed about loss events that occur and important operational risks and their management through regular and comprehensive reporting at the HVB Group level. In addition our local operational risk managers submitted quarterly reports to their senior management in 2007.

Quantification and specification

The economic capital for operational risks of HVB Group amounted to €0.9 billion at the end of 2007.

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

– Retail: Significant developments were achieved in the assessment of operational risks from the lending business as a result of substantial improvements in the database in cooperation with the Recovery Management units. The implementation of measures in connection with the European Markets in Financial Instruments Directive (MiFID), changes in Internet banking and the centralisation of EUREX transactions subject to mandatory margin calls led to further reductions in risks in the securities/derivatives process.

– Wealth Management: The risk of a complete breakdown in asset reporting was practically fully eliminated with the launch of a backup solution. The introduction of specific technical processes has negated the possibility of tampering with account disposals in sales of tangible assets.

– Markets & Investment Banking: A key measure was the establishment of a division-specific Operational Risk Committee. We achieved operational improvements particularly in liquidity management (money market/foreign exchange cash positions), in execution compliance in the securities business, taking into account the special requirements of MiFID and in a higher level of automation in the collateralised debt obligation (CDO) business.

– Chief Operating Officer (COO): Involvement in our various outsourcing activities was one of the most important tasks in the year under review. These included ensuring that the service level agreements took into account all aspects of operational risk and developing a retained organisation to monitor the outsourced areas of payment settlements.

  In 2006, a project was initiated in HVB Information Services GmbH with the objective of ensuring the continued availability of the highly skilled experts beyond the launch of a uniform commercial banking system (EUROSIG) for the UniCredit Group despite the planned workforce reduction at HVB Information Services GmbH. The member of the HVB AG Management Board responsible for IT is fully integrated into the project as a member of the Steering Committee.

  In 2006 parts (credit & loans) of application development, application support and production assurance and all related services of HVB Information Services GmbH were outsourced to IBM New IT GmbH, which was renamed IBM FIS GmbH (IBM Financial Industry Solutions GmbH) in 2007, and in turn outsourced parts of application support to IBM India Private Limited.

  Analyses of the above-mentioned activities in terms of risk considerations did not indicate a significant increase in operational risks.

Outlook
We plan to transfer our mainframe hardware activities to UniCredit Global Information Services S.p.A. during 2008.

In accordance with a resolution passed by the HVB AG Management Board in October 2007, roll-out of the IT platform EUROSIG at HVB AG is scheduled for October 2009. The launch of the platform will make available a core banking software package for use across the entire Group. The common platform will partly replace the complex HVB AG system landscape, thus optimising costs and boosting efficiency in the IT area.

We have started risk analysis of project implementation.

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. One of the drills took place as part of LÜKEX, a nationwide crisis management exercise including all of Germany's states. A pandemic response plan was put in place to prepare for the possibility of a global flu epidemic.

– HVB Group, with all its divisions and functional subsidiaries, developed a business continuity management (BCM) organisation in 2007 to implement the consistent BCM policy of UniCredit.

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

Risk Report (Continued)

ruling issued 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 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.

Medienfonds lawsuit

– In the case of VIP Medienfonds 4, lawsuits have been filed against the Bank primarily on the basis of alleged advisory errors and prospectus errors for which the Bank and the initiator are allegedly to blame. In this regard, a number of first-instance court rulings have been made, some in the Bank's favour, and others against the Bank, because of alleged culpability for advisory errors. So far there are no final rulings on any of these lawsuits. Munich Higher Regional Court is soon due to begin hearing a test case pursuant to the Capital Markets Model Case Act (KapMuG) that among other matters is intended to clarify the question of responsibility for the prospectus, also on the part of HVB, with regard to the banking services it provided in connection with Medienfonds VIP 4. From today's standpoint, the Bank does not anticipate serious consequences from these legal disputes.

Court proceedings of HVB AG shareholders

– Shareholders have filed a legal challenge against resolutions adopted by the Annual General Meeting of Shareholders of our Bank on May 12, 2005. The extent to which the suit against the approval of the actions of the Supervisory Board members for the 2004 financial year was sustained has no material effects on the Bank in view of the fact that another resolution was passed at the Annual General Meeting of Shareholders of May 23, 2006, approving the actions of the Supervisory Board members for the 2004 financial year. Insofar as the suit is intended to challenge the election of Supervisory Board members and the auditor of the annual financial statements, Munich Regional Court I rejected the suit challenging those elections; the ruling is not yet final.

– In addition, shareholders of our Bank have filed suit against the resolutions passed at our Annual General Meeting of Shareholders of May 23, 2006 approving the spin-off and takeover 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, Munich Regional Court I and Munich Higher Regional Court stated that the suits filed against the spin-off were no impediment to their being entered in the Commercial Register, since the suits were obviously without foundation. Munich Higher Regional Court has stated that it intends to reject the appeal with a unanimous ruling; such a ruling would mean that the resolutions of our Annual General Meeting of Shareholders of May 23, 2006 are legally enforceable.

Legal proceedings relating to the restructuring of the Bank

– 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 sale and transfer of the shares held by our Bank in Closed Joint Stock Company International Moscow Bank (IMB) (renamed ZAO UniCredit Bank, Moscow, in December 2007, but still referred to as IMB below) and AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga) to Bank Austria Creditanstalt AG, and the sale and transfer of the branches in Vilnius und Tallinn to AS UniCredit Bank, Riga, asking the court to declare these resolutions null and void. Among the prerequisities 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 had adopted a resolution meeting this requirement at the beginning of January 2007 on the basis of external assessments, the shares held by our Bank in Bank Austria Creditanstalt AG were transferred to the UniCredit Group, and the shares held by our Bank in IMB and AS UniCredit Bank, Riga were transferred to Bank Austria Creditanstalt AG. After the other requirements for execution of the transactions were also met, the branches in Vilnius and Tallinn were transferred to AS UniCredit Bank, Riga in 2007 and the shares held by our Bank in HVB Bank Ukraine were transferred to Bank Pekao S.A. in 2007. The shareholders have filed their lawsuits on the basis of formalities related to the invitation and conduct of the Extraordinary Shareholders' Meeting of October 25, 2006 and the allegedly inadequate purchase price paid for the units.

In a ruling of January 31, 2008, Munich Regional Court I declared the resolutions passed at the Extraordinary Shareholders' Meeting of October 25, 2006 null and void for formal reasons, because the court was of the opinion that the business combination agreement (BCA) entered into by the Bank and UniCredit S.p.A. on June 12, 2005 was not presented in sufficient detail in the invitation to the aforementioned meeting, particularly with regard to the clauses in the agreement on a court of arbitration and the choice of applicable legal system; moreover, the court stated that shareholders' questions regarding specific alternative valuation parameters were not dealt with adequately; Munich Regional Court I did not decide on the issue of the allegedly inadequate purchase price paid for the transferred units. At the same time, Munich Regional Court I ruled in response to a filing by shareholders that the BCA had to be presented to a general shareholders' meeting of the company to be valid because it would represent an undisclosed control agreement. We believe that the ruling is not convincing since the clauses of the BCA for the contracts submitted to the Extraordinary Shareholders' Meeting on October 25, 2006, which contain their own arrangements anyway, considered by the court to be material were not material, and since answering the question regarding individual alternative valuation parameters – where it would at all have been possible to do so correctly in the Extraordinary Shareholders' Meeting and without taking into account contrary effects – would not have effected any changes in the contractual arrangements submitted for resolution. Consequently, the Bank has appealed against this ruling and, regardless of this ruling, intends as a precaution to obtain confirmation of the resolutions passed by the Extraordinary Shareholders' Meeting of October 25, 2006.

Risk Report (Continued)

- The Annual General Meeting of Shareholders of our Bank on June 26/27, 2007 passed a resolution in favour of asserting alleged claims to damages against UniCredit S.p.A. and its legal representatives and the governing bodies of our Bank due to alleged damage to the Bank's assets through the sale of the BA-CA shares and through the BCA entered into with UniCredit S.p.A., and appointed Dr Thomas Heidel, a lawyer (Rechtsanwalt), as a special representative. Our majority shareholder, UniCredit S.p.A., filed a lawsuit challenging this resolution, which was rejected by the court of first instance. Because UniCredit S.p.A. has filed an appeal, there is no final court decision on this matter as yet. The special representative submitted a writ on November 5, 2007 to join the suits challenging the resolutions of the Extraordinary Shareholders' Meeting of October 25, 2006 as an intervenor and stated that the transfer of the shares in Bank Austria Creditanstalt AG was null and void for additional reasons. Munich Regional Court I rejected the joinder. In a ruling of November 28, 2007, Munich Higher Regional Court stated that the resolution of June 26/27, 2007 to appoint the special representative was partly invalid; this notwithstanding, the court granted the special representative restricted access to the Bank's documents. In letters dated December 27/28, 2007, the special representative called on UniCredit S.p.A. to return the BA-CA shares sold to it. After UniCredit S.p.A. had rejected this request, the special representative filed a submission on February 20, 2008 for the return of the BA-CA shares against UniCredit S.p.A., Alessandro Profumo, Dr Wolfgang Sprissler and Rolf Friedhofen, as jointly and severally liable parties, with reference to the "hedge fund claims" mentioned below and alternatively for claims for damages of at least €13.9 billion. The Bank is convinced that there is no entitlement nor damage claims to this return transfer of the shares.
- The Annual General Meeting of Shareholders of our Bank on June 26/27, 2007 passed a resolution approving the transfer of the shares of the minority shareholders in exchange for an appropriate cash settlement (€38.26 per share); at the same Annual General Meeting of Shareholders a resolution was passed to approve the actions of the members of the Management Board and Supervisory Board in the 2006 financial year. A motion requesting the appointment of a special auditor was rejected. More than 100 shareholders filed suits challenging these resolutions or asking courts to declare them null and void, particularly the resolution on the transfer of the shares of the external shareholders. In addition, a shareholder filed suit asking the court to declare that UniCredit and its subsidiaries do not have rights stemming from shares in the Company. Our Bank, which believes that the lawsuits challenging the resolutions have no prospect of success, filed a motion on December 7, 2007, asking the court to grant clearance for the transfer resolution to be entered in the commercial register, notwithstanding the lawsuits challenging this resolution and seeking rulings or asking for the court to declare resolutions or transactions null and void. The special representative has joined both sets of legal proceedings regarding the resolutions adopted at the Annual General Meeting of Shareholders on June 26/27, 2007 as an intervenor. Based on the court's comments during the oral proceedings on February 21, 2008, the Bank is confident that the suits will be rejected and the clearance motion approved, even if the outcome of the proceedings remains open.
- A total of eight companies with headquarters in the United States, the Virgin Islands, the Cayman Islands, British West Indies and Bermuda, stating that they are shareholders in our company, have filed suit against UniCredit S.p.A., Alessandro Profumo and Dr Wolfgang Sprissler, demanding payment of €17.35 billion in "hedge fund claim" damages to HVB AG, stating that the companies and/or shares (in particular the sale of the shares in Bank Austria Creditanstalt AG, IMB and the asset management companies) sold by our Bank to UniCredit S.p.A. and/or companies affiliated with UniCredit were sold at a price significantly below market value. Against the backdrop of the independent external opinions obtained for the various transactions, and in view of the fact that all transactions took place at arm's length, the defendant is convinced

that the alleged damage claims are without foundation. The plaintiffs pursuing the claims to damages and another shareholder have also filed suit against our Bank, making the same arguments, seeking to have our Bank's annual financial statements for the 2006 financial year declared null and void because the above-mentioned claims were not recognised in the balance sheet.

– Various external shareholders of the Bank have applied to Munich Regional Court I to order arbitration proceedings to determine appropriate compensation and an appropriate cash settlement because of their allegation that the BCA is an undisclosed control and profit transfer agreement. Munich Regional Court I rejected the application in a ruling of October 19, 2007, stating that it is unacceptable. Munich Higher Regional Court has not yet decided on the complaint immediately filed by the shareholders in response to this ruling.

Arbitration on 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.

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 filed a lawsuit demanding repayment of approximately €76 million plus interest for alleged overpayments. On the basis of legal opinions obtained on this matter, HVB AG believes that the plaintiffs are not entitled to their claims.

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, and may also result from changes in the legal framework.

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

Measurement methods

The 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 Report (Continued)

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 HVB Group amounted to €0.6 billion at year-end 2007.

In May 2007 we successfully completed the Process Redesign and Optimisation (PRO) efficiency programme we launched in 2004. We achieved substantial cost savings in back office activities such as the securities custody operations, payments and the corporate centre through the readjustment of management tasks and the simplification of processes.

In cost management terms, HVB Group also benefits from the pooling of volumes within the UniCredit Group and the systematic exchange and implementation of best-practice approaches to cost-cutting. Savings were again achieved in 2007 through a large number of further cost-cutting measures covering all major cost categories. These measures related to payroll costs as well as other administrative expenses. More details on PRO and cost management can be found in the chapters on Global Banking Services and Human Resources 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 was responsible until September 30, 2007 for portfolio management and disposal, property and facility management, restructuring, land development and the rental of strategic and non-strategic properties.

Restructuring took effect in the Corporate Logistics/Facility Management (CLF) unit as of October 1, 2007. CLF is part of Global Banking Services (GBS) and is responsible for corporate logistics and facility management. More details on the reorganisation can be found in the chapter on Global Banking Services in the present Annual Report.

HVB Immobilien AG has been responsible for real estate development and the management of all non-strategic properties under its jurisdiction since October 1, 2007. Non-strategic properties include all properties not used by the Group. The tasks of HVB Immobilien AG are divided into portfolio management and sales, and asset management and property development. Employees of HVB AG have been responsible for strategic properties since October 1, 2007.

Measurement methods

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

Risk monitoring
Risk Control calculates and analyses economic capital for real estate risk, and reports it to the Chief Risk Officer and the Audit Committee of the Supervisory Board.

Technological improvements were made in 2007 to the risk management system introduced by HVB Immobilien AG in 2003. In addition to necessary adaptations to the new IT environment and the new structure of HVB Immobilien AG, improvements were also made to the user interface and functionality of the system.

The annual risk inventory was also carried out in 2007. In addition, in 2008 we plan to carry out regular reporting as well as detailed reporting on measures.

Quantification and specification
The portfolio of non-strategic properties of HVB Immobilien AG was reduced by approximately one-quarter in 2007 through disposals. Rental and sales targets were achieved.

The economic capital relating to our real estate portfolio amounted to €0.5 billion at the end of 2007 for HVB Group. The real estate portfolio of HVB Group is located primarily in Munich, which accounts for 35% 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 early recognition of substantial negative changes in value, which are then analysed and reported to the Chief Financial Officer.

Quantification and specification
The economic capital of HVB Group remained nearly constant at €0.6 billion. The value-at-risk, without taking into account the diversification effects between risk types, increased slightly and, as in the previous year, amounts to €1.0 billion. The primary factors contributing to this development were the reduced diversification effects resulting from the Bank Austria Creditanstalt Group investment portfolio, which no longer belongs to HVB Group, and the complete elimination of the stake in Münchener Rückversicherungs-Gesellschaft AG. Significant effects in the other direction resulted from further investments in private equity funds (including those resulting from the integration of important assets and associated liabilities of UBM) and in private equity co-investments/direct investments with the objective of earning risk-appropriate returns. They also performed very successfully in 2007.

Risk Report (Continued)

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.

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

Measurement methods

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

Risk monitoring

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 at regular intervals, in particular with the Audit Committee.

Quantification and specification

Risk from overall economic trends

A risk that may affect the success of HVB Group results from the overall economic trend in Germany, Europe and the United States and the international networking of the financial sector. Because of the strategic orientation and current focus of HVB Group on the core market of Germany with the key business segments of retail, private and corporate banking as well as global investment banking, this applies in particular to the overall economic trend in Germany and to the performance of the international financial and securities markets. Changes and developments on and in these markets are therefore key factors influencing the assets, liabilities, financial position and profit or loss of HVB Group.

The detrimental effects that were feared through increases in German value-added tax and insurance tax rates by three percentage points and the elimination of other tax breaks were completely overshadowed by the otherwise very favourable economic environment. Thanks to these positive conditions, the economic environment in Germany in 2007 was extremely robust. The German economy slightly outperformed the ambitious expectations particularly in the first half of the year.

For HVB Group this had a very pleasing effect on the business results in the first half of 2007 thanks to our diversified business model in the retail segment, wealth management, corporate banking and investment banking. The second half of 2007, by contrast, showed the effects of the subprime crisis originating in the United States, central banks' interest rate policies for supplying financial markets with liquidity and the weakening of the key currency, the US dollar. Triggered by the loss in value of asset-backed papers based on subprime mortgages in the United States, there was a significant decrease in investors' appetite for risk, resulting in liquidity bottlenecks on the money market, and thus in a rise in money market interest rates accompanied by a massive widening of credit spreads. Like the entire UniCredit Group, HVB Group has only a slight direct exposure to the underlying US real estate crisis. The resulting turmoil in the financial markets has also affected the European financial markets in recent months. To a varying degree and extent, this has of course also affected the business operations and the profit trend of HVB Group, in particular in the Markets & Investment Banking division. These effects were most noticeable in structured credit products held for trading purposes and in the syndicated finance market. For details on the financial market turbulence and its impact, see the section entitled "Development of HVB Group in the difficult capital market environment" in the Financial Review.

The indirect effects on HVB Group, in particular the possible impact on the economy as a whole, could continue to be felt during the year ahead, especially in the Markets & Investment Banking division. In accordance with the generally conservative lending policy of HVB Group we do not intend to increase the direct involvement of HVB Group in real estate financing with subprime features in 2008 either, so that the direct risk from subprime exposures will remain marginal in the future as well. Nevertheless, there is still a risk of a global economic slowdown due to the financial market turbulence, so that the assets, liabilities, financial position and profit or loss of HVB Group could also be negatively affected in the coming year, especially if the crisis escalates further.

Opposing these effects is the continuing strong German employment market picture, which could have a positive impact on domestic demand. This is a positive indicator for the German economy, as are the primarily positive economic fundamentals and export data in the entire euro area. With rising energy, commodity and food prices, however, there are also negative influences which may even be intensified by developments overseas, so that we can expect somewhat slower but nevertheless solid and robust growth.

Although a balanced budget is expected, there are signs from the public sector that could prove detrimental to the situation in Germany, as public debt remains high and statutory social insurance schemes are running deficits.

As the regional core market of HVB Group, Germany is a generally attractive business environment as a result of the positive factors. However, due to the external influences, it is uncertain whether the Bank will achieve a sustainable positive trend, in particular in retail banking and the corporate banking business. If the financial markets generate more bad news, it is possible under some circumstances that the consumer climate could deteriorate and investors could become reluctant to invest in securities. If this occurs, our fee-generating business could also be adversely affected.

If the risk factors listed above arise individually or cumulatively, this could prevent us from fully achieving the financial goals we have set for HVB Group.

Risk Report (Continued)

HVB Group is one of the largest lenders to the German Mittelstand and one of the leading providers of personal and business loans in Germany. If the negative developments listed above take place and the economy performs below expectations, we cannot preclude the possibility that the customers of HVB Group will also feel the effects of the crisis, and that loan-loss provisions could increase at a faster rate than currently expected by the management of HVB Group, thus reaching the level seen in previous years.

Risks from the strategic orientation of the corporate group/integration risks

The adjustments to the structures and products carried out as part of the business combination of HVB Group with the UniCredit Group to form a coordinated setup throughout the UniCredit Group were largely completed in the first half of 2007. Where final implementation has not yet been fully completed, the divisions concerned are responsible for reaching a conclusion. These finalising activities could give rise to unforeseen difficulties for HVB Group, but only to a limited extent at the very worst. The transfer of the important assets of UBM and the related liabilities to HVB AG has been completed; however, the corresponding management systems have to be adapted in some areas. We have also responded to the integration risks arising in this context by initiating appropriate projects, which are due for completion in the first half of 2008.

We have continued to make progress with the expansion of the UniCredit-wide competence centre for investment banking activities within HVB AG. As a result, HVB Group has developed into a high-potential bank with a strong presence, especially in Germany, and broad investment banking expertise. This orientation will be further reinforced through the planned integration of the investment banking activities of the former Capitalia Group in 2008 and the pooling of other investment banking activities in HVB AG. This will improve the Bank's earnings prospects in the long term.

HVB Group is consistently staying on course with its successful Group strategy, thus strengthening its position as one of Europe's leading banks in the high-return investment banking business. Compared with the classical banking business, investment banking activities present the opportunity to earn higher returns, but this is accompanied by greater risks. In particular cyclical effects and unexpected fluctuations on international financial and securities markets have a stronger impact in this environment. If the developments in these markets run counter to the expectations of HVB Group, this would impose a heavier burden on the Bank's results than in previous years.

The indirect effects of the subprime crisis discussed above could also become more significant for HVB Group. If this crisis should escalate and spread to other countries, banks and the securities markets or exert detrimental effects on them, it would have a negative effect in particular on the trading income of the Markets & Investment Banking division.

Risks from the consolidation of the banking market

The consolidation of the German and global banking and financial market continues. With the substantial proceeds from the disposal of the stake in the BA-CA Group and the other units in central and eastern Europe, HVB Group has the strong capital base and liquid funds necessary to play an active role in this development and respond quickly and flexibly as opportunities arise. In addition to both organic and acquisition-driven growth in its core areas, other alternatives include gaining access in northern European regions to markets similar to those in western Europe, expanding our core competencies in specialised niche areas, optimising regulatory capital and repurchasing hybrid financing when it makes economic sense to do so. Attractive opportunities for the reinvestment of funds that have become available may also arise for internal and external growth. HVB Group is continuing to monitor the German banking market in particular and analyse the possibilities for external growth through appropriate acquisitions. Opportunities presenting themselves for organic growth in the core regions of Germany, Benelux and Scandinavia are analysed in each case, and if these would be profitable for HVB Group, they are then pursued. But the search for suitable competitors or target companies also harbours risks. The possibility, for instance, that a reinvestment may not take place because of a lack of attractive takeover targets, or that the reinvestment may be delayed, or a smaller amount than expected is reinvested at less favourable terms than expected, harbours the risk of not participating in the current developments to the anticipated extent, and possibly of not assuming the role we have planned in our core areas. When and to what extent the assets, liabilities, financial position and profit or loss of HVB Group will be positively influenced by future investments is not yet certain. If – contrary to the expectations of the Management Board of HVB AG – the transfer of the shares in the BA-CA Group and the units in central and eastern Europe sold by HVB AG must be reversed, so that HVB AG must repay the proceeds from the sale to the buyers of the units, this would likely have serious detrimental effects on the expansion strategy pursued by HVB Group because it would then no longer have the high capital base and liquidity needed for this strategy.

Tough competition in financial services

With its three-pillar structure, the German financial services market – the core market of HVB Group – can be described as difficult. This also applies to investment banking, a segment in which HVB Group is faced with significantly larger competitors, particularly at the global level. Improving our position compared with the major established banks from the English-speaking world will be a huge challenge for HVB Group in view of the large market shares of the competitors and the intense competition.

The German market still has excess capacity on the commercial banking side as well, particularly in the private banking business. As a result, banks are vying fiercely for customers and market share, and HVB Group faces relentless competition. However, in terms of the available funds for expansion and the new Group structure it has implemented, HVB Group has a good opportunity to continue improving its market position and earnings situation. Nevertheless, it is possible that an increase in the intensity of competition in the course of the consolidation and concentration processes in the finance sector – triggered, for instance, by further national or international bank mergers – could have negative effects on the assets, liabilities, financial position and profit or loss of HVB Group.

To raise the profile of HVB Group as a regional bank in a global network in the eyes of customers and leverage the recognition factor particularly with companies doing business across borders, HVB Group has decided to rebrand itself in 2008. With our logo and our identity now underscoring our membership in the UniCredit Group, the resulting security and the opportunity to participate in international markets and developments with HVB Group will be made clear to customers and investors. This will bolster our public image and can stimulate business in all divisions. However, we cannot rule out the possibility that in some cases retail customers may no longer regard HVB Group as “their bank”, and will go elsewhere. The departure of large numbers of customers – an eventuality regarded by the Management Board of HVB Group as extremely unlikely, however – would weaken the position of HVB Group and have a detrimental effect on the assets, liabilities, financial position and profit or loss of HVB Group.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Consolidated Income Statement and Appropriation of Net Income

for the year ended December 31, 2007

Income/expenses

	NOTES	2007	2006	CHANGE	
		€ millions	€ millions	€ millions	in %
Net interest		3,753	3,148	+ 605	+ 19.2
Dividends and other income from equity investments		376	251	+ 125	+ 49.8
Net interest income	31	**4,129**	**3,399**	**+ 730**	**+ 21.5**
Net fees and commissions	32	1,721	1,753	(32)	(1.8)
Net trading income	33	592	768	(176)	(22.9)
Net other expenses/income	34	169	32	+ 137	>+ 100.0
Net non-interest income		**2,482**	**2,553**	**(71)**	**(2.8)**
TOTAL REVENUES		**6,611**	**5,952**	**+ 659**	**+ 11.1**
Payroll costs		(2,067)	(2,216)	+ 149	(6.7)
Other administrative expenses		(1,250)	(1,166)	(84)	+ 7.2
Amortisation, depreciation and impairment losses					
on intangible and tangible assets		(259)	(313)	+ 54	(17.3)
Operating costs	35	**(3,576)**	**(3,695)**	**+ 119**	**(3.2)**
OPERATING PROFIT		**3,035**	**2,257**	**+ 778**	**+ 34.5**
Provisions for risks and charges	36	(161)	(164)	+ 3	(1.8)
Write-down on goodwill		—	—	—	—
Restructuring costs	37	13	(60)	+ 73	
Net write-downs of loans and provisions					
for guarantees and commitments	38	(536)	(933)	+ 397	(42.6)
Net income from investments	39	611	671	(60)	(8.9)
Other non-operating expenses	40	—	(153)	+ 153	(100.0)
PROFIT BEFORE TAX		**2,962**	**1,618**	**+ 1,344**	**+ 83.1**
Income tax for the period	41	(794)	125	(919)	
NET PROFIT		**2,168**	**1,743**	**+ 425**	**+ 24.4**
Minorities		(118)	(103)	(15)	+ 14.6
NET PROFIT/LOSS OF HVB GROUP NEW		**2,050**	**1,640**	**+ 410**	**+ 25.0**
Net profit after tax of discontinued operations		3,698	3,457	+ 241	+ 7.0
Minority interest in the net profit					
of discontinued operations		—	(677)	+ 677	(100.0)
NET PROFIT/LOSS OF FULL HVB GROUP		**5,748**	**4,420**	**+ 1,328**	**+ 30.0**
Change in reserves		1,674	3,798	(2,124)	(55.9)
CONSOLIDATED PROFIT		**4,074**	**622**	**+ 3,452**	**>+ 100.0**

Earnings per Share

We have transferred €1,674 million of the net profit of HVB Group of €5,748 million to reserves. The consolidated profit (which is the profit available for distribution of HVB AG) amounts to €4,074 million. We will propose to the Annual General Meeting of Shareholders that a dividend of €402 million be paid to the shareholders and that a further €3,672 million be transferred to retained earnings. The total dividend payout of €402 million represents an increase in the dividend from €0.40 to €0.50 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

			€
	NOTES	2007	2006
Earnings per share of full HVB Group	43	7.28	5.89
Earnings per share of HVB Group new	43	2.60	2.18
Earnings per share of HVB Group new (adjusted)[1]	43	2.03	1.50

1 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and non-recurring tax charges arising from German tax reforms

2006 adjusted for the gain on disposal of Activest companies and Munich Re, valuation expenses for the announced disposal of a portfolio of non-strategic real estate, restructuring costs, changes in the method of calculating write-downs of loans and provisions for guarantees and commitments, and other non-operating expenses

Since no conversion rights or option rights on conditional capital existed at the closing date for 2007, there is no calculation of diluted earnings per share.

Balance Sheet

at December 31, 2007[1]

Assets

	NOTES	2007	2006	CHANGE	
		€ millions	€ millions	€ millions	in %
Cash and cash balances	44	551	508	+ 43	+ 8.5
Financial assets held for trading	7, 45	180,855	107,628	+ 73,227	+ 68.0
Financial assets at fair value through profit or loss	8, 46	12,937	11,728	+ 1,209	+ 10.3
Available-for-sale financial assets	9, 47	6,739	6,504	+ 235	+ 3.6
Investments in associates, joint ventures and					
non-consolidated subsidiaries	10, 48	317	688	(371)	(53.9)
Held-to-maturity investments	11, 49	3,058	471	+ 2,587	>+ 100.0
Loans and receivables with banks	12, 50	48,866	43,847	+ 5,019	+ 11.4
Loans and receivables with customers	12, 51	160,246	164,031	(3,785)	(2.3)
Hedging derivatives	53	500	842	(342)	(40.6)
Property, plant and equipment	14, 54	1,337	1,520	(183)	(12.0)
Investment properties	16, 55	1,890	473	+ 1,417	>+ 100.0
Intangible assets	17, 56	770	808	(38)	(4.7)
of which: Goodwill		421	422	(1)	(0.2)
Tax assets	57	2,180	2,745	(565)	(20.6)
Assets of discontinued operations and					
non-current assets or disposal groups held for sale	58, 59	265	164,451	(164,186)	(99.8)
Other assets	60	1,618	1,789	(171)	(9.6)
Total assets		**422,129**	**508,033**	**(85,904)**	**(16.9)**

1 modified balance sheet structure: please refer to Note 2 for further information

Liabilities

	NOTES	2007	2006	CHANGE	
		€ millions	€ millions	€ millions	in %
Deposits from banks	19, 62	86,702	86,571	+ 131	+ 0.2
Deposits from customers	19, 63	108,626	92,751	+ 15,875	+ 17.1
Debt securities in issue	19, 64	79,568	87,568	(8,000)	(9.1)
Financial liabilities held for trading	20, 65	115,228	60,768	+ 54,460	+ 89.6
Hedging derivatives	66	473	764	(291)	(38.1)
Changes in fair value of portfolio hedged items	21, 67	87	—	+ 87	+ 100.0
Tax liabilities	68	1,316	1,378	(62)	(4.5)
Liabilities of discontinued operations and					
of disposal groups held for sale	69, 70	10	152,920	(152,910)	(100.0)
Other liabilities	22, 71	4,581	3,642	+ 939	+ 25.8
Provisions	23, 72	1,540	1,683	(143)	(8.5)
Shareholders' equity	73	23,998	19,988	+ 4,010	+ 20.1
Shareholders' equity attributable to shareholders of HVB AG		23,190	16,690	+ 6,500	+ 38.9
Subscribed capital		2,407	2,252	+ 155	+ 6.9
Additional paid-in capital		9,791	8,886	+ 905	+ 10.2
Own shares		(2)	(3)	+ 1	+ 33.3
Other reserves		6,913	4,061	+ 2,852	+ 70.2
Change in valuation of financial instruments	75	7	872	(865)	(99.2)
AfS reserve		619	1,195	(576)	(48.2)
Hedge reserve		(612)	(323)	(289)	(89.5)
Consolidated profit 2007		4,074	622	+ 3,452	>+ 100.0
Minority interest		808	3,298	(2,490)	(75.5)
Total shareholders' equity and liabilities		**422,129**	**508,033**	**(85,904)**	**(16.9)**

Statement of Changes in Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OWN SHARES	OTHER RESERVES	
					OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at January 1, 2006					
before initial application of new and revised IFRSs	**2,252**	**9,215**	**(87)**	**864**	**—**
Effect of initial application of new and revised IFRSs	—	—	—	(806)	(806)
Shareholders' equity at January 1, 2006					
after initial application of new and revised IFRSs	**2,252**	**9,215**	**(87)**	**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)	—	—	—	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	—	(329)	85	195	—
Shareholders' equity at December 31, 2006	**2,252**	**8,886**	**(3)**	**4,061**	**(814)**
including:					
shareholders' equity of discontinued operations					
and disposal groups held for sale	—	—	—	1,912	(590)
Shareholders' equity at January 1, 2007	**2,252**	**8,886**	**(3)**	**4,061**	**(814)**
Change from capital increase against cash contribution	—	—	—	—	—
Change from capital increase against contributions in kind	155	905	—	—	—
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)	—	—	—	1,674	—
Actuarial losses on defined benefit plans	—	—	—	33	33
Change in holdings of, and net income from, own equity instruments	—	—	1	—	—
Dividend payouts	—	—	—	—	—
Transfers from net income	—	—	—	321	—
Changes in group of consolidated companies	—	—	—	838	592
Reserve arising from foreign currency translation and other changes	—	—	—	(14)	—
Shareholders' equity at December 31, 2007	**2,407**	**9,791**	**(2)**	**6,913**	**(189)**
including:					
shareholders' equity of discontinued operations					
and disposal groups held for sale	—	—	—	—	—

€ millions

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				
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
1,195	**(323)**	**622**	**16,690**	**3,298**	**19,988**
—	—	—	—	—	—
—	—	—	1,060	—	1,060
—	—	—	—	—	—
—	—	—	—	—	—
(34)	(617)	—	(651)	—	(651)
(137)	192	—	55	—	55
—	—	4,074	5,748	118	5,866
—	—	—	33	—	33
—	—	—	1	—	1
—	—	(301)	(301)	(58)	(359)
—	—	(321)	—	—	—
(405)	136	—	569	(2,460)	(1,891)
—	—	—	(14)	(90)	(104)
619	**(612)**	**4,074**	**23,190**	**808**	**23,998**
—	—	—	—	—	—

Cash Flow Statement

		€ millions
	2007	2006
Net profit after tax of HVB Group new[1]	2,168	1,743
Net profit after tax of discontinued operations[1]	3,698	3,457
Net profit after tax including discontinued operations[1]	**5,866**	**5,200**
Write-downs, provisions for losses on, and write-ups of, loans and		
receivables and additions to provisions for losses on guarantees and indemnities	626	1,761
Write-downs and depreciation less write-ups on long-term assets	484	1,088
Change in other non-cash positions	486	(4,620)
Profit from the sale of investments, property, plant and equipment	(862)	(1,094)
Other adjustments (mainly taxes on income paid, interest received less interest paid		
and dividends received and reclassification of the profits from discontinued operations)	(7,932)	(4,724)
Subtotal	**(1,332)**	**(2,389)**
Change in assets and liabilities from operating activities		
after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	(797)	(18,784)
Loans and receivables with banks	(3,621)	(17,812)
Loans and receivables with customers	3,148	8,071
Other assets from operating activities	3,084	(46)
Deposits from banks	(49)	23,754
Deposits from customers	14,341	5,054
Debt securities in issue	(7,555)	(4,115)
Other liabilities from operating activities	(6,359)	(924)
Taxes on income paid	(183)	(319)
Interest received	17,276	19,466
Interest paid	(14,016)	(15,283)
Dividends received	702	326
Cash flows from operating activities	**4,639**	**(3,001)**
including: discontinued operations	—	936

1 including minorities

		€ millions
	2007	2006
Proceeds from the sale of investments	660	13,114
Proceeds from the sale of property, plant and equipment	89	65
Payments for the acquisition of investments	(8,877)	(8,625)
Payments for the acquisition of property, plant and equipment	(217)	(194)
Effects of the change in the group of companies included in consolidation		
(including discontinued operations)	4,263	229
Cash flows from investing activities	**(4,082)**	**4,589**
including: discontinued operations	—	(2,489)
Change in additional paid-in capital	—	—
Dividend payments	(301)	(559)
Other financing activities, net (subordinated and hybrid capital)	(9)	(806)
Other financing activities, net	(204)	131
Cash flows from financing activities	**(514)**	**(1,234)**
including: discontinued operations	—	(332)
Cash and cash equivalents at end of previous period HVB Group new (2006: full HVB Group)[1]	**508**	**2,368**
Net cash provided/used by operating activities	**4,639**	**(3,001)**
Net cash provided/used by investing activities	**(4,082)**	**4,589**
Net cash provided/used by financing activities	**(514)**	**(1,234)**
Effects of exchange rate changes	—	(81)
Less disposal group held for sale and discontinued operations	—	(2,133)
Cash and cash equivalents at end of period (HVB Group new)[1]	**551**	**508**

1 The cash and cash equivalents are identical to the cash and cash balances shown in the balance sheet. The other balances with central banks are carried under loans and receivables with banks and hence no longer form part of cash and cash equivalents.

Notes to the Consolidated Financial Statements

Consolidated financial statements in accordance with IFRS

As a globally active company, we prepare the financial statements in accordance with the requirements of the International Accounting Standards Board (IASB).

This gives our shareholders and all other interested parties a reliable and internationally comparable basis for evaluating the HVB Group and its profitability. Our value-based management is similarly based on these accounting principles.

The consolidated financial statements have been prepared in accordance with 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 alongside the IFRS by companies active on the capital market.

The statement regarding the Corporate Governance Code required by Section 161, German Stock Corporation Act, has been published on our website at www.hvb.com/declarationofconformity. Our 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 and Section 264 (3) of the German Commercial Code, the following companies are exempted from the obligation to prepare a management report and notes to their annual 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. Stuttgarter Kronzprinzstraße 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
- Bayerische Wohnungsgesellschaft für Handel und Industrie mbH, Munich

Accounting and Valuation

1 Uniform Group accounting policies

The separate financial statements of the domestic and foreign subsidiaries are incorporated in our 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, we apply 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 we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively. With the exception of the new and revised IFRS, we have applied the same accounting and valuation principles in 2007 as in the consolidated financial statements for 2006.

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, 2007, affecting our Bank:

The disclosure of financial instruments has been modified as a result of IFRS 7 "Financial Instruments: Disclosures" becoming obligatory as of January 1, 2007. IFRS 7 replaces IAS 30 in full and IAS 32 in part.

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

Among other things, the balance sheet disclosures and profit contributions of the financial instruments are to be shown separately for the IAS 39 classification categories. In the present consolidated financial statements, these changes have been incorporated in the explanatory notes regarding the balance sheet and income statement. The disclosures compliant with IFRS 7 regarding risks in connection with financial instruments are largely covered in the Risk Report in Management's Discussion and Analysis. Since the Risk Report describes internal risk management, quantitative disclosures are made regarding the risk types on the basis of exposure values that may differ from the carrying amounts shown in the balance sheet. The maximum exposure to credit risk compliant with IFRS 7.36A is equal to the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees or credit commitments, the nominal amount of the guarantee/amount of the credit commitment not yet utilised as shown in Note 83.

The amendment to IAS 1, "Capital Disclosures", requires additional disclosures to be made regarding an entity's capital as of January 1, 2007. The disclosures regarding the objectives and principles of capital management are explained in the Risk Report.

The IFRIC 7, 8, 9 and 10 interpretations to be applied for the first time in the 2007 financial year have had no material consequences for accounting and valuation.

In 2007, HVB started to apply the fair value hedge permitted by IFRS for interest rate risks at portfolio level for a limited portfolio of liabilities.

Accounting and Valuation (Continued)

Furthermore, HVB has completed a process that was started last year as part of the integration of HypoVereinsbank into UniCredit Group by harmonising its external financial reporting (change in the structure of the income statement) with the balance sheet and notes structure used by UniCredit in its capital market communications. Thus, the requirements of IFRS 7 listed above have also been implemented. In addition, we now carry investment properties as a separate balance sheet item (previously included in investments). The respective prior year figures have been adjusted accordingly.

The main differences between the balance sheet structure in accordance with UniCredit practice and the previous HVB structure are as follows:

- Cash and cash balances now only contains the cash on hand and balances with central banks that are repayable on demand. Other balances with central banks are carried under loans and receivables with banks.
- The respective write-downs have been eliminated from loans and receivables with banks and customers (net disclosure).
- Alongside a number of other minor reallocations, the former balance sheet item “Investments” has essentially been allocated to the following balance sheet items in line with the IFRS holding categories:
  - Financial assets at fair value through profit or loss
  - Available-for-sale financial assets
  - Investments in associates, joint ventures and non-consolidated subsidiaries
  - Held-to-maturity investments and
- Hedging derivatives, which HVB previously disclosed under other assets/liabilities, are now shown in separate balance sheet items.
- The subordinated capital, which was previously shown separately in the HVB structure, has now been allocated to the balance sheet items “Debt securities in issue”, “Deposits from banks” and “Deposits from customers”.
- The investment properties previously included in investments are now disclosed separately in the balance sheet.

The following presentation shows a comparison of the new balance sheet structure and the old balance sheet structure:

New balance sheet structure

	€ millions
ASSETS	**31/12/2006**
Cash and cash balances	508
Financial assets held for trading	107,628
Financial assets at fair value through profit or loss	11,728
Available-for-sale financial assets	6,504
Investments in associates, joint ventures	
and non-consolidated subsidiaries	688
Held-to-maturity investments	471
Loans and receivables with banks	43,847
Loans and receivables with customers	164,031
Hedging derivatives	842
Property, plant and equipment	1,993
Investment properties	
Intangible assets	808
of which: Goodwill	422
Tax assets	2,745
Assets of discontinued operations and non-current assets	
or disposal groups held for sale	164,451
Other assets	1,789
Total assets	**508,033**

Old balance sheet structure

	€ millions
ASSETS	**31/12/2006**
Cash reserves	3,211
Assets held for trading purposes	107,211
Placements with, and loans and advances to, other banks	41,264
Loans and advances to customers	169,998
Allowances for losses on loans and advances	(6,068)
Investments	19,845
Property, plant and equipment	1,547
Intangible assets	808
Income tax assets	2,745
Other assets	3,021
Assets of discontinued operations and non-current assets	
or disposal groups held for sale	164,451
Total assets	**508,033**

New balance sheet structure

	€ millions
LIABILITIES	31/12/2006
Deposits from banks	86,571
Deposits from customers	92,751
Debt securities in issue	87,568
Financial liabilities held for trading	60,768
Hedging derivatives	764
Changes in fair value	
of portfolio hedged items	—
Tax liabilities	1,378
Liabilities of discontinued operations	
and of disposal groups	
held for sale	152,920
Other liabilities	3,642
Provisions	1,683
Shareholders' equity	19,988
Shareholders' equity attributable to shareholders of HVB AG	16,690
Subscribed capital	2,252
Additional paid-in capital	8,886
Own shares	(3)
Other reserves	4,061
Change in valuation of financial instruments	872
AfS reserve	1,195
Hedge reserve	(323)
Consolidated profit 2007	622
Minority interest	3,298
Total shareholders' equity and liabilities	**508,033**

Old balance sheet structure

	€ millions
LIABILITIES	31/12/2006
Deposits from other banks	85,672
Amounts owed to other depositors	92,136
Promissory notes and other liabilities evidenced by paper	76,938
Liabilities held for trading purposes	59,962
Provisions	1,683
Income tax liabilities	1,378
Other liabilities	5,214
Subordinated capital	12,142
Liabilities of discontinued operations and	
of disposal groups held for sale	152,920
Shareholders' equity	19,988
Shareholders' equity attributable to shareholders of HVB AG	16,690
Subscribed capital	2,252
Additional paid-in capital	8,883
Other reserves	4,061
Change in valuation of financial instruments	872
AfS reserve	1,195
Hedge reserve	(323)
Consolidated profit	622
Minority interest	3,298
Total shareholders' equity and liabilities	**508,033**

As already mentioned, changes have been made to the structure and content of the notes to align with the customary UniCredit capital market communications as well as to implement the requirements of IFRS 7. In this context, we would like to point out that, despite the fact there has been no change in the names of the individual notes disclosures, there may have been changes in the content. The previous-year figures have been adjusted accordingly.

Accounting and Valuation (Continued)

3 Published IFRSs that are not yet the subject of mandatory adoption and that have not been the subject of early adoption

The following standards and interpretations newly published or revised by the IASB, which only become the subject of mandatory adoption after the end of the 2007 financial year, have not been the subject of early adoption.

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

Application of the amendments to standards (IAS 1 and IAS 23) and IFRIC interpretations (IFRIC 11 to IFRIC 14) newly published by the end of 2007 is not compulsory before the 2008 or 2009 financial years.

4 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 95 (2006: 488, of which 396 related to discontinued operations and 92 to continuing operations) companies. The group of consolidated companies also includes companies and fund assets which SIC 12 requires to be consolidated as special purpose entities.

The group of companies included in consolidation has been defined taking into account materiality criteria. All fully consolidated subsidiaries prepared their annual financial statements for the period ended December 31, 2007. The group of consolidated companies does not include any companies that are not fully consolidated. One company (2006: 28 companies, of which 27 defined as discontinued operations) is accounted for using the equity method.

The following companies and fund assets, among others, have been consolidated for the first time in the 2007 financial statements of HVB Group:

– PlanetHome AG, Munich
– PlanetHome GmbH, Mannheim
– Enderlein & Co. GmbH, Bielefeld
– HVB Wealth Management Holding GmbH, Munich
– HVB Alternative Advisors LLC, New York
– HVB Asset Management Holding GmbH, Munich
– Euro ImmoProfil, Munich (this is a special property fund compliant with Section 66 et seq. of the German Investment Act)
– Bavaria Universal Funding Corporation (BUFCO), Delaware
– Black Forest Funding Corporation, Delaware
– Arabella Funding Ltd., St. Helier
– Salome Funding Plc., Dublin

The following companies (participations) among others are no longer included in consolidation for HVB Group in 2007:

– Indexchange Investment AG (Indexchange), Munich
– Norddeutsche Investment-Gesellschaft mbH (Nordinvest), Hamburg
– HVB Payments & Services GmbH (PAS), Munich
– Financial Markets Service Bank GmbH (FMS Bank), Munich

Indexchange was sold to Barclays Bank PLC for around €240 million on February 8, 2007. On January 31, 2007, Nordinvest was sold to Pioneer Global Asset Management S.p.A. as part of the measures taken to pool the asset management activities in the UniCredit Group. PAS was sold to Deutsche Postbank AG with effect from January 1, 2007 and FMS Bank was sold to the French financial service provider CACEIS with effect from December 31, 2007.

The companies that were deconsolidated in 2006 also have an effect on the comparison of the results for 2007 and 2006. Essentially, this relates to Activest Investmentgesellschaft mbH, Activest Investmentgesellschaft Luxembourg S.A. and Westfalenbank, Bochum. The Activest companies were sold to Pioneer Global Asset Managment S.p.A. in the third quarter of 2006 and deconsolidated with effect from July 1, 2006. The sale of Westfalenbank AG to Crown Northcorp Inc. was completed on October 26, 2006; again, deconsolidation took effect from July 1, 2006.

Of the companies defined as discontinued operations at December 31, 2006, the following were deconsolidated with effect from January 1, 2007:
– Bank Austria Creditanstalt AG, complete with all companies included in the BA-CA sub-group
– AS UniCredit Bank, Riga
– Closed Joint Stock Company International Moscow Bank (IMB) (renamed ZAO UniCredit Bank in December 2007; still referred to as IMB below), Moscow
– Joint Stock Commercial Bank (HVB Bank Ukraine), Kiev

The HVB AG branches in Tallinn, Estonia, and Vilnius, Lithuania, were sold to AS UniCredit Bank, Riga in the third quarter of 2007 (economic completion date: March 1, 2007).

As a result of the deconsolidation of the companies defined as discontinued operations, the only company still accounted for by HVB Group using the equity method is Ramius HVB Partners LLC, Delaware.

In total, 368 subsidiaries, associated companies and joint ventures were neither fully consolidated nor accounted for using the equity method as they do not have a material impact on our 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 2.4% of consolidated profit of the HVB Group, while such companies provide around 0.9% of consolidated assets. The interests in these companies are carried as available-for-sale financial assets.

	2007 HVB GROUP[1]	2006 HVB GROUP[2]
Subsidiaries of the full HVB Group	**445**	**1,019**
Consolidated companies	95	488
Non-consolidated companies	350	531
Joint ventures	**9**	**13**
of which:		
accounted for using the equity method	—	—
Associated companies	**10**	**68**
of which:		
accounted for using the equity method	1	28

1 operations following the disposal of discontinued operations
2 continuing and discontinued operations

The investment banking activities of UniCredit Banca Mobiliare S.p.A. (UBM), Milan, were transferred to HVB AG with effect from April 1, 2007 against the issue of new ordinary shares. This transaction has the same effect as initial consolidation on the comparison of results with 2006 as well as the balance sheet at December 31, 2006.

HVB 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 full list of our shareholdings is published as part of the present financial statements by the operator of the electronic Federal Gazette in accordance with Section 325 (2) of the German Commercial Code and can be accessed via the homepage of the company register in accordance with Section 8b (2) of the German Commercial Code. It can also be called up on our homepage at www.hvb.com/annualreport.

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 represents the difference between the assets and liabilities of the acquired company, measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under investments in associates, joint ventures and non-consolidated subsidiaries. Compliant with IAS 36, depreciation ist no longer recognised on goodwill.

Accounting and Valuation (Continued)

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 expected contribution to results at the time of acquisition. The goodwill is tested for impairment once a year at cash-generating 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, the divisional plans are employed as the basis and a uniform rate of 8.4% for the cost of capital is used for discounting. No growth factor has been assumed for the government perpetuity.

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

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

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.

Financial assets and liabilities at fair value through profit or loss

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

– Financial assets and liabilities held for trading

  Financial assets and liabilities classified as held for trading at the time of initial recognition are financial instruments acquired or incurred for the purpose of short-term profit-taking as a result of changes in market prices or of realising a profit margin. Financial assets and liabilities held for trading purposes are shown under financial assets and liabilities held for trading.

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

  We only use the fair value option for certain financial assets designated as at fair value throughout profit or loss upon initial recognition. In this context, we have limited ourselves to the designation option of the accounting mismatch by means of which recognition or measurement inconsistencies are avoided or considerably reduced in economic hedges for which hedge accounting is not applied.

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

Loans and receivables

– The category "loans and receivables" includes non-derivative financial assets – both originated by us and acquired – with fixed or determinable payments that are not quoted in an active market, unless they are classified as at fair value through profit or loss or available for sale (AfS). We classify as loans and receivables leveraged buyout financing that we hold to maturity and leveraged buyout financing that we intend to outplace, as there is no short-term intention to trade. Loans and receivables originated by the company are measured at amortised cost and capitalised under loans and receivables with banks and loans and receivables with customers. Premiums and discounts are taken to the income statement under net interest income over the term of the underlying items.

Held-to-maturity investments

– Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss or available for sale. HtM financial instruments are measured at amortised cost, with premiums and discounts taken to the income statement under net interest income over the term of the underlying items.

Available-for-sale financial assets

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

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

  – Equity instruments for which there is no quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost. Among other things, this concerns shares in unlisted companies, which we measure at cost. Since it is not possible to reliably determine a fair value for these equity instruments, they are not included in the AfS reserve (difference between fair value and amortised cost).

  The regulations set forth in IAS 39 regarding reclassifications have been observed. Purchases and sales of financial assets are normally recognised at the trade date.

Determination of fair value

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

Accounting and Valuation (Continued)

The fair value is determined as follows:
Listed price on an active market (Level I)
– Price on the closing date.
– Price shortly before the closing date to be adjusted to the extent that the economic data have changed materially since the date the price was determined.

If there is no active market, the fair value is derived using data provided by market suppliers (Level II):
– The latest market transactions for an identical financial instrument are used.
– The amount is compared with the current fair value of a different, essentially identical financial instrument.

If it is not possible to derive a fair value, the amount is calculating using in-house models (Level III):
– Valuation models are used (such as discounting of expected cash flows, option price models or other valuation models normally used by market players to value financial instruments) as far as possible taking into account normal market valuation parameters.

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

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

  Viewed overall, the fair value of a financial guarantee is zero when the contract is concluded, for the value of the premium received will normally match the value of the guarantee obligation in standard market contracts. The guarantee premium is recognised on a pro rata basis. The need for an allowance to be taken for losses on guarantees is checked during subsequent measurement.

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

Embedded derivatives
– 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 recognised in the income statement.

Hedge accounting
– 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%. In fair value hedge accounting, we use derivatives to hedge the fair value of recognised assets and liabilities. Under this method, the hedging instrument is measured at fair value through profit and loss. The carrying amounts of the hedged item are adjusted by the valuation results relating to the hedged risk, in a way that affects the income statement.

In 2007, HVB started to apply the fair value hedge permitted by IAS 39 for interest rate risks at portfolio level for a limited portfolio of liabilities.

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. We apply the method of accounting for cash flow hedges for derivatives used to hedge future interest cash flows. We recognise derivatives in accordance with cash flow hedge accounting when they are used to hedge future interest cash flows as part of our 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 directly in the income statement. Depending on its classification, the hedged item is recognised at amortised cost or, in the case of available-for-sale financial assets, at fair value.

Merely the principles of impairment losses are mentioned in the above discussion of the classification of financial instruments. For detailed comments, please refer to Note 13.

7 Assets held for trading purposes

This item includes securities held for trading purposes and positive market values of traded derivatives. All other derivatives not classified as hedging derivatives (which are shown separately in the balance sheet) are similarly considered held for trading. This includes standardised credit default swaps (CDSs) concluded outside the held-for-trading portfolio, which are measured in the same way as traded derivatives.

Provided they are held for trading purposes, promisory notes, registered bonds and Treasury bills are carried as other financial assets held for trading.

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

8 Financial assets at fair value through profit or loss

HVB Group only applies the fair value option for financial assets with economic hedges for which hedge accounting is not applied. The designation removes or significantly reduces differences resulting from an accounting mismatch. The portfolio mostly comprises interest-bearing securities not held for trading that are hedged against interest rate risks by means of interest rate swaps. In the case of promissory note receivables similarly included here, there is no material fair value change in terms of the credit risk on account of the top rating of the issuers. Changes in fair value of the hedged items and the associated derivatives are shown separately in net trading income; current interest income/expenses are recognised in net interest income.

Accounting and Valuation (Continued)

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

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

10 Investments in associates, joint ventures and non-consolidated subsidiaries
Investments in joint ventures and associated companies are accounted for using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value.

Where the fair value of non-listed assets cannot be reliably determined, such assets are recognised at amortised cost.

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

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

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

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

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

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

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

In the case of loans and receivables and held-to-maturity financial instruments, an impairment is the difference between the carrying amount and the present value of the anticipated future cash flows, discounted with the original effective interest rate applicable when the contract was signed. The future cash flows are determined taking into account past events (objective evidence). The anticipated future cash flows may comprise the repayment and/or interest payments still expected and the income from the realisation of collateral. The impairment is the difference between the present value of the anticipated future cash flows and the carrying amount. A specific loan-loss provision is recognised for the impairment determined in this way.

During subsequent measurement, both changes in the anticipated future cash flows and the time effect arising from a reduction of the discounting period (unwinding) are taken into account. The difference between the newly determined present value of the anticipated future cash flows at each balance sheet date and the carrying amount at the previous balance sheet date is recognised as reversal of or addition to allowances for losses on loans and receivables. On account of the uniform Group-wide accounting and valuation methods stipulated by the parent company, UniCredit, the effect of the unwinding is disclosed as a reversal of allowances.

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

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

Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made to cover all identifiable risks arising from lending operations (loans, receivables and financial guarantees). These are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified uncollectable and written off. Acute country-specific transfer risks are included in this process.

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

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

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

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

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

In the case of equity instruments measured at fair value, an impairment occurs when the current fair value is significantly lower than the carrying amount or when the fair value is permanently less than the carrying amount. Where this is the case, the difference between the current fair value and initial cost is recognised as profit or loss in the income statement. Such an impairment recognised in profit or loss has to be considered for the new cost basis required for the calculation of AfS reserve. If the fair value rises in the future, the difference between a higher fair value and the initial cost adjusted as described is recognised in the AfS reserve under shareholders' equity.

An impairment of equity instruments measured at cost occurs when the present value is permanently less than the initial cost (or, if an impairment loss has already been recognised in the past, the present value is permanently less than the initial cost less the impairment recognised). If there is objective evidence of an impairment, the present value of the equity instruments must be determined. The estimated future cash flows discounted by the current market return on a comparable asset are used as the basis for determining this value. The amount of the impairment is calculated as the difference

Accounting and Valuation (Continued)

between the present carrying amount and the value of the equity instrument determined as described above. The impairment is taken to the income statement. An impairment of an equity instrument is not permitted to be reversed if the reasons for the impairment no longer apply.

14 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.

15 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 from the lessee 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 51 "Loans and receivables with 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.

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 other operating expenses or operating costs. Contracts in which HVB Group acts as lessee are comparatively insignificant.

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

We have applied the regulation stipulated in IAS 40.32A for the first time for a limited portfolio of investment property. This regulation allows an entity to measure at fair value through profit or loss any investment properties whose fair value determines the extent of the repayment of liabilities linked to the investment properties, even if all other investment property is measured at amortised cost.

The fair values stated for this limited portfolio of investment property are the result of a valuation report prepared by external assessors compliant with Section 194 of the German Building Code (BauGB). This involved determining fair values on the basis of sustainable rents. When these values were determined, non-recurring effects were taken into account such as differences between contractual rents and sustainable rents.

Current expenses and rental income from investment property is disclosed in net other expenses/income. Scheduled depreciation on such investments carried at amortised cost is included in operating expenses, whereas impairments are recognised in net income from investments. Changes in the value of investments at fair value through profit or loss are similarly included in net income from investments. As the fair value model is used, scheduled depreciation is not taken on these investments.

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

18 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.

19 Liabilities
Deposits from banks and customers, and debt securities in issue that are not hedged items of an effective fair value hedge are reported at amortised cost.

Instead of the maturity analysis based on undiscounted cash flows required by IFRS 7.39a, we show a breakdown of the carrying amounts by maturity for the relevant liabilities in each case.

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

Accounting and Valuation (Continued)

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

21 Changes in fair value of portfolio hedged items
In 2007, HVB started to apply the fair value hedge permitted by IAS 39 for interest rate risks at portfolio level for a limited portfolio of liabilities. The hedge adjustment for liabilities with interest rate hedges disclosed here is offset by an equivalent, almost identical amount on the asset side recognised under hedging derivatives.

22 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.

Furthermore, minority interests in the capital of a consolidated investment fund are also carried as liabilities from outstanding fund shares under other liabilities, provided the Bank consolidates these funds. Since these unitholders are entitled to return their shares to the fund for the redemption price, their shares represent liabilities from the Group’s viewpoint. These liabilities are carried at their respective redemption price. Changes in the redemption price are recognised in profit or loss in the income statement.

23 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, we use a best estimate compliant with IAS 37.36 et seq. Long-term provisions are discounted.

In accordance with IAS 19, we use actuarial principles to determine the provisions for 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.

We exercise the option for recognising unrealised actuarial gains or losses in shareholders’ equity permitted in IAS 19.93A “Employee benefits”.

The discount rate is based on the long-term interest rate for first-class, fixed-yield corporate bonds at the balance sheet date. The amount of the provision shown in the balance sheet is calculated as the present value of the obligation determined at the end of the financial year less the fair value of the plan assets determined at the end of the financial year. The plan assets set up by HVB AG and a number of subsidiaries to fund pension obligations are described in detail in Note 72 “Provisions”.

24 Foreign currency translation

The consolidated financial statements are prepared in euros, which is the reporting currency of the corporate group. Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for monetary items not denominated in the respective functional currency (generally the local currency in each case) and cash transactions not completed at the valuation date to be translated into euros using current market rates. Non-monetary items carried are fair value are similarly translated into euros using current market prices at the valuation date. Non-monetary items carried at cost are translated using the historic rate applicable at the time of acquisition.

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

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

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

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

Segment Reporting

26 Notes to segment reporting by division (primary segmentation)

In segment reporting, the market-related activities of HVB Group are divided into the following global divisions: Retail; Wealth Management; Corporates & Commercial Real Estate Financing; and Markets & Investment Banking.

Also shown is an "Other/consolidation" division that covers Global Banking Services, Group Corporate Centre activities and the effects of consolidation. The Group Corporate Centre activities also contain the Special Credit Portfolio (SCP) defined in the previous year and the remaining holdings from the former Real Estate Restructuring segment.

Compliant with IAS 14.52, the income and expenses of the companies and sub-groups defined as discontinued operations in 2006 and disposed of in 2007 – the Bank Austria Creditanstalt Group, HVB Bank Ukraine, IMB, AS UniCredit Bank, Riga, and the HVB AG branches in Tallinn and Vilnius – are shown in addition to and separately from the continuing divisions and segments of HVB Group, in a separate column marked "Discontinued operations" in our segment report.

In the third quarter of 2007, the activities of the following units were pooled in the Corporate Division within the UniCredit Group in order to leverage future growth opportunities: Correspondent Banking, Documentary Business, Forfaiting, Structured Trade and Export Finance & International and Domestic Corporate Payments. Consequently, at the end of September 2007 these operations were also shown separately for the first time in the segment report of HVB Group under the new Global Financial Services (GFS) subdivision within the Corporates & Commercial Real Estate Financing division with retroactive effect from January 1, 2007. Since the activities listed above were previously included in the Markets & Investment Banking division, there were shifts in the segment assignment, presentation of volumes, income and expenses for the activities listed above and customers between the Markets & Investment Banking and Corporates & Commercial Real Estate Financing segments.

At the same time, a number of smaller reorganisations took place with a view to giving the divisions a clear strategic orientation, which led to new segment assignments in all the segments. The figures for the comparison periods in this and the previous financial year have been adjusted to reflect the changes listed above.

Components of the segments of the new HVB Group

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 needs-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 2007, Wealth Management encompassed Wealth Management Sales of HVB AG (WEM) for wealthy customers in Germany, private banking operations and family trust management in Luxembourg, the activities of the DAB banking group and activities involving participating interests through Wealth Management Capital Holding, with total customer assets under management of €76 billion.

In the first year after the introduction of the divisional structure, we established and strengthened a good starting position on the market. By year-end, WEM had a presence at 44 locations and in seven representative offices. The total volume of assets under management amounted to €34.1 billion.

The following customers groups are addressed with an all-round service approach: family office customers; wealthy private customers; professionals and business customers; 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.

The division has set itself the goal of becoming the best wealth manager in Germany in terms of both customer satisfaction and product and service quality. The service model tailored to the needs of individual customers is backed by holistic, customised offerings. These are intended to secure and expand liquid assets, create provision for wealth risks, achieve and maintain a balanced liquidity and financing position, and increase yields on property investments.

Corporates & Commercial Real Estate Financing division
In our **corporate banking operations**, we concentrate on the needs of our around 70,000 mid-sized 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 the readers of "Markt und Mittelstand" journal named us SME Bank of the Year 2007. And our HVB Leasing subsidiary came in first in the equipment leasing category of a major leasing survey conducted by company magazine "Impulse".

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 for our mid-sized corporate customers, such as mezzanine products which incorporate the capital market. 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 finance 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.

As an integral part of the UniCredit Group, the leading player in central and eastern Europe, we support our customers through our European network.

Global Shipping has been set up as a separate line of business, representing a separate industry-marketing and product organisation with offices at the major ship-financing centres.

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

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 and property M&A specialists concentrated in Munich.

Segment Reporting (Continued)

The first Group-wide business line with responsibility for cash management and e-banking, global financial institutions and foreign trade finance, and structured foreign trade and export finance throughout the corporate group has been set up in the Corporates & Commercial Real Estate Financing division in the form of **Global Financial Services (GFS)**. The objective is to offer our customers the best transaction-banking products and services on local markets and internationally.

This involves combining our strong market position in central and eastern Europe with leading edge products. The benefit for our customers is that they can work with a leading bank locally that has a broad network and good knowledge of the country in question. At the same time, the UniCredit Group offers its corporate customers market-leading services and products in areas like international cash management, e-banking and trade finance that our globally active customers need today.

Markets & Investment Banking division

2007 was the year of strategic positioning for the global Markets & Investment Banking division (MIB) of the UniCredit Group. The essential conditions were put in place when the MIB division was formed in 2006. Following on from this, we concentrated in the year under review on the integration of UBM into HVB AG as well as various strategy projects within the business areas. The fact that HVB has been upgraded to the competence centre for investment banking within the Group means that both the already available expertise and the know-how in this area are being expanded and reinforced. Headquartered in Munich, the division has offices at the all the major financial centres, including London, New York, Hong Kong and Singapore. Around 2,500 employees at 23 locations serve some 1,800 institutional customers, 550 multinationals and 100 financial sponsors. At the same time, all activities 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.

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. The following flagship products and market positions should be highlighted in this regard:

– 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
– 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 central 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., HVB Capital Partners AG and HVB Structured Invest S.A.

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

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.

The **Group Corporate Centre** activities contain the Special Credit Portfolio (SCP) defined in the previous year and the remaining holdings from the former RER segment. In addition to the Real Estate Restructuring and SCP portfolios, the Group Corporate Centre activities include profit contributions that do not fall within the jurisdiction of the individual divisions. Among other items, this includes the profits 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.

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.

Net interest income is broken down using the market interest calculation method. At the beginning of 2007, the equity capital allocation used to calculate the return on investment on companies assigned to several divisions was changed from the standardised uniform capital allocation to the divisions used in previous years to a system of individual core capital allocation for each division. This involves allocating core capital to the divisions over a range between 5.9% and to 6.8% of risk-weighted assets. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. The percentage used to assess the equity capital allocated to the companies assigned to several divisions (HVB AG, HVB Banque Luxembourg) equals the 3-month EURIBOR plus a premium in the amount of the average 5-year UniCredit spread. This rate is set for one year as part of the budgeting process. The percentage rate changed from 3.4% to 3.8% in connection with the rules laid down for the 2007 financial year. Neither change (individual capital allocation and change of interest rate) has any material net effect. This is why we have not restated the previous periods. Equity capital is not standardised for the subsidiaries.

Operating costs are allocated to the correct division according to causation. The Global Banking Services and Group Corporate Centre units are treated as external service providers charging the divisions fair market prices for their services. The 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.

Segment Reporting (Continued)

27 Income statement broken down by division

€ millions	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	MARKETS & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP NEW	DISCONTINUED OPERATIONS[2]	FULL HVB GROUP[2]
TOTAL REVENUES								
2007	1,761	483	1,474	2,179	714	6,611	1	6,612
2006	1,732	551	1,430	2,148	91	5,952	5,215	11,167
Operating costs								
2007	(1,385)	(288)	(546)	(1,112)	(245)	(3,576)	(1)	(3,577)
2006	(1,432)	(345)	(548)	(1,116)	(254)	(3,695)	(2,905)	(6,600)
OPERATING PROFIT								
2007	376	195	928	1,067	469	3,035	—	(3,035)
2006	300	206	882	1,032	(163)	2,257	2,310	4,567
Net write-downs of								
loans and provisions for								
guarantees and commitments								
2007	(147)	(7)	(143)	74	(313)	(536)	—	(536)
2006	(173)	(10)	(265)	17	(502)	(933)	(728)	(1,661)
Other items[1]								
2007	35	19	(24)	431	2	463	3,782	4,245
2006	(16)	542	(13)	(163)	(56)	294	2,117	2,411
PROFIT BEFORE TAX								
2007	264	207	761	1,572	158	2,962	3,782	6,744
2006	111	738	604	886	(721)	1,618	3,699	5,317

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
2 in 2007 contains the gains on the disposal of the discontinued operations in other items (net income from investments)

Income statement of the Retail division

						€ millions
INCOME/EXPENSES	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	**1,078**	**1,098**	**269**	**269**	**269**	**271**
Net fees and commissions	669	629	151	151	172	195
Net trading income	2	(1)	—	1	—	1
Net other expenses/income	12	6	3	4	2	3
Net non-interest income	**683**	**634**	**154**	**156**	**174**	**199**
TOTAL REVENUES	**1,761**	**1,732**	**423**	**425**	**443**	**470**
Payroll costs	(580)	(571)	(146)	(139)	(142)	(153)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(805)	(861)	(204)	(198)	(197)	(206)
Operating costs	**(1,385)**	**(1,432)**	**(350)**	**(337)**	**(339)**	**(359)**
OPERATING PROFIT	**376**	**300**	**73**	**88**	**104**	**111**
Restructuring costs	3	(7)	3	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(147)	(173)	(52)	(15)	(13)	(67)
Net income from investments and other items[1]	32	(9)	34	(2)	—	—
PROFIT BEFORE TAX	**264**	**111**	**58**	**71**	**91**	**44**
Cost-income ratio in %	78.6	82.7	82.7	79.3	76.5	76.4

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

Developments in the Retail division

The Retail division continued to perform well in 2007. Following the turnaround in profit before tax in 2006, the equivalent figure in the year under review had almost doubled to €264 million compared with the previous year. The main factors behind this increase were productivity improvements in the operating business together with a sharp reduction in net write-downs of loans and provisions for guarantees and commitments and an improvement in net income from investments and other items.

Operating profit rose by around a quarter year-on-year, to €376 million. At the same time, higher total revenues coupled with lower operating costs resulted in a 4.1 percentage point improvement in the cost-income ratio to 78.6%.

Total revenues rose by 1.7% as a result of the initial consolidation of the PlanetHome Group, one of the leading providers of property finance specialising in the provision and financing of residential property. Revenue growth was driven by net fees and commissions, which rose by 6.4% compared with the previous year partly as a result of the initial consolidation of the PlanetHome Group. Securities and custodial services contributed to the strong net fees and commissions, notably stemming from the continued successful distribution of structured investment products with a nominal sales volume of around €2.8 billion. Key products in this connection include “HVB 6% Zins Ass”, “HVB Best of Fonds Zertifikate”, “HVB Zukunftszertifikat II”, “HVB 8% Favorit Anleihe”, “Favorit Express Zertifikat”, “HVB Relax Express”, “HVB Express Bonus” and “HVB Bonus Fonds DJ Euro Stoxx 50”. At the same time, we recorded very strong growth of almost 11% in the brokerage of insurance products. In particular, the “HVB AktivRente”, an innovative private pension product, was successfully launched in the fourth quarter.

Segment Reporting (Continued)

Net interest income fell by a slight 1.8%, primarily on account of strategic moves involving property loans and declines in volumes in lending operations involving overdraft facilities. The persistently restrained demand for credit from business customers is particularly noticeable on the market. This development was offset in part by the higher margins on the deposit-taking side and the increase in volumes for demand and term deposits. In terms of demand deposits, we also benefited from the pleasing response to our “HVB WillkommensKonto” family, with which we acquired a total of 55,000 new customers in 2007. Net other expenses/income improved by €6 million year-on-year to €12 million.

In terms of operating costs, we are reaping the benefits of consistently strict cost management and efficiency enhancements, with total costs falling by 3.3% to €1,385 million. Other administrative expenses complete with amortisation, depreciation and amortisation of tangible assets declined by 6.5% (despite the effect of initial consolidation) and payrolls costs increased only very moderately (1.6%) on account of the effect of initial consolidation and despite the expenses of pay rises for staff both covered and not covered by collective bargaining agreements.

Alongside the good operating performance, the other results components contributed to the strong showing of the Retail division. In this context, the sharp 15% decline in net write-downs of loans and provisions for guarantees and commitments and the improvement in net income from investments and other items should be mentioned. Net income from investments includes a non-recurring gain of €17 million, being the portion of the gain on disposal of Financial Markets Services Bank attributable to the division, and income from the release of provisions. Profit before tax increased by a factor of 1.4 overall to €264 million.

Income statement of the Wealth Management division

						€ millions
INCOME/EXPENSES	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	**172**	**163**	**50**	**45**	**40**	**37**
Net fees and commissions	313	397	77	70	79	87
Net trading income	(6)	(13)	1	1	(7)	(1)
Net other expenses/income	4	4	5	(1)	—	—
Net non-interest income	**311**	**388**	**83**	**70**	**72**	**86**
TOTAL REVENUES	**483**	**551**	**133**	**115**	**112**	**123**
Payroll costs	(94)	(117)	(25)	(22)	(24)	(23)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(194)	(228)	(54)	(45)	(46)	(49)
Operating costs	**(288)**	**(345)**	**(79)**	**(67)**	**(70)**	**(72)**
OPERATING PROFIT	**195**	**206**	**54**	**48**	**42**	**51**
Restructuring costs	(2)	(7)	(2)	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(7)	(10)	(1)	—	(2)	(4)
Net income from investments and other items[1]	21	549	14	1	5	1
PROFIT BEFORE TAX	**207**	**738**	**65**	**49**	**45**	**48**
Cost-income ratio in %	59.6	62.6	59.4	58.3	62.5	58.5

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.

Developments in the Wealth Management division
As part of the pooling of asset management activities in the UniCredit Group, the Activest Group (Activest Investmentgesellschaft mbH, Munich, Activest Investmentgesellschaft Luxembourg S. A., Luxembourg and Activest Investmentgesellschaft Schweiz AG, Berne) were transferred to Pioneer Global Asset Management S.p.A. with effect from July 1, 2006 along with Nordinvest in January 2007. Moreover, the depositary banking activities of HVB Banque Luxembourg S.A. have no longer been allocated to the Wealth Management division with effect from January 1, 2007. Consequently, the primary profit contributions of the Activest companies, Nordinvest and the profits from the depositary banking activities of HVB Banque Luxembourg for the whole of 2006 are still included in the above income statement. To make it easier to compare the performance of our Wealth Management operations, we are showing below an income statement for the Wealth Management division for 2007 in which the figures have been adjusted for the deconsolidation effects and the profits from the depositary banking activities of HVB Banque Luxembourg.

Segment Reporting (Continued)

Adjusted income statement of the Wealth Management division

INCOME/EXPENSES	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
						€ millions
Net interest income	**172**	**158**	**50**	**45**	**40**	**37**
Net fees and commissions	313	289	77	70	79	87
Net trading income	(6)	(13)	1	1	(7)	(1)
Net other expenses/income	4	3	5	(1)	—	—
Net non-interest income	**311**	**279**	**83**	**70**	**72**	**86**
TOTAL REVENUES	**483**	**437**	**133**	**115**	**112**	**123**
Payroll costs	(94)	(90)	(25)	(22)	(24)	(23)
Other administrative expenses, amortisation, depreciation and impairment losses on intangible and tangible assets	(194)	(194)	(54)	(45)	(46)	(49)
Operating costs	**(288)**	**(284)**	**(79)**	**(67)**	**(70)**	**(72)**
OPERATING PROFIT	**195**	**153**	**54**	**48**	**42**	**51**
Restructuring costs	(2)	—	(2)	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(7)	(10)	(1)	—	(2)	(4)
Net income from investments and other items[1]	21	—	14	1	5	1
PROFIT BEFORE TAX	**207**	**143**	**65**	**49**	**45**	**48**
Cost-income ratio in %	59.6	65.0	59.4	58.3	62.5	58.5

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 Wealth Management division encompasses the Wealth Management Sales of HVB AG (“WEM”), the DAB Bank Group, the private banking activities of HVB Luxembourg and Wealth Management Capital Holding GmbH, Munich, which was consolidated for the first time in the second quarter of 2007 and encompasses participating interests in HVB Fonds Finance GmbH, Blue Capital GmbH and H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH, Munich.

The following description of developments relates to the adjusted income statement.

With profit before tax of €207 million, the Wealth Management division succeeded in beating its result in 2006 by almost 45% in 2007; after deducting the portion of the gain on the sale of FMS Bank attributable to the division (€16.8 million), the figure was up by 33%. This development reflects a healthy performance by all the companies, all of which report profits up by more than 23%. The division now manages customer assets totalling €76 billion.

The newly implemented business model of providing service tailored specifically to the target group of very wealthy customers is beginning to have an impact at WEM. In contrast to its competitors, WEM is positioned as a generalist offering its clientele credit facilities from a single source alongside the typical wealth management investment products. The revenues for the second half of 2007 were 17% up on the same period in 2006, which was still dominated by the divisional structure of HVB and the transfer of customers to the new Wealth Management service model. One of the strategic priorities in Wealth Management is to expand mandated operations. The revenues from these activities rose significantly compared with last year. The volume of assets under management increased by more than 30% year-on-year to nearly €2.4 billion. In terms of real assets, private equity holdings in particular were successfully placed.

The DAB Bank Group recorded record results for the fifth time in a row last year. The volatile markets had an extremely favourable impact on the propensity of investors to trade. The Group handled 11.5 million transactions in total, representing a 5.7% increase over last year.

Operations involving affluent private customers in Luxembourg were heavily affected by market trends. In general, however, there was greater demand for certificates featuring hedging strategies and the willingness of customers to invest in actively managed products has increased, partly because such products have outperformed the market in recent years.

All in all, Wealth Management Capital Holding GmbH continued to consolidate its position as one of the largest initiators of closed-end funds in Germany in 2007, with equity placements of around €339 million, an investment volume of about €572 million and more than 15,000 new investors.

The very strong increase in the operating profit of the Wealth Management division (up 27.5% year-on-year) was driven by the 10.5% increase in total revenues to €483 million. Both net interest income, up 8.9%, and net fees and commissions, up 8.3%, developed particularly strongly compared with the previous year. The increase in net interest income in particular reflects higher dividend payouts by non-consolidated investments.

The moderate 1.4% increase in operating costs reflects the deliberate expansion of the sales force, which is intended to generate more sustained organic growth. Targeted measures to permanently enhance efficiency were taken in terms of non-payroll costs. The cost-income ratio improved by 5.4 percentage points to 59.6% on the back of higher total revenues. The portion of the gain on the disposal of FMS Bank attributable to the division was the main factor contributing to the net income from investments and other items of €21 million shown in the income statement.

Segment Reporting (Continued)

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

						€ milions
INCOME/EXPENSES	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	**831**	**797**	**214**	**199**	**218**	**200**
Net fees and commissions	318	296	65	74	81	98
Net trading income	1	4	2	(1)	(1)	1
Net other expenses/income	7	3	1	3	2	1
Net non-interest income	**326**	**303**	**68**	**76**	**82**	**100**
TOTAL REVENUES	**1,157**	**1,100**	**282**	**275**	**300**	**300**
Payroll costs	(187)	(171)	(53)	(46)	(42)	(46)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(265)	(277)	(73)	(66)	(64)	(62)
Operating costs	**(452)**	**(448)**	**(126)**	**(112)**	**(106)**	**(108)**
OPERATING PROFIT	**705**	**652**	**156**	**163**	**194**	**192**
Restructuring costs	—	(1)	—	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(176)	(201)	(31)	(44)	(61)	(40)
Net income from investments and other items[1]	(14)	(11)	(11)	(6)	4	(1)
PROFIT BEFORE TAX	**515**	**439**	**114**	**113**	**137**	**151**
Cost-income ratio in %	39.1	40.7	44.7	40.7	35.3	36.0

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

Developments in the Corporates subdivision
In operations involving small and medium-sized corporate customers, the Corporates subdivision generated profit before tax of €515 million in the 2007 financial year, which represents a year-on-year increase of 17.3%.

This positive development results mainly from an 8.1% rise in operating profit coupled with a 12.4% reduction in additions to net write-downs of loans and provisions for guarantees and commitments. The cost-income ratio improved by 1.6 percentage points compared with last year, to 39.1%.

There was a 5.2% increase in total revenues. This included a strong rise of 7.4% in net fees and commissions generated in particular by successful derivatives operations and higher contributions from payments and advisory services. Net interest income also increased by a sharp 4.3%, despite intense competition on the German market. The slight rise of 0.9% in operating costs reflects the larger payroll in line with the growth strategy. The 9.4% increase in payroll costs was largely offset by strict cost management in other administrative expenses and amortisation, depreciation and impairment losses.

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

						€ millions
INCOME/EXPENSES	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	**156**	**160**	**35**	**37**	**42**	**42**
Net fees and commissions	41	38	6	11	13	11
Net trading income	—	—	—	—	—	—
Net other expenses/income	1	1	—	—	1	—
Net non-interest income	**42**	**39**	**6**	**11**	**14**	**11**
TOTAL REVENUES	**198**	**199**	**41**	**48**	**56**	**53**
Payroll costs	(9)	(12)	(2)	(2)	(3)	(2)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(36)	(39)	(10)	(9)	(8)	(9)
Operating costs	**(45)**	**(51)**	**(12)**	**(11)**	**(11)**	**(11)**
OPERATING PROFIT	**153**	**148**	**29**	**37**	**45**	**42**
Restructuring costs	—	—	—	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	32	(63)	25	8	10	(11)
Net income from investments and other items[1]	(10)	(1)	(6)	(3)	(1)	—
PROFIT BEFORE TAX	**175**	**84**	**48**	**42**	**54**	**31**
Cost-income ratio in %	22.7	25.6	29.3	22.9	19.6	20.8

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

Developments in the Commercial Real Estate Financing subdivision

The Commercial Real Estate Financing subdivision doubled its profit before tax between 2006 and 2007 to €175 million.

This can be attributed primarily to the targeted improvement in the quality of the credit portfolio in 2007. As a result of this, there was a net release of €32 million in net write-downs of loans and provisions for guarantees and commitments compared with a net addition of €63 million in 2006.

Operating profit rose by 3.4%, with total revenues remaining at the same level as the previous year despite the continued elimination of unprofitable portfolios. The decline of 2.5% in income recorded under net interest income remained moderate as a result of higher volumes in deposit-taking business coupled with the selective acquisition of profitable new business. The previous year's total for net fees and commissions was exceeded by a strong 7.9% as a result of the expansion of derivatives operations. The sharp 11.8% decline in operating costs can be attributed to savings made in payroll costs as a result of the downsizing associated with the reduction in volumes and in other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets. As a consequence, the already excellent cost-income ratio in 2006 improved by a further 2.9 percentage points to 22.7%.

Segment Reporting (Continued)

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

						€ milions
INCOME/EXPENSES	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	**74**	**74**	**19**	**18**	**18**	**19**
Net fees and commissions	43	57	10	10	12	11
Net trading income	1	—	1	—	—	—
Net other expenses/income	1	—	—	1	—	—
Net non-interest income	**45**	**57**	**11**	**11**	**12**	**11**
TOTAL REVENUES	**119**	**131**	**30**	**29**	**30**	**30**
Payroll costs	(18)	(18)	(5)	(3)	(5)	(5)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(31)	(31)	(6)	(9)	(8)	(8)
Operating costs	**(49)**	**(49)**	**(11)**	**(12)**	**(13)**	**(13)**
OPERATING PROFIT	**70**	**82**	**19**	**17**	**17**	**17**
Restructuring costs	—	—	—	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	1	(1)	2	(1)	—	—
Net income from investments and other items[1]	—	—	—	—	—	—
PROFIT BEFORE TAX	**71**	**81**	**21**	**16**	**17**	**17**
Cost-income ratio in %	41.2	37.4	36.7	41.4	43.3	43.3

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

Developments in the Global Financial Services subdivision
The Global Financial Services (GFS) subdivision was shown separately under the Corporates & Commercial Real Estate Financing division for the first time in the interim report at September 30, 2007. It provides products and services for corporate customers and international financial institutions above all in the field of foreign trade and payments. In 2007, GFS generated profit before tax of €71 million compared with €81 million in the previous year.

The operating profit declined to €70 million on the back of a 9.2% decrease in total revenues. Whereas net interest income remained constant, net fees and commissions fell to €43 million (2006: €57 million) primarily as a result of lower contributions from activities involving foreign guarantees and foreign branches as well as the unfavourable development of the dollar. Within operating costs, payroll costs, other administrative expenses and amortisation, depreciation and impairment losses all remained unchanged. The cost-income ratio rose by 3.8 percentage points on account of the lower total revenues, but still remains at a healthy 41.2%.

Income statement of the Markets & Investment Banking division

€ milions						
INCOME/EXPENSES	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	**1,247**	**1,096**	**346**	**226**	**283**	**392**
Net fees and commissions	358	310	86	54	139	79
Net trading income	558	737	(286)	26	463	355
Net other expenses/income	16	5	17	(9)	6	2
Net non-interest income	**932**	**1,052**	**(183)**	**71**	**608**	**436**
TOTAL REVENUES	**2,179**	**2,148**	**163**	**297**	**891**	**828**
Payroll costs	(508)	(509)	(76)	(78)	(196)	(158)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(604)	(607)	(139)	(163)	(169)	(133)
Operating costs	**(1,112)**	**(1,116)**	**(215)**	**(241)**	**(365)**	**(291)**
OPERATING PROFIT	**1,067**	**1,032**	**(52)**	**56**	**526**	**537**
Restructuring costs	(27)	(1)	(27)	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	74	17	32	44	(1)	(1)
Net income from investments and other items[1]	458	(162)	220	16	7	215
PROFIT BEFORE TAX	**1,572**	**886**	**173**	**116**	**532**	**751**
Cost-income ratio in %	51.0	52.0	131.9	81.1	41.0	35.1

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

Developments in the Markets & Investment Banking division
As part of the reorganisation of the divisions, the Global Financial Services (GFS) unit previously operating under the Markets & Investment Banking division has been assigned to the Corporates & Commercial Real Estate Financing division. All the previous periods have been adjusted accordingly to ensure that the performance of the Markets & Investment Banking division is presented properly.

Despite the difficult situation on the capital market, the Markets & Investment Banking division performed extremely well in 2007. After outstanding contributions to profits in the first two quarters of 2007, results in the second half of the year suffered from the turbulence on the financial markets, felt most notably in net trading income. Nevertheless, the division generated profit before taxes of €1,572 million, which was 77.4% or €686 million higher than the already good total for the previous year. Alongside the investment banking activities of UBM included since April 2007, this amount was helped by the gain of €219 million realised on the disposal of Indexchange and the gain of €259 attributable to the division on the disposal of FMS Bank recognised in net income from investments and other items. But even without these gains on disposal, at €1.1 billion the profit before tax was much higher than in the previous year.

Segment Reporting (Continued)

This increase can be attributed to the operational business as well as to the contribution arising from the transferred investment banking activities of UBM (€113 million) together with a sharp improvement in net write-downs of loans and provisions for guarantees and commitments (net reversals of €74 million in 2007) and the non-recurrence of the charges arising from the fair value discount recorded in 2006.

Operating profit increased by 3.4% to €1,067 million. The transferred investment banking activities of UBM contributed €110 million to this growth.

Total revenues were up by 1.4% in 2007 as a whole, despite the setbacks arising from the financial market crisis. Net trading income was down by 24.3% year-on-year. Following outstanding quarterly totals in the first half of 2007 (Q1: €355 million, Q2: €463 million), net trading income fell to €26 million in the third quarter as a result of the difficult market conditions and became a net loss of €286 million in the fourth quarter. In all, net trading income in the year under review was directly affected by valuation charges together with losses on the realisation of asset-backed securities products served to directly depress net trading income in the year under review. Furthermore, the Structured Credit unit was affected by the general widening of credit spreads. However, this was was offset by positive effects from other business lines sich as Fixed Income, Commodities and Currencies, Structured Equity Derivatives and Relative Value Arbitrage.

The positive developments in net interest income and dividend income can be attributed primarily to the good results recorded by Financing, Principal Investments and Structured Equity Derivatives. The main contribution to net fees and commissions came from Financing.

Despite the initial inclusion of the investment banking activities of the former UBM, operating costs declined slightly (down 0.4%), enabling the cost-income ratio to improve by a further 1.0 percentage points compared with last year, to 51.0%.

Income statement of the Other/consolidation division

						€ millions
INCOME/EXPENSES	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
TOTAL REVENUES	**714**	**91**	**212**	**151**	**150**	**201**
Operating costs	**(245)**	**(254)**	**(46)**	**(59)**	**(39)**	**(101)**
OPERATING PROFIT	**469**	**(163)**	**166**	**92**	**111**	**100**
Restructuring costs	39	(44)	45	(3)	(3)	—
Net write-downs of loans and provisions						
for guarantees and commitments	(313)	(502)	(15)	(98)	(114)	(86)
Net income from investments and other items[1]	(37)	(12)	(159)	(6)	79	49
PROFIT BEFORE TAX	**158**	**(721)**	**37**	**(15)**	**73**	**63**

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

Developments in the Other/consolidation division

The Other/consolidation segment encompasses the Global Banking Services and the Group Corporate Centre subsegments together with the profit contributions from the Special Credit Portfolio, the remaining holdings in the Real Estate Restructuring portfolio and consolidation effects.

The total revenues of this segment rose sharply, from €91 million in 2006 to €714 million in 2007. This development results almost exclusively from net interest income, which benefited from the interest effects arising from the inflow of funds in conjunction with the disposal of discontinued operations. This effect was reinforced by the return on the purchase price (generated in the first quarter of 2007) together with the investment of the gains on disposal and the non-recurrence of the refinancing costs in relation to the carrying amounts of the investments in the discontinued operations that were included last year. This effect was offset to a minor extent by lower income from the Special Credit Portfolio related directly to the strategic portfolio reduction. At the same time, net other expenses/income rose primarily on the back of income of €78 million resulting from a real estate transaction initiated by us entailing the discontinuation of potential obligations in conjunction with the relinquishment of property and buildings rented by us and the disposal of finance lease properties. Operating costs declined compared with the previous year, mostly as a result of consistently strict cost management in the internal service units and especially the associated downsizing. Operating profit rose to €469 million (2006: operating loss of €163 million) mainly on account of the interest effects mentioned above.

Net write-downs of loans and provisions for guarantees and commitments fell by €189 million to €313 million, above all reflecting successful workout measures in the Real Estate Restructuring portfolio as well as lower provisioning requirements for the Special Credit Portfolio. The net loss of €37 million shown under net income from investments and other items was caused by additions of €169 million to provisions notably in relation to potential take-back obligations arising from real estate transactions and to legal risks arising from operations. This was partially offset by the gains of €47 million on the disposal of Nordinvest and €113 million on the disposal of Münchener Rückversicherungs-Gesellschaft. Last year, this item included the gains of €55 million on the disposal of Babcock & Brown and €40 million on the disposal of Lufthansa, together with net additions to provision of €136 million. Profit before tax improved to €158 million in the year under review after a loss of €721 million in 2006.

Segment Reporting (Continued)

28 Balance sheet figures, broken down by division

	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	MARKETS & INVESTMENT BANKING
Financial assets held for trading				
2007	2,244	1,170	26,804	13,340
2006	1,917	955	25,069	11,985
Total volume of lending				
2007	42,649	4,879	58,771	40,438
2006	46,235	4,630	58,140	34,514
Goodwill				
2007	—	—	117	304
2006	—	—	117	305
Deposits from banks				
2007	2,376	209	12,606	72,307
2006	189	385	23,208	63,307
Deposits from customers				
2007	31,336	12,515	32,190	31,951
2006	28,658	9,832	25,556	27,098
Debt securities in issue				
2007	516	515	5,437	11,090
2006	373	388	4,085	11,841
Risk-weighted assets (compliant with German Banking Act)				
2007	23,170	3,704	49,064	53,818
2006	24,942	3,910	46,265	47,789

				€ millions
OTHER/ CONSOLIDATION	HVB GROUP NEW	DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD FOR SALE	CONSOLIDATION	FULL HVB GROUP
5,308	48,866	—	—	48,866
3,921	43,847	33,430	—	77,277
13,509	160,246	—	—	160,246
20,512	164,031	86,371	—	250,402
—	421	—	—	421
—	422	1,631	—	2,053
(796)	86,702	1	—	86,703
(518)	86,571	50,503	—	137,074
634	108,626	4	—	108,630
1,607	92,751	61,133	—	153,884
62,010	79,568	—	—	79,568
70,881	87,568	25,485	—	113,053
15,775	145,531	—	—	145,531
22,041	144,947	85,388	—	230,335

Segment Reporting (Continued)

29 Employees, broken down by operating and service division

	2007	2006
Retail	9,095	8,609
Wealth Management	1,363	1,200
Corporates & Commercial Real Estate Financing	2,545	2,184
Markets & Investment Banking	2,539	2,045
Global Banking Services	3,861	5,667
Group Corporate Centre	5,381	6,033
HVB Group new	**24,784**	**25,738**
Discontinued operations	—	24,921
Full HVB Group	**24,784**	**50,659**

30 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	CONSOLI-DATION	HVB GROUP NEW	DISCONTINUED OPERATIONS	FULL HVB GROUP
Total revenues								
2007	6,573	800	71	193	(1,026)	6,611	1	6,612
2006	5,661	1,098	106	133	(1,046)	5,952	5,215	11,167
Operating profit (loss)								
2007	2,698	373	(6)	153	(183)	3,035	—	3,035
2006	1,928	724	39	58	(492)	2,257	2,310	4,567

Total assets, broken down by region

€ millions

	2007	2006
Germany	305,764	307,978
Rest of Europe	174,447	68,862
Americas	20,013	13,752
Asia	9,743	11,947
Consolidation	(87,838)	(58,957)
HVB Group new	**422,129**	**343,582**
Discontinued operations and non-current assets		
or disposal groups held for sale	—	164,451
Full HVB Group	**422,129**	**508,033**

Employees, broken down by region

	2007	2006
Germany	22,692	24,256
Rest of Europe	1,496	963
Africa	5	1
Americas	297	284
Asia	294	234
Australia	—	—
HVB Group new	**24,784**	**25,738**
Discontinued operations	—	24,921
Full HVB Group	**24,784**	**50,659**

Notes to the Income Statement

31 Net interest income

	2007	2006
		€ millions
Interest income from		
lending and money market transactions	11,250	10,924
other interest income	6,213	3,326
Interest expense from		
deposits	(6,593)	(5,306)
debt securities in issue and		
other interest expenses	(7,117)	(5,796)
Net interest	**3,753**	**3,148**
Dividends and other income		
from equity investments		
Dividends and other similar income	369	247
Companies accounted for using the equity method	7	4
Total	**4,129**	**3,399**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €12,347 million and €12,320 million, respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

32 Net fees and commissions

	2007	2006
		€ millions
Management, brokerage and consultancy services	1,024	1,024
Collection and payment services	202	222
Lending operations	394	394
Other service operations	101	113
Total	**1,721**	**1,753**

This item comprises the balance of fee and commission income of €2,437 million (2006: €2,190 million) and fee and commission expense of €716 million (2006: €437 million). In terms of the year-on-year change in net fees and commissions, the profit contributions made by the sold Activest companies (only up to June 30, 2006), Indexchange and Nordinvest were still included in net fees and commissions for 2006; this therefore had a negative impact on the comparison between the figure shown for 2007 and the corresponding figure for 2006. At the same time, the initial consolidation of the investment banking activities of UBM and the PlanetHome Group had a positive effect. Adjusted for the effects of initial consolidation, deconsolidation and currency effects, the 2006 level was exceeded by 1.2%.

33 Net trading income

	2007	2006
		€ millions
Net gains on financial assets held for trading	161	353
Dividends on financial assets held for trading	326	320
Private equity realisation gains[1]	119	38
Effects arising from hedge accounting	(3)	—
Changes in fair value of hedged items	434	(23)
Changes in fair value of hedging derivatives	(437)	23
Net gains on financial assets		
at fair value through profit or loss	(7)	27
Other net trading income	(4)	30
Total	**592**	**768**

1 the gains on the disposal of actively managed holdings in the private equity business are recorded here

When measuring the fair value of financial liabilities held for trading, we realised income of €94 million on the measurement of the own credit spread.

The net gains on holdings at fair value through profit or loss (held-for-trading portfolio, fair value option) generally only contain the changes in fair value disclosed in the income statement. The interest income from these holdings is disclosed under net interest income. The interest cash flows are only shown in net trading income for the pure interest swap book in the held-for-trading portfolio.

Notes to the Income Statement (Continued)

34 Net other expenses/income

		€ millions
	2007	2006
Other income	337	222
Other expenses	(168)	(190)
Net other expenses/income	**169**	**32**

Net other expenses/income totalled €169 million in 2007 (2006: €32 million). The total for the year under review includes net income of €78 million from the largest item, being a real estate transaction initiated by us entailing the discontinuation of potential obligations in conjunction with the relinquishment of property and buildings rented by the Bank and the disposal of finance lease properties. At the same time, the total includes a net gain from income and current expenses regarding investment properties and from rental income less current expenses from mixed usage buildings. Income from IT services performed for third parties by our HVB Information Services GmbH subsidiary helped to boost net other expenses/income.

35 Operating costs

		€ millions
	2007	2006
Payroll costs	**(2,067)**	**(2,216)**
Wages and salaries	(1,748)	(1,837)
Social security costs	(245)	(260)
Pension and other employee benefit costs	(74)	(119)
Other administrative expenses	**(1,250)**	**(1,166)**
Amortisation, depreciation		
and impairment losses	**(259)**	**(313)**
on property, plant and equipment	(135)	(174)
on software and other intangible assets,		
excluding goodwill	(124)	(139)
Total	**(3,576)**	**(3,695)**

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 and junior managers of all UniCredit Group companies selected using defined criteria.

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

Information on stock options

	2007 STOCK OPTIONS
Number	2,868,175
Strike price (€)	7.094
UCI stock market price at granting date (€)	7.094
Date of granting	June 12, 2007
Start of exercise period	July 13, 2011
End of exercise period	July 15, 2017
Fair value of each option at granting date (€)	1.3292

The stock options grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. The options cannot be exercised until the set exercise period has started. If the beneficiary has already left the UniCredit Group by that date, the stock options are normally forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis in certain exceptional circumstances, such as disability, retirement or employee leaving the UniCredit Group.

The fair values of the stock options at the date of granting are determined using Hull & White's trinomial model. The following parameters have been taken into account in this context:
– The probability of the option expiring due to the beneficiary leaving the company prematurely after the lock-up period has expired
– Definition of an exercise barrier. This means that the options are only exercised before the end of the exercise period if the current price of UniCredit shares exceeds the exercise price by the exercise barrier multiplier (a factor of 1.5 for stock options granted in 2007)
– Dividend yield of the UniCredit share
– Average historical daily volatility over the lock-up period

	2007			2006		
	NUMBER	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY	NUMBER	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY
Outstanding at start of period	**5,852,433**	**5.42**	**July 2019**	**3,444,500**	**4.82**	**December 2018**
Additions						
newly granted options	2,868,175	7.09	July 2017	2,904,933[1]	5.95	December 2019
Releases						
forfeited stock options	618,690	5.43	April 2019	497,000	4.94	February 2019
exercised stock options						
expired stock options						
Total at end of period	**8,101,918**	**6.02**	**November 2018**	**5,852,433**	**5.42**	**July 2019**
Exercisable options at end of period	—	—		—	—	

1 figures differ from previous year due to modified assignment of beneficiaries within the UniCredit Group

Information on performance shares

	2007 PERFORMANCE SHARES
Number	901,123
UCI stock market price at granting date (€)	7.094
Date of conditional granting	June 12, 2007
Granting upon satisfaction of criteria	Dec. 31, 2010
Fair value of each performance share	
at granting date (€)	6.079

A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of three years, the relevant targets have been met and the recipient is still working for the UniCredit Group; otherwise the performance shares are normally forfeited. The same exceptions exist as for stock options.

The fair value of the performance shares is determined on the basis of the share price on the date when the performance shares were granted, less a discount for expected dividend payments through to the date of granting if the criteria are met. In terms of the other parameters, the same valuation procedure is applied as for stock options.

Notes to the Income Statement (Continued)

Analysis of outstanding performance shares

	2007		2006	
	NUMBER	AVERAGE MATURITY	NUMBER	AVERAGE MATURITY
Outstanding at start of period	**2,424,267**	**July 2009**	**1,446,733**	**December 2008**
Additions				
newly granted performance shares	901,123	December 2010	1,190,334[1]	December 2009
Releases				
forfeited performance shares	261,115	July 2009	212,800	February 2009
transferred performance shares	—	—	—	—
Total at end of period	**3,064,275**	**January 2010**	**2,424,267**	**July 2009**

1 figures differ from previous year due to modified assignment of beneficiaries within the UniCredit Group

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 €5 million in 2007 will be reimbursed to UniCredit when they fall due.

36 Provisions for risks and charges

The expenses for provisions for risks and charges totalled €161 million in the year under review after €164 million in the previous year. The largest individual items in 2007 were a provision set up to cover potential take-back obligations arising from real estate transactions and provisions for legal risks from business operations, with an aggregate total of €130 million. The total also includes a net addition to other provisions and accruals for risks and charges in non-lending business and provisions for litigation risks.

In 2006, the largest individual item was 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 needed be set aside to meet contractual obligations arising under what are defined by IAS 37.66 as onerous contracts. In addition, further provisions were required in the previous year for rental guarantees, other provisions and accruals for risks and charges in non-lending business as well as provisions for litigation risks in lending business.

37 Restructuring costs

For the 2007 financial year, HVB Group has recognised a net reversal of €13 million under restructuring costs in the income statement. At the same time, the costs for restructuring measures initiated in the year under review by the Markets & Investment Banking division (€27 million) and in the Group Corporate Centre (€12 million) were more than offset by proceeds from the reversal of restructuring provisions set up in previous years in the Group Corporate Centre (€23 million due to the PRO efficiency enhancement programme, €20 million from the pooling of IT activities and €18 million from the pooling of asset management operations). Restructuring costs in 2006 amounted to €60 million.

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

€ millions	2007	2006
Additions	**(1,798)**	**(1,919)**
Allowances for losses on loans and receivables	(1,743)	(1,873)
Allowances for losses on guarantees and indemnities	(55)	(46)
Releases	**1,172**	**896**
Allowances for losses on loans and receivables	1,146	864
Allowances for losses on guarantees and indemnities	26	32
Recoveries from write-offs of loans and receivables	90	90
Total	**(536)**	**(933)**

The effect of €64 million arising from the unwinding to be carried out compliant with IFRS is disclosed under net write-downs of loans and provisions for guarantees and commitments as part of the uniform Group accounting policies.

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This yielded no income in the year under review. The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €507 million (2006: €919 million).

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

		€ millions
	2007	2006
Non-consolidated subsidiaries	1	(2)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	6	7
Total[1]	**7**	**5**

1 balance released

39 Net income from investments

		€ millions
	2007	2006
Available-for-sale financial assets	71	354
Shares in affiliated companies	—	(30)
Companies accounted for using the equity method	557	519
Held-to-maturity investments	(39)	2
Land and buildings	14	9
Investment properties[1]	8	(183)
Total	**611**	**671**

1 impairments and write-ups

Net income from investments breaks down as follows:

		€ millions
	2007	2006
Gains on the disposal of	**749**	**919**
available-for-sale financial assets	174	381
shares in affiliated companies	560	527
companies accounted for using the equity method	—	—
held-to-maturity investments	1	2
land and buildings	14	9
Write-downs and value adjustments on	**(138)**	**(248)**
available-for-sale financial assets	(103)	(27)
shares in affiliated companies	(3)	(8)
companies accounted for using the equity method	—	(30)
held-to-maturity investments	(40)	—
investment properties[1]	8	(183)
Total	**611**	**671**

1 impairments and write-ups

In 2007, the gains of €557 million on the disposal of consolidated subsidiaries included a gain of €292 million on the disposal of FMS Bank, a gain of €219 million on the disposal of Indexchange and a gain of €47 million on the disposal of Nordinvest.

The gains on the disposal of available-for-sale financial assets essentially relate to the gain of €113 million on the disposal of Münchener Rückversicherungs-Gesellschaft AG.

The write-downs and value adjustments on held-to-maturity investments include income of €11 million from write-ups offset by write-downs of €51 million.

The net gain (gains on disposal less write-downs and value adjustments) of €71 million for available-for-sale financial assets and the net loss of €39 million for held-to-maturity investments include charges on asset-backed securities portfolios of €67 million relating to the turmoil on the financial markets.

Notes to the Income Statement (Continued)

In 2006, gains of €217 million on the disposal of our holding in Münchener Rückversicherungs-Gesellschaft AG represented the biggest item in the gains on the disposal of available-for-sale financial assets. Also included in the previous year were significant gains on the disposal of Babcock & Brown Limited (€55 million) and Lufthansa AG (€40 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 included valuation expenses of €130 million recognised in the run-up to the disposal of a portfolio of non-strategic real estate finalised in 2007.

40 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. In the year under review, negative changes of €6 million in the fair-value discount are recorded under net trading income in the income statement.

41 Income taxes for the period

		€ millions
	2007	**2006**
Current taxes	(326)	(199)
Deferred taxes	(468)	324
Total	**(794)**	**125**

Tax reimbursements of €61 million for previous years have reduced the current taxes for 2007.

The revaluation effects arising from the German corporate tax reform 2008 coming into force had a negative impact on deferred tax expenses in 2007. The remaining amount comprises expenses from the reversal of deferred tax assets for tax loss carryforwards and temporary differences, and income from the recognition of previously unrecognised deferred tax assets on the tax loss carryforward. In 2006, the income arising from deferred taxes resulted mainly from value adjustments of deferred tax assets.

The differences between computed income tax and recognised income tax are shown in the following reconciliation.

		€ millions
	2007	**2006**
Profit before tax	2,962	1,618
Applicable tax rate	26.4%	26.4%
Computed income taxes	(782)	(427)
Tax effects		
arising from prior years and changes in tax rates	(134)	+ 1
arising from foreign income	+ 18	+ 31
arising from non-taxable income	+ 240	+ 307
arising from different tax laws[1]	(234)	+ 22
arising from non-deductible expenses	(43)	(102)
arising from valuation adjustments and the non-recognition of deferred taxes[1]	+ 141	+ 293
arising from amortisation of goodwill	—	—
arising from other differences	—	—
Recognised income taxes	**(794)**	**125**

1 previous-year figure adjusted: the effect of municipal trade tax arising from previously unrecognised deferred tax assets on the tax loss carryforward is now shown in valuation adjustments

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 adjustment item tax effects arising from prior years and changes in tax rates notably includes the positive effects of tax reimbursements for prior years offset against the negative valuation effects of changes in tax rates (especially due to the German tax reform 2008 amounting to €195 million).

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 for the current year 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. In 2006, this item also included 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 complete effects on income taxes arising from the reduction and increase of deferred tax assets compliant with IAS 12.56 and IAS 12.37. 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
	2007 HVB GROUP NEW	2006 HVB GROUP NEW
Deferred tax liabilities		
Loans and receivables with banks and customers,		
incl. provisions for losses on loans and receivables	106	84
Financial assets/liabilities held for trading	115	103
Investments	37	205
Property, plant and equipment/intangible assets	62	77
Other assets/liabilities/derivatives	216	292
Deposits from banks/customers	2	0
Other	70	55
Recognised deferred tax liabilities	**608**	**816**
Deferred tax assets		
Financial assets/liabilities held for trading	329	367
Investments	55	177
Property, plant and equipment/intangible assets	52	60
Provisions	317	456
Other assets/liabilities/derivatives	416	372
Loans and receivables with banks and customers,		
incl. provisions for losses on loans and receivables	206	132
Losses carried forward	364	579
Other	117	362
Recognised deferred tax assets	**1,856**	**2,505**

The German Tax Reform Act 2008 has reduced the overall standard income tax burden on German corporations as of January 1, 2008. Since this legislation was already in force at the balance sheet date, compliant with IAS 12 the deferred taxes for our domestic companies were already measured at December 31, 2007 using the modified tax rates.

The corporate income tax rate irrespective of whether the earnings are distributed or not was reduced from 25% to 15%, while the solidarity surcharge remained unchanged at 5.5% of corporate income tax. At the same time, the possibility to deduct municipal trade tax was eliminated and the municipal trade tax factor was reduced from 5% to 3.5%. At HVB AG, this resulted in an overall valuation rate for deferred taxes declining from 39.7% to 31.4% at the balance sheet date.

Deferred tax assets of €9 million were credited to the AfS reserve and €256 million were credited to the hedge reserve. On account of the option set forth in IAS 19.93A, deferred tax assets of €87 million were directly credited to shareholders' equity. In each case, the deferred tax items offset directly against reserves are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for tax losses of HVB Group carried forward totalling €4,843 million (2006 HVB Group new: €5,142 million) and deductible temporary differences of €1,108 million (2006 HVB Group new: €1,130 million).

Notes to the Income Statement (Continued)

42 Income statement and earnings per share of discontinued operations

At year-end 2006, the BA-CA Group, IMB, HVB Bank Ukraine, AS UniCredit Bank, Riga and the HVB AG branches in Tallinn and Vilnius were defined as discontinued operations. After these companies and branches were fully sold or transferred during 2007, the net income from investments shown in the income statement of discontinued operations in 2007 contains the gains of €3,782 million generated on the disposal of the companies and branches listed. The taxes associated with these gains on disposal amount to €84 million compliant with IFRS. At the same time, the income and expenses of the HVB AG branches in Tallinn and Vilnius are included up to and including March 1, 2007 (economic completion date).

The previous year figures, on the other hand, contained the income and expenses arising from the activities of all the companies and branches defined as discontinued operations. The net profit (after taxes and minorities) of the discontinued operations totalling €2,780 million in 2006 was heavily affected by the non-recurring effects at BA-CA, which yielded a net gain. Non-recurring effects of €1,868 million were included in the net profit before tax of €3,699 million recorded for 2006. We had 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. Adjusted for these items, the profit before tax for 2006 totalled €1,831 million.

Income statement of discontinued operations

		€ millions
	2007	2006
Net interest income	1	2,966
Net fees and commissions	—	1,715
Net trading income	—	462
Net other expenses/income	—	72
Total revenues	**1**	**5,215**
Operating costs	(1)	(2,905)
Operating profit	**—**	**2,310**
Provisions for risks and charges	—	(103)
Write-down on goodwill	—	—
Restructuring costs	—	(248)
Net write-downs of loans and provisions for guarantees and commitments	—	(728)
Net income from investments	3,782	2,499
Other non-operating expenses	—	(31)
Profit before tax	**3,782**	**3,699**
Income tax for the period	(84)	(242)
Profit after tax	**3,698**	**3,457**
Minorities	—	(677)
Net profit	**3,698**	**2,780**

Earnings per share of discontinued operations

	2007	2006
Earnings per share (€)	**4.68**	**3.71**

43 Earnings per share

FULL HVB GROUP	2007	2006
Net profit (€ millions)	5,748	4,420
Average number of shares	789,462,539	750,699,140
Earnings per share (€)	7.28	5.89

HVB GROUP NEW	2007	2006
Net profit (€ millions)	2,050	1,640
Net profit adjusted for minorities (€ millions)[1]	1,603	1,128
Average number of shares	789,462,539	750,699,140
Earnings per share (€)	2.60	2.18
Earnings per share (adjusted, €)[1]	2.03	1.50

1 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and tax charges arising from German corporate tax reforms

2006 adjusted for the gain on disposal of Activest companies and Munich Re, valuation expenses for the announced disposal of a portfolio of non-strategic real estate, restructuring costs, changes in the method of calculating write-downs of loans and provisions for guarantees and commitments, and other non-operating expenses

Notes to the Consolidated Balance Sheet

44 Cash and cash balances

Cash and cash balances contained cash on hand of €551 million in the year under review (2006: €508 million).

45 Financial assets held for trading

		€ millions
	2007	**2006**
Balance-sheet assets		
Fixed-income securities	64,391	49,248
Equity instruments	18,084	16,494
Other financial assets held for trading	39,122	6,355
Positive fair value from		
derivative financial instruments	**59,258**	**35,531**
Total	**180,855**	**107,628**

The financial assets held for trading include €1,706 million in subordinated assets.

Financial assets held for trading from related entities

		€ millions
	2007	**2006**
Non-consolidated subsidiaries	11,601	243
Joint ventures	—	—
Associated companies	—	11
Other participating interests	94	91
Total	**11,695**	**345**

46 Financial assets at fair value through profit or loss

		€ millions
	2007	**2006**
Fixed-income securities	10,389	8,705
Equity instruments	—	—
Investment certificates	3	89
Promissory notes	2,545	2,934
Other financial asssets at fair value		
through profit or loss	—	—
Total	**12,937**	**11,728**

82% of the promissory notes were issued by the federal states and regional authorities in the Federal Republic of Germany. The remaining promissory notes were issued by European central and regional governments.

On account of the top ratings of the promissory notes, no effects from changes in credit ratings are included in the fair value fluctuations.

The financial instruments at fair value through profit or loss include €276 million in subordinated assets.

47 Available-for-sale financial assets

		€ millions
	2007	**2006**
Fixed-income securities	3,545	2,720
Equity instruments	2,460	2,690
Other available-for-sale financial assets	619	1,094
Impaired assets	115	—
Total	**6,739**	**6,504**

Available-for-sale financial assets include financial instruments of €1,209 million measured at cost compliant with IAS 39.46C.

The available-for-sale financial assets contain a total of €115 million in impaired assets for which impairments of €57 million were taken to the income statement during the year under review. None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets include €473 million in subordinated assets.

Notes to the Consolidated Balance Sheet (Continued)

48 Investments in associates, joint ventures and non-consolidated subsidiaries

€ millions	2007	2006
Non-consolidated subsidiaries	282	588
Joint ventures	—	—
Associated companies accounted for using the equity method	34	35
of which: goodwill	—	—
Other participating interests	1	65
Total	**317**	**688**

Change in portfolio of investments in associates, joint ventures and non-consolidated subsidiaries

€ millions	2007	2006
Acquisition costs at January 1	**973**	**1,034**
Write-downs and write-ups from previous years	(285)	(489)
Carrying amounts at January 1	**688**	**545**
Additions	**36**	**323**
Purchases	9	57
Write-ups	2	—
Changes from currency translation	—	—
Other additions	25	266
Disposals	**(407)**	**(180)**
Sales	(87)	(139)
Impairments	(5)	(38)
Changes from currency translation	(6)	(3)
Assets of discontinued operations and non-current assets or disposal groups held for sale	(7)	—
Other disposals	(302)	—
Carrying amounts at December 31	**317**	**688**
Write-downs and write-ups from previous year plus year under review	162	285
Acquisition costs at December 31	**479**	**973**

49 Held-to-maturity investments

€ millions	2007	2006
Fixed-income securities	3,017	471
Other held-to-maturity investments	24	—
Impaired assets	17	—
Total	**3,058**	**471**

The held-to-maturity investments contain a total of €17 million in impaired assets for which impairments of €51 million were taken to the income statement during the year under review. None of the non-impaired debt instruments are financial instruments past due.

The held-to-maturity investments include €24 million in subordinated assets.

Development of held-to-maturity investments

€ millions	2007	2006
Balance at January 1	**471**	**772**
Additions		
Purchases	2,579	44
Write-ups	11	—
Other additions	313	4
Disposals		
Sales		
Redemptions at maturity	(206)	(257)
Write-downs	(51)	—
Other disposals	(59)	(92)
Balance at December 31	**3,058**	**471**

Disposals only took place in response to a worsening in the credit rating of the issuer.

Held-to-maturity investments of related entities

€ millions		
	2007	2006
Non-consolidated subsidiaries	2,124	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**2,124**	**—**

50 Loans and receivables with banks

€ millions		
	2007	2006
Loans to central banks	**6,081**	**3,162**
Loans to banks	**42,785**	**40,685**
Current accounts and demand deposits	10,265	8,433
Other loans to banks	32,520	32,252
Total	**48,866**	**43,847**

The loans and receivables with banks include €1,126 million in subordinated assets.

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

€ millions									
LOANS AND RECEIVABLES WITH BANKS	PROPERLY SERVICED LOANS AND RECEIVABLES			PROPERLY SERVICED LOANS AND RECEIVABLES PAST DUE			LOANS AND RECEIVABLES WITH ALLOWANCES		
	CARRYING AMOUNT BEFORE ALLOWANCES	PORTFOLIO ALLOWANCES[1]	CARRYING AMOUNT	CARRYING AMOUNT BEFORE ALLOWANCES	PORTFOLIO ALLOWANCES[1]	CARRYING AMOUNT	CARRYING AMOUNT BEFORE ALLOWANCES	SPECIFIC ALLOWANCES	CARRYING AMOUNT
2007	48,869	9	48,860	0.4	0	0.4	83	77	6

1 including provisions for country risk

The loans and receivables with loan-loss provisions are defined as loans and receivables in rating classes 8–, 9 and 10. These include receivables of €1 million that meet the criteria for an allowance but for which no allowance has been created on account of fully realisable collateral.

Loans and receivables with related entities

€ millions		
	2007	2006
Non-consolidated subsidiaries	9,319	5,442
Joint ventures	—	—
Associated companies	—	31
Other participating interests	323	46
Total	**9,642**	**5,519**

51 Loans and receivables with customers

€ millions		
	2007	2006
Current accounts	8,062	17,950
Repos[1]	3,160	1,962
Mortgage loans	69,956	79,559
Finance leases	929	719
Other loans and receivables	78,139	63,841
Total	**160,246**	**164,031**

1 repurchase agreements

The loans and receivables with customers include €197 million in subordinated assets.

Notes to the Consolidated Balance Sheet (Continued)

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

€ millions

LOANS AND RECEIVABLES WITH CUSTOMERS	PROPERLY SERVICED LOANS AND RECEIVABLES			PROPERLY SERVICED LOANS AND RECEIVABLES PAST DUE			LOANS AND RECEIVABLES WITH ALLOWANCES		
	CARRYING AMOUNT BEFORE ALLOWANCES	PORTFOLIO ALLOWANCES[1]	CARRYING AMOUNT	CARRYING AMOUNT BEFORE ALLOWANCES	PORTFOLIO ALLOWANCES[1]	CARRYING AMOUNT	CARRYING AMOUNT BEFORE ALLOWANCES	SPECIFIC ALLOWANCES	CARRYING AMOUNT
2007	151,492	494	150,998	4,573	17	4,556	9,188	4,496	4,692

1 including provisions for country risk

The loans and receivables with loan-loss provisions are defined as loans and receivables in rating classes 8–, 9 and 10. These include receivables of €164 million that meet the criteria for an allowance but for which no allowance has been created on account of fully realisable collateral.

Breakdown of the carrying amount of properly serviced loans and receivables past due, by period past due

Properly serviced loans and receivables past due

€ millions

	1–30 DAYS	31–60 DAYS	61–90 DAYS
Carrying amounts	4,124[1]	153	279

1 of which 1–5 days: €2,539 million

Loans and receivables with related entities

€ millions

	2007	2006
Non-consolidated subsidiaries	821	1,124
Joint ventures	7	9
Associated companies	118	123
Other participating interests	1,633	1,298
Total	**2,579**	**2,554**

Amounts receivable from lease operations (finance lease)

€ millions

	2007	2006
Gross investment value (by remaining maturity)		
up to 12 months	373	326
from 1 year to 5 years	619	435
from 5 years and over	33	24
Total gross investment	**1,025**	**785**
of which:		
unguaranteed residual values	—	—
Unrealised finance income (by remaining maturity)		
up to 12 months	(38)	(27)
from 1 year to 5 years	(56)	(37)
from 5 years and over	(2)	(2)
Total unrealised finance income	**(96)**	**(66)**
Net investment (by remaining maturity)		
up to 12 months	335	299
from 1 year to 5 years	563	398
from 5 years and over	31	22
Total net investment	**929**	**719**

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 that the lessee has to make over the lease term 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).

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

Analysis of allowances for losses on loans and receivables

			€ millions
	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
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**
	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES[1]	TOTAL
Balance at January 1, 2007	**5,595**	**473**	**6,068**
Changes affecting income			
Gross additions	1,508	235	1,743
Releases	(1,131)	(15)	(1,146)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(1,376)	(194)	(1,570)
Effects of currency translation and other changes not affecting income	(23)	21	(2)
Non-current assets or disposal groups held for sale	—	—	—
Balance at December 31, 2007	**4,573**	**520**	**5,093**

1 including provisions for country risk

Notes to the Consolidated Balance Sheet (Continued)

Breakdown of allowances for receivables

						€ millions
LOANS AND RECEIVABLES WITH CUSTOMERS	PROPERLY SERVICED RECEIVABLES			LOANS AND RECEIVABLES WITH ALLOWANCES		
	CARRYING AMOUNT BEFORE ALLOWANCES	PORTFOLIO ALLOWANCES[1]	CARRYING AMOUNT	CARRYING AMOUNT BEFORE ALLOWANCES	SPECIFIC ALLOWANCES	CARRYING AMOUNT
2007						
Loans and receivables with banks	48,869	9	48,860	83	77	6
Loans and receivables with customers	156,065	511	155,554	9,188	4,496	4,692
2006						
Loans and receivables with banks	43,809	—	43,809	139	101	38
Loans and receivables with customers	157,515	473	157,042	12,483	5,494	6,989

1 2007 including provisions for country risk

53 Hedging derivatives

This item contains the positive fair values of €500 million of hedging derivatives used primarily to hedge market interest risk.

54 Property, plant and equipment

		€ millions
	2007	**2006**
Internally used property, plant and equipment[1]		
Land and buildings	1,106	1,249
Plant and office equipment	231	271
Total	**1,337**	**1,520**

1 including leased assets of €1 million

Development of internally used property, plant and equipment

			€ millions
2006	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at January 1	**2,252**	**1,204**	**3,456**
Write-downs and write-ups from previous years	(997)	(926)	(1,923)
Carrying amounts at January 1	**1,255**	**278**	**1,533**
Additions			
Purchases	8	91	99
Write-ups	—	—	—
Changes from currency translations	—	2	2
Other additions[2]	198	183	381
Disposals			
Sales	(58)	(172)	(230)
Amortisation and write-downs	(50)	(82)	(132)
Impairments	(22)	(2)	(24)
Changes from currency translation	—	(3)	(3)
Assets of discontinued operations and non-current assets or disposal groups held for sale	(19)	(3)	(22)
Other disposals[2]	(63)	(21)	(84)
Carrying amounts at December 31	**1,249**	**271**	**1,520**
Write-downs and write-ups from previous year plus year under review	1,069	1,010	2,079
Acquisition costs at December 31	**2,318**	**1,281**	**3,599**

2007	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at January 1	**2,318**	**1,281**	**3,599**
Write-downs and write-ups from previous years	(1,069)	(1,010)	(2,079)
Carrying amounts at January 1	**1,249**	**271**	**1,520**
Additions			
Purchases	2	69	71
Write-ups	—	—	—
Changes from currency translations	—	—	—
Other additions[2]	23	42	65
Disposals			
Sales	(52)	(30)	(82)
Amortisation and write-downs	(48)	(78)	(126)
Impairments	(2)	(1)	(3)
Changes from currency translation	—	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	—	—	—
Other disposals[2]	(66)	(42)	(108)
Carrying amounts at December 31	**1,106**	**231**	**1,337**
Write-downs and write-ups from previous year plus year under review	1,119	1,087	2,206
Acquisition costs at December 31	**2,225**	**1,318**	**3,543**

1 including leased assets
2 also including changes in the group of companies included in consolidation

Notes to the Consolidated Balance Sheet (Continued)

55 Investment properties

The fair value of investment property, which is measured at amortised cost, totalled € 502 million (2006: €516 million, HVB Group). The appraisals prepared to calculate the fair values in this case are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods.

The addition of €1,459 million to investment properties measured at fair value in 2007 can be attributed to the initial consolition of the Euro ImmoProfil special property fund. The fair values recognised for this portfolio represent the results of valuation reports provided by external assessors.

Investment properties

		€ millions
2006	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at Jan. 1	**562**	**—**
Write-downs and write-ups		
from previous years	(243)	—
Carrying amounts at Jan. 1	**319**	**—**
Additions		
Purchases	4	—
Write-ups	11	—
Changes from currency translation	1	—
Other additions[1]	1.229	—
Disposals		
Sales	(136)	—
Amortisation and write-downs	(12)	—
Impairments	(174)	—
Changes from currency translation	—	—
Assets of discontinued operations and		
non-current assets or disposal groups		
held for sale	(314)	—
Other disposals[1]	(455)	—
Carrying amounts at Dec. 31	**473**	**—**
Write-downs and write-ups from previous		
year plus year under review	418	—
Acquisition costs at Dec. 31	**891**	**—**

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

Investment properties

		€ millions
2007	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at Jan. 1	**891**	**—**
Write-downs and write-ups		
from previous years	(418)	—
Carrying amounts at Jan. 1	**473**	**—**
Additions		
Purchases	12	—
Write-ups	8	—
Changes from currency translation	—	—
Other additions[1]	3	1,459
Disposals		
Sales	(13)	—
Amortisation and write-downs	(5)	—
Impairments	(3)	—
Changes from currency translation	—	—
Assets of discontinued operations and		
non-current assets or disposal groups		
held for sale	(26)	—
Other disposals[1]	(18)	—
Carrying amounts at Dec. 31	**431**	**1,459**
Write-downs and write-ups from previous		
year plus year under review	418	—
Acquisition costs at Dec. 31	**849**	**1,459**

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

56 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.

		€ millions
	2007	2006
Goodwill	**421**	**422**
Other intangible assets		
Internally generated intangible assets	180	189
Other intangible assets	169	197
Total	**770**	**808**

Development of intangible assets

2006	GOODWILL FROM SUBSIDIARIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
			€ millions
Acquisition costs at Jan. 1	**1,091**	**514**	**604**
Write-downs and write-ups from previous years	(667)	(290)	(378)
Carrying amounts at Jan. 1	**424**	**224**	**226**
Additions			
Purchases	—	51	48
Write-ups	—	—	—
Changes from currency translation	—	—	1
Other additions[1]	—	349	198
Disposals			
Sales	—	(118)	(34)
Amortisation and write-downs	—	(73)	(67)
Impairments	—	—	(3)
Changes from currency translation	—	—	(2)
Assets of discontinued operations and non-current assets or disposal groups held for sale	(2)	—	(2)
Other disposals[1]	–	(244)	(168)
Carrying amounts at Dec. 31	**422**	**189**	**197**
Write-downs and write-ups from previous year plus year under review	667	363	448
Acquisition costs at Dec. 31	**1,089**	**552**	**645**

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

Notes to the Consolidated Balance Sheet (Continued)

Development of intangible assets

€ millions			
2007	GOODWILL FROM SUBSIDIARIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at Jan. 1	**1,089**	**552**	**645**
Write-downs and write-ups from previous years	(667)	(363)	(448)
Carrying amounts at Jan. 1	**422**	**189**	**197**
Additions			
Purchases	—	60	56
Write-ups	—	—	—
Changes from currency translations	—	—	—
Other additions[1]	—	19	20
Disposals			
Sales	(1)	(20)	(29)
Amortisation and write-downs		(48)	(63)
Impairments	—	(1)	(12)
Changes from currency translation		—	
Reclassifications	—	—	—
Assets of discontinued operations and			
non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	(19)	—
Carrying amounts at Dec. 31	**421**	**180**	**169**
Write-downs and write-ups from previous year plus year under review	667	412	523
Acquisition costs at Dec. 31	**1,088**	**592**	**692**

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

57 Income tax assets

	2007	2006
		€ millions
Current tax assets	324	240
Deferred tax assets	1,856	2,505
Total	**2,180**	**2,745**

58 Assets of discontinued operations

ASSETS	DEC. 31, 2007	DEC. 31, 2006
		€ millions
Cash and cash balances	—	2,133
Financial assets held for trading	—	17,188
Financial assets at fair value through profit or loss	—	487
Available-for-sale financial assets	—	9,724
Investments in associates, joint ventures and		
non-consolidated subsidiaries	—	1,588
Held-to-maturity investments	—	5,962
Loans and receivables with banks	—	33,427
Loans and receivables with customers	—	85,757
Hedging derivatives	—	1,207
Property, plant and equipment	—	915
Investment properties	—	535
Intangible assets	—	1,984
Tax assets	—	1,022
Other assets	—	1,518
Total assets	**—**	**163,447**

All the companies and branches defined as discontinued operations at December 31, 2006 had been sold or transferred by year-end 2007. The BA-CA Group, IMB, AS UniCredit Bank and HVB Bank Ukraine were sold in the first quarter of 2007 and the HVB AG branches in Tallinn and Vilnius were sold in the third quarter of 2007.

59 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. Among other things, this item contains the following:

– In December 2007, real estate was sold to third parties from Euro ImmoProfil, a special property fund fully consolidated for the first time at December 31, 2007. Ownership, benefits and obligations will be transferred in the first quarter of 2008. Consequently, this real estate is classified as held for sale compliant with IFRS 5.

ASSETS	DEC. 31, 2007	DEC. 31, 2006
		€ millions
Cash and cash balances	—	—
Financial assets held for trading	—	—
Financial assets at fair value through profit or loss	—	—
Available-for-sale financial assets	—	343
Investments in associates, joint ventures and		
non-consolidated subsidiaries	7	—
Held-to-maturity investments	—	—
Loans and receivables with banks	—	3
Loans and receivables with customers	—	614
Hedging derivatives	—	—
Property, plant and equipment	—	—
Investment properties	257	22
Intangible assets	—	4
Tax assets	—	5
Other assets	1	13
Total assets	**265**	**1,004**

60 Other assets

Other assets include prepaid expenses of €119 million (2006: €157 million).

Notes to the Consolidated Balance Sheet (Continued)

61 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 our securitisation programmes is the desire to reduce the risk in our loan portfolio and to achieve the optimum capital allocation for creating value. The transfer of risk and the ensuing reduction in capital requirements is essentially achieved by collateralisation in the form of guarantees or credit derivatives (credit default swaps, credit-linked notes) in the case of synthetic securitisation; in the case of traditional securitisation, this is achieved by selling balance sheet assets (true sale).

The full HVB Group continued its securitisation activities in 2007 with four new transactions: Geldilux-TS-2007-1; EuroConnect Issuer LC 2007-1; EuroConnect Issuer SME 2007-1; and Building Comfort 2007-1. The corresponding volume of lending newly outplaced totalled €11.4 billion at year-end, serving to reduce €7.7 billion from risk-weighted assets in accordance with the German Banking Act. At the same time, the Promise XXS 2003-1, Provide A 2001-1 and Geldilux-TS-2003 transactions expired during 2007 with an aggregate lending volume of €1.0 billion. This resulted in a reversal of a positive impact of €0.9 billion on risk-weighted assets compliant with the German Banking Act.

At December 31, 2007, the total volume of lending in the full HVB Group's full set of ongoing securitisation programmes totalled €35.0 billion (2006: €30.0 billion), serving to deduct €24.1 billion (2006: €21.4 billion in accordance with the German Banking Act) from risk-weighted assets compliant with the German Banking Act.

With the true sale transactions which have been carried out – GELDILUX-TS-2005 and GELDILUX-TS-2007 – the underlying receivables with a carrying amount of €7.6 billion are still fully shown in the balance sheet. Compliant with SIC 12, the special purpose entities set up for this purpose – GELDILUX-TS-2005 S.A. and GELDILUX-TS-2007 S.A. – are fully consolidated.

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.

We sold the lowest ranking tranche in full in the new transactions EuroConnect Issuer LC 2007-1 and EuroConnect Issuer SME 2007-1 and in part in the transaction Building Comfort 2007-1.

In the programmes listed below, the first loss pieces total €118.7 million and the interest subparticipations total €113.5 million.

ISSUER	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	PROVIDE-A 2001-1	Dec. 27, 2039 Dec. 27, 2007			expired in December 2007
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2002-1	July 23, 2054 Jan. 18, 2009	Private mortgage loans	2,369	960
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2003-1	Oct. 31, 2054 Jan. 23, 2009	Private mortgage loans	2,385	965
Bayerische Hypo- und Vereinsbank AG	PROMISE COLOR 2003-1	Feb. 28, 2016 Feb. 28, 2008	Corporate loans	317	299
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2003-1	July 28, 2055 Oct. 28, 2009	Private mortgage loans	1,812	1,173
Bayerische Hypo- und Vereinsbank AG	PROMISE-XXS 2003-1	Sept. 28, 2015 June 28, 2007			expired in June 2007
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2004-1	Nov. 27, 2045 Feb. 27, 2010	Private mortgage loans	2,048	1,260
HVB Banque Luxembourg S.A.	GELDILUX-TS-2003	June 15, 2009 Jan. 15, 2007			expired in January 2007
Total for 2001–2003 HVB Group				**8,931**	**4,657**
Bayerische Hypo- und Vereinsbank AG	Wolfgang	Dec. 31, 2040 March 31, 2008	Securities portfolio	233	123
Total for 2004 HVB Group				**233**	**123**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2005-1	Aug. 25, 2048 Feb. 25, 2011	Private mortgage loans	3,601	2,201
HVB Banque Luxembourg S.A.	GELDILUX-TS-2005	Dec. 10, 2012 Series 1: July 10, 2008 Series 2: Jan. 10, 2009 Series 3: July 10, 2010	Euroloans	5,500	5,234
Total for 2005 HVB Group				**9,101**	**7,435**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2006-1	Aug. 25, 2048 May 1, 2012	Private mortgage loans	2,477	1,587
Bayerische Hypo- und Vereinsbank AG	PROMISE-XXS 2006-1	May 12, 2024 Aug. 12, 2012	Corporate loans	2,874	2,647
Total for 2006 HVB Group				**5,351**	**4,234**
HVB Banque Luxembourg S.A.	GELDILUX-TS-2007	Sept. 8, 2014 April 8, 2012	Euroloans	2,100	2,026
Bayerische Hypo- und Vereinsbank AG/ HVB Banque Luxembourg S.A.	EuroConnect Issuer LC 2007-1	March 15, 2028 Sept. 15, 2013	Corporate loans	2,784	1,934
Bayerische Hypo- und Vereinsbank AG	EuroConnect Issuer SME 2007-1	Nov. 15, 2030 Feb. 15, 2015	Corporate loans	2,041	1,927
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2007-1	Jan. 25, 2051 July 25, 2013	Private mortgage loans	4,470	1,792
Total for 2007 HVB Group				**11,395**	**7,679**
Full HVB Group				**35,011**	**24,128**

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 reporting date, December 31, 2007.

Notes to the Consolidated Balance Sheet (Continued)

62 Deposits from banks

€ millions

	2007	2006
Deposits from central banks	**16,559**	**16,320**
Deposits from banks	**70,143**	**70,251**
Current accounts and demand deposits	9,490	6,433
Other deposits from banks	60,653	63,818
Total	**86,702**	**86,571**

Deposits from banks, broken down by maturity

€ millions

CARRYING AMOUNTS	2007	2006
Repayable on demand	19,631	20,420
With agreed maturities	67,071	66,151
up to 3 months	51,006	49,262
from 3 months to 1 year	6,024	4,944
from 1 year to 5 years	5,922	5,439
5 years and over	4,119	6,506
Total	**86,702**	**86,571**

Amounts owed to related entities

€ millions

	2007	2006
Non-consolidated subsidiaries	13,749	16,191
Joint ventures	—	—
Associated companies	4	7
Other participating interests	46	155
Total	**13,799**	**16,353**

63 Deposits from customers

€ millions

	2007	2006
Current accounts and demand deposits	37,060	37,120
Savings deposits	14,580	15,794
Other deposits from customers	56,986	39,837
Total	**108,626**	**92,751**

Deposits from customers, broken down by maturity

€ millions

	2007	2006
Carrying amounts		
Repayable on demand	44,374	40,114
With agreed maturities	64,252	52,637
up to 3 months	48,916	40,113
from 3 months to 1 year	5,650	2,207
from 1 year to 5 years	4,027	3,913
5 years and over	5,659	6,404
Total	**108,626**	**92,751**

Liabilities to related entities and persons

€ millions

	2007	2006
Non-consolidated subsidiaries	423	1,120
Joint ventures	—	1
Associated companies	91	6
Other participating interests	2,274	3,270
Total	**2,788**	**4,397**

64 Debt securities in issue

€ millions	2007	2006
Listed securities	**57,003**	**63,551**
Bonds	55,286	61,369
Other securities	1,717	2,182
Unlisted securities	**22,565**	**24,017**
Bonds	22,158	23,759
Other securities	407	258
Total	**79,568**	**87,568**

Debt securities in issue, broken down by maturity

€ millions	2007	2006
Carrying amounts		
With agreed maturities		
up to 3 months	12,667	12,656
from 3 months to 1 year	13,119	12,017
from 1 year to 5 years	32,749	37,814
from 5 years and over	21,033	25,081
Total	**79,568**	**87,568**

Debt securities in issue, payable to related entities

€ millions	2007	2006
Non-consolidated subsidiaries	1,585	1,388
Joint ventures	—	—
Associated companies	—	39
Other participating interests	66	31
Total	**1,651**	**1,458**

65 Financial liabilities held for trading

€ millions	2007	2006
Negative fair values arising from		
derivative financial instruments	60,904	37,769
Other financial liabilities held for trading	54,324	22,999
Total	**115,228**	**60,768**

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

The cumulative changes in fair value resulting from the valuation of the own credit spread total €94 million.

66 Hedging derivatives

This item contains the negative fair values of €473 million arising from hedging derivatives used primarily to hedge market interest risk.

67 Changes in fair value of portfolio hedged items

The changes in fair value of portfolio hedged items for liabilities with interest rate hedges totals €87 million. This is offset on the assets side by an equivalent amount of approximately the same size disclosed under hedging derivatives.

68 Income tax liabilities

€ millions	2007	2006
Current tax liabilities	708	562
Deferred tax liabilities	608	816
Total	**1,316**	**1,378**

Notes to the Consolidated Balance Sheet (Continued)

69 Liabilities of discontinued operations

€ millions		
	2007	2006
Deposits from banks	—	50,495
Deposits from customers	—	59,957
Debt securities in issue	—	25,485
Financial liabilities held for trading	—	5,237
Financial liabilities at fair value through profit or loss	—	1,731
Hedging derivatives	—	1,440
Tax liabilities	—	655
Other liabilities	—	2,157
Provisions	—	4,521
Total liabilities	**—**	**151,678**

Please refer to Note 58, "Assets of discontinued operations", for an analysis of this item.

70 Liabilities of disposal groups held for sale

The following table shows the breakdown of the liabilities of disposal groups held for sale:

€ millions		
	2007	2006
Deposits from banks	1	8
Deposits from customers	4	1,176
Financial liabilities held for trading	—	—
Provisions	—	37
Tax liabilities	—	1
Other liabilities	5	20
Total liabilities	**10**	**1,242**

The liabilities of disposal groups held for sale defined in 2006 were disposed of during 2007.

71 Other liabilities

This item essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc. This item also includes the interests held by outside shareholders in the capital of certain investment funds, provided these are consolidated by us.

72 Provisions

€ millions		
	2007	2006
Provisions for pensions and similar commitments	105	190
Allowances for losses on guarantees and commitments	163	156
Restructuring provisions	126	243
Other provisions	1,146	1,094
Total	**1,540**	**1,683**

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 funded pension obligations are offset against the fair value of a plan's assets. The pension provision recognised in 2006 reflects the balance of the present value of the pension obligations and the fair value of the plan assets. In one instance in the year under review, the fair value of the plan assets was greater than the present value of the corresponding funded pension obligation, so that the balance, after having been reduced as a result of the asset ceiling as specified in IAS 19.58B, is capitalised under other 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 substantially as defined contribution obligations in compliance with IAS 19.58 and IAS 19.104. The cost of such plans totalled €50 million (2006: €71 million).

For the purpose of calculating the amounts of these commitments, the valuation parameters were modified as follows:

		in %
	Dec. 31, 2007/ Jan. 1, 2008	Dec. 31, 2006/ Jan. 1, 2007
Interest rate	5.25	4.25
Expected return on plan assets	5.25	5.0
Rate of increase in pension obligations	1.9	1.5
Rate of increase in future compensation and vested rights	2.5	2.0
Rate of increase over career	0–1.5	0–1.5

Funding status:

	€ millions
HVB GROUP NEW	2007
Funded pension obligations:	
Present value of funded pension commitments	2,305
Outstanding actuarial loss	—
Unrecognised past service cost	—
Fair value of plan assets	(2,321)
Reduction due to asset ceiling compliant with IAS 19.58B	2
Capitalised excess cover of plan assets	37
Recognised pension provisions	23
Unfunded pension obligations:	
Present value of unfunded pension commitments	82
Total recognised pension provisions	**105**

HVB Group applies the option permitted by IAS 19.93A, “Employee Benefits”, to carry unrealised actuarial gains or losses in shareholders’ equity outside the profit or loss for the period.

The following table shows the breakdown of pension expense:

	€ millions
	2007
Present value of the pension claims vested in the year under review	(34)
Interest expense	(108)
Expected income from plan assets	118
Losses from changes to plans	—
Total	**(24)**

Pension expense is recognised in payroll costs (pension and other employee benefit costs) as a net amount.

The following table shows an analysis of funded pension obligations for 2007:

	€ millions
HVB GROUP NEW	2007
Balance at Jan. 1, 2007	**2,440**
Present value of the pension claims vested in the year under review	32
Interest expense	104
Contributions from plan participants	13
Actuarial gains (losses)	(146)
Payments affecting liquidity	(111)
Changes in consolidated group	(18)
Changes arising from foreign currency translation	(9)
Balance at Dec. 31, 2007	**2,305**

The following table shows an analysis of the present value of unfunded pension obligations for 2007:

	€ millions
HVB GROUP NEW	2007
Balance at Jan. 1, 2007	**93**
Present value of the pension claims vested in the year under review	2
Interest expense	4
Contributions from plan participants	—
Actuarial gains (losses)	(9)
Payments affecting liquidity	(8)
Changes in consolidated group	—
Changes arising from foreign currency translation	—
Balance at Dec. 31, 2007	**82**

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 trustees’ plan assets used to fund the pension obligations are invested in special-purpose funds set up specifically for this purpose (unit trusts).

Notes to the Consolidated Balance Sheet (Continued)

The following table shows the development of the plan assets in the year under review:

	€ millions
	2007
Balance at Jan. 1, 2007	**2343**
Expected income from plan assets	118
Actuarial gains (losses)	(58)
Allocations to plan assets (HVB Group)	45
Employee contributions	—
Disbursements to beneficiaries	(102)
Additional allocations in the form of benefits not taken	—
Changes in exchange rates	(8)
Changes in consolidated group	(16)
Balance at Dec. 31, 2007	**2,322**

With regard to the plan assets, the item actuarial gains (losses) shows the difference between the expected income from plan assets and the income from plan assets actually realised. The balance of expected income and actuarial lossses from plan assets gives the actual income from plan assets of €60 million.

The cumulative actuarial gains recognised in shareholders' equity compliant with IAS 19.93A total €277 million before deferred taxes or minority interests.

When the present value of the pension obligation was calculated, the differences between the expected and actual development in the composition of the eligible employees (experience adjustment) totalled minus €27 million in the year under review (2006: plus €5 million).

Allowances for losses on guarantees and commitments, restructuring provisions and other provisions

			€ millions
	ALLOWANCES FOR LOSSES ON GUARANTEES AND COMMITMENTS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
Balance at Jan. 1, 2007	**156**	**243**	**1,094**
Changes in consolidated group	—	—	21
Changes arising from foreign currency translation	(4)	—	(5)
Transfers to provisions	55	17	246
Reversals	(25)	(48)	(170)
Reclassifications	(19)	(31)	67
Amounts used	—	(55)	(107)
Assets of discontinued operations and			
non-current assets or disposal groups held for sale	—	—	—
Balance at Dec. 31, 2007	**163**	**126**	**1,146**

The allowances for losses on guarantees and commitments primarily include allowances for financial guarantees (guarantee risks and documentary credits).

The restructuring provisions set up in 2004 and 2005 were partially used in 2006 and 2007, and will probably be completely used in 2008.

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 semi-retirement.

The provisions for the Retention Awards Programme are also carried under other provisions. In addition to the bonus for the current financial year, selected employees in investment banking receive a retention award which is disbursed later (after two years), provided that these employees are still working for HVB Group at that time. The award granted to the eligible employees attracts interest of 4.2% over the waiting period. Provisions of €18 million were set aside for the Retention Awards Programme in 2007 (2006: €30 million). No amounts were reversed or used in 2007, as the programme was only set up in 2006, meaning that the first payments to the employees will not be made until 2009.

73 Shareholders' equity

Analysis of subscribed capital, authorised capital increase and conditional capital of HVB AG.

Breakdown of subscribed capital

At December 31, 2007, the subscribed capital of HVB AG totalled €2,407 million (2006: €2,252 million) and consisted of the following:

	2007	2006
Shares of common bearer stock		
(no par shares)	787,830,072	736,145,540
Shares of registered preferred stock		
(no par shares)	14,553,600	14,553,600

The increase of €155 million in subscribed capital in 2007 can be attributed to the contribution of UBM's investment banking activities to HVB AG in April 2007 as part of a capital increase against a contribution in kind (issue of 51,684,532 new shares of common stock). This involved using part of the authorised capital increase.

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share.

The shares of preferred stock are non-voting and receive an advance share of profits of €0.064 per no par share, payable in arrears, as well as a further share in profits of the same amount as the shares of common stock. The claim to payment in arrears of the advance share of profits is granted to the holders of preferred stock as a separate right. The right to issue further shares of non-voting preferred stock with equal rights remains reserved.

Authorised capital increase

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT DEC. 31, 2007 € millions
2004	April 29, 2009	990	835

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. An amount of €155 million from the authorised capital increase was used for the transfer of the investment banking activities of UBM to HVB AG in April 2007 as part of a capital increase against a contribution in kind.

Conditional capital

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT DEC. 31, 2007 € millions
2003	May 14, 2008	375	375

74 Own shares

At December 31, 2007, neither HVB AG nor any controlled companies nor any companies in which a majority interest is held had significant holdings of own shares 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 own shares during the reporting period from January 1 to June 27, 2007 was carried out on the basis of the authorisation issued under the resolutions passed at our Annual General Meeting of Shareholders on May 23, 2006; the purchase of own shares during the period from June 28 to December 31, 2007 was carried out on the basis of the authoriation issued under the resolutions passed at our Annual General Meeting of Shareholders on June 27, 2007.

Notes to the Consolidated Balance Sheet (Continued)

For the purposes of securities trading as permitted under Section 71 (1) No. 7 German Stock Corporation Act, a total of 1,199,342 own shares of treasury stock were purchased by us and controlled or majority-owned companies at the respective current market prices as part of normal securities trading, and a total of 1,223,602 own shares of treasury stock were sold at the respective current market prices.

The own shares of treasury stock were purchased at an average price of €38.99 per share and resold at an average price of €38.83 per share. The shares purchased during the period under review amounted to an equivalent of €4 million, or 0.16% of capital stock.

The highest number of own shares of treasury stock held during the year, including shares earmarked for employees, was 23,858, equivalent to €0.01 million, or 0.003% of capital stock.

Within the scope of lending operations, we and our controlled or majority-owned companies had, in accordance with Section 71e (1) 2 of the German Stock Corporation Act, received a total of 208,132 own shares as collateral as of December 31, 2007. This represents €0.6 million, or 0.03% of capital stock.

75 Change in valuation of financial instruments

The reserves arising from changes in the valuation of financial instruments had declined by a total of €0.9 billion at December 31, 2007 compared with year-end 2006. Within this total, the cash flow hedge reserve fell by €0.3 billion. Most of the €0.6 billion decrease in the AfS reserve (€0.4 billion) reflects the effect of deconsolidating the discontinued operations. Disposals of available-for-sale holdings (such as shares in Munich Re) also served to reduce the total. The aggregate AfS reserve of €0.6 billion at December 31, 2007 includes negative fair value fluctuations of only €52 million relating to the turmoil on the financial markets arising from asset-backed securities classified as available-for-sale for which the impairment criteria defined in IAS 39.59 were not present and for which no other write-downs needed to be taken.

76 Subordinated capital

The following table shows the breakdown of subordinated capital included in deposits from banks and customers and debt securities in issue:

		€ millions
	2007	**2006**
Subordinated liabilities	8,014	8,514
Participating certificates outstanding	614	619
Hybrid capital instruments	2,376	3,009
Total	**11,004**	**12,142**

Pursuant to Section 10 (4, 5, 5a and 7) of the German Banking Act and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities, participating certificates outstanding and hybrid capital instruments) was carried as core capital, supplementary capital and tier III capital in 2007.

The following table shows the breakdown of subordinated capital by balance sheet item:

		€ millions
	2007	**2006**
Deposits from banks	461	612
Deposits from customers	898	900
Debt securities in issue	9,645	10,630
Total	**11,004**	**12,142**

We have incurred interest expenses of €668 million in connection with this subordinated capital. Subordinated capital includes proportionate interest of €196 million.

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.

There were subordinated liabilities of €1,214 million payable to related entities in 2007.

Participating certificates outstanding
The participating certificates outstanding comprise the following major issues:

ISSUER	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT € MILLIONS	INTEREST RATE IN %	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

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

In each case, the participating certificates grant holders an entitlement to an annual interest payment with priority over the entitlement of shareholders to dividend payments; the interest payments arising from the participating certificates are reduced if such payments would result in a net loss for the year.

In the event of the interest payment being reduced, the shortfall is to be repaid in the subsequent financial years, provided this does not result in a net loss for the year; a claim to repayment only exists, however, during the term of the participating certificates.

Repayment is at the nominal amount; in the event of a net loss for the year or a reduction in the capital stock to cover losses, the redemption amount to which holders are entitled declines proportionately.

Where net profits are generated in the subsequent financial years following a participation of the participating certificates in a net loss, the claims to repayment of the participating certificates are to be increased out of these profits before the net income is appropriated in any other way, once the legal reserves have been replenished; this obligation terminates when the participating certificates expire.

Notes to the Consolidated Balance Sheet (Continued)

Hybrid capital instruments

At December 31, 2007, the new HVB Group had hybrid core capital of €1,706 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 has been repaid (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.

77 Trust business

Trust assets

		€ millions
	2007	2006
Loans and receivables with banks	104	267
Loans and receivables with customers	249	424
Equity securities and other variable-yield securities	173	90
Bonds	—	—
Participating interests	—	—
Property, plant and equipment	—	—
Other assets	—	—
Remaining trust receivables	—	—
HVB Group new	**526**	**781**
Discontinued operations and		
disposal group held for sale	—	13,462
Full HVB Group	**526**	**14,243**

Trust liabilities

		€ millions
	2007	2006
Deposits from banks	8	8
Deposits from customers	518	374
Debt securities in issue	—	399
Other liabilities	—	—
HVB Group new	**526**	**781**
Discontinued operations and		
disposal groups held for sale	—	13,462
Full HVB Group	**526**	**14,243**

78 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €40 billion. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

The following table shows the breakdown of own liabilities for which we provide collateral:

€ millions		
	2007	**2006**
Deposits from banks	31,771	28,977
Deposits from customers	9,069	5,520
Debt securities in issue	—	—
Contingent liabilities	—	188
Total	**40,840**	**34,685**

The assets pledged as security for own liabilities can be broken down as follows:

€ millions		
	2007	**2006**
Financial assets held for trading	18,998	12,243
Financial assets at fair value through profit or loss	11,890	13,564
Available-for-sale financial assets	84	—
Held-to-maturity investments	—	—
Deposits from banks	976	—
Deposits from customers	8,892	8,878
Property, plant and equipment	—	—
Total	**40,840**	**34,685**

79 Collateral received that HVB Group may sell on or pledge on

As part of repurchase agreements and securities lending transactions, HVB Group has received security that it may sell on or pledge on at any time without the security provider having to be in arrears. The associated fair value in HVB Group totals €28 billion.

Notes to the Cash Flow Statement

80 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.

The following table shows the breakdown of assets and liabilities relating to fully consolidated companies acquired, transferred and sold:

		€ millions
FULL HVB GROUP	ACQUIRED	SOLD
Assets		
Cash and cash balances	—	—
Financial assets held for trading	75,689	—
Financial assets at fair value		
through profit or loss	—	—
Available-for-sale financial assets	691	—
Investments in associates, joint ventures		
and non-consolidated subsidiaries	2	—
Held-to-maturity investments	—	—
Loans and receivables with banks	1,127	37
Loans and receivables with customers	998	—
Hedging derivatives	43	—
Property, plant and equipment	1	1
Intangible assets	—	32
of which: Goodwill	—	—
Tax assets	73	3
Assets of discontinued operations and		
non-current assets or disposal groups		
held for sale	—	163,514
Other assets	21	3

Change in other non-cash positions comprises the changes in the valuation of financial instruments, net additions to deferred taxes, changes in provisions, changes in prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interest in net income.

The investment banking activities of UniCredit Banca Mobiliare S.p.A. (UBM), Milan, were transferred to HVB AG in 2007. This involved no outflow of cash and cash equivalents, happening as part of a capital increase against the issue of new shares of common stock (total capital increase of €1,060 million). At the same time, proceeds from the disposal of investments totaling €14.5 billion were generated, €14.5 billion of which was in cash. The following table shows the breakdown of assets and liabilities relating to fully consolidated companies acquired, transferred and sold:

		€ millions
FULL HVB GROUP	ACQUIRED	SOLD
Liabilities		
Deposits from banks	1,716	—
Deposits from customers	291	—
Debt securities in issue	—	—
Financial liabilities held for trading	76,345	—
Hedging derivatives	15	—
Changes in fair value		
of portfolio hedged items	—	—
Tax liabilities	121	2
Liabilities of discontinued operations		
and of disposal groups held for sale	—	151,725
Other liabilities	106	13
Provisions	11	9

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 IFRS 7

81 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

	2007		2006	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets				
Cash and cash balances	0.6	0.6	0.5	0.5
Financial assets held for trading	180.9	180.9	107.6	107.6
Financial assets at fair value through profit or loss	12.9	12.9	11.7	11.7
Available-for-sale financial assets				
thereof measured				
at cost	1.2	1.2	0.8	0.8
at fair value	5.5	5.5	5.7	5.7
Investments in associates, joint ventures and non-consolidated subsidiaries	0.3	0.3	0.7	0.7
Held-to-maturity investments	3.1	3.1	0.5	0.6
Loans and receivables with banks[1]	48.9	48.9	43.8	43.6
Loans and receivables with customers[1]	160.2	161.8	164.0	164.7
Hedging derivatives	0.5	0.5	0.8	0.8
Available-for-sale financial assets[2]	—	—	—	—
HVB Group new	**414.1**	**415.7**	**336.1**	**336.7**

	2007		2006	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Liabilities				
Deposits from banks	(86.7)	(86.9)	(86.6)	(86.5)
Deposits from customers	(108.6)	(108.7)	(92.8)	(93.1)
Debt securities in issue	(79.6)	(79.3)	(87.6)	(89.4)
Financial liabilities held for trading	(115.2)	(115.2)	(60.8)	(60.8)
Hedging derivatives	(0.5)	(0.5)	(0.8)	(0.8)
Other liabilities[3]	(0.7)	(0.7)	0	0
HVB Group new	**(391.3)**	**(391.3)**	**(328.6)**	**(330.6)**

1 fair values determined taking into account allowances for losses on loans and receivables
2 the hedging derivatives carried under other assets in 2006 are now disclosed in a separate item
3 the hedging derivatives carried under other liabilities in 2006 are now disclosed in a separate item. Interests held by outside shareholders in consolidated investment funds, which are designated as a separate class in accordance with IFRS 7, are disclosed here for the first time in 2007

Information on Financial Instruments Compliant with IFRS 7 (Continued)

	2007		2006	
HVB GROUP NEW	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Irrevocable credit commitments	73.6	73.6	70.2	70.2

€ billions

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, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally 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.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value.

Where the fair value of non-listed assets cannot be reliably determined, such assets are recognised at amortised cost.

The fair values of financial guarantees and irrevocable credit commitments are the same as their carrying amounts.

The difference in the new HVB Group between the fair values and carrying amounts totals €1.6 billion for assets and €0 billion for liabilities. The balance of these values is €1.6 billion.

Other Information

82 Key capital ratios (based on German Commercial Code), full HVB Group

Under Section 10 of the German Banking Act in conjunction with Section 2 of the German Solvency Regulation, the core capital ratio (ratio of core capital to risk-weighted assets) must be at least 4% and the equity capital ratio (ratio of equity capital to risk-weighted assets) at least 8.0%. In addition, the equity funds ratio must be at least 8.0%. The latter is calculated as the ratio of total equity funds to the sum of risk-weighted assets and eligible amounts for market risk positions, including options, multiplied by 12.5.

Equity funds consist of core capital and supplementary capital (equity capital), plus tier III capital. Tier III capital reflects short-term subordinated liabilities used exclusively to cover market risk positions. We use internal models to measure market risk positions in the corporate group.

Based on financial statements approved by the Supervisory Board, equity funds in accordance with BIS rules, risk assets and market risk positions at December 31, 2007 were as follows:

Equity funds[1]

		€ millions
	2007 HVB GROUP	2006 FULL HVB GROUP
Tier I		
Shares of common stock	2,363	2,208
Additional paid-in capital, retained earnings,		
minority interest, own shares	15,843	10,298
Hybrid capital instruments (silent partnership		
certificates and trust preferred securities)		
excluding prorated interest	1,706	2,707
Deductible items	(203)	—
Other	196	3,101
Total core capital	**19,905**	**18,314**
Tier II		
Unrealised reserves in land and		
buildings and in securities	184	192
Offsetting reserves for general banking risks	46	46
Cumulative shares of preferred stock	44	70
Participating certificates outstanding	205	1,283
Subordinated liabilities	5,686	9,157
Other	19	(613)
Total supplementary capital	**6,184**	**10,135**
Deductible items	**(202)**	**(1,745)**
Total equity capital	**25,887**	**26,704**
Tier III capital	—	363
Total equity funds	**25,887**	**27,067**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

Risk-weighted assets

		€ billions
	2007 HVB GROUP	2006 FULL HVB GROUP
On-balance-sheet assets	108.7	187.7
Traditional off-balance-sheet assets	22.8	31.5
Banking-book derivatives	0.1	0.1
Total risk-weighted assets	**131.6**	**219.3**
Total market risk positions	**13.9**	**11.0**

Other Information (Continued)

At December 31, 2007, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows:

in %	2007 HVB GROUP	2006 FULL HVB GROUP
Core capital ratio (core capital/risk-weighted assets)	15.1	8.4
Core capital ratio (core capital/[risk-weighted assets + 12.5 x market risk positions])	13.7	8.0
Equity capital ratio (equity capital/risk-weighted assets)	19.7	12.2
Equity funds ratio (equity funds/[risk-weighted assets + 12.5 x market risk positions])	17.8	11.8

Pursuant to Sections 10 and 10a of the German Banking Act, our equity funds amount to €25,887 million. Supplementary capital includes unrealised reserves of €184 million pursuant to Section 10 (2b) 1 No. 7 of the German Banking Act.

Our 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	SUPPLEMENTARY CAPITAL	DEDUCTIBLE ITEMS	TIER III CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet					
Shareholders' equity	23,998				23,998
Reconciliation to the equity funds compliant with the German Banking Act					
Consolidated profit (loss)	(4,074)				(4,074)
AfS reserve	(619)				(619)
Hedge reserve	612				612
Cumulative shares of preferred stock	(44)	44			0
Deduction of intangible assets	(770)				(770)
Ineligible profit components under banking supervisory regulations	(535)				(535)
Hybrid capital recognised under banking supervisory regulations	1,706				
Participating certificates outstanding		205			205
Eligible portion of subordinated liabilities		5,686			5,686
Reclassifications to tier III capital due to banking supervisory regulations		0		0	0
Eligible tier III capital unused				0	0
Unrealised reserves in land and buildings and in securities		184			184
Deductible items due to non-consolidated investments	(203)		(202)		(405)
Other effects (e.g. differences in group of consolidated companies and principles of consolidation)	(166)	65	0	0	(101)
Equity funds compliant with German Banking Act	**19,905**	**6,184**	**(202)**	**0**	**25,887**

83 Contingent liabilities and other commitments

		€ millions
	2007	**2006**
Contingent liabilities[1]	**25,355**	**24,977**
Guarantees and indemnities	25,335	24,977
Other commitments	**60,609**	**58,298**
Irrevocable credit commitments	47,580	45,243
Other commitments	13,029	13,055
HVB Group new	**85,964**	**83,275**
Discontinued operations and disposal group held for sale	—	23,622
Full HVB Group	**85,964**	**106,897**

1 contingent liabilities are offset by contingent assets to the same amount

Contingent liabilities payable to related entities

		€ millions
	2007	**2006**
Non-consolidated subsidiaries	1,671	438
Joint ventures	—	—
Associated companies	—	—
Other participating interests	8	—
Total	**1,679**	**438**

Neither contingent liabilities nor irrevocable lending commitments contain any significant items. The gross volume of contingent liabilities for which provisions have been created in the above totals €470 million (2006: €522 million). The provisions of €163 million (2006: €156 million) set up for these liabilities have been deducted from the contingent liabilities recognised and are carried under provisions in the balance sheet (see Note 72, "Provisions").

The vast majority of the other commitments of €13,029 million in the year under review relate to delivery obligations arising from securitised bonds. Commitments arising from rental, leasing and maintenance agreements, and from rental of office space and use of technical equipment are also included. The contracts run for standard market periods and no charges have been put off to future years.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by our H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement.

Commitments for uncalled payments on shares not fully paid up amounted to €723 million at year-end 2007 (2006: €549 million), and similar obligations for shares in cooperatives totalled €1 million (2006: €1 million). Under Section 22 (3 and 24) of the German Private Limited Companies Act, we were also liable for defaults on such calls in respect of ten companies for an aggregate of €1 million (2006: €1 million).

Under Section 26 of the German Private Limited Companies Act and on the basis of its holding in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, we were liable for calls for additional capital of €58 million (2006: €58 million) and of €7 million (2006: €8 million) with regard to CMP Fonds I GmbH at year-end 2007. In addition, under Article 5 (4) of the Articles of Association, we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

Other Information (Continued)

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

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest. We have 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, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

84 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]
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 selected subsidiaries in its annual report

If our shareholding in a particular company declines, our commitment arising from the above Statement of Responsibility shall decline to the same extent with regard to commitments of the relevant company that did not arise until after our shareholding decreased.

HVB AG no longer provides a Statement of Responsibility for companies which – like Financial Markets Service Bank GmbH, Munich – left HVB Group during the 2007 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.

85 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, a resolution was adopted whereby 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 in our annual and consolidated financial statements for the financial years 2006 to 2010, at latest until March 22, 2011. Hence the emoluments paid to members of the Management Board are not shown on an individualised basis.

Emoluments paid to members of the Supervisory Board and Management Board and to executives at Bereichsvorstand level

	FIXED SALARY		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVE[1]		TOTAL	
€ millions	2007	2006	2007	2006	2007	2006	2007	2006
Management Board of HVB AG	5	4	7	5	1	1	13	10
Supervisory Board of HVB AG								
for Supervisory Board activities	0.8	0.8	0.3[2]	0	0	0	1.1	0.8
Former members of the Management Board of HVB AG								
and their surviving dependants							9	11
Executives at Bereichsvorstand level							14	22
Severance packages/provisions for severance packages								
for former members of the Management Board								
and executives at Bereichsvorstand level							0	2

1 cash value of the share-based compensation
2 relating to 2006 financial year, disbursed in 2007

Details of share-based compensation

	Number
MEMBERS OF THE MANAGEMENT BOARD OF HVB AG	
Options	
Stock options 2006[1]	508,633
Stock options 2007	880,324
Performance shares	
Performance shares 2006[1]	195,333
Performance shares 2007	265,730

1 including corporate employment contracts

For more details of the stock options and performance shares, please refer to Note 35, 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 €1,370,361.00 was transferred to provisions for pensions in 2007, €1,085,562.00 of which was deferred compensation invested in a fund in 2007.

At December 31, 2007, HVB AG had pension provisions for members of the Management Board and their surviving dependants compliant with Section 285, German Commercial Code, totalling €90 million. Under IFRS, the pension provisions for retired members of the Management Board amounted to €123 million.

No compensation was paid to members of the Supervisory Board in 2007 for services rendered.

In 2007, expense allowances totalling €62,038.87 were paid to members of the Supervisory Board.

Other Information (Continued)

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2007.

					€
	FIXED COMPENSATION	VARIABLE COMPENSATION	COMPENSATION FOR COMMITTEE WORK	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo, Chairman	50,000.00	30,400.00	20,000.00	100,400.00	(68,623.40)[3]
Peter König, Deputy Chairman	37,500.00	22,800.00	20,000.00	80,300.00	
Dr Lothar Meyer, Deputy Chairman	37,500.00	22,800.00	40,000.00	100,300.00	
Aldo Bulgarelli	25,000.00	15,200.00		40,200.00	(27,476.70)[3]
Beate Dura-Kempf	25,000.00	15,200.00		40,200.00	
Sergio Ermotti	25,000.00	15,200.00		40,200.00	(27,476.70)[3]
Paolo Fiorentino	25,000.00	15,200.00		40,200.00	(27,476.70)[3]
Dario Frigerio	25,000.00	15,200.00		40,200.00	(27,476.70)[3]
Klaus Grünewald	25,000.00	15,200.00		40,200.00	
Günter Guderley	25,000.00	15,200.00	20,000.00	60,200.00	
Friedrich Koch	25,000.00	15,200.00		40,200.00	
Hanns-Peter Kreuser	25,000.00	15,200.00		40,200.00	
Ranieri de Marchis	25,000.00	15,200.00	20,000.00	60,200.00	(41,146.70)[3]
Roberto Nicastro	25,000.00	15,200.00		40,200.00	(27,476.70)[3]
Vittorio Ogliengo	25,000.00	15,200.00		40,200.00	(27,476.70)[3]
Panagiotis Sfeliniotis[1]	12,602.74	7,662.47		20,265.21	
Professor Hans-Werner Sinn	25,000.00	15,200.00		40,200.00	
Maria-Magdalena Stadler	25,000.00	15,200.00		40,200.00	
Ursula Titze	25,000.00	15,200.00		40,200.00	
Jens-Uwe Wächter	25,000.00	15,200.00		40,200.00	
Helmut Wunder[2]	12,397.26	7,537.53		19,934.79	
Total	**550,000.00**	**334,400.00**	**120,000.00**	**1,004,400.00**	**877,230.30**

1 since July 1, 2007
2 until June 30, 2007
3 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
	2007	2006
Management Board of HVB AG	5	5
Supervisory Board of HVB AG	1	1
Executives at Bereichsvorstand level	1	2

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.

Directors' 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 2007 financial year:

NAME, FUNCTION	TYPE OF TRANSACTION	NAME OF SECURITY	GERMAN SECURITIES IDENTIFICATION NUMBER/ISIN NUMBER	COMPLETION DATE	NUMBER	PRICE PER SHARE	VOLUME
Helmut Wunder, member of the Supervisory Board of HVB AG	Sale	Common bearer stock of Bayerische Hypo- und Vereinsbank AG	WKN: 802200 ISIN DE: 0008022005	January 4, 2007	100	€33.01	€3,301.00
Helmut Wunder, member of the Supervisory Board of HVB AG	Sale	Common bearer stock of Bayerische Hypo- und Vereinsbank AG	WKN: 802200 ISIN DE: 0008022005	January 26, 2007	199	€37.00	€7,363.00

All transactions have been published under Corporate Governance on our website at www.hvb.com/dealings.

At December 31, 2007, 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.

86 Fees paid to the independent auditors

The following table shows the breakdown of fees of €11 million recorded as expense in the year under review, as paid to the independent auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

	€ millions
	2007
Fee for auditing of the financial statements	8
Other auditing and appraisal services	0
Tax advisory services	0
Other services	3

87 Employees

The average number of people employed by us was as follows:

	2007	2006
Employees (excluding trainees)	23,836	24,848
Full-time	18,865	19,712
Part-time	4,971	5,136
Trainees	1,171	1,244
Discontinued operations	—	24,012

Other Information (Continued)

88 Offices

Offices, broken down by region

	JAN. 1, 2007 HVB GROUP	CHANGE IN CONSOLIDATED GROUP		ADDITIONS	REDUCTIONS		DEC. 31, 2007 HVB GROUP
		JAN. 1, 2007 DISCONTINUED OPERATIONS	ADDITIONS AND REDUCTIONS	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	
Germany							
Baden-Wuerttemberg	26		1	6			33
Bavaria	430		1	28		(1)	458
Berlin	11		1	2			14
Brandenburg	8			1			9
Bremen	8						8
Hamburg	35		(1)	1		(3)	32
Hesse	18	(1)		3		(1)	19
Lower Saxony	27			2	(1)		28
Mecklenburg-Western Pomerania	8			1			9
North Rhine-Westphalia	22		1	8	(1)		30
Rhineland-Palatinate	22			3			25
Saarland	9			1			10
Saxony	14			2			16
Saxony-Anhalt	12						12
Schleswig-Holstein	72			5	(2)	(2)	73
Thuringia	10						10
Subtotal	**732**	**(1)**	**3**	**63**	**(4)**	**(7)**	**786**
Other regions							
Austria	392	(383)					9
Other western Europe	23	(4)	2	1	(2)		20
Central and eastern Europe	704	(700)	(2)				2
Africa	1						1
Americas	12	(1)	3				14
Asia	13			1			14
Australia	0						0
Subtotal	**1,145**	**(1,088)**	**3**	**2**	**(2)**		**60**
Total	**1,877**	**(1,089)**	**6**	**65**	**(6)**	**(7)**	**846**

89 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

Sergio Ermotti

Paolo Fiorentino

Dario Frigerio

Klaus Grünewald

Günter Guderley

Friedrich Koch

Hanns-Peter Kreuser

Ranieri de Marchis

Roberto Nicastro

Vittorio Ogliengo

Panagiotis Sfeliniotis
since July 1, 2007

Professor Hans-Werner Sinn

Maria-Magdalena Stadler

Ursula Titze

Jens-Uwe Wächter

Helmut Wunder
until June 30, 2007

Management Board

Willibald Cernko

Stefan Ermisch

Rolf Friedhofen

Heinz Laber

Dr Stefan Schmittmann

Ronald Seilheimer

Matthias Sohler

Dr Wolfgang Sprissler
Board Spokesman

Andrea Umberto Varese

Andreas Wölfer

Munich, March 10, 2008

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft

THE MANAGEMENT BOARD

Cernko Ermisch Friedhofen Laber Schmittmann

Seilheimer Sohler Sprissler Varese Wölfer

Statement by the Management Board

in accordance with Section 37y of the German Securities Trading Act in conjunction with Section 37w (2) No. 3 of the German Securities Trading Act

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

Munich, March 10, 2008

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft

THE MANAGEMENT BOARD

Cernko Ermisch 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 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 10, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Becker	Pukropski
Wirtschaftsprüfer	Wirtschaftsprüfer

Corporate Governance

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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
until December 31, 2007, Bergisch Gladbach
Deputy Chairman

Aldo Bulgarelli
Attorney,
Verona

Beate Dura-Kempf
Employee, Bayerische
Hypo- und Vereinsbank Aktiengesellschaft,
Litzendorf

Sergio Ermotti
Head of Markets & Investment Banking,
member of the Management Committee of
UniCredito Italiano S.p.A., Collina d'Oro

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,
Gröbenzell

Günter Guderley
Employee, Bayerische
Hypo- und Vereinsbank Aktiengesellschaft, Goldbach

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

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

Panagiotis Sfeliniotis
Employee, HVB Direkt GmbH,
Munich
since July 1, 2007

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
until June 30, 2007

Supervisory Board Committees[1]

Remuneration & Nomination Committee
Alessandro Profumo
Peter König
Dr Lothar Meyer

Audit Committee
Dr Lothar Meyer, Chairman
Günter Guderley
Peter König
Ranieri de Marchis
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

Management Board

Willibald Cernko
born 1956
Retail division

Stefan Ermisch
born 1966
Markets & Investment Banking division
Internal organisation, integration and establishment of the global investment banking activities of the UniCredit Group at HVB
since March 21, 2007

Rolf Friedhofen
born 1958
Chief Financial Officer (CFO)

Heinz Laber
born 1953
Human Resources Management

Dr Stefan Schmittmann
born 1956
Corporates & Commercial Real Estate Financing division

Ronald Seilheimer
born 1959
Markets & Investment Banking division
Markets

Matthias Sohler
born 1969
Chief Operating Officer (COO)

Dr Wolfgang Sprissler
born 1945
Board Spokesman

Andrea Umberto Varese
born 1964
Chief Risk Officer (CRO)

Andreas Wölfer
born 1961
Wealth Management division

Report of the Supervisory Board

As in previous years, the Supervisory Board again paid close attention to the work of the Management Board in 2007. The Supervisory Board advised the Management Board on the running of the Company in line with the rights and obligations imposed on it by the law, the Company's Articles of Association and its internal regulations, and monitored its management of the Company. The Supervisory Board was consulted on all major decisions.

The Management Board kept the Supervisory Board informed regularly, promptly and comprehensively about the performance and economic situation of the Company and its subsidiaries and about planning and risk management. This happened primarily during the meetings of the Supervisory Board, but also in writing at other times. Furthermore, the Chairman of the Supervisory Board was in constant, close contact with the Board Spokesman and was kept continually informed about the current business situation, major transactions and decisions taken by the Management Board.

Based on the reports from the Management Board and the report provided by the independent auditors regarding the risk monitoring system, the Supervisory Board recognised the capabilities of the risk monitoring system set up in accordance with Section 91 (2) of the German Stock Corporation Act.

The Supervisory Board paid special attention in 2007 to the business development of Bayerische Hypo- und Vereinsbank Aktiengesellschaft (HVB) in its new divisional organisational structure. It focused on the Germany business and investment banking, especially with regard to the impact of the crisis on the financial market in the second half of 2007.

The work of the Supervisory Board in 2007 also had to deal with the various shareholder lawsuits against the intra-Group changes in the Bank's holdings, the appointment of a special representative by the Annual General Meeting of Shareholders to assert claims for compensation and the squeeze-out procedure initiated by the majority shareholder. Supported by an external legal advisor, the Supervisory Board solicited regular reports from the Management Board on the status of the legal proceedings and on the activities of the special representative. It also considered in depth the rights and duties of the Supervisory Board, particularly in connection with the appointment of the special representative by the Annual General Meeting of Shareholders on June 26/27, 2007, on the basis of reports by the Management Board.

Focus of discussion during the plenary sessions of the Supervisory Board

The Supervisory Board met at seven plenary sessions last year (three of which were held in the first half of 2007 and four in the second half), two of which were extraordinary meetings. The Supervisory Board approved transactions requiring its approval in a total of 39 cases, 37 of its resolutions being adopted by written circular concerning approval for lending transactions with companies in compliance with Section 136 of the Italian Banking Act (Testo Unico Bancario – TUB). This banking supervisory regulation which, in essence, is similar to Section 15 of the German Banking Act ("Loans to executives and Board members") primarily aims at preventing abuse of special privileges granted to corporate officers. In addition to this, the Supervisory Board adopted further resolutions within the framework of its responsibilities.

At the beginning of 2007, the Management Board notified the Supervisory Board of two essential steps in connection with the restructuring of the UniCredit Group to become a European banking group. One was the Management Board's resolution to implement the contracts on the sale of the stake in Bank Austria Creditanstalt to UniCredito Italiano S.p.A. (UniCredit) and on the reorganisation of the HVB holdings in central and eastern Europe, which were presented to the Extraordinary Shareholders' Meeting on October 25, 2006 for approval. The other was the announcement made by UniCredit on January 23, 2007 to initiate a squeeze-out procedure at HVB with a view to facilitating internal processes. At the Supervisory Board meeting on February 7, 2007, the Supervisory Board initially dealt in great depth with the Management Board's resolution to implement the changes in the holdings resolved by the Extraordinary Shareholders' Meeting on October 25, 2006 despite the large number of lawsuits challenging this. In this connection, the Management Board explained to the Supervisory Board that the resolution was adopted both on the basis of an opinion by the auditing company, which was already considering the valuation of the units to be transferred, as well as a legal opinion by a prestigious law firm on the chances of success of each of the challenges filed against the resolutions adopted by the Extraordinary Shareholders' Meeting. After reading through the formal and substantive objections alleged in the lawsuits, there was no indication of any arguments against the implementation of the resolutions of the Extraordinary Shareholders' Meeting; in particular the substantive objections submitted did not change the valuations stated. During the year, the Management Board notified the Supervisory Board of the latest status of the challenges to the resolutions adopted by the Extraordinary Shareholders' Meeting on October 25, 2006 in writing and orally in detail at Supervisory Board meetings. At these meetings, the legal appraisal based on the respective status of proceedings was discussed in depth by the Supervisory Board and the Management Board.

The announcement of the squeeze-out procedure at HVB initially caused the Annual General Meeting of Shareholders to be postponed to the end of June 2007 as a result of the required valuation process. At its meeting on March 20, 2007, the Supervisory Board considered this matter on the basis of the explanations provided by the Management Board. At an extraordinary meeting on May 12, 2007, the Supervisory Board approved the agenda for this Annual General Meeting after deliberating on this in depth. It also took decisions on the draft resolutions of the Supervisory Board on the individual items of the agenda. For the draft resolution on the squeeze-out procedure, the Supervisory Board had received the transfer report of UniCredit with the expert opinion ordered by UniCredit to determine the objective company value of HVB, issued by an auditing company furthermore the formal request from UniCredit to have a resolution adopted at the Annual General Meeting to transfer the shares of minority shareholders in accordance with Section 327a (1) 1 of the German Stock Corporation Act, the draft report by the court-appointed expert on the examination of the reasonableness of the cash compensation and the performance guarantee of a financial institution prescribed by law. At the meeting, the Management Board first explained to the Supervisory Board the reasons for UniCredit's request and the tasks of the board members of HVB in this regard. Regarding the reasonableness of the cash compensation, the Supervisory Board requested the auditing company appointed by UniCredit to explain its valuation of HVB and its valuation method at the meeting. The Supervisory Board was able to satisfy itself that the valuation was carried out in compliance with principles recognised in theory, practice and in court rulings. Furthermore, the Supervisory Board was informed about the legal framework of the squeeze-out procedure by a prestigious law firm which had been appointed as a legal advisor by UniCredit. After all the arguments had been considered in the discussion, the Supervisory Board adopted its draft resolution on this item on the agenda of the Annual General Meeting.

In its letter dated May 21/23, 2007, the Management Board informed the Supervisory Board of the motions filed by shareholders to add items to the agenda for the Annual General Meeting pursuant to Section 122 (2) of the German Stock Corporation Act. The Supervisory Board used a written procedure to deal with these requests for the appointment of special auditors and a special representative to assert claims for damages pursuant to Section 147 (1) of the German Stock Corporation Act against members of the Management Board and Supervisory Board of HVB and against UniCredit and its legal representatives. During the course of the year, the Management Board informed the Supervisory Board both in writing and verbally in the following Supervisory Board meetings about the various lawsuits filed by shareholders of the Bank seeking to overturn or have declared null and void resolutions adopted at the Annual General Meeting of Shareholders on June 26/27, 2007. Moreover, the Supervisory Board was informed about the claim for damages of €17.3 billion asserted by various foreign companies against UniCredit, Alessandro Profumo and Dr Wolfgang Sprissler and about the lawsuit filed by this group of shareholders to have the annual financial statements for 2006 declared null and void.

Report of the Supervisory Board (Continued)

Moreover, with the aid of a legal advisor the Supervisory Board considered in great depth the rights of the special representative, the intention of the Management Board to initially implement the resolution of the Annual General Meeting on the appointment of a special representative only to a very restricted extent due to a legal challenge filed against this by UniCredit until the issues concerning the resolution on the appointment and the powers of the special representative had been clarified, and the application filed by the special representative to issue a temporary injunction.

At its extraordinary meeting on September 17, 2007, the Supervisory Board discussed the ruling of Munich District Court I dated September 6, 2007, which largely upheld the motion filed by the special representative, and the consequences arising from this for the Company, its executive bodies and employees. Furthermore, the Supervisory Board had requested an opinion from a prestigious law firm on the scope of the rights and duties of members of the Supervisory Board in connection with the tasks of the special representative. This was discussed in depth at the Supervisory Board meeting on November 7, 2007.

The Management Board informed the Supervisory Board of the appeal filed by HVB against the District Court's ruling and the decision of Munich Higher Regional Court dated November 28, 2007 which clarified the role of the special representative and significantly restricted his powers and about the effects of the decision for the relationship between the members of the Supervisory Board and the special representative.

The Management Board also reported extensively to the Supervisory Board on the fact that the special representative had entered the lawsuits challenging the resolutions of the Extraordinary Shareholders' Meeting held on October 25, 2006 as an intervenor, arguing that the Supervisory Board and the Extraordinary Shareholders' Meeting had been deceived by UniCredit and the Management Board in connection with the sale of the stake in BA-CA and the companies in central and eastern Europe. The respective writs of the special representative and the response to the writs were voluntarily provided to each member of the Supervisory Board. Furthermore, the Supervisory Board was likewise immediately informed in writing that the special representative had demanded that UniCredit transfer the stake in BA-CA back to HVB and that UniCredit had refused to comply with this demand. Finally, the Management Board informed the Supervisory Board that HVB had responded to the lawsuits challenging the resolution adopted at the Annual General Meeting in 2007 to transfer shares of minority shareholders to UniCredit for a reasonable cash compensation by filing what is known as a clearance procedure with Munich District Court, requesting it to declare that the lawsuits filed against the squeeze-out resolution did not conflict with the entry of the transfer resolution in the Commercial Register. This was approved by the Supervisory Board.

Given the highly diverse lawsuits and the complexity of the proceedings, in February 2008 the Supervisory Board has set up an ad hoc working group tasked with advising on questions arising in this context within the Supervisory Board's jurisdiction, preparing plenary meetings and hence increasing the efficiency of Supervisory Board work.

At the Supervisory Board meeting on February 7, 2007, the Supervisory Board also solicited reports on the status of the suits challenging the resolutions adopted at the Annual General Meeting of May 23, 2006 on the sale of the "Aphrodite" credit portfolio and the associated clearance procedure. After the special appeal filed by the plaintiffs against the decision on clearance passed by Munich District Court was rejected by Munich Higher Regional Court, the spin-off concerned was able to be entered in the Commercial Register on March 30, 2007.

At the Supervisory Board meeting on March 20, 2007, the Supervisory Board considered the integration of the investment banking activities of UniCredit Banca Mobiliare S.p.A. (UBM) into HVB. The Management Board used documents to explain the reasons for this transaction to the Supervisory Board, according to which HVB is to be turned into the Group-wide competence centre for the investment banking activities of the UniCredit Group. The Management Board also reported that a high-level due diligence examination had been conducted at UBM in part with external assistance, during which all relevant fields had been examined. At this meeting, the auditing company appointed by the Management Board described the valuation of

UBM and the valuation method to the Supervisory Board. For this purpose, extensive presentation documents were submitted to the Supervisory Board. Also at this meeting, the Supervisory Board solicited reports on the planned transaction structure – a capital increase against a non-cash contribution, utilising the existing approved capital increase and excluding the subscription rights of shareholders based on the valuation of UBM as described. In the Supervisory Board's view, there were valid reasons for excluding shareholder subscription rights. After all major points concerning the transaction had been extensively discussed at this meeting, on March 30, 2007 the Supervisory Board approved by written circular the transaction and the capital increase utilising part of the authorised capital increase.

Following the internal changes implemented in 2006 – adaptation to UniCredit's organisational structure, changes in the Bank's holdings – the Supervisory Board focused on the development of HVB in its new structure. At four meetings, the Supervisory Board solicited reports on the latest business performance of the Company and each of the divisions based on appropriate documents presented by the Management Board, particularly the half-yearly financial report and the interim reports. A topic of discussion was also the annual plan for 2007 and, towards the end of the year, the provisional plan for 2008, for which the Management Board had submitted its first interim report. The Supervisory Board also considered the US subprime crisis at length, by which HVB is only directly affected to a limited extent. But the resulting financial market turbulence and its impact did not leave the income statement of HVB unscathed. (Please refer to the section of Management's Discussion and Analysis entitled "Development of HVB Group in a difficult capital market environment" in the present Annual Report of HVB Group for details on the effects of the financial market crisis.)

At the Supervisory Board meeting on September 17, 2007, the Management Board informed the Supervisory Board that a rebranding of HVB was also planned. This measure will serve to visually integrate the design of the UniCredit Group's master brand but will preserve "HypoVereinsbank" as a brand. After extensive deliberations, the Supervisory Board approved the roll-out of the modified logo as of the first quarter in 2008.

In addition, the Supervisory Board considered the EuroSig project tasked with rolling out a uniform IT platform for the UniCredit Group, from which HVB would also benefit. The Supervisory Board extensively discussed this measure based on the documents distributed by the Management Board in this regard.

The Management Board also kept the Supervisory Board up to date on changes to the Bank's holdings for which the Supervisory Board's approval was not required (including the sale of Nordinvest GmbH to Pioneer Investments and the disposal of Financial Markets Service Bank to the French service provider CACEIS).

As part of the committee reports, the Chief Risk Officer (CRO) reported extensively on the risk strategy as well as on the market risk, credit risk and operating risks at the plenary sessions of the Supervisory Board. One member of the Supervisory Board requested the latest information on the status of the implementation of Basel II. The CRO complied with this request at the Supervisory Board meeting held on November 7, 2007 by presenting numerous documents in a suitable report. 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 the meaning of Section 111 of the German Stock Corporation Act (AktG) in addition to the documents already made available and verbal explanations given in 2007.

Finally, the Supervisory Board considered an extensive HR report containing issues on personnel development and appointed another member to the Management Board upon a proposal submitted by the Remuneration & Nomination Committee.

Report of the Supervisory Board (Continued)

Corporate governance
The Supervisory Board again addressed corporate governance topics in depth in 2007.

The Supervisory Board's internal regulations were amended slightly with regard to the election of the two deputy members of the Remuneration & Nomination Committee. These are now elected from the entire Supervisory Board and not only from the members of the Audit Committee. The Supervisory Board solicited written reports on the revision of the German Corporate Governance Code as amended on June 14, 2007. To carry out the annual efficiency review in accordance with the code, the Chairman of the Supervisory Board requested the members to inform him of suggestions for any changes in the work of the Supervisory Board before the meeting concerned, which were then discussed during the Supervisory Board meeting. The Supervisory Board also considered any possible conflicts of interest. Thus, when voting on the Supervisory Board's approval of the integration of UBM's investment banking activities into HVB through a contribution in kind, two members of the Supervisory Board did not take part on account of the executive positions they held simultaneously at UBM. Likewise, when voting on the agenda for the Annual General Meeting in June 2007, one member of the Supervisory Board abstained in order to prevent any possible conflicts of interest in connection with the squeeze-out procedure.

Compliant with the German Corporate Governance Code, the Supervisory Board discussed and examined the structure of the remuneration system for the Management Board. Changes were made insofar as the annual bonus in the scorecards now includes two targets regarding values and management. Please refer to the Compensation Report for further details.

Furthermore, the Supervisory Board adopted the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act at the end of the year, whereby three of the Code's recommendations were not followed in 2007. 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 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 meetings held in 2007.

Main focus of committee work
The Supervisory Board has set up three standing 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 last year. Four resolutions were adopted by written circular. At its meetings, it discussed personnel of the Management Board. A topic of discussion was also remuneration levels for the Management Board, in which connection details were defined for the remuneration and targets for 2007. 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 five meetings in 2007. Dr Lothar Meyer, Chairman of the Management Board of ERGO Versicherungsgruppe AG until December 31, 2007, chairs this committee. In particular, the Audit Committee examined the preliminary audit of the annual financial statements and consolidated financial statements, the report on relationships with related parties and discussed the half-yearly financial report and the interim reports at March 31 and September 30, 2007. The auditor elected by the Annual General Meeting of Shareholders was present when the abbreviated financial statements and Interim Management Report at June 30, 2007 compliant with Section 37w of the German Securities Trading Act were discussed, giving a report on the results of the audit review of the abbreviated interim financial statements and Interim Management Report.

In connection with the discussion of the interim report at September 30, the committee also considered the effects of the international financial crisis in depth. For this purpose, the committee again solicited the latest report on the liquidity situation at its meeting on November 7, 2007, after a satisfactory liquidity and funding situation had been reported in the committee in the middle of the year.

To prepare for the election by the Annual General Meeting of Shareholders of the independent auditor for the 2007 financial statements and of the auditor for the audited review of the abbreviated interim consolidated financial statements and interim management report, 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. The committee had the auditors explain their plan and appointed them to perform the audit, specifying the areas subject to special scrutiny and setting the fee. In addition, the committee considered the type and scope of non-auditing tasks to be performed by the auditors and approved the appointment of the auditors for these tasks in individual cases.

Another topic of discussion in the Audit Committee were the reports of the Audit department on the internal auditing results from the previous year, the audit plan for 2007 and the auditing results from the second and third quarters of 2007. Furthermore, the auditor's report on the annual audit of the securities account business was discussed in detail, the outcome of which was that the securities account business is conducted in due form and the rules of conduct and reporting duties are on principle complied with in accordance with the German Securities Trading Act. On the issue of compliance, the committee also solicited a report on compliance with data protection regulations. The committee satisfied itself that the requirements of the German Data Protection Act are met. Moreover, the committee considered an extensive portfolio report submitted by the Chief Risk Officer (CRO) in great depth at each of the four meetings in the course of the year and had the development of credit risk, market risk and operating risks explained on the basis of the documents.

With regard to credit risk, the committee focused on the further reduction as planned of the Real Estate Restructuring segment (RER portfolio) set up in 2004 to pool workout portfolios of the real estate finance business, and the reduction of the Special Credit Portfolio of non-strategic receivables set up last year which is to be reduced with priority due to the lack of cross-selling opportunities. As regards market risk, the committee solicited the latest reports on the effects of the turmoil on the financial markets in particular. Compliant with the Minimum Requirements for the Credit Business of Credit Institutions (MaK), the MaRisk report was submitted to the committee at regular intervals. The committee also had the credit risk strategy explained to it in great detail in 2007. 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

Once more 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. This task was performed by the deputy chairman in two instances due to other appointments.

Report of the Supervisory Board (Continued)

Audit and approval of the 2007 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 2007 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 risks at an early stage. The independent auditors came to the conclusion that the risk early warning system installed is on principle suitable for identifying at an early stage developments that endanger the continued operation of the Company and confirmed that the management report for the parent bank and management's discussion and analysis for the Group present a true and fair view of the risks of future business development. The Chairman of the Audit Committee attended the final discussion of the Management Board with the independent auditors.

The financial statements listed above were forwarded to the Supervisory Board, together with Management Board's proposal for the appropriation of profits and the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The 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 Chairman of the Audit Committee also reported to the full Supervisory Board on the findings of the review by the committee. The Supervisory Board concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. It determined that, on the basis of its own examination of 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 10, 2008, 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 also produced a report on relationships of Bayerische Hypo- und Vereinsbank with related companies for the 2007 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,
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. The Supervisory Board checked the information for plausibility and consistency and carefully examined individual legal transactions between HVB and UniCredit and its affiliated companies together with other cost-generating measures initiated by UniCredit. Against the backdrop of the pending legal proceedings and the defective valuations asserted in the process, this process applied in particular to the completion of the sale of the Bank's interest in Bank Austria Creditanstalt and the HVB holdings in central and eastern Europe. The Supervisory Board also considered other legal transactions, such as the sale of Nordinvest GmbH and Financial Markets Service Bank, or measures like the rebranding or the roll-out of a uniform IT platform of the UniCredit Group, to ascertain if they entailed any disadvantage for the Bank. 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 Chairman of the Audit Committee also reported to the full Supervisory Board on the findings of the review by the committee. The Supervisory Board concurred with the results of the audit by KPMG after intensive deliberations. 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 2007 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.

Personnel

In view of the decision of UniCredit to pool the investment banking activities of the corporate group at HVB, Stefan Ermisch was appointed to the Management Board with effect from March 21, 2007. Mr Ermisch is responsible for the Markets & Investment Banking division, whereby his duties include the internal organisation as well as the integration and establishment of the global investment banking activities into HVB.

At the Annual General Meeting of Shareholders on June 26/27, 2007, Sergio Ermotti, Head of Markets & Investment Banking at UniCredit, was elected to the Supervisory Board for the remaining term of office of Carlo Salvatori, being until the end of the Annual General Meeting of Shareholders in 2008. Mr Ermotti had been previously appointed to the Supervisory Board as the successor of Mr Salvatori under an order issued by Munich Registration Court on August 22, 2006.

Helmut Wunder resigned from the Supervisory Board with effect from June 30, 2007. Panagiotis Sfeliniotis, who had been elected by the Bank's employees to act as a substitute member for Helmut Wunder in accordance with the German Co-Determination Act, joined the Supervisory Board in his place. The Supervisory Board would like to sincerely thank Mr Wunder at this point for his many years of valuable work on this board.

Karl Wüst passed away on January 31, 2007. He had been a member of the Management Board of Bayerische Hypotheken- und Wechsel-Bank AG from 1973 until 1976 and remained closely connected with the Bank as a member of its Advisory Board until 1988. Dr Wilhelm Zeitler passed away on January 12, 2008. After serving successfully on the Management Board of Vereinsbank in Nürnberg AG and the Management Board of Westfalenbank AG in Bochum, he was appointed to the Management Board of Bayerische Hypotheken- und Wechsel-Bank AG in 1979 and remained a member until 1986. After this, he sat on the bank's Advisory Board until 1992. 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. They all helped the Company to report good results despite the difficult conditions on the global markets.

Munich, March 10, 2008

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, thus helping to strengthen 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 Aktiengesellschaft (HVB AG) lives up to this maxim of responsible management through the close and efficient cooperation between the Management Board and the Supervisory Board, and through the openness and transparency of its communication.

Legal basis

As it is headquartered in Germany, HVB AG operates within the legal framework provided by the German Stock Corporation Act, the German Co-Determination Act, banking supervision and capital market law and the German Corporate Governance Code. In 2007, HVB AG complied with the recommendations given by the German Corporate Governance Code as amended on June 12, 2006 and June 14, 2007 with three exceptions, and will comply with it in future with three exceptions. The deviations are described in detail in accordance with the "comply or explain" principle in the Declaration of Conformity of the Management Board and Supervisory Board of December 3, 2007. The full text of the declaration, complete with comments on the deviations, is reproduced below under the heading "Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 of the German Companies Act (AktG) in 2007". The declaration of conformity 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 four exceptions:

- On co-determined supervisory boards, the shareholder representatives and employee representatives are each required to prepare Management Board meetings separately, if appropriate in conjunction with members of the Management Board. In 2007, no preparatory meetings were held by the shareholder representatives and no joint preliminary talks involving all employee representatives on the Supervisory Board took place.

- There are no plans to introduce varying terms of office for the shareholder representatives on the Supervisory Board in the interests of harmonising these with the terms of office of the employee representatives and ensuring the equal treatment of all 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 Supervisory Board member 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 Management Board contracts, which are not normally concluded for a period in excess of three years, do not provide for any payments to be made to a Management Board member in the event of the Management Board activity being terminated early without serious cause, including none that is limited to no more than two years' compensation (severance pay cap). Although a severance payment may arise from an individually agreed severance package as a result of termination, the remaining term of the contract must be borne in mind in this regard.

The German Securities Trading Act, as amended by the German Act on the Improvement of Investor Protection, the German Act on the Implementation of the EU Transparency Directive and the German Act on the Implementation of the EU Markets in Financial Instruments 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, the directives issued in this connection and data protection regulations must be observed. There are separate units in the Bank responsible for ensuring compliance with, and implementation of, these regulations.

Articles of Association, internal regulations, guidelines, compliance guidelines, Integrity Charter

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 and his/her staff. Furthermore, the Integrity Charter is a common set of values connecting all the companies of the UniCredit Group which is supported by the introduction of an ombudsman system. It contains guidelines on employees' conduct at the workplace and lays down standards of behaviour for all employees in companies throughout the UniCredit Group. In addition to this, a Code of Conduct is in force for HVB AG. 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 or abstained in relevant voting procedures in 2007. 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. Due to the international 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 in 2007. 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.

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 half-yearly financial report and interim reports. 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, and for a review of the abbreviated financial statements and interim management report at June 30 of each year compliant with Section 37w (5), 37y of the German Securities Trading Act, 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.

Corporate Governance and Compensation Report (Continued)

Furthermore, the Audit Committee regularly discusses the risk situation and risk management using appropriate reports submitted by the Management Board. The risk situation and the early identification of risks are of fundamental importance for the company's continuing existence. The Minimum Requirements for Risk Management 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.

The Audit Committee is also tasked with looking at compliance issues.

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 directly responsible for managing the company and works with the other bodies of the company and the employee representatives in the interests of the company in an atmosphere of trust. It develops the strategic orientation of the company, coordinates this with the Supervisory Board and is responsible for putting it into practice. The matters reserved for the Management Board and the respective business unit responsibilities on the Management Board of HVB AG are specified in a schedule of responsibilities as well as in the internal regulations, which also specify the requirements for adopting resolutions and the required majorities.

The segment responsibilities on the Management Board of HVB AG match the organisational structure of HVB AG, which is divided into customer groups (business divisions) and functions. In the period from January 1 to March 20, 2007, the Management Board had nine regular members. With effect from March 21, 2007, a further member of the Management Board was appointed with responsibility for the internal organisation of the Markets & Investment Banking division and for the integration into HVB of the global investment banking activities of the UniCredit Group. Since then, the Management Board has had ten 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 four operating divisions: Retail, Wealth Management, Corporates & Commercial Real Estate Financing, and Markets & Investment Banking. The Markets & Investment Banking division is headed by two members of the Management Board, one of whom is responsible for the Markets side and the other for the internal organisation and the integration of the global investment banking activities. The Board spokesman, Dr Sprissler, is also head of the German Region Advisory Staff on UniCredit's Management Committee where he acts in an advisory capacity regarding the interests of HVB AG.

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, and compliance issues. The reports are generally submitted in text form; documents relevant for decision-making are made available to the Supervisory Board as soon as possible before the meeting.

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 have been notified to HVB AG for the 2007 financial year:

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	Sale	Common bearer stock of Bayerische Hypo- und Vereinsbank AG	WKN: 802200 ISIN: DE 0008022005	January 4, 2007	100	€33.01	€3,301.00
Helmut Wunder, member of the Supervisory Board of HVB AG	Sale	Common bearer stock of Bayerische Hypo- und Vereinsbank AG	WKN: 802200 ISIN: DE 0008022005	January 26, 2007	199	€37.00	€7,363.00

All transactions have been published under Corporate Governance on the Bank's website at www.hvb.com/dealings.

At December 31, 2007, the members of the Management Board and the Supervisory Board held less than 1% of the entire stock issued by HVB AG.

Shareholders, Annual General Meeting

The shareholders exercise their rights at the General Meeting of Shareholders, which is usually convened once a year by the Management Board stating the meeting's agenda. The ordinary General Meeting of Shareholders, to which the annual financial statements are submitted, takes place in the first eight months of the financial 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 receive details together with the invitation to the General Meeting of Shareholders. The General Meeting adopts resolutions on such matters as the appropriation of net income, the discharge 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 measures 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

HVB AG 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 of HVB AG report in the context of reporting communications on issues important to the company and current business results in communications on results and at press telephone conferences held regularly, the dates of which are published in a financial calendar.

Corporate Governance and Compensation Report (CONTINUED)

Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 of the German Companies Act (AktG) in 2007

The Management Board and Supervisory Board issued the following declaration of conformity on December 3, 2007, 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 12, 2006 and June 14, 2007, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette have been complied with in fiscal 2007, with the following deviations:

– 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).

  The direct compensation of HVB AG Management Board members in 2007 has three components, containing both fixed and variable features: fixed compensation, variable compensation as a bonus featuring a performance-related component (short-term incentive) and a long-term incentive. As part of the long-term incentive, members of the Management Board participate in the UniCredit Group's Stock Option & Performance Shares Plan. This plan includes both stock options on UniCredit shares and performance shares in the form of UniCredit shares. In divergence to 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.

– In accordance with Section 5.3.3 of the Code as amended on June 14, 2007, the Supervisory Board shall form a Nomination Committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting.

  In view of the structure of the Company with a single majority shareholder and the current composition of the Supervisory Board, the Supervisory Board considers that it may dispense with the formation of a Nomination Committee.

For the purpose of clarification: A report on the sustainability of the value of the contribution in kind by UniCredit Banca Mobiliare S.p.A., Milan, Italy was published as an appendix to the transfer report of UniCredito Italiano S.p.A. under Section 327c (2) 1 AktG dated May 11, 2007, and which was prepared by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, on March 29, 2007 in connection with the capital increase at Bayerische Hypo- und Vereinsbank AG, Munich. In accordance with the provisions laid down by PricewaterhouseCoopers, this report on the sustainability of the value of the contribution in kind was not published on the Internet in order to prevent unrestricted access to this expert opinion by non-shareholders. 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, under the terms of which the reports and records required for the Annual 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") hereby declare that the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, as amended on June 14, 2007 will also be complied with in future, with the exception of Sections 3.8 (3) (deductibles for D&O insurance), 4.2.3 (no comparison parameters and – in relation to stock options – any performance targets or possibility of limitation under the long-term incentive plan on UniCredit shares) and 5.3.3 (formation of a Nomination Committee)."

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 2007

It is the task of the plenary sessions of the Supervisory Board to discuss and regularly review a proposal put forward by the Remuneration & Nomination Committee of the Supervisory Board on the structure of the compensation paid to members of the Management Board. Details of the compensation are determined by the Remuneration & Nomination Committee. The direct compensation has three components and comprises 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 success in meeting the targets agreed for the financial year and the targets in the strategic plan and can considerably 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 UniCredit which covered Management Board positions and included similar companies. The compensation paid to members of the Management Board of HVB AG for 2007 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 with all members of the Management Board being met. The targets are shown in scorecards and include team targets, core targets and competency targets. The normal weighting is: team targets 20%, core targets 50% and competencies 30%.

There are no more than two team targets. One is based in principle on the after-tax profit of HVB Group and the other in principle on the economic value added (EVA) of HVB Group. In the case of Management Board members who are responsible for a business division, the core targets normally consist of the contribution of the HVB division to the profit of the UniCredit Group division and the EVA of the HVB division. For the other members of the Management Board, this component generally comprises two financial or operating targets. The two competency targets are defined in line with the responsibility of the respective members of the Management Board on the basis of nine management competence factors, which include growth orientation, team culture, promotion of diversity, ability to implement, and so on.

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, zero points are awarded for the target. If the highest value is achieved, the Management Board member receives the highest number of points 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 target value and maximum bonus have been defined as reference values since 2007. This maximum bonus can be claimed whenever a total number of 120 points is achieved in the scorecard. This means that the bonus has a maximum upper limit. If targets are met by 100%, the lower target value is paid.

Corporate Governance and Compensation Report (Continued)

In accordance with normal market practice, there is still only one target value for the bonus payable to the Management Board members responsible for the Markets & Investment Banking division. The Remuneration & Nomination Committee sets this bonus taking into account the score and the market. This bonus may be reduced in favour of a retention award. The retention award is disbursed after two years if the Management Board member concerned is still working for a company of the UniCredit Group at this point.

1.3 Long-term incentive

Each Management Board member takes part in the Stock Option & Performance Shares Plan (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 four years (vesting) after the allotment. Each option entitles the 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 six years after vesting (or nine years after vesting in the case of options issued up to and including 2006). In 2007, the Management Board of HVB AG was granted a total of 880,324 stock options (1,052,604 with corporate employment contracts).

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 three years after the allotment 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, three of which 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 commitments for 265,730 (320,795 with corporate employment contracts) performance shares in 2007.

HVB AG normally reimburses the cost of participating in the long-term incentive plan to UniCredit at the time of vesting.

The beneficiary pays the taxes on the benefits gained. These are the value of the share less the fixed purchase price when the option is exercised in the case of stock options and the value of the share at the time of granting in the case of performance shares.

1.4 Additional comments

Two members of the Management Board have a corporate employment contract with UniCredit besides the employment contract with HVB through which they only earn a fixed salary. Consequently, these two members of the Management Board receive a fixed base salary together with a bonus and long-term incentive from UniCredit as a result of the corporate employment contract. To the extent that these members of the Management Board work for HVB AG, the Remuneration & Nomination Committee of HVB AG decides upon the terms of employment, including targets and remuneration, and HVB AG reimburses the cost of remuneration to UniCredit.

A further member of the Management Board, who had an employment contract with Bank Austria Creditanstalt (BA-CA) until December 31, 2007, received the same direct remuneration components from HVB as the other members of the Management Board. However, the amount of remuneration paid reflected the fact that this member of the Management Board also worked to a lesser extent for BA-CA and received comparable remuneration from BA-CA on a pro rata basis accordingly.

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 2007 financial year totalled €13 million.

1.5 Compensation paid to members of the Management Board

	FIXED SALARY		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVE[1]		TOTAL	
€ millions	2007	2006	2007	2006	2007	2006	2007	2006
Management Board of HVB AG	5	4	7	5	1	1	13	10
Supervisory Board of HVB AG								
for Supervisory Board activities	0.8	0.8	0.3[2]	0	0	0	1.1	0.8
Former members of the Management Board of								
HVB AG and their surviving dependants							9	11
Severance packages/provisions for severance packages								
for former members of the Management Board and								
executives at Bereichsvorstand level							0	2

1 cash value of share-based compensation
2 relates to 2006 financial year, disbursed in 2007

Details of share-based compensation (long-term incentive)

MEMBERS OF THE MANAGEMENT BOARD OF HVB AG	UNITS	FAIR VALUE OF EACH OPTION ON THE DATE OF GRANTING MONETARY VALUE in €	FAIR VALUE ON THE DATE OF GRANTING IN TOTAL MONETARY VALUE in €
Options			
Stock options 2006[1]	508,633	1.269	645,455.28
Stock options 2007	880,324	1.3292	170,126.66
		FAIR VALUE OF EACH PERFORMANCE SHARE ON THE DATE OF COMMITMENT	FAIR VALUE ON THE DATE OF COMMITMENT IN TOTAL
Performance shares			
Performance shares 2006[1]	195,333	5.574	1,088,786.14
Performance shares 2007	265,730	6.079	1,615,372.67

1 including corporate employment contracts

The fair value on the date of granting is recorded by HVB AG 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.

1.6 Pension commitments

Besides direct remuneration, Management Board members have received pension commitments. Except for four 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

Corporate Governance and Compensation Report (Continued)

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 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 these 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 any pension commitments with two further members of the Management Board who have corporate employment contracts.

A total of €1,370,361.00 was transferred to provisions for pensions in 2007, €1,085,562.00 of which was deferred compensation invested in a fund in 2007.

The compensation paid to former members of the Management Board and their surviving dependants amounted to €9 million in 2007. At December 31, 2007, the reserves in HVB AG for pension commitments to former members of the Management Board and their surviving dependants stood at €90 million. In accordance with IFRS, the value of reserves for pension commitments for retired members of the Management Board amounts to €123 million.

1.7 Fringe benefits
Other fringe benefits are of no material significance. The members of the Management Board can also use their company car for private purposes, among other things. 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.

1.8 Commitments to pay a transitional allowance
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 of three years' salary is paid after 20 years of service. The transitional allowance is limited to the annual salaries (fixed salary and bonus) still outstanding until the age of 62 in each case.

Two members of the Management Board with corporate employment contracts do not receive any transitional allowance from HVB AG in the event of the non-extension of their Management Board activities; another can receive a retirement pension. Irrespective of the expiry of the employment contract at the end of the initially agreed term, the contracts of the members of the Management Board do not contain any severance arrangements in the event of the premature termination of Management Board activities without good cause. Neither do the contracts contain any commitments to make payments in respect of the early termination of Management Board activities as a result of a change of control (change of control clause).

2. Compensation paid to members of the Supervisory Board

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the 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 2007 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 transfer to UniCredit the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty.

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

The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2007, expense allowances totalling €62,038.87 were paid to members of the Supervisory Board. No remuneration was paid in the 2007 financial year for services provided personally. The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2007.

Compensation of members of the Supervisory Board

					€
	FIXED COMPENSATION	VARIABLE COMPENSATION	COMPENSATION FOR COMMITTEE WORK	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo	50,000.00	30,400.00	20,000.00	100,400.00	68,623.40[3]
Peter König, Deputy Chairman	37,500.00	22,800.00	20,000.00	80,300.00	
Dr Lothar Meyer, Deputy Chairman	37,500.00	22,800.00	40,000.00	100,300.00	
Aldo Bulgarelli	25,000.00	15,200.00		40,200.00	27,476.70[3]
Beate Dura-Kempf	25,000.00	15,200.00		40,200.00	
Sergio Ermotti	25,000.00	15,200.00		40,200.00	27,476.70[3]
Paolo Fiorentino	25,000.00	15,200.00		40,200.00	27,476.70[3]
Dario Frigerio	25,000.00	15,200.00		40,200.00	27,476.70[3]
Klaus Grünewald	25,000.00	15,200.00		40,200.00	
Günter Guderley	25,000.00	15,200.00	20,000.00	60,200.00	
Friedrich Koch	25,000.00	15,200.00		40,200.00	
Hanns-Peter Kreuser	25,000.00	15,200.00		40,200.00	
Ranieri de Marchis	25,000.00	15,200.00	20,000.00	60,200.00	41,146.70[3]
Roberto Nicastro	25,000.00	15,200.00		40,200.00	27,476.70[3]
Vittorio Ogliengo	25,000.00	15,200.00		40,200.00	27,476.70[3]
Panagiotis Sfeliniotis[1]	12,602.74	7,662.47		20,265.21	
Professor Hans-Werner Sinn	25,000.00	15,200.00		40,200.00	
Maria-Magdalena Stadler	25,000.00	15,200.00		40,200.00	
Ursula Titze	25,000.00	15,200.00		40,200.00	
Jens-Uwe Wächter	25,000.00	15,200.00		40,200.00	
Helmut Wunder[2]	12,397.26	7,537.53		19,934.79	
Total	**550,000.00**	**334,400.00**	**120,000.00**	**1,004,400.00**	**877,230.30[3]**

1 since July 1, 2007
2 until June 30, 2007
3 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

Munich, March 10, 2008

The Management Board The Supervisory Board


BABY

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The HVB Share

Good performance

The price of the HVB share rose by 29.9% during the year under review, from €33.45 per share on January 2, 2007 to a closing price of €43.45 on December 28, 2007. In the fourth quarter of 2007, the price of the HVB share increased by 4.72%, from €41.49 to €43.45. Thus the capital market is supporting the squeeze-out procedure announced by UniCredit in January 2007, offering to transfer the shares held by minority shareholders to UniCredit against a suitable cash settlement. The transfer was approved by 98.77% of the votes cast at the Annual General Meeting of Shareholders of HypoVereinsbank held on June 26 and 27, 2007. In December 2007, HVB filed an application with Munich District Court I for a legal release motion. Once the court has approved the application, the squeeze-out can be entered in the Commercial Register maintained by Munich Local Court, with the share listing subsequently being revoked in the stock exchanges and the admission to official trading withdrawn. This would render the squeeze-out price of €38.26 per share payable.

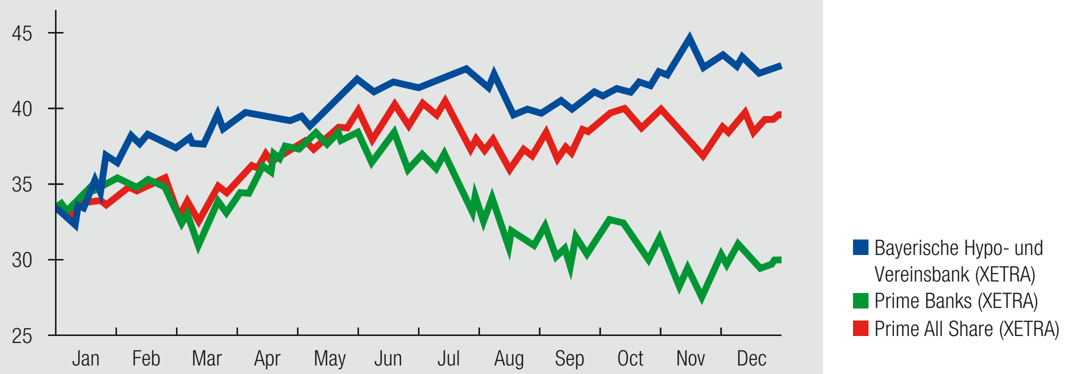
During the same period, the benchmark Prime Banks index fell by 10.24% whereas the Prime All Share index climbed by 18.35%. A standalone view of the fourth quarter of 2007 shows that the HVB share price achieved a gain of 4.72%, despite the current crisis on the financial markets, to close at €43.45 on December 28, 2007. At the end of December, the HVB share was weighted at 2.10% in the Prime Banks index and 0.16% in the Prime All Share index.

With a remaining free float of 4.6%, the average daily turnover of the HVB share fell slightly compared with the third quarter, by a little more than 2%, to 131,294 shares.

Enhanced credit ratings

HVB benefited from the reorganisation of the corporate structure of the UniCredit Group, which enabled the Bank to vastly improve its risk profile. This, together with the timely achievement of the profitability targets that had been set, encouraged Fitch Ratings to raise our individual rating from C to B/C.

HVB share relative to Prime Banks index and Prime All Share XETRA (HVB share from January 1 to December 31, 2007, in €)



On November 30, 2007, rating agency Standard & Poor's (S & P) upgraded HypoVereinsbank's long-term credit rating from A to A+. The reasons stated by S&P for this upgrade were HVB's increased significance within the UniCredit Group with a view to further progress being made with the integration and role of HVB as competence centre within the UniCredit Group for banking operations on the capital market and in Germany as a whole. The sustained improvement in HVB's financial profile also helped to justify this move.

Investor relations work continued

Investor Relations again kept equity and credit analysts, institutional investors, rating agencies and private shareholders up to date on the Bank's development and strategic decisions during 2007. We continued to attend the major German banking conferences and conducted investor meetings at various locations. Working closely with the Investor Relations managers of the UniCredit Group, we explained the targets, strategies and structural development of the bank and its divisions to the financial community.

Key ratios of the HVB share

(based on average number of shares)	2007	2006
Average number of shares (millions)	789.5	750.7
Number of shares at Dec. 31 (millions)	802.4	750.7
Earnings per share (adjusted)[1, 2] (€)	2.03	1.50
Earnings per share[2] (€)	2.60	2.18
Dividend per share of common stock (€)	0.50	0.40
Share price at year end (€)	43.45	33.03
High (€)	45.36	36.65
Low (€)	32.30	25.52

1 2006 and 2007 figures adjusted for the defined non-recurring effects (see "Operating performance of HVB Group" in Management's Discussion and Analysis)
2 without discontinued operations

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	PFANDBRIEFS		CHANGED/ CONFIRMED
					PUBLIC	MORTGAGE	
Moody's	A1	P-1	stable	C–	Aa1[1]	Aa1[1]	18/5/2007
S & P	A+	A-1	stable	—	AAA	—	30/11/2007
Fitch Ratings	A	F1	positive	B/C	AAA	AAA	23/11/2007

1 on "review for possible upgrade" since May 14, 2007

Summary of Quarterly Financial Data

HVB Group	Q1 2007	Q2 2007	Q3 2007	Q4 2007
€ millions				
Operating performance				
Net interest income	1,141	1,003	923	1,062
Net fees and commissions	487	488	365	381
Net trading income	350	469	38	(265)
Net other expenses/income	27	22	14	106
TOTAL REVENUES	**2,005**	**1,982**	**1,340**	**1,284**
Operating costs	(955)	(943)	(839)	(839)
OPERATING PROFIT	**1,050**	**1,039**	**501**	**445**
Provisions for risks and charges	(6)	(19)	(7)	(129)
Write-down on goodwill	—	—	—	—
Restructuring costs	—	(3)	(3)	19
Net write-downs of loans and provisions				
for guarantees and commitments	(209)	(181)	(106)	(40)
Net income from investments	270	113	7	221
Other non-operating expenses	—	—	—	—
PROFIT BEFORE TAX	**1,105**	**949**	**392**	**516**
Income tax for the period	(291)	(326)	(309)	132
PROFIT AFTER TAX	**814**	**623**	**83**	**648**
Minorities	(21)	(22)	(30)	(45)
NET PROFIT OF HVB GROUP NEW	**793**	**601**	**53**	**603**
Profit after tax of discontinued operations	3,689	1	8	—
Minorities in profit of discontinued operations	—	—	—	—
NET PROFIT OF FULL HVB GROUP	**4,482**	**602**	**61**	**603**
Earnings per share (€), HVB Group new[1]	0.70	0.60	0.30	0.43

1 Q1 2007 figure adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations and for the gain on disposal of Indexchange; unadjusted earnings per share total €1.06
Q2 2007 figure adjusted for the gain on disposal of Munich Re and restructuring costs; unadjusted earnings per share total €0.74
Q3 2007 figure adjusted for restructuring costs and tax charges arising from German tax reforms; unadjusted earnings per share total €0.04
Q4 2007 figure adjusted for the gain on disposal of FMS Bank, restructuring costs and tax charges arising from German tax reforms; unadjusted earnings per share total €0.76

HVB Group new	31/3/2007	30/6/2007	30/9/2007	31/12/2007
Key indicators (%)				
Return on equity after taxes, adjusted[1, 2]	18.6	17.5	14.0	13.3
Return on equity after taxes[1]	29.4	25.0	16.4	17.6
Cost-income ratio (based on total revenues)	47.6	47.6	51.4	54.1
Balance sheet figures (€ billions)				
Total assets	362.9	437.6	426.4	422.1
Shareholders' equity	22.6	23.4	23.4	24.0
Key capital ratios compliant with German Banking Act (KWG)				
Core capital (€ billions)	21.3[3]	22.8[3]	22.6[3]	23.6[4]
Risk-weighted assets (€ billions)	139.4	144.2	142.6	131.6
Core capital ratio (%)	15.3[3]	15.8[3]	15.9[3]	17.9[4]
Share information				
Share price (€)	39.78	41.98	41.22	43.45
Market capitalisation (€ billions)	29.9	33.7	33.1	34.9
Employees	24,861	24,967	25,363	24,784
Offices	788	847	850	846

1 return on equity relating to 6.8% tied equity capital as a proportion of average risk-weighted assets
2 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations, the gain on disposal of Indexchange, Munich Re and FMS Bank, restructuring costs and tax charges arising from German tax reforms
3 core capital and core capital ratio at March 31, 2007, June 30, 2007 and September 30, 2007 pro forma including inflow to shareholders' equity arising from the disposal of discontinued operations
4 pro forma: based on approved annual financial statements including the transfer of €3.7 billion to reserves to be resolved at the Annual General Meeting of Shareholders

Summary of Annual Financial Data

HVB Group			€ millions
	2007	2006	2005
Operating performance			
Net interest	3,753	3,148	3,166
Dividends and other income from equity investments	376	251	259
Net interest income	**4,129**	**3,399**	**3,425**
Net fees and commissions	1,721	1,753	1,723
Net trading income	592	768	376
Net other expenses/income	169	32	(311)
Net non-interest income	**2,482**	**2,553**	**1,788**
TOTAL REVENUES	**6,611**	**5,952**	**5,213**
Payroll costs	(2,067)	(2,216)	(2,212)
Other administrative expenses	(1,250)	(1,166)	(1,260)
Amortisation, depreciation and impairment losses			
on intangible and tangible assets	(259)	(313)	(413)
Operating costs	**(3,576)**	**(3,695)**	**(3,885)**
OPERATING PROFIT	**3,035**	**2,257**	**1,328**
Provisions for risks and charges	(161)	(164)	(87)
Write-down on goodwill	—	—	—
Restructuring costs	13	(60)	(438)
Net write-downs of loans and provisions			
for guarantees and commitments	(536)	(933)	(979)
Net income from investments	611	671	69
Other non-operating expenses	—	(153)	—
PROFIT (LOSS) BEFORE TAX	**2,962**	**1,618**	**(107)**
Income tax for the period	(794)	125	(14)
PROFIT (LOSS) AFTER TAX	**2,168**	**1,743**	**(121)**
Minorities	(118)	(103)	(6)
NET PROFIT (LOSS) OF HVB GROUP NEW	**2,050**	**1,640**	**(127)**
Profit after tax of discontinued operations	3,698	3,457	1,158
Minorities in profit of discontinued operations	—	(677)	(389)
NET PROFIT OF FULL HVB GROUP	**5,748**	**4,420**	**642**
Earnings per share (€), HVB Group new (adjusted)[1]	2.03	1.50	0.39
Earnings per share (€), HVB Group new	2.60	2.18	(0.17)

1 figures for 2007 and 2006 adjusted for the defined non-recurring items (see "Non-recurring effects in the income statement of the new HVB Group" in Management's Discussion and Analysis), figures for 2005 adjusted for restructuring costs of €438 million and further non-recurring charges of €77 million arising from loan-loss provisions due to additional general provisions for losses on specific loans and advances

HVB Group			
	2007	2006	2005
Key indicators (%)			
Return on equity after taxes, adjusted[1, 2]	13.3	11.1	2.5
Return on equity after taxes[1]	17.6	15.9	(1.1)
Cost-income ratio (based on total revenues)	54.1	62.1	74.5
Balance sheet figures (€ billions)			
Total assets	422.1	343.6	351.7
Shareholders' equity	24.0	21.9	20.5
Key capital ratios compliant with German Banking Act (KWG)			
Core capital (€ billions)	23.6[3]	21.6[4]	21.9[4]
Risk-weighted assets (€ billions)	131.6	137.4	150.9
Core capital ratio (%)	17.9[3]	15.7[4]	14.5[4]
Share information			
Share price			
Year-end (€)	43.45	33.03	25.61
High (€)	45.36	36.65	26.85
Low (€)	32.30	25.52	16.30
Market capitalisation (€ billions)	34.9	24.8	19.2
Employees	24,784	25,738	27,353
Offices	846	788	

1 return on equity relating to 6.8% tied equity capital as a proportion of average risk-weighted assets
2 figures for 2007 and 2006 adjusted for the defined non-recurring items (see "Non-recurring effects in the income statement of the new HVB Group" in Management's Discussion and Analysis), figures for 2005 adjusted for restructuring costs of €438 million and further non-recurring charges of €77 million arising from loan-loss provisions due to additional general provisions for losses on specific loans and advances
3 pro forma: based on approved annual financial statements including the transfer of €3.7 billion to reserves to be resolved at the Annual General Meeting of Shareholders
4 pro forma: including the inflow to shareholders' equity from the disposal of discontinued operations

Summary of Annual Financial Data (Continued)

Full HVB Group				€ millions
	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/				
NET INCOME (LOSS) BEFORE TAXES	**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 BethmannMaffei, 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, 2]	10.2	3.9	2.1	(2.8)
Return on equity after taxes[1]	5.6	(19.3)	(19.7)	(5.4)
Cost-income ratio (based on operating revenues)	66.4	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[3]				
Core capital (€ billions)	16.0	15.7	14.4	14.6
Risk assets (€ billions)	245.5	238.6	241.8	285.6
Core capital ratio (%)	6.5	6.6[4]	5.9	5.1
Share information				
Share price				
Year-end (€)	25.61	16.70	17.62[5]	15.22
High (€)	26.85	21.13	19.26[5]	42.55
Low (€)	16.30	12.86	5.47[5]	11.75
Market capitalisation (€ billions)	19.2	12.5	9.8[6]	8.2
Employees	61,251	57,806	60,214	64,254
Branch offices	2,316	2,036	2,062	2,073

1 return on equity calculated on the basis of average IFRS equity capital
2 2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances; 2004 figures adjusted for amortsation 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
3 as per approved financial statements
4 6.2% taking into account the effects of consolidation to be incorporated from the start of 2005
5 HVB share price adjusted for rights markdown
6 before capital increase

Annex: UniCredit Group Profile

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UniCredit Group Profile

At a Glance: our Unique Franchise

Highlights

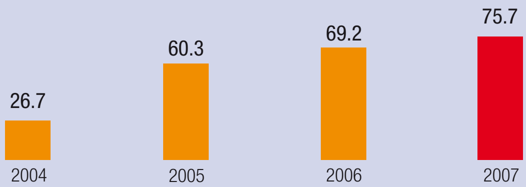
UniCredit Group is a major international financial institution with strong roots in Europe. It has a strong presence in 23 European countries, as well as representative offices in 27 other international markets, and employs around 170,000 people throughout the Group.

It provides a powerful combination of distribution and production capabilities as well as the full spectrum of financial services, financial products, and investment vehicles.

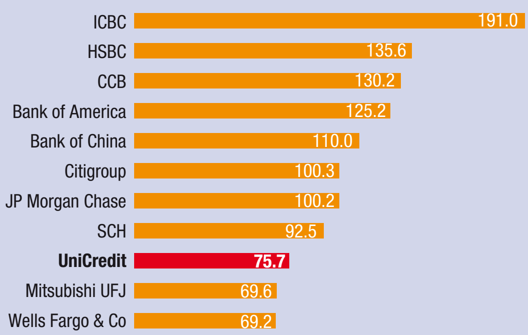
Over the years it has demonstrated its ability to generate profitable, sustainable growth and create significant value for its stakeholders.

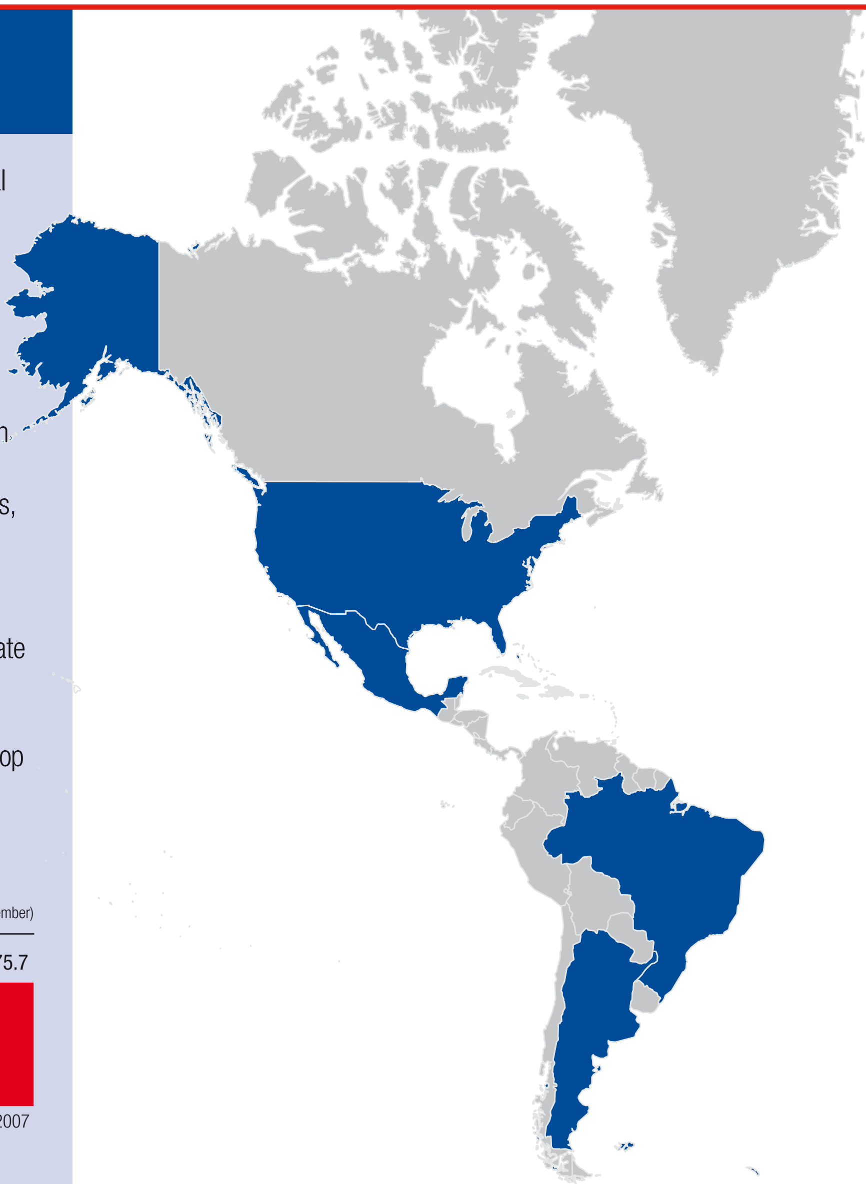
UniCredit Group is well-positioned as one of the top European players in the global banking industry.

Market Capitalisation (€ billion) (as at 31 December)



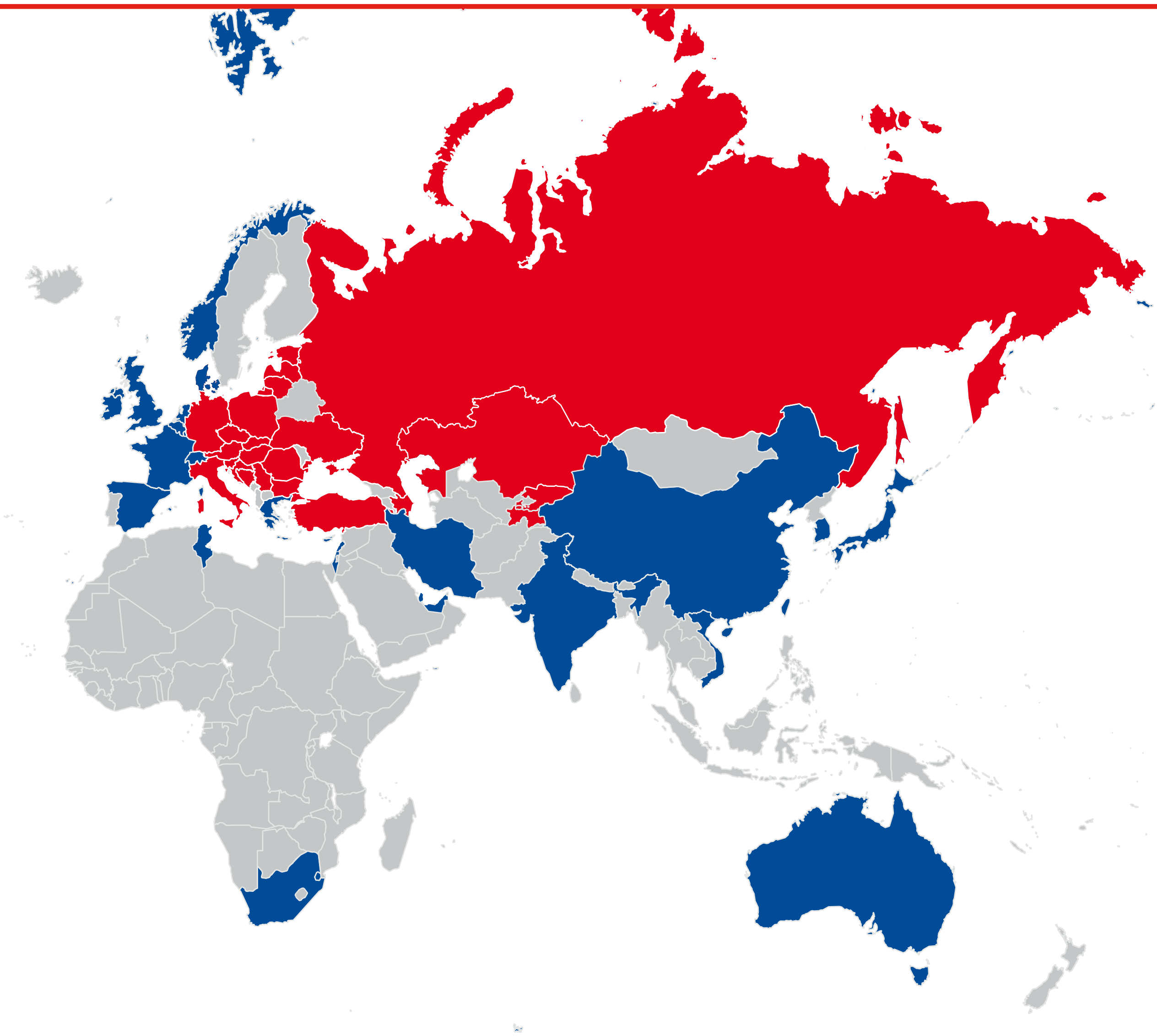
Banking Sector Global Market Capitalisation
(€ billion) (as at 31 December 2007)





Countries where the UniCredit Group has banking subsidiaries or banks in which it has a significant equity interest.

Countries in which the UniCredit Group operates via its own branches, representative offices, small banking subsidiaries, or investment centres (Pioneer).



Customers: 40 million

Employees[1]: 170,000

Branches[2]: 9,714

1. "Full time equivalent" data, calculated according to a new methodology which does not include unpaid leave. These figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. These figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

UniCredit Group Profile (Continued)

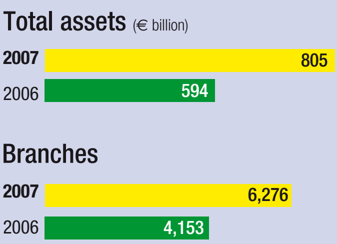
Strengthening our Home Markets

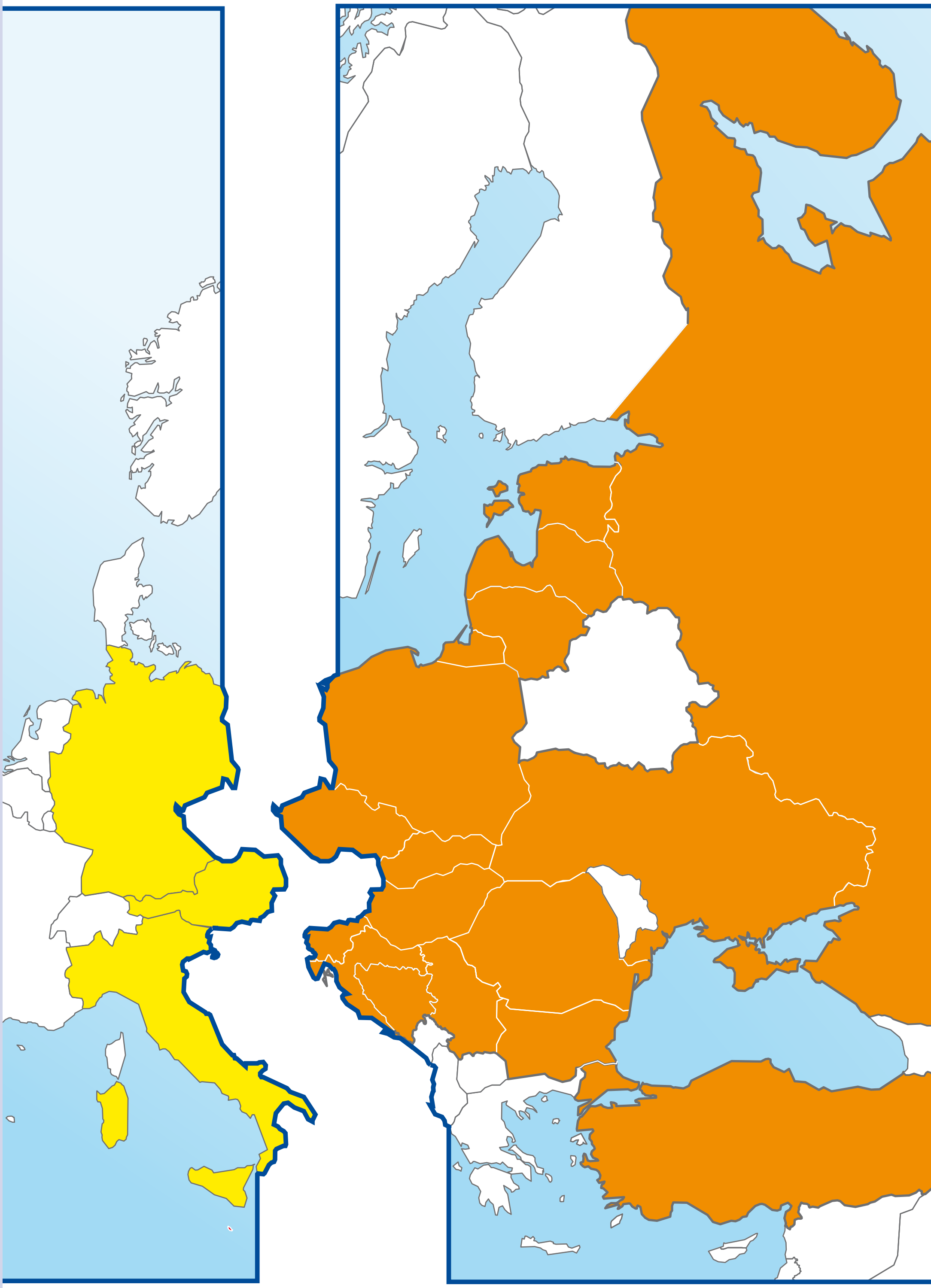
A Powerful Network

Focus on Austria, Germany and Italy

UniCredit Group has its roots and a leading position in one of the wealthiest regions of Western Europe: Austria, Germany and Italy.

That position was strengthened in 2007 by its integration in Italy with the Capitalia Group. This move strengthened UniCredit Group's presence in one of its core markets, providing a very attractive outlook for the future.





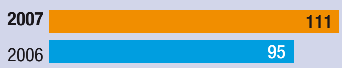
Focus on Central and Eastern European countries

UniCredit Group is the undisputed leader in Central and Eastern Europe with a market share that is double that of its closest competitors.

In 2007 UniCredit Group extended its operations in this area to 20 countries (including Central Asia).

Through the acquisition of ATF Bank, UniCredit Group has entered three new markets: Kazakhstan, Kyrgyzstan and Tajikistan. UniCredit Group has also moved to strengthen its presence in Ukraine through the acquisition of Ukrsotsbank.

Total assets (€ billion)



Branches

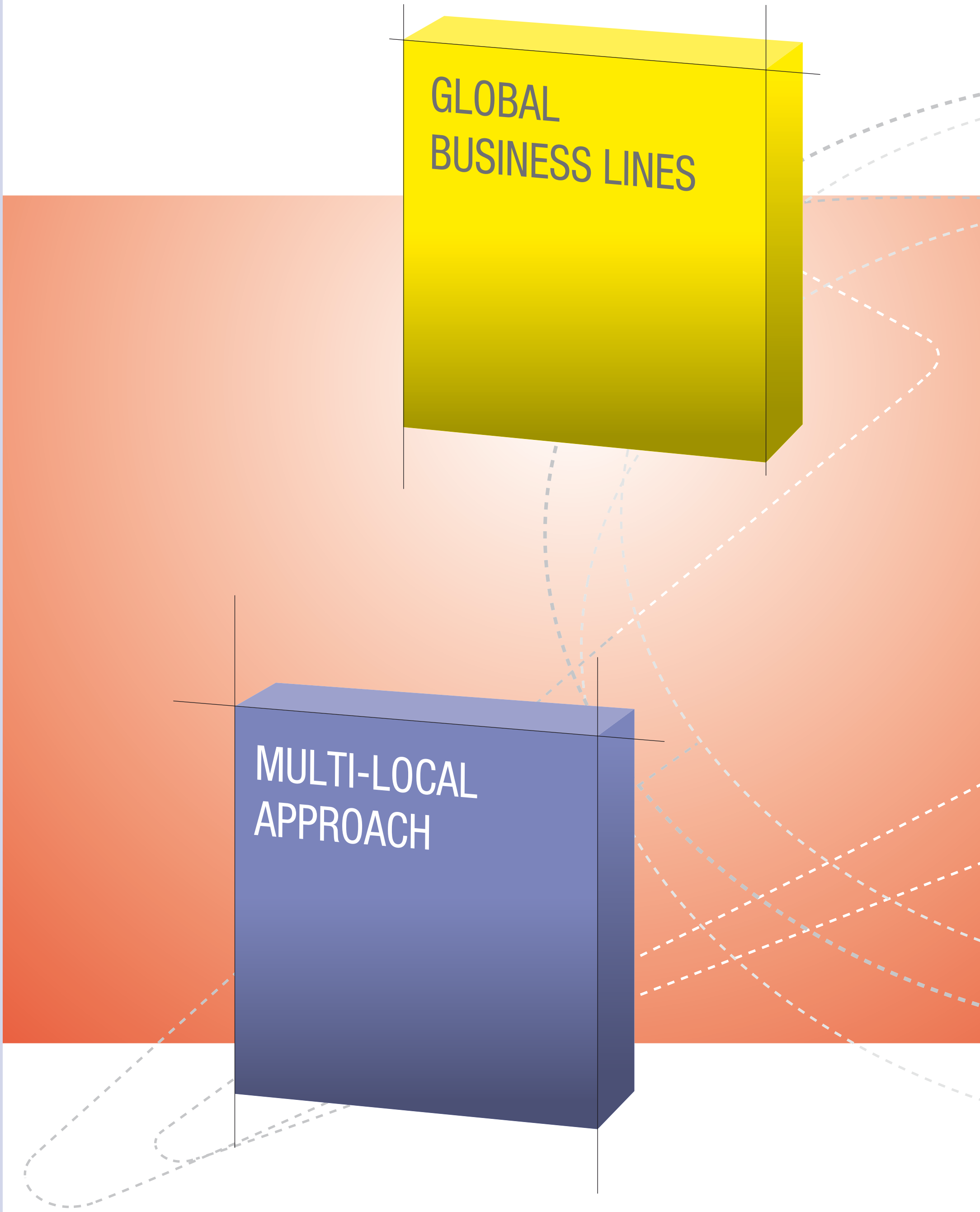
UniCredit Group Profile (Continued)

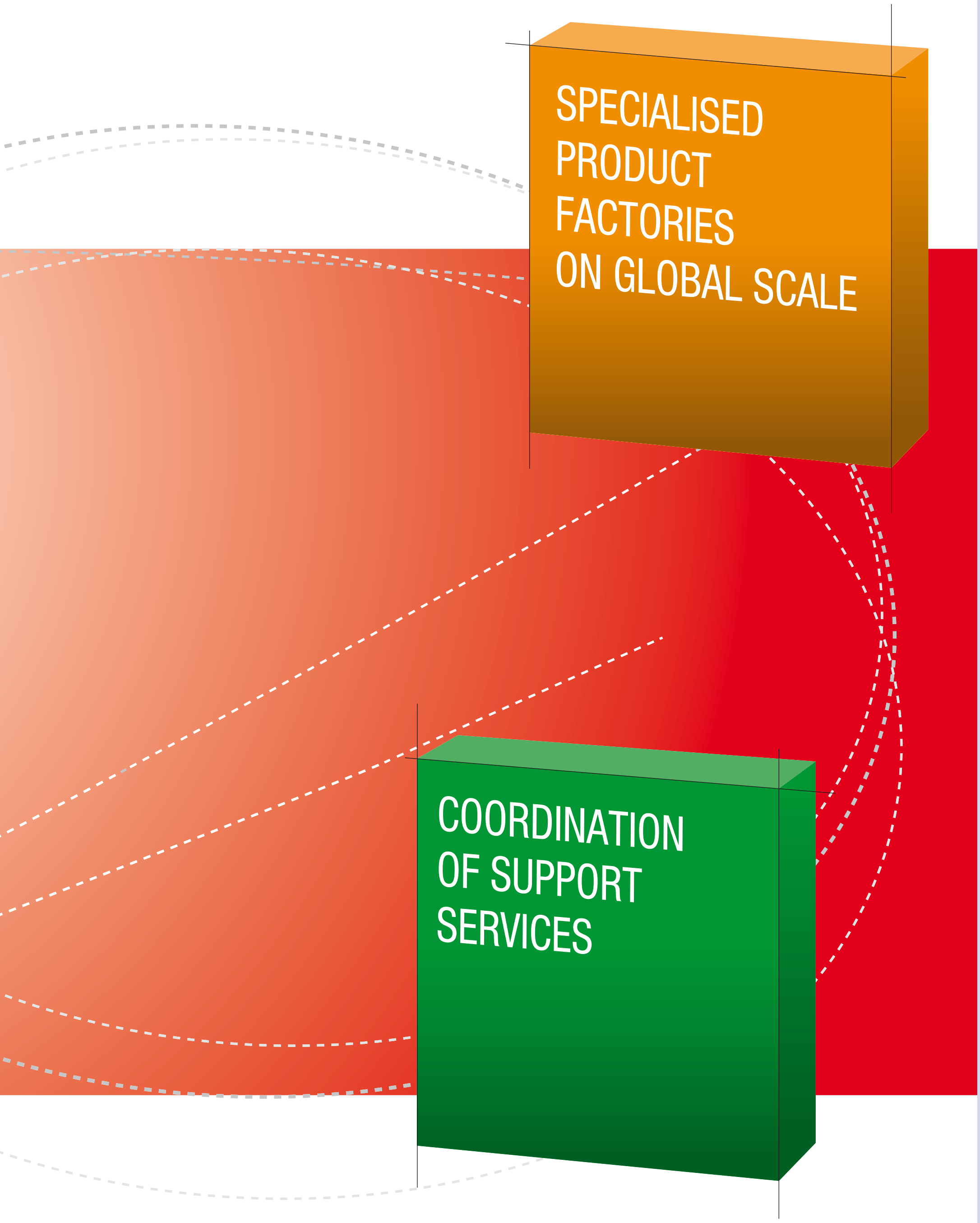
The Business Model

The Pillars

UniCredit Group has adopted a divisional business model.

The goal is to fully leverage its network by generating value in all of the businesses in which UniCredit Group is involved and by capitalising on growth opportunities as they occur.





This business model is based upon four pillars:

Delineating clear business lines – such as retail, corporate, private banking, investment banking and asset management – which are all common to the markets in which UniCredit Group operates. These are differentiated by client segment to address customer needs and to maximise their satisfaction.

Creating specific global "factories" for the development of products such as credit cards, consumer loans, mortgages and leasing in order to leverage the growing global potential for such businesses.

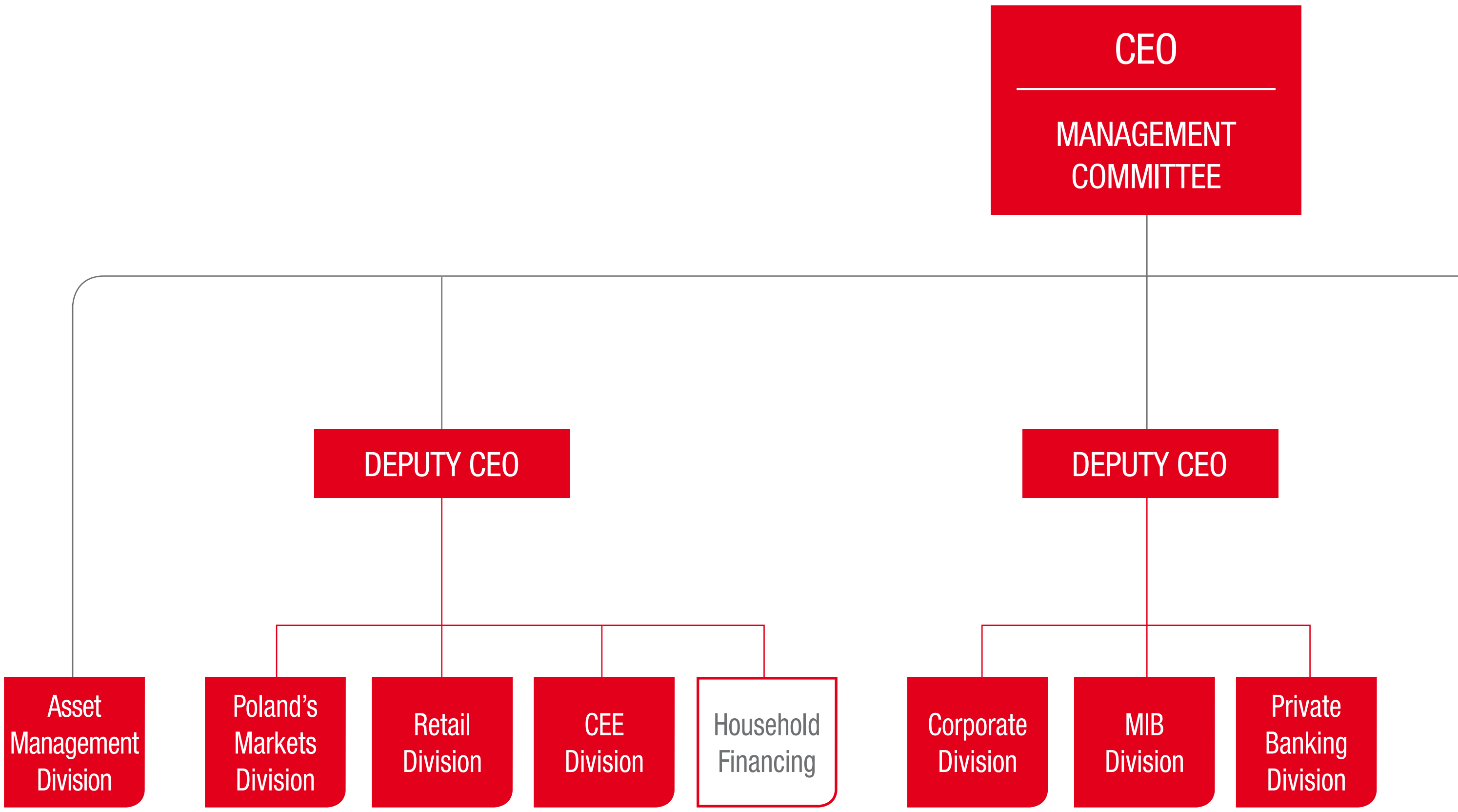
Coordinating support services – such as Information and Communication Technology and back office activities – in support of the daily requests of all UniCredit Group's Divisions.

Adopting a multi-local approach in order to be a true domestic player in each market, empowering UniCredit Group's local banks to oversee distribution networks and customer relationships.

UniCredit Group Profile (Continued)

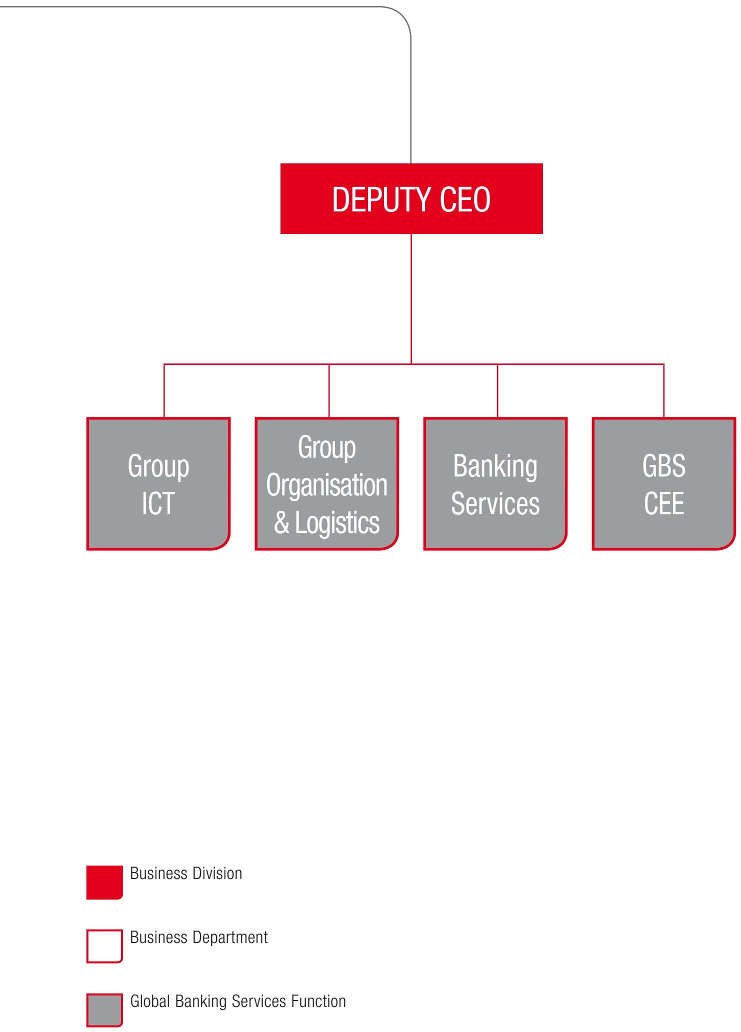
The Business Model (Continued)

Organisational Model of UniCredit Group



UniCredit Group's business model is enhanced by a consistent organisational approach. Its aim is to fully exploit the dynamic potential of its global network to provide organic growth through deep and historical local roots of its subsidiaries in 23 European countries.

To improve synergies among its Divisions, increase speed of service, and to support continuous innovation, UniCredit Group has adopted an organisational structure with three managerial areas, each headed by a Deputy CEO.



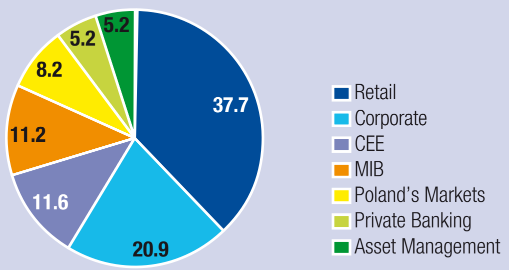
Business Mix

UniCredit Group has a portfolio which is diversified across business and geographical lines, with a strong commercial banking footprint. This business mix allows UniCredit Group to better withstand market turmoil.

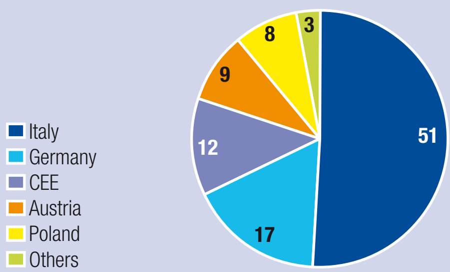
Retail banking is the most important source of UniCredit Group's revenues, generating roughly 38% of the total. This is followed by Corporate banking, which accounts for roughly 21% of total revenues.

UniCredit Group is focused on international markets and this can be seen in its regional revenue breakdown. Italy is the principal market for UniCredit Group, however substantial revenues are derived from Germany, the CEE countries and Austria.

Revenues by Division (%)

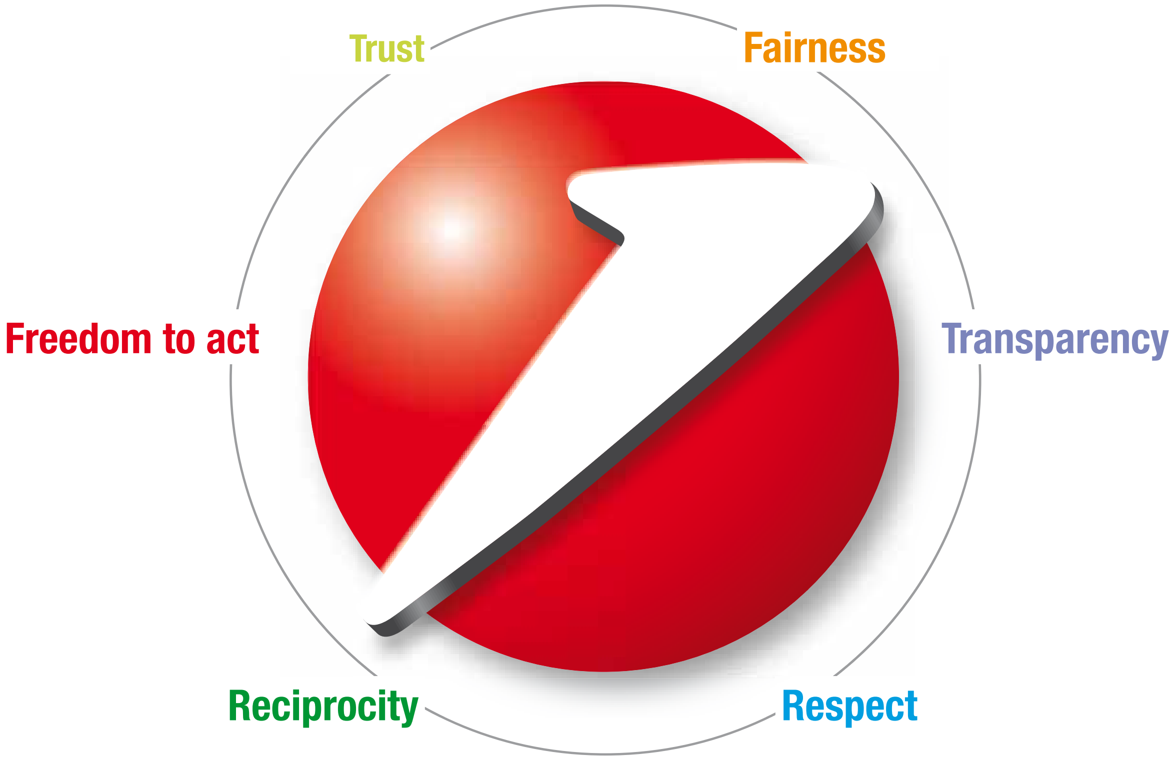


Revenues by Geographic Area (%)



UniCredit Group Profile (Continued)

People and Values



UniCredit Group's people are its greatest asset. It is human capital that powers the profitable, sustainable growth of the UniCredit Group. That is why People Management is one of the mainstays upon which UniCredit Group's "empowering sustainability" strategy relies. And that is why the goal of Human Resources is to make UniCredit Group the Employer of Choice in all the markets in which it operates.
The Group faces many challenges. In a relatively short period of time UniCredit Group has become a network of close to 170,000 employees operating in 50 countries.

To reflect this rapid growth, several organisational changes have been introduced, aimed at managing the business of recruiting, training, supporting and empowering the best people for each job, and at supporting the evolution of UniCredit Group's business model, which hinges on focused global Divisions and Competence Lines, and strong local distribution capabilities.
UniCredit Group has a robust recruiting process in place throughout the organisation. This process is always consistent with our values and our strict competency models.

The Group also has major training programmes in place at all levels of the organisation, and in early 2007 opened UniManagement, a dedicated Learning Centre in Turin.
UniCredit Group strategies and policies consider all stakeholders. Unions are involved. Residents of the communities in which we do business are always considered and their needs addressed. When integrating a new organisation, an in-depth assessment of existing technical and managerial resources is carried out. Internal "two-way" communication with managers and employees is an on-going priority.

Diversity is key asset and strength of UniCredit Group, which works to create a single culture, based on its values. This serves the company well and fosters the smooth integration into UniCredit Group of staff from merged and acquired companies.

Below are several ways in which UniCredit Group is achieving its goal of becoming the Employer of Choice wherever it does business.

The Integrity Charter

The Integrity Charter is the foundation of UniCredit Group's identity, and provides guidelines for its employees' behaviour and support in handling "dilemmas" in their everyday professional life. It is based upon a core of shared values: fairness, transparency, respect, reciprocity, freedom to act and trust. The Integrity Charter is both a guide and a means of applying UniCredit Group's values when interacting with colleagues, customers, suppliers, investors and local communities.

Integrity Charter Day is an annual event in all the countries where the UniCredit Group operates. Each event is preceded by the participation of thousands of employees in focus groups and team meetings to explore how to better apply our core values to our daily working lives.

The Restorative Justice System

UniCredit Group designed the Restorative Justice System to resolve internal conflicts and guarantee the application of the Integrity Charter. It promotes individual responsibility and the voluntary resolution of conflict between parties. If relationships within UniCredit Group have been damaged, the Restorative Justice System serves as a forum in which disputes can be mediated. Currently the Restorative Justice System is fully functioning in nine of the countries in which UniCredit Group operates: Austria, Bulgaria, Croatia, Germany, Hungary, Italy, Poland, Slovenia and Slovakia and it will be expanded to the other countries in the future.

The Ombudsmen Network

The Restorative Justice System is supported by a group-wide "Ombudsmen" network that works to resolve conflicts. The ombudsmen are internal appointees who are independent and report directly to the UniCredit Group's Chairman. They are responsible for assessing the validity of the claims of each case.

UniQuest

UniQuest is an international development programme for young people with high potential who work in the countries where UniCredit Group operates. This course was established to:

- facilitate the integration of UniCredit Group's various entities and foster the development of a European culture that is distinct but based on shared values and principles for sustainable growth;
- invest in internal growth and ensure a constant supply of young and promising talent in the Leadership Pipeline.

UniQuest is aimed at developing a diverse workplace environment where employees confidently deploy cutting-edge technologies and distance-work systems to collaborate with colleagues from different countries.

Executive Development Plan (EDP)

The EDP is the centerpiece of UniCredit Group's plan to develop leadership throughout the organisation. Its central objective is to accelerate the professional growth of Group Leaders and introduce a culture of continuous development in order to build a strong Group Leadership Team.

The EDP is a structured, annual process that focuses on individual and organisational performance and development and is the primary means by which UniCredit Group invests in its top managers.

The EDP process is based on the UniCredit Group Leadership Model, which embraces professional knowledge, a strong sense of integrity and performance-oriented personal traits distinctive to the company and crucial to its long-term sustainable growth.

UniCredit Group Profile (Continued)

Master Brand Strategy: in Unity there is Strength

The UniCredit Group will now go forth as one bank under one banner in order to achieve our one goal: to be one of the top banks both in Europe and the world.

We will deliver one brand idea. We will live by one set of values. We will stake out one position. We will have one corporate mission. We will share one vision. We will be one brand – with one spirit, one identity, one personality.

That is the single-minded objective of our master brand strategy, which will unify all of our business Divisions, and all of our communications, in all 23 countries in which we operate. It is being implemented now throughout UniCredit Group.

Our one banner is our new, bold corporate signature with the number one pointing upwards and onwards. The red UniCredit Group logo will be universally applied throughout our organization. It is a fresh, forward-looking brand symbol that is destined to become a new mark of distinction in global finance.

Our one idea, as a leading European financial institution, is empowering optimism in everything we do. What distinguishes our bank and our people from our competitors is the positive, can-do spirit that we bring to every personal transaction and every business transaction that we undertake. We are known for working in a close, forward-looking partnership with our customers, helping to empower them to make the right choices for their own future.

Our one position is *"Shape your tomorrow, today."* It is a core message that states simply and clearly that we are in the business of empowering optimism. It is an uplifting message that speaks to helping people and businesses shape their own future and achieve their full potential. It will not only be the soul of our advertising, and the emotional connection to our customers, it will be the spirit of our brand. And to give our message a call to action, we will sign off with a compelling brand idea: *"Let's start."*

UniCredit Group

AUSTRIA

- Bank Austria UniCredit Group
- Bank Austria Corporate Banking
- Schoellerbank Private Banking
- Bank Privat UniCredit Group
- UniCredit Markets & Investment Banking

GERMANY

- HypoVereinsbank UniCredit Group
- HypoVereinsbank Corporate Banking
- HypoVereinsbank Wealth Management
- UniCredit Markets & Investment Banking

ITALY

- UniCredit Banca
- UniCredit Banca di Roma
- Banco di Sicilia UniCredit Group
- Bipop Carire UniCredit Group
- UniCredit Corporate Banking
- UniCredit Private Banking
- UniCredit Markets & Investment Banking

CEE

- UniCredit Bank

CEE

- UniCredit Bulbank
- Zagrebačka banka UniCredit Group
- UniCredit Ţiriac Bank
- Under consideration
- Under consideration
- Under consideration
- Under consideration
- YapıKredi

Our one set of values is embedded in our Integrity Charter, which now forms the strong backbone of everything we do at UniCredit Group. These brand values are:

- Fairness – having one high standard in all we do, applied evenly and without discrimination
- Trust – a mutual code of honor between people that governs everything we do. It is the strong basis of our reputation, and builds the confidence in our company that is so essential to our profitable, sustainable growth
- Respect – we constantly drive to earn it, and willingly give it to those who deserve it
- Transparency – making certain that everything we do is always honest, relevant, and straightforward
- Reciprocity – actively seeking to help those around us, with the unspoken certainty that the way we treat others will have positive returns for us
- Freedom to act – fostering a culture of openness that enables our people to reach their potential and empowers them to achieve more for our customers and more for our stakeholders.

These are the values and beliefs that drive the behavior of everyone associated with the brand. They are the truths that we all live by.

Our one corporate mission is to apply our financial expertise to create a better future for our customers, to play a leadership role in shaping the future of the financial sector, and to achieve profitable, sustainable growth in a manner that benefits society as well as our stakeholders.

Our one shared vision is the firm belief that everyone has both the right and the responsibility to shape their own future, and that the financial expertise of UniCredit Group can help people – and businesses – shape their future and achieve their potential. We see that by empowering optimism, we empower our customers to achieve more and enable our own people to achieve more.

Our one brand is UniCredit Group.

It is one brand that encompasses many strong financial institutions that have come together in the unshakable conviction that in unity there is strength.

We are one brand united in the spirit of shared values and shared responsibilities, the spirit of openness and accountability, the spirit of total commitment to sustainable growth achieved in a way that benefits not only our stakeholders, but the communities we serve, the economies of the 23 countries in which we operate, and society as a whole.

We are one brand with one clear identity – an identity symbolized by our dynamic red logo with the slanted white number one. A brand known by our customers and by the financial community as a proud and distinguished financial organization.

We are one brand with one personality. There are clear attributes that distinguish the character of our people, our communications, and the attitude we project. The result is a brand personality that is:

- Warm – honest, engaging and nurturing
- Open – democratic and involving
- Progressive – restless for change, ahead of the pack, innovative
- Quietly confident – understated yet intriguing, with a knowledge and strength that is appealing
- Pragmatic – realistic and grounded, not over-promising but over-delivering on expectations.

That is who we are. That is the UniCredit brand. One bank under one banner.
Our master brand strategy is now being implemented throughout our organization.
It proves that in unity there is strength.
Let's start.

Financial Calendar

Important Dates 2008	
Publication of the 2007 annual results	March 13, 2008
First-quarter earnings	May 8, 2008
Annual General Meeting of Shareholders	July 29 (30), 2008[1]
ICM International Congress Center Munich	
Neue Messe Munich-Riem, 81823 Munich, Germany	
Half-yearly financial report	August 4, 2008
Third-quarter earnings	November 12, 2008

1 The Annual General Meeting of Shareholders has been convened for July 29, 2008 and also for July 30, 2008 as a precautionary measure in the event that it cannot be concluded on the first day.

Contacts

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