HypoVereinsbank
UniCredit Group

Half-yearly Financial Report at June 30, 2008

Disclaimer
This edition of our quarterly financial 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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Contents

Financial Highlights

Key indicators	1/1–30/6/2008	1/1–30/6/2007[1]
Return on equity after tax, adjusted[2, 3]	0.5%	17.5%
Return on equity after tax[2]	0.5%	25.0%
Return on equity before tax, adjusted[2, 3]	2.3%	28.1%
Return on equity before tax[2]	2.3%	36.3%
Cost-income ratio (based on total revenues)	72.4%	47.6%

Operating performance	1/1–30/6/2008	1/1–30/6/2007[1]
Operating profit/(loss)	€669m	€2,089m
Profit/(loss) before tax	€366m	€2,054m
Net profit/(loss)	€194m	€1,394m
Earnings per share, adjusted[3]	€0.24	€1.30
Earnings per share	€0.24	€1.80

Balance sheet figures	30/6/2008	31/12/2007
Total assets	€449.3bn	€422.1bn
Shareholders' equity	€23.8bn	€24.0bn

Key capital ratios	compliant with Basel II	30/6/2008 compliant with German Banking Act (KWG)	31/12/2007 compliant with German Banking Act (KWG, Principle I)
Core capital[4]	€23.3bn	€23.3bn	€23.6bn
Risk-weighted assets (including equivalents for market risks and operational risks)	€153.2bn	€157.5bn	€145.5bn
Core capital ratio[4,5]	15.2%	14.8%	16.2%

	30/6/2008	31/12/2007
Employees	24,555	24,784
Branch offices	850	846

Share information		1/1–30/6/2008	1/1–31/12/2007
Share price:	Reporting date	€40.10	€43.45
	High	€43.65	€45.36
	Low	€38.99	€32.30
Market capitalisation at reporting date		€32.4bn	€34.9bn

1 without discontinued operations
2 return on equity relating to 6,8% tied equity capital as a proportion of average risk-weighted asssets compliant with German Banking Act (KWG)/Principle I
3 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations and the gain on disposal of Indexchange and Munich Re and restructuring costs
4 pro forma: based on approved financial statements including the transfer of €3.7 billion to reserves approved by the Annual General Meeting of Shareholders on July 30, 2008
5 calculated based on risk-weighted assets including equivalents for market risks and additionally for Basel II operational risks

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	CHANGED/ CONFIRMED	PFANDBRIEFS PUBLIC	PFANDBRIEFS MORTGAGE	CHANGED/CONFIRMED
Moody's	A1	P-1	stable	C–	6/5/2008	AAA	Aa1	17/6/2008
S & P	A+	A-1	stable	—	30/11/2007	AAA	—	30/11/2007
Fitch Ratings	A	F1	positive	B/C	23/11/2007	AAA	AAA	17/6/2008

Financial Review

Significant events in the first half of 2008 and events after the reporting date

HypoVereinsbank generates clearly positive result in the first six months of 2008 due to a pleasing profit contribution in the second quarter

After the turmoil on the global financial markets, which has also burdened the financial market in Germany since the beginning of August 2007, produced significant adverse effects on results, particularly in the first quarter of 2008 due to extreme market distortions, there were signs of a temporary stabilisation in the second quarter, especially in April and May. In this market environment, HVB Group's net trading income recovered to a very positive figure of €318 million in the second quarter of 2008 after a loss of €647 million in the first quarter. This caused particularly the total revenues and the operating profit to increase by almost €1 billion, to €1,701 million and €813 million respectively, compared with the first quarter of 2008. With a 63% decline in net write-downs of loans and provisions for guarantees and commitments over the first quarter, profit before tax rose to a pleasing €684 million in the second quarter of 2008, after a loss before tax of €318 million in the first quarter. The profit improved over the first quarter of 2008 by €758 million, to €476 million. In the second quarter of 2008, this resulted in a return on equity before tax of 20.8% for the quarter in isolation and a return on equity after tax of 14.5%.

At mid-2008, HVB Group had generated a significant profit before tax of €366 million for the first six months against the backdrop of the pleasing earnings performance in the second quarter of 2008 and despite the difficult market situation in the first quarter of 2008.

On the way to a uniform organisational structure: successor to the Management Board spokesman named and further development of the managerial structure adopted

As already reported in the interim report at the end of March 2008, the Supervisory Board of HypoVereinsbank appointed Dr Theodor Weimer to succeed Dr Wolfgang Sprissler as spokesman of the Management Board of HypoVereinsbank at its meeting on April 9, 2008.

Dr Weimer is currently head of Investment Banking in the Markets & Investment Banking division at both HypoVereinsbank and the UniCredit Group and responsible for the division's worldwide M&A, equity capital markets and financing activities. On April 9, 2008, the Management Board of HypoVereinsbank appointed Dr Weimer to act as the Bank's Executive Manager with responsibilities for the Markets & Investment Banking and Corporates & Commercial Real Estate Financing divisions. Subject to the final approval of the supervisory authorities, Dr Weimer has been appointed to the Management Board of HVB with effect from January 1, 2009 and will assume responsibility for the Markets & Investment Banking and Corporates & Commercial Real Estate Financing divisions once he has been elected spokesman of the Management Board. Furthermore, Dr Weimer will be nominated to join the Management Committee of the UniCredit Group.

At the same meeting, the Supervisory Board also adopted a resolution concerning the further development of the management structure at HypoVereinsbank. In the course of this initiative, the Management Board was reduced from ten members to six, thus reflecting the principles of international and effective corporate governance as practised by international banks. The Management Board will focus even more closely on its central tasks i.e. governance, allocation of resources, controlling and risk management of the Bank. As before, the former members of the management board who represented the Retail and Wealth Management divisions will have directorial responsibility for operations in Germany, HypoVereinsbank's domestic market. The new structure became effective on May 1, 2008. Furthermore, the Management Board mandate of Stefan Ermisch was terminated by mutual agreement with effect from June 5, 2008. Thus, the Management Board now consists of five members.

Annual General Meeting of Shareholders on July 29 and 30, 2008

The 131st Annual General Meeting of Shareholders of the Company took place on July 29 and 30, 2008. After Munich Regional Court passed a decision on January 31, 2008 declaring that the disposals of HVB's holdings in Bank Austria and in International Moscow Bank, the two subsidiaries HVB Bank Ukraine and HVB Bank Latvia and both of the branches in Lithuania and Estonia, as had been decided for the first time at the Extraordinary Shareholders' Meeting of October 25, 2006, were invalid for formal reasons, the 131st Annual General Meeting of Shareholders adopted positive confirming resolutions on July 30, 2008 in order to rectify the formal defects; suits calling for the confirming resolutions to be declared null and void have in the meantime also been filed. In addition, on July 30, 2008 the 131st Annual General Meeting of Shareholders adopted inter alia a resolution to distribute a dividend of €0.50 per share of common stock.

General situation and industry-specific economic trends

Macroeconomic situation

After having expanded by an annually adjusted 1.0% during the first quarter, the US economy continued to show weak but still positive growth in the following quarter. On the one hand, the exploits of retail sales in May were not repeated in June (rising by a meagre 0.1% against 0.8% the previous month). On the other, June also showed a month-on-month rise in industrial output of 0.5% in the same month, with confirmation from the ISM of the improving situation in the manufacturing sector, which crossed the 50-point threshold back into expansionary territory (at 50.2). Amidst fears that the US economy could plunge into a serious recession and due to strong pressures in the financial markets, the Fed had orchestrated a fast interest rate reduction, cutting Fed funds from 4.25% to 2.00% between January and April. The US dollar depreciated from 1.46 as of January 1, 2008 to 1.58 at June 30, 2008 against the euro during the first half of the year, weakened not only by the blurred US growth outlook but as well by skyrocketing oil prices, as manifested by the Brent Crude Oil Index reaching $137 per barrel at the end of June.

In the euro-area, first-quarter growth was fairly strong at 0.7% quarter-to-quarter, although the results shown in European Commission consumer and business confidence surveys have declined since early summer of last year. The labour market registered some improvements, suggesting that European economic fundamentals are in fact solid, although the consequences of the complex external conditions are starting to be felt in some countries. On balance, decelerating net exports and the slow-down in industrial orders and production suggest that the second-quarter euro-area gross domestic product (GDP) should have expanded only slightly on a quarter-on-quarter basis.

In the first quarter, Germany had experienced unexpectedly strong GDP growth of 1.5% quarter-on-quarter even with consumer demand making only a limited contribution; but the economy seems to have slowed down considerably in the second quarter, in which contracting industrial orders and production may indicate temporary stagnation. The main reasons for the slow-down include the more complex external environment as a result of the strong euro, the rapid increase in oil prices and the consequent jump in inflation. The persisting financial market strains and faltering consumer confidence are additional causal factors.

Specific trends affecting the banking sector in Germany

German banks' profits in the first quarter of 2008 fell considerably on a year-on-year basis as the leading banking groups were negatively impacted by the financial market crisis. Second-quarter profits again are expected to be lower than last year's excellent second-quarter results although financial markets temporarily stabilised during April and May 2008. The German stock exchange remained practically unchanged at the end of June from its end of March levels, albeit volatility was relatively high.

Financial Review (Continued)

Bank lending in Germany accelerated again in the first half of the year due to still robust although gradually decelerating GDP growth, and, in particular, as a result of the corporate sector's strong credit demand which is evidence of continued lively investment activity. Although lending to corporations and households was especially buoyant at the beginning of the year, while household lending has further declined slightly due to the weakness in both the real estate sector and consumer lending.

In the first four months of the year, bank lending rates in Germany were relatively stable yet the interest on deposits increased, putting the total banking spread further under pressure. However, the revival of total lending growth underway since the beginning of the year, in addition to the strong growth recorded in deposit volumes, had a stabilising effect on net interest income.

General comments on the business situation

HVB's performance in the first half of 2008 continues to show a mixed picture.

First, we see that only the divisions not directly affected by the turmoil on the financial markets – Retail, Corporates & Commercial Real Estate Financing and Wealth Management – managed to report satisfactory performance trends and maintain largely stable cost-income ratios in the difficult business environment of the first half of 2008.

At the same time, particularly the result of the Markets & Investment Banking division was essentially marked by the difficult capital market environment in the course of the growing financial market turmoil in the first quarter of 2008. The extreme market distortions in the first quarter of 2008 strongly impacted the results of the Markets & Investment Banking division. In the second quarter of 2008 there was a temporary stabilisation of the financial markets in April and May, which led to a significant recovery in net trading income and a positive quarterly result of €318 million in HVB Group compared with the first quarter. This recovery was primarily the reason for the Markets & Investment Banking division achieving a turn-around in profit before tax of €356 million after a loss of €640 million in the first quarter.

After the first six months of this year, HVB Group posted a net trading loss of €329 million despite improved results in the second quarter. This is primarily due to the adverse effects arising from ABS products predominantly allocated to the trading portfolio in the first quarter of 2008. In the first half of 2008, ABS products had a negative impact of €552 million (March 31, 2008: €495 million) on the income statement. In this connection, the same valuation criteria and methods were applied as in previous years and the valuation categories compliant with IAS were retained unchanged.

Negative fair value changes arising from market fluctuations of ABS securities classified as available for sale, for which there were no impairment criteria compliant with IAS 39.59 and no impairment losses were otherwise to be recognised, are included in the available-for-sale reserve (also known as "revaluation reserve") in the amount of €87 million under shareholders' equity for the first half of 2008 (March 31, 2008: minus €47 million).

LBO finance transactions are stated at amortised cost for the valuation of receivables. Depending on the individual internal ratings, a review is carried out regularly to determine whether an impairment is necessary as defined by IAS 39.58. This resulted in no requirement to recognise impairment losses for LBO finance transactions at an individual exposure level in the first half of 2008 due to the good quality of the borrowers. Should attractive market opportunities continue not to arise due to the current market environment, we intend to retain in our portfolio that part of the portfolio which we had originally intended to outplace. This is why we continue to consider the risk of the income statement being burdened by fair values which are below the carrying amount as manageable if, as at present, the fair values are based solely on the widening of the credit spread and not by any deterioration of customers' credit standings.

Overall, the recovery trends in HVB Group described above in connection with the turmoil on the financial markets and the stable development of the divisions not directly affected by the financial market crisis resulted in a significant profit before tax of €366 million and a net profit of €194 million in the first half of 2008. Hence, in times of crisis the importance of a well-balanced business model becomes obvious.

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.

Operating performance of HVB Group

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

Net interest income
Compared with last year, net interest income decreased by 6.2%, or €119 million, to €1,794 million.

This decline is mainly a result of the non-recurring effect of €93 million generated in the first quarter of the previous year in connection with the sale of the discontinued operations by 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 in the first quarter of 2007.

In addition, net interest income was adversely affected by the investment banking activities transferred from UniCredit Banca Mobiliare S.p.A.[1] (UBM) to HVB AG in April 2007 on account of refinancing the trading portfolios as well as the initial consolidation of special purpose entities in the fourth quarter of 2007.

Without the interest payments on purchase prices mentioned above and the effects of initial consolidation, deconsolidation and currency changes, net interest income is 1.7% higher than last year.

As expected, interest income from dividends and other income from equity investments decreased by €106 million to €125 million, mainly due to the significant decline in dividends under private equity funds in line with the general market trend.

Net fees and commissions
At €781 million in the first half of 2008, net fees and commissions failed to match the exceptionally high figure of €975 million recorded for the same period last year due to the persistent uncertainties on the capital markets. Particularly our customers' restraint in connection with the turmoil on the financial markets and the resulting investment behaviour led to a significant decline in our fee and commission income in the securities business. In the unfavourable market environment of the first half of 2008, all the divisions were unable to repeat the high figures generated under extremely favourable market conditions in the first half of 2007. The Markets & Investment Banking division was particularly affected by this trend. But this segment, which had been especially impacted by the financial market turmoil, succeeded in significantly increasing its net fees and commissions in the second quarter of 2008 over the first three months of 2008 (up 11.8%).

Net trading income
Net trading income rebounded significantly, to a profit of €318 million in the second quarter, after the extreme market distortions arising from the financial market turmoil in the first quarter of 2008 had led to a loss of €647 million in net trading income. The slight stabilisation trend in the financial market crisis in April and May was reflected in an improvement in net trading income to minus €329 million for the first half of 2008. Hence, the second quarter of 2008 brought a significant improvement in results, especially in the Structured Credit unit.

In the previous year, a profit of €819 million was generated in an exceptionally favourable capital market environment.

Operating costs
Operating costs declined significantly year-on-year, by 7.3% to €1,759 million, despite the net increase in expenses from initial consolidation and deconsolidation effects, due among other things to the transfer of the investment banking activities of the former UBM at April 1, 2007. Adjusted for all initial consolidation, deconsolidation and currency effects, operating costs fell sharply, by almost 10%, compared with last year.

Adjusted for consolidation and currency effects, payroll costs also declined by 11.9%, primarily as a result of the lower expense for profit-related bonus payments in the Markets & Investment Banking division as well as a reduction in headcount. Other administrative expenses decreased by 8.3% while amortisation, depreciation and impairment losses on intangible assets remained almost unchanged.

1 the effects caused by the transfer of UBM in the period from January 1 to March 31, 2008 are similar to initial consolidation and are hence referred to as such below

Financial Review (Continued)

Operating profit
Due to the pleasing profit trend in the second quarter, we achieved an operating profit of €669 million in the first half of 2008, after reporting an operating loss of €144 million in the first quarter of 2008 due to the adverse effects on results described under net trading income. The cost-income ratio of 72.4% (percentage of total revenues as against operating costs) for the first half still bears the imprint of the drag on earnings from the first quarter of 2008 in the Markets & Investment Banking division and is not truly indicative of sustainable profitability. But at 56.7% overall, the cost-income ratio for all other divisions matched the good level posted in the same period last year (56.0% adjusted for the non-recurring effects from interest payments on purchase prices).

Net write-downs of loans and provisions for guarantees and commitments
Net write-downs of loans and provisions for guarantees and commitments decreased by 34.4%, to €256 million, at the mid-year mark of 2008. These low figures for the first six months of 2008 are primarily attributable to the fact that no loan-loss provisions were required for the Markets & Investment Banking division at the end of June 2008 and the loan-loss provisioning requirements for the Special Credit Portfolio included under the Other/consolidation segment had also noticeably decreased compared with the previous year.

Net income from investments
Net income from investments amounted to a loss of €26 million at June 30, 2008. The total profit of €383 million recorded in the previous year benefited primarily from the gains of €219 million realised on the sale of Indexchange Investment AG to Barclays Bank PLC, of €47 million on the sale of Norddeutsche Investment-Gesellschaft mbH (Nordinvest) to the Pioneer Group in the first quarter of 2007 and of €113 million from the sale of the remaining shares in Münchener Rückversicherungs-Gesellschaft AG (Munich Re) in the second quarter of that year.

Profit before tax, income tax and net profit
Profit before tax rebounded by mid 2008 to a positive figure of €366 million, after a loss of €318 million was reported in the first quarter of 2008 amid the extreme environment created by the financial market crisis. At the mid-year mark of 2007, we generated a profit before tax of €2,054 million in exceptionally favourable market conditions and positively impacted by non-recurring effects. (Adjusted for non-recurring effects from interest payments on the purchase price relating to the sale of discontinued operations amounting to €93 million and the gains of €219 million and €113 million on the disposal of Indexchange and Munich Re respectively as well as €3 million in restructuring expenses, last year's profit before tax amounted to €1,632 million.)

We report a tax expense of €120 million under income tax at June 30, 2008. In 2007, a tax expense of €617 million was reported on account of the much higher profit before tax.

The profit after tax and minorities stood at €194 million after the first six months of 2008 after €1,394 million in the previous year (profit adjusted for non-recurring effects in the previous year: €1,012 million).

Segment results broken down by division
The divisions contributed the following amounts to the profit before tax of HVB Group of €366 million:

Markets & Investment Banking	loss of €284 million
Corporates & Commercial Real Estate Financing	€391 million
Retail	€143 million
Wealth Management	€99 million
Other/consolidation	€17 million

The income statements of each division and comments on the performance of the divisions are provided in Note 3, "Segment reporting", in the present Half-yearly Financial Report. The components and targets of divisions are described in detail in Note 26 "Notes to segment reporting by division", in the 2007 Annual Report.

Financial situation

Total assets

The total assets of HVB Group amounted to €449.3 billion at June 30, 2008. This represents an increase of €27.2 billion, or 6.4%, compared with the 2007 year-end total.

The increase in total assets is primarily due to the widening of €20.9 billion in loans and receivables with banks and the €4.2 billion rise in loans and receivables with customers. At the same time, there was an increase of €1.8 billion in financial assets held for trading.

The increase in total liabilities is largely attributable to the strong increase of €19.8 billion in deposits from banks, the €10.6 billion growth in financial liabilities held for trading and the €5.5 billion rise in deposits from customers. In contrast, our debt securities in issue declined significantly by €8.6 billion.

Shareholders' equity declined slightly by €0.2 billion, to €23.8 billion, in the first half of 2008 despite the €0.2 billion profit generated. The reason for this development is the decline in the valuation of financial instruments by a total of €0.5 billion. The €321 million decline in the available-for-sale reserve compared with year-end 2007 results largely from the negative fair value fluctuations of our shareholdings in the difficult stock market environment. The largest individual item is a market fluctuation entailing a loss of €141 million of our holdings in Babcock & Brown. Negative fair value fluctuations arising from ABS securities in the "available for sale" category for which there were no impairment criteria compliant with IAS 39.59 and otherwise no impairment losses were to be made, accounted for €87 million in the first half of 2008. The hedge reserve declined by €219 million compared with year-end 2007.

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

The risk-weighted assets for credit risks of HVB Group determined on the basis of Basel II (KWG)/Solvency Ordinance (SolvV) by applying partial use amounted to €132.9 billion at June 30, 2008 (including counterparty default risk in the trading book; without market and operational risks). The €7.9 billion decline in risk-weighted assets compared with the balance sheet date on March 31, 2008 is also due to partial methodical adjustments such as the change-over from the standard approach to the internal rating-based approach in the course of integrating the investment banking activities of the former UBM. Risk-weighted assets totalled €153.2 billion (including equivalents for market and operational risks).

The risk-weighted assets of HVB Group compliant with the German Banking Act (KWG)/Principle I (without market risks) increased by €7.0 billion, to €138.6 billion, compared with year-end 2007. This increase was driven in particular by the increase in business activities and the decline in the volumes of securitisation activities. Risk-weighted assets totalled €157.5 billion (including equivalents for market risks).

The main differences between KWG/Principle I and Basel II (KWG/SolvV) arise from the more risk-sensitive determination of the risk-weighted assets compliant with Basel II compared with the static definitions of the risk weightings based on KWG/Principle I. This also applies to the determination of the counterparty default risk and the consideration of loan commitments not utilised which also require equity backing even if they have a term of one year or less.

Operational risk is a risk component which also requires equity backing under Basel II.

The total lending volume resulting from the ten current ABS transactions of HVB Group amounted to €25.3 billion at June 30, 2008. The reduction in risk-weighted assets that this created stands at €12.5 billion under Basel II and €19.2 billion under KWG/Principle I. Series 1 of the Geldilux-TS-2005 transaction with a volume of €2.2 billion and a reduction in risk-weighted assets of €2.0 billion under Basel II came to an end in the second quarter of 2008 (KWG/Principle I: €2.1 billion). The transactions Wolfgang, Promise Color 2003-1, Building Comfort 2003-1 and Building Comfort 2002-1 with a total transaction volume of €5.3 billion ended in the first quarter of 2008. Consequently, a reduction in risk-weighted assets of €1.2 billion under Basel II (KWG/Principle I: €2.3 billion) was reversed.

Financial Review (Continued)

At the reporting date of June 30, 2008, the core capital (for solvency purposes) of HVB Group compliant with the German Banking Act amounted to €19.6 billion and equity funds to €25.4 billion. This results in a core capital ratio compliant with Basel II (including market and operational risks) of 12.8%, or 12.4% compliant with KWG/ Principle I, and an equity funds ratio of 16.6%, or 16.1% compliant with KWG/Principle I. Including the transfer to reserves of €3.7 billion resolved by the Annual General Meeting, this results in a pro forma core capital ratio (including market and operational risks) of 15.2%, or 14.8% compliant with KWG/Principle I.

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 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 the first six months of 2008 (2007: 1.2).

Company acquisitions and disposals

There were no significant company acquisitions or disposals in the first half of 2008. Changes in the companies included in the consolidated financial statements are presented in Note 2, "Changes in the group of 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 UniCredit 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 Management Board on September 12, 2006 and approved by the Supervisory Board to sell the shares held by the Bank in Bank Austria Creditanstalt AG (Bank Austria) 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, in Joint Stock Commercial Bank Ukraine (HVB Bank Ukraine) to Bank Pekao S.A. and in Closed Joint Stock Company International Moscow Bank (IMB) and AS UniCredit Bank (formerly HVB Bank Latvia AS, Riga) to Bank Austria 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 of 2007.

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.

At HVB'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) (transfer resolution).

In December 2007, HVB filed a request for the release of the entry in the Commercial Register despite pending suits against the transfer resolution adopted by the Annual General Meeting of Shareholders in June 2007 (release motion). On April 24, 2008, Munich Regional Court granted the request filed by HVB. Shareholders filed a complaint against this ruling with the Higher Regional Court. After further shareholders filed suit in July 2008 requesting the court to declare null and void the transfer resolution adopted by the 2007 Annual General Meeting of Shareholders, HVB filed a further release motion with the court. We expect final court rulings regarding the release motions to be published in the second half of 2008. Until the completion of the squeeze-out, which would take effect when entered in the Commercial Register after favourable, final decisions granting approval are passed, HVB AG's shares of common bearer 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. As soon as the squeeze-out is entered in the Commercial Register, the share will no longer be listed on the stock exchanges and the admission to listing will be revoked. The cash settlement amount of €38.26 per HVB share will be payable immediately after the squeeze-out has been entered.

Annual General Meeting of Shareholders on July 29 and 30, 2008

The 131st Annual General Meeting of Shareholders of the Company took place on July 29 and 30, 2008. After Munich Regional Court passed a decision on January 31, 2008 declaring that the disposals of HVB's holdings in Bank Austria and in International Moscow Bank, the two subsidiaries HVB Bank Ukraine and HVB Bank Latvia and both of the branches in Lithuania and Estonia, which were resolved for the first time at the Extraordinary Shareholders' Meeting of October 25, 2006, were invalid for formal reasons, the 131st Annual General Meeting of Shareholders adopted positive confirming resolutions on July 30, 2008 in order to rectify the formal defects; suits calling for the confirming resolutions to be declared null and void have in the meantime also been filed. In addition, on July 30, 2008 the 131st Annual General Meeting of Shareholders decided inter alia to distribute a dividend of €0.50 per share of common stock, to formally approve the actions of the Management Board and the Supervisory Board for the 2007 financial year, to grant approval to purchase own shares for trading purposes, to appoint KPMG as the auditors for the 2008 financial year, and to elect to the Supervisory Board the candidates proposed by the administration as shareholder representatives.

The numerous legal proceedings initiated notably by shareholders of HVB AG with regard to the reorganisation are discussed in detail in the section of the Risk Report entitled "Operational risk".

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

Breakdown of subscribed capital

The subscribed capital of HVB AG totals €2,407,151,016.00 and is divided into €2,363,490,216 shares of common bearer stock, broken down into 787,830,072 no par shares and €43,660,800.00 in non-voting shares of registered preferred stock, broken down into 14,553,600 no par shares. 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 is vested with 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 UniCredit 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 71b 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.

Financial Review (Continued)

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

According to the German Securities Trading Act, every investor who attains, exceeds or falls below certain levels 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 a capital increase at HVB against contributions in kind in connection with the contribution of the investment banking business of UniCredit Banca Mobiliare S.p.A. (UBM), Milan, UBM, a wholly 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. UniCredit thus had a total share of 95.36% in the increased voting capital, 88.8% of which UniCredit held directly and a further 6.56% indirectly (via its subsidiary UBM). On March 31, 2008, UBM was merged with UniCredit. Since then all the shares have been held directly by UniCredit. HVB AG's share in the capital stock amounts to around 95.45%.

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.

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 through a designated proxy of the Company.

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 to the Supervisory Board 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 that they have adequate theoretical and practical knowledge of the Bank's operations, as well as sufficient 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; otherwise the Supervisory Board determines the number of Management Board members. At present, the Management Board consists of five members. Subject to the approval of the supervisory authorities, Dr Weimer has been appointed to the Management Board with effect from January 1, 2009. The terms of office of two members of the Management Board expire on December 31, 2008 and of the remaining members on December 31, 2011, taking account of re-appointments already resolved. Members of the Management Board of HVB AG are usually appointed for a term of three years or less.

Under Section 179 of the German Stock Corporation Act, amendments to the 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 Annual General Meeting 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, 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 authorised the Management Board until May 14, 2008 to issue equity warrant bonds, convertible 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.

Under Article 5 (4) of the Articles of Association, a conditional capital increase of €375 million was available to grant shares of common stock to the holders of debt securities and participating certificates which could have been issued in accordance with the authorisation granted on May 14, 2003. The Management Board did not use this authorisation.

Furthermore, the Management Board was 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. After the previous authorisation had been revoked, the Management Board was again authorised to buy and sell own shares for trading purposes compliant with Section 71 (1) No. 7 of the German Stock Corporation Act by a resolution adopted at the Annual General Meeting on July 29 and 30, 2008. This authorisation will become null and void when the squeeze-out is entered in the Commercial Register.

Financial Review (Continued)

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 conditions 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. Bayerische Hypo- und Vereinsbank AG, Munich, receives a suitable commission for the placement of credit card contracts between private customers of the Retail division and UniCredit Consumer Financing Bank S.p.A., Milan. In June 2008 the cooperation was extended to include new “Komfortkredit” business. Bayerische Hypo- und Vereinsbank AG, Munich, receives a suitable commission for the placement of “Komfortkredit” contracts between private customers of the Retail division and UniCredit Consumer Financing Bank S.p.A., Milan.

Organisation of management and control

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 Supervisory Board of HVB AG has 20 members and includes equal numbers of representatives of the shareholders and employees.

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB AG is given under Note 31, “Members of the Supervisory Board and Management Board”, of this Half-yearly Financial Report.

Basic features of the remuneration system

Structure of compensation paid to members of the Management Board

The structure of the compensation paid to members of the Management Board, which we described in detail in the Financial Review section of the 2007 Annual Report (page 77 et seq.), remained unchanged in the period under review.

As last year, we will provide information regarding the amount of compensation paid to members of the Management Board at year-end 2008 under the note entitled “Information on relationships with related parties” in the notes to our consolidated financial statements (cf. page 206 and 207 of the 2007 Annual Report).

Compensation paid to members of the Supervisory Board

The basic features of the compensation paid to members of the Supervisory Board, which were described on page 79 of the 2007 HVB Group Annual Report, have not changed since the end of 2007.

As last year, we will provide information regarding the amount of compensation paid to members of the Supervisory Board at year-end 2008 under the note entitled “Information on relationships with related parties” in the notes to our consolidated financial statements (cf. page 208 of the 2007 Annual Report).

Outlook

The following comments on the outlook are to be viewed in connection with the comments on the outlook in the Management's Discussion and Analysis and the Risk Report in the consolidated financial statements for the 2007 financial year.

General economic trends

At the beginning of the third quarter of 2008 there were virtually no signs that the financial turmoil would end soon. This was evident from the bankruptcy of further US mortgage banks and the massive liquidity problems of US mortgage agencies, although this time both events were close to the source of the continuing turmoil: the recession on the US real estate market. However, our prognosis assumes that the US economy, thanks once again to a strong internal policy reaction and the weak - albeit slightly strengthening - US dollar, will continue to improve mildly in the coming months. As soon as the economy starts to pick up, the Fed may well start to reverse part of the recent interest rate cuts at the beginning of next year, bringing the Fed funds rate to 2.50% during 2009.

As for the euro area, the ECB will probably not make any further interventions this year after raising rates in July and with growth slowing in the remainder of 2008. If inflation weakens a little towards the end of 2009, the ECB is very likely to set rates back to 4% consistent with the conditions expected then: growth quite close to potential and an inflation rate slowly approaching the ECB's target. On the back of the different monetary policy trends on both sides of the Atlantic, the US dollar should appreciate against the euro during the remainder of this year and is expected to further strengthen in 2009. Inflation will initially remain quite high, but should start to gradually decline in 2009; this assumes a stabilisation in oil prices at around $115 per barrel, which is only slightly higher than their average price of $109 in the first half of 2008.

Given the strong first-quarter performance of German economy, a GDP growth in 2008 of at least two percent is foreseen, thanks to the statistical "overlap" from the first-quarter results. At the same time, this statistical effect in conjunction with the difficult external environment – characterised by high oil prices and a still very strong, albeit slightly weakening euro – are likely to reduce 2009 growth figures for Germany to around 1.6%. So far, we have observed only a very limited direct effect of the financial market crisis on the general economic situation and on the availability of credit for private households and business enterprises. The expected slow-down of economic activity should be mainly due the already cited external factors and the weak US demand. However, the expected acceleration of the US economy from the end of 2008, continuing into 2009 and should put a floor under the deceleration of economic activity in Europe.

On the grounds of the macroeconomic and the inflation outlook, long-term interest rates are likely to increase during the remainder of the year, and, furthermore, are expected to increasingly reflect the divergence in macroeconomic conditions in the US and the euro area. At the same time, the spread between Bundesanleihen and US Treasuries is expected to narrow in 2009.

Earnings performance of HVB Group

As explained in the 2007 Annual Report under the Outlook in the Management's Discussion and Analysis, HVB Group assumed in its plans prepared at the end of 2007 that the financial markets, particularly the problems caused by the turmoil on the financial markets, would normalise again in the course of 2008.

On the basis of this assumption, and also assuming only a slight change in the group of consolidated companies, HVB Group anticipated a further tangible increase in total revenues, as also a moderate rise in operating costs leading to an improvement in the cost-income ratio and operating profit.

In the first quarter of 2008, the conditions on the capital markets continued to significantly deteriorate in the course of the financial market turmoil, which also led to the adverse effects on the results of HVB Group. Despite an interim stabilisation of the financial markets in April and May 2008, it is not possible to speak of a sustained stabilisation from today's point of view. The financial markets performed much worse again in June and especially in July. For this reason, it is not possible to draw any conclusions from the improved results in the second quarter of 2008 concerning the results for the second half or the whole of 2008 for HVB Group. Our performance over the year as a whole heavily depends on further developments in the turbulent financial markets and how they will influence the general economy and is thus difficult to predict from today's point of view.

The Global Banking Services division (GBS) at HypoVereinsbank intends to optimise the business and operating model with a view to reinforcing HVB Group's profitability. The goal is to achieve further cost advantages and greater efficiency for the divisions by pooling all back office activities, especially in IT, facility and logistics management – including the optimisation of space utilisation – and service processes.

Although we registered a decline in the loan-loss provisions required compared with the first half of 2007, we do not expect in the entire year of 2008 to be able to repeat the low level in net write-downs of loans and provisions for guarantees and commitments of 2007, which partly arose due to the net reversals in the Markets & Investment Banking division and through the reductions in the remaining portfolios of the former Real Estate Restructuring segment. However, we assume that net write-downs of loans and provisions for guarantees and commitments for 2008 will be lower than the levels recorded for 2006 and 2005.

Risk Report

HVB Group as a risk-bearing entity

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

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

Management and monitoring of risk in HVB Group

1 Risk management

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

Through the targeted and controlled assumption of risk, the various divisions implement – with profit responsibility – the risk strategies defined for them within HVB Group. In doing so, they utilise the regulatory and economic capital allocated to them within the framework of limit systems.

2 Risk monitoring

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

Risk analysis

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

Risk control

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

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

Compared with year-end 2007, there have been no significant changes in this respect.

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 the Bank's real estate portfolio
– risks arising from 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, since January 2008, a 99.97% confidence level across all risk types (confidence level until December 31, 2007: 99.95%). This uniform confidence level has been implemented in the measurement methodologies for the relevant risk types.

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.

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 (SolvV) and the Minimum Requirements for Risk Management.

Overall bank management

1 Dual management principle for overall bank management

The main focus of capital market-oriented management in HVB Group is on investment and the value-oriented allocation of our capital resources to business activities with attractive risk-return ratios. Within the framework of our dual management principle, the 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. Work started in the first half of 2008 on the implementation of key performance indicators Economic Value Added (EVA) and Risk Adjusted Return on Risk Adjusted Capital (RaRoRac) in the product costing process after the deal has been closed. These activities will be continued throughout the rest of 2008.

2 Regulatory capital adequacy

Used core capital

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 is carried exclusive of hybrid capital (= "Core Tier 1 Capital"). For purposes of planning and controlling, the divisions are required to have core capital backing equal to an average of 6.4% of equivalent risk assets compliant with Basel II (credit, market and operational risks) and 6.8% of the equivalent risk assets compliant with Basel I.

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 values – in terms of both Basel I and Basel II:

- Core capital ratio 1 (ratio of core capital to credit risks)
- Core capital ratio 2 (ratio of core capital to the sum of credit risks and the equivalent risk assets from market and operational risks)
- Equity funds ratio (ratio of equity funds to the sum of credit risks and the equivalent risk assets from market and operational risks)

In this context, operational risks are only relevant for Basel II ratios.

Risk Report (Continued)

During the coming months, we will convert the regulatory component of overall bank management to Basel II, thus including the operational risks in the calculation of capital ratios.

More detailed information on these ratios in the first half of 2008 is contained in the section entitled "Risk-weighted assets, key capital ratios and liquidity of HVB Group" in the Financial Review.

A description of the processes used to determine the appropriate equity base can be found in the HVB Group Annual Report for 2007.

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 AG, 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.

The confidence level applied when determining the economic capital has been raised from 99.95% to 99.97% as part of the review and refinement of our risk measurement methods effective as of the beginning of 2008. In addition, the correlation matrix used in the aggregation of the risk types for 2008 has been reviewed and updated. The figures at December 31, 2007 have been adjusted accordingly. Taking into account these changes gives rise to a net increase of €0.2 billion, or 4.8%, in economic capital for HVB Group at December 31, 2007. As a result of this, the utilisation of the capital cushion rises by one percentage point to 22.2%. As part of the ongoing review and development of our risk measurement methods, we will continue with the process for business risk and investment risk in the second half of 2008 and address the aggregation of risk types.

Our aggregated economic capital (including minority interests) for HVB Group totalled €5.3 billion at June 30, 2008, taking into account all risk-reducing diversification effects, representing an overall increase of 9.0% over year-end 2007 and 3.1% over the first quarter of 2008. At €2.2 billion, or 41.4% of the total, the economic capital for credit risk remained the largest risk position at June 30, 2008. The rise in market risk is essentially due to continuing developments on the capital markets. Investment risk rose primarily on account of the differentiated inclusion of Wealth Management Capital Holding GmbH and other private equity investments. For the subsequent quarters we expect a similar economic capital structure, without taking method developments into account.

Economic capital after portfolio effects
(confidence level 99.97%)

	JUNE 2008		DECEMBER 2007	
	€ millions	in %	€ millions	in %
Broken down by risk type				
Market risk	437	8.2	254	5.2
Credit risk	2,196	41.1	2,032	41.4
Business risk	514	9.6	479	9.8
Operational risk	833	15.6	849	17.3
Risks arising from the Bank's real estate portfolio	633	11.8	653	13.3
Risks arising from shareholdings/ financial investments	731	13.7	636	13.0
HVB Group	**5,344**	**100.0**	**4,903**	**100.0**
Capital cushion to cover risks, HVB Group	**25,680**		**22,037**	
Utilisation, in %, HVB Group	**20.8**		**22.2**	

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. To complement our detailed annual plan for 2008, our three-year plan was prepared in the second quarter of 2008.

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 €25.7 billion at June 30, 2008 (comparable figure for December 31, 2007: €22.0 billion). The change compared with year-end 2007 results primarily from the amount of consolidated profit for 2007 proposed for transfer to retained earnings together with the consolidated profits accruing in the first half of 2008. With an aggregate economic capital of €5.3 billion, this represents a utilisation of approximately 20.8% of the cushion.

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

Risk types in detail

No significant changes were made to risk management or risk monitoring to the individual risk types compared with the 2007 Annual Report during the first half of 2008. Consequently, we refer to the statements made starting on page 82 of the HVB Group Annual Report for 2007 in this regard. Where minor developments affecting individual risk types have taken place, these are described under the risk type concerned.

As already mentioned, the confidence level and the correlation matrix have been adjusted in the measurement methodology of the individual risk types, apart from liquidity risk and strategic risk.

1 Credit risk

The audit activities of the German supervision authorities relating to the approval of the IRB Advanced Approach have now been completed. As a result, HVB AG was granted approval for the IRB Advanced Approach; the remaining members of HVB Group are currently determining the appropriate capital funding according to the regulations of the standard approach to credit risk under the Solvency Ordinance. The rest of the year will see the optimisation of the rating systems and processes that have already been audited. An additional focus will be on the development and implementation of further procedures, notably in the Corporates & Commercial Real Estate Financing division, with a view to facilitating additional business opportunities with adequate capital used. Activities relating to the roll-out of the IRB Advanced Approach at selected subsidiaries are also on the agenda.

In connection with the audit activities, the German banking supervision authorities also audited our new credit risk system. On the basis of this new system platform we have harmonised the data model used for regulatory capital backing and the relevant risk parameters for HVB AG with the valid approaches for internal risk measurement. This ensures that the regulatory and economic risk parameters are comparable within the framework of an integrated solution.

An increase of €12.4 billion (5.4%) in credit and counterparty exposure of HVB Group was recorded in the first half of 2008. The following changes were seen in the structure of the loan portfolio in terms of industries: Relatively large declines were seen above all in the categories of retail customers (€2.9 billion), construction (€1.6 billion) and food/consumer goods/services (€3.1 billion). They were considerably outweighed by increases in exposures in the categories banks and insurers (€6.7 billion), public sector (€2.9 billion) and other (€5.3 billion).

The core portfolio, defined as the full HVB Group portfolio minus the remaining exposures assigned to the former Real Estate Restructuring segment, increased 5.6% in the first half of 2008 to €241.3 billion. The most substantial exposure increase in the first half of 2008, at €9.8 billion (11.9%) was seen in the Markets & Investment Banking division. The Corporates & Commercial Real Estate Financing division also reported an increase of €7.5 billion (10.1%). Our exposure in the Retail division decreased by €2.2 billion (4.6%). The €2.3 billion decrease under Other is primarily due to the disposal (as planned) of the non-strategic portfolio.

Risk Report (Continued)

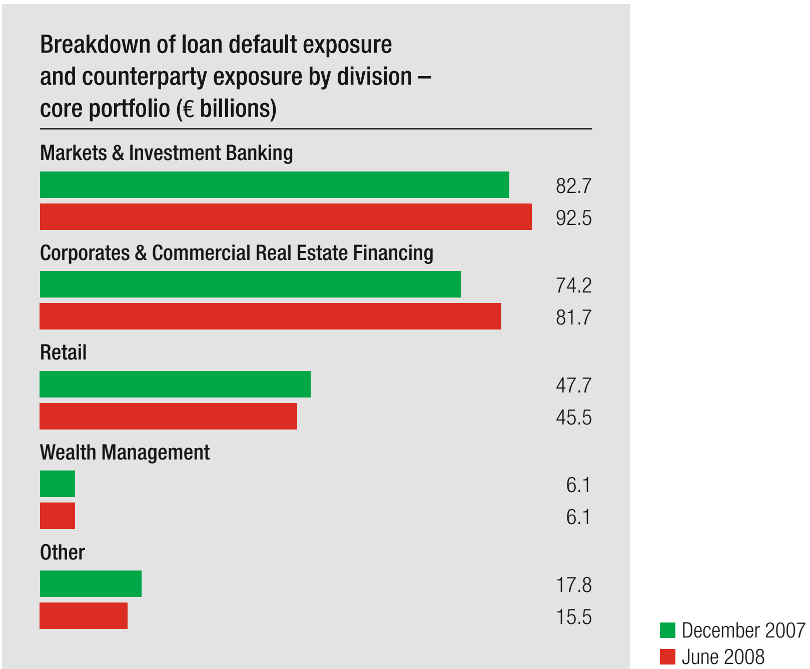
Within the core portfolio there was a significant increase of €11.8 billion (11%) in the rating classes 1–4. Despite the €2.8 billion increase in exposures in the rating classes 5–8, the share of this segment in the total portfolio decreased 1.1 percentage points. Exposures in rating classes 9 and 10 declined by €0.3 billion to €5.6 billion.

The Bank is planning to reduce its exposure in non-strategic loan portfolios further during the rest of the year, in line with its business strategy.

At June 30, 2008, HVB Group had net write-downs of loans and provisions for guarantees and commitments amounting to €256 million for the first half of 2008. More details on net write-downs of loans and provisions for guarantees and commitments and on allowance for losses on loans and receivables with customers and banks can be found in the notes (8) and (19).

Breakdown of loan default exposure and counterparty exposure by industry sector

		€ billions
	June 2008	December 2007
Industry sector		
Banks and insurers	48.2	41.5
Retail customers	38.8	41.7
Construction	36.1	37.7
Food, consumer goods, services	27.5	30.6
Chemicals, health, pharmaceuticals	13.5	13.7
Public sector	13.0	10.1
Transportation	11.7	11.3
Other	11.3	6.0
Utilities	11.1	11.0
Mechanical engineering, steel	10.2	8.4
Electrical, IT, communications	6.5	4.9
Automotive	6.0	5.3
Mineral oil	4.9	4.2
Media, printing, paper	4.5	4.5
HVB Group	**243.3**	**230.9**



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

	JUNE 2008		DECEMBER 2007	
	€ billions	in %	€ billions	in %
Rating				
Free of credit risk	6.8	2.8	9.3	4.1
Not rated	10.0	4.2	9.0	3.9
Rating 1–4	119.0	49.3	107.2	46.9
Rating 5–8	99.9	41.4	97.1	42.5
Rating 9–10	5.6	2.3	5.9	2.6
HVB Group	**241.3**	**100.0**	**228.5**	**100.0**

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 total nominal amount of worldwide derivative transactions of HVB Group amounted to €4,493 billion (December 31, 2007: €4,517 billion).

In accordance with the regulatory requirements to Basel II (German Banking Act (KWG)/Solvency Ordinance), and applying so-called partial use based on individual risk weightings and taking into account legally enforceable bilateral netting agreements and the collateral provided by borrowers, the risk-weighted assets of HVB Group at June 30, 2008 totalled €14.5 billion.

Under the German Banking Act/Principle I the risk-weighted assets of HVB Group totalled €9.9 billion (December 31, 2007: €8.3 billion).

Derivatives transactions

€ millions

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	30/6/2008	31/12/2007	30/6/2008	31/12/2007	30/6/2008	31/12/2007
Interest rate derivatives	**1,185,565**	**1,188,513**	**918,369**	**3,292,447**	**3,382,140**	**43,755**	**32,992**	**44,251**	**31,725**
Foreign exchange derivatives	**393,299**	**102,495**	**39,769**	**535,563**	**481,942**	**11,758**	**9,402**	**10,690**	**8,581**
Equity/index derivatives	**98,510**	**127,174**	**14,852**	**240,536**	**243,342**	**10,136**	**13,560**	**12,773**	**16,929**
Credit derivatives	**31,294**	**300,660**	**83,887**	**415,841**	**405,032**	**7,885**	**3,081**	**7,202**	**3,473**
Protection buyer	14,501	140,775	43,570	198,846	201,435	6,540	2,753	599	598
Protection seller	16,793	159,885	40,317	216,995	203,597	1,345	328	6,603	2,875
Other transactions	**3,169**	**4,241**	**723**	**8,133**	**4,625**	**843**	**723**	**887**	**669**
HVB Group	**1,711,837**	**1,723,083**	**1,057,600**	**4,492,520**	**4,517,081**	**74,377**	**59,758**	**75,803**	**61,377**

Risk Report (Continued)

Derivatives transactions by counterparty type

€ millions

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	30/6/2008	31/12/2007	30/6/2008	31/12/2007
Central governments (and central banks)	592	321	366	298
Banks	58,556	46,256	58,700	47,417
Financial institutions	12,674	11,071	14,519	11,817
Other companies and private individuals	2,555	2,110	2,218	1,845
HVB Group	**74,377**	**59,758**	**75,803**	**61,377**

Development of country risk in the first half of 2008

In the first half of 2008, the exposures of HVB Group entailing country risk increased by €6.2 billion to €60.2 billion. The portfolio of the HVB Group shows very good diversification and has a strong focus on low-risk Western European countries, where total exposures amount to €34 billion (56%), and increased by €6.8 billion in the first quarter of 2008. This will result in a further improvement in the risk profile.

Country exposure[1] by region and product category

€ millions

	LENDING		TRADING		ISSUER RISK		TOTAL	
	June 2008	December 2007	June 2008	December 2007	June 2008	December 2007	June 2008	December 2007
Region								
Western Europe	10,785	8,363	21,923	17,727	1,256	1,053	33,964	27,143
Asia/Pacific	4,786	4,523	4,749	5,376	165	207	9,700	10,106
North America	1,447	1,749	3,506	2,864	720	951	5,673	5,564
Central and South America	1,872	1,760	2,360	3,437	1,073	974	5,305	6,171
Eastern Europe	4,257	3,628	658	827	86	100	5,001	4,555
Africa	377	392	137	71	0	0	514	463
HVB Group	**23,524**	**20,415**	**33,333**	**30,302**	**3,300**	**3,285**	**60,157**	**54,002**

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

2 Market risk

When the main assets and associated liabilities of UniCredit Banca Mobiliare (UBM) were transferred to HVB AG in the second quarter of 2007, its portfolios were included in the Bank's internal model used to measure internal market risks with effect from April 2, 2007. By the end of 2008, we will be looking to incorporate the portfolios of the former UBM in the internal model at individual transaction level for both internal reporting and the regulatory reports. At present, the regulatory reporting is based on the sum of the results from HVB AG's internal model and the internal model of the former UBM.

We check the appropriateness of the methods used to measure market risk by means of periodic back-testing that compares the value-at-risk (VaR) calculations with the market value changes (hypothetical P/L) derived from the positions. There were three back-testing exceptions to report in the first half of the year. This means that a total of 13 exceptions have been reported in the last 250 days. Six of these exceptions are not attributable to the poor forecasting quality of the risk model. In response to the remaining exceptions, the German Financial Supervisory Authority (BaFin) ordered a temporary increase in the quantitative add-on factor for the regulatory capital requirements as of April.

The aggregate market risks shown in the table arose during the course of the first half for our trading positions at HVB Group. The increase in market risks in the third and especially the fourth quarter of 2007, as well as the first half of 2008, results from widened credit spreads and their greater volatilities, and not from an increase in the portfolios.

At €0.44 billion, the economic capital for market risks at HVB Group has increased since December 2007 because of the ongoing developments in the capital markets.

Market risk of HVB Group
(value-at-risk, 99% confidence level, one-day holding period)

							€ millions
	AVERAGE first half of 2008[1]	30/6/2008	31/3/2008	AVERAGE 2007[1]	31/12/2007	30/9/2007	30/6/2007
HVB Group	**53**	**52**	**53**	**24**	**36**	**24**	**19**

1 Arithmetic mean

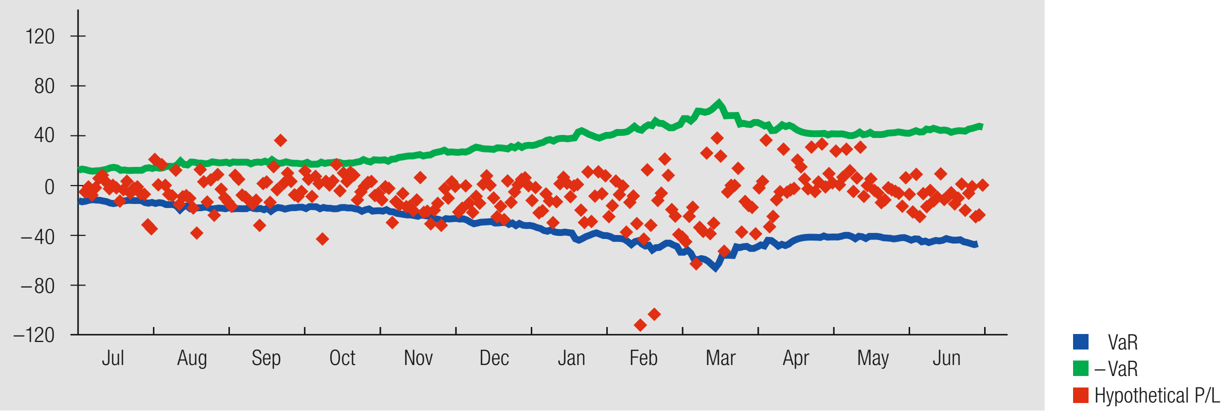
Market risk from trading activities of HVB Group
(value-at-risk, 99% confidence level, one-day holding period)

							€ millions
	AVERAGE first half of 2008[1]	30/6/2008	31/3/2008	AVERAGE 2007[1]	31/12/2007	30/9/2007	30/6/2007
Interest rate positions (incl. credit spread risks)	47	44	49	16	31	14	9
Foreign exchange positions	5	5	4	3	3	3	3
Equity/index positions	14	14	14	8	8	9	9
Diversification effect[2]	(18)	(17)	(17)	(9)	(11)	(10)	(8)
HVB Group	**48**	**46**	**50**	**18**	**31**	**16**	**13**

1 arithmetic mean; the value for the diversification effect is recalculated on the basis of the individual risk categories
2 because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks

Risk Report (Continued)

Back-testing of internal model: trading activities HVB AG 2007/08 (€ millions)



At June 30, 2008, the banking book of HVB Group contained market risks of €22 million with a one-day holding period (December 31, 2007: €19 million).

A downward shift in yield curves by 100 basis points (interest sensitivity) at June 30, 2008 results in a decrease in value of €23.704 million (0.09% of the regulatory equity capital) in the banking book of HVB Group (December 31, 2007: a decrease of €2.335 million).

Value change in case of an interest shock of –100 BP
at June 30, 2008

		€ millions
	HVB GROUP BANKING BOOK	HVB GROUP BANKING BOOK (31/12/2007)
Total	(23.704)	(2.335)
up to 1 year	(28.540)	(9.127)
1 to 5 years	5.008	5.269
more than 5 years	(0.172)	1.523

A 10% devaluation of all foreign currencies (FX sensitivity) results in a decrease in the portfolio value by €4.67 million (0.02% of the regulatory equity capital) in the banking book of HVB Group (December 31, 2007: a decrease of €24.77 million).

Value change in case of a 10% FX devaluation
at June 30, 2008

		€ millions
	HVB GROUP BANKING BOOK	HVB GROUP BANKING BOOK (31/12/2007)
Total	(4.67)	(24.77)
USD	(4.32)	(4.52)
GBP	(1.48)	1.35
AUD	(6.52)	(20.03)
CHF	(0.16)	(0.19)
JPY	4.40	(3.61)
SGD	0.84	1.00
Other	2.57	1.23

A 20% decrease of all equity and hedge fund prices results in a decrease in the portfolio value by €91.27 million (0.36% of regulatory equity capital) in the banking book of HVB Group (December 31, 2007: €108.83 million).

Value change in case of 20% decrease in equity prices
at June 30, 2008

		€ millions
	HVB GROUP BANKING BOOK	HVB GROUP BANKING BOOK (31/12/2007)
Total	(91.27)	(108.83)
Equity products	(0.89)	(1.57)
Hedge funds	(90.38)	(107.26)

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

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

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 0.11% (December 31, 2007: 0.01%) of its regulatory equity capital at June 30, 2008, HVB Group is well below the reportable outlier value of 20% stipulated by the banking supervisory authorities.

Risk Report (Continued)

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 a €119 million decrease in net interest income within the next 12 months (December 31, 2007: a decrease of €88 million).

Market liquidity risk
Persistently low market liquidity for ABS transactions coupled with wider spreads on securities and CDS positions held by financial services providers again demonstrated the impact of the turmoil on the financial markets in the first half of 2008. The direct exposure in the subprime loan segment remains negligible.

3 Liquidity risk
Despite the continuing turbulence in the money markets and capital markets, HVB Group's liquidity situation remained at a comfortable level during the first half of 2008.

Short-term liquidity
Within the framework of our short-term liquidity limit system, which operates under conservative assumptions, we showed an overall positive balance for short-term liquidity risk of €29.2 billion (December 31, 2007: €23.8 billion) in HVB Group for the next banking day at the end of June 2008. 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 €17.2 billion at June 30, 2008 (December 31, 2007: €17.4 billion).

The requirements of the German Liquidity Ordinance (Liquiditätsverordnung; LiqV) were met at all times by the relevant HVB Group units during the first half of 2008. The funds available to HVB AG exceeded its payment obligations for the following month by an average of €35.2 billion in the first half of 2008 (2007: €31.1 billion).

Funding risk
The funding risk of HVB Group is quite low due to our broad diversification of our funding base with regard to products, markets and investor groups. This ensures that we are able to obtain adequate funding for our lending operations even during difficult market phases. Longer-term funding developed as planned in the first half. With their high credit quality and liquidity, our Pfandbriefs still remain one of the most important funding instruments.

4 Operational risk
The economic capital for operational risks of HVB Group amounted to €0.83 billion at June 30, 2008.

HVB AG has received accreditation for the Advanced Measurement Approach (AMA). In addition, other Group subsidiaries also gained AMA capability in the first half of 2008, and the banking supervisory authorities will be carrying out the corresponding auditing activities over the remainder of the year.

Carried out in the first half of 2008, the following measures aimed at minimising operational risk and avoiding potential losses at HVB Group are worthy of a special note:

– Production operation of mainframe computers was moved from HVB Information Services GmbH to UniCredit Global Information Services in March 2008. The risks to operation were examined closely in advance and considered equal to the current situation once the assessment had been completed. The greater physical distance between computer centers provides for greater protection against large-scale disasters in some areas.

  A comprehensive examination of operational IT risks was initiated. Through a revised process for the treatment of operational IT risks, it will take into account all IT solutions and evaluate their non-availability risks. The initial interim results are expected at the end of this year.

– In the Markets & Investment Banking division we began the implementation of the improvement potential identified through a comprehensive analysis of all market and investment banking processes.

In addition, a training programme was started for all employees in the Markets & Investment Banking division on compliance, risk management and structured products to further enhance their skills and awareness in connection with these issues.

Handling crisis situations

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

Legal risks

Unless described otherwise below, the statements made in the Risk Report for 2007 relating to significant risks arising from legal disputes remain applicable.

The lawsuits filed regarding the resolutions passed at the Bank's Annual General Meeting of Shareholders on May 23, 2006 among other things approving the spin-off and takeover agreement and the master agreement in conjunction with the transfer of a loan portfolio to a company in the Goldman Sachs Group, have been concluded in favour of the Bank by way of a final ruling published by the Munich Higher Regional Court on February 29, 2008.

The special representative, lawyer (Rechtsanwalt) Dr Thomas Heidel, filed an immediate appeal against the ruling of Munich Regional Court I dated January 31, 2008 rejecting his intervention in support of the plaintiffs to the contestation claims regarding the resolutions adopted by the Extraordinary Shareholders' Meeting of HVB on October 25, 2006. Munich Higher Regional Court has not yet decided in this regard. The Annual General Meeting of Shareholders on July 29 and 30, 2008 adopted as provided for confirmatory resolutions regarding the resolutions adopted by the Extraordinary Shareholders' Meeting of HVB on October 25, 2006 as a precautionary measure. First suits challenging the confirmatory resolutions have in the meantime been submitted to the Bank.

In its ruling dated August 27, 2008, Munich Higher Regional Court decided that the resolution adopted at the Annual General Meeting of Shareholders on June 26 and 27, 2007, to assert alleged damage claims against UniCredit and board-members of our bank as well as the appointment of the special representative is invalid regarding the assertion of alleged claims arising from the the conclusion of the Business Combination Agreement (BCA) (lit. d of item 10 of the Annual General Meeting of Shareholders 2007); lawyer Dr Heidel therefore can only claim alleged damages of the company through the sale and transfer of Bank Austria. The special representative has expanded the suit against UniCredit S.p.A., Alessandro Profumo, Dr Wolfgang Sprissler and Rolf Friedhofen submitted on February 20, 2008 and asserted further claims to damages in the amount of at least €2.92 billion. HVB is convinced that both the original suit and the expanded suit are without foundation.

On October 19, 2007, Munich Regional Court rejected the application lodged by various minority shareholders 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 Higher Regional Court rejected the immediate appeal lodged in this regard in its decision dated June 24, 2008.

In a ruling dated April 24, 2008, Munich Regional Court I upheld the motion of HVB to grant clearance and determined that the suits challenging and asking the courts to declare null and void the resolution adopted by the Bank's Annual General Meeting of Shareholders on June 27, 2007 to transfer the shares held by minority shareholders against payment of an appropriate cash settlement (€38.26 per share) do not prevent the transfer resolution being entered in the Commercial Register for the Company; in its decision, Munich Regional Court I rejected the special representative's writ to join the suits as an intervenor as inadmissible. Numerous shareholders have lodged an immediate appeal against this decision; the outcome of the release motion remains open. Moreover, in July 2008 further HVB shareholders lodged suits with Munich Regional Court I requesting that the transfer resolution be declared null and void; the court has not yet reached a decision

Risk Report (Continued)

in this regard. In response, HVB has submitted a further motion to grant clearance with the court. In a ruling dated August 28, 2008, Munich Regional Court I rejected the suits submitted in 2007 and challenging and asking the courts to declare null and void the resolutions adopted by the Annual General Meeting of Shareholders on June 26 and 27, 2007, notably rejected the suits challenging the squeeze-out resolution. The ruling is not yet final.

In a ruling dated April 29, 2008, Munich Regional Court I upheld the suits filed by Hypo Real Estate Bank AG and Hypo Real Estate International AG demanding repayment of alleged overpayments of trade tax allocations. HVB has lodged an appeal against this decision, as it believes the claims are without foundation.

Various shareholders have filed suits challenging and requesting the court to declare null and void resolutions adopted by Falke Bank AG (in liquidition) on August 29, 2007; the plaintiffs, among other things, base their suit on the argument that the liquidators of Falke Bank AG (in liquidition) should have recognised claims against HVB in the amount of at least €58 million plus interest in the liquidition balance sheet and asserted such claims against HVB resulting from the combined capital increase against cash and non-cash contributions at Falke Bank AG in 2002. Like HVB, the defendant Falke Bank AG (in liquidition) believes that the claims asserted by the plaintiffs are without merit; however, since it could be required to assert claims against HVB in the event of an adverse ruling, Falke Bank AG (in liquidition) has served notice on HVB as a precautionary measure.

5 Business risk

As part of the continual review and development of our risk measurement methods we began with the revision of our business risk assessment in the first half of 2008. We expect to implement the results in our risk measurement activities in the second half of 2008.

The calculated economic capital for business risks of HVB Group amounted to €0.51 billion at June 30, 2008.

6 Risks arising from the Bank's real estate portfolio

As part of the continual review and development of our risk measurement methods we also carried out an investigation of our procedures for determining real estate risk in the first half of 2008.

The economic capital relating to our real estate portfolio amounted to €0.63 billion at June 30, 2008. The real estate portfolio of HVB Group is located primarily in Munich, which accounts for 35% of the total.

Further disposals of property were completed in the first half as planned. We expect to further reduce the portfolio by means of sales as planned during the rest of the year.

7 Risks arising from our shareholdings and investments

The economic capital of the shareholdings and financial investments of HVB Group rose to €0.73 billion due to the differentiated treatment of Wealth Management Capital Holding GmbH and other private equity investments. The value-at-risk, without taking into account the diversification effects between the risk types, amounted to €1.2 billion.

As in 2007, the Bank will continue to reduce its portfolio of non-strategic holding in 2008 as well as examine purchases where these supplement our structure and main business activities and generate value for our Bank and our Group. We began with the planned development of our investment risk measurement methods in the second quarter of 2008.

8 Strategic risk

The statements made at the end of 2007 regarded strategic risk are still valid. Statements on general economic trends and the current trends on international financial markets can be found in the Financial Review in the present interim report.

The HVB Share

The price of the HVB declined by approximately 7.1% in the first half of 2008, from €43.15 on January 1, 2008 to €40.10 on June 30, 2008. The capital market is continuing to support 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 in the Annual General Meeting of HypoVereinsbank on June 26 and 27, 2007.

Until the completion of the squeeze-out, which takes effect when entered in the Commercial Register, HVB AG's shares of common bearer stock will remain 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.

During the period under review, the benchmark Prime Banks and Prime All Shares indexes fell by 31.8% and 19.2%, respectively. At the end of June 2008, the HVB share was weighted at 2.91% in the Prime Banks index and 0.19% in the Prime All Shares index.

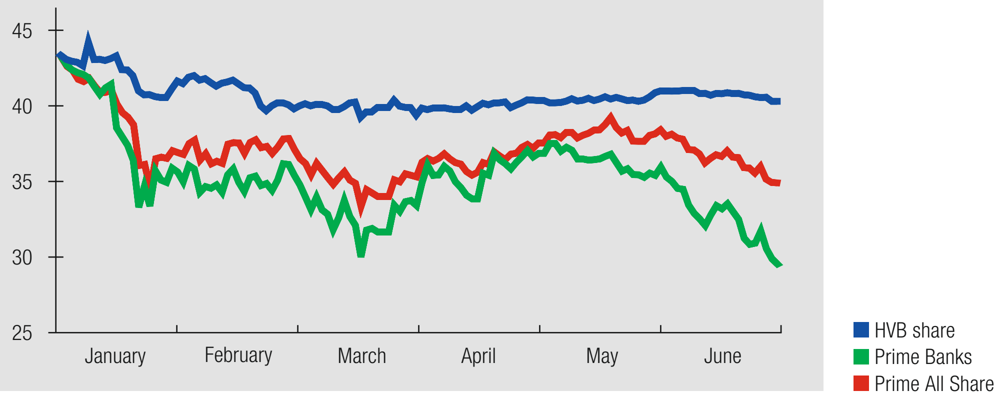
With a remaining free float of 4.6%, the average daily turnover of the HVB share declined clearly compared with the first quarter of 2008, falling around 64% to 70,395 shares.

Credit rating

On May 6, 2008, Moody's rating agency confirmed its "stable" outlook in recognition of HypoVereinsbank's strong capital base. In addition, on June 17, 2008 Moody's upgraded HypoVereinsbank's public Pfandbrief rating from Aa1 to Aaa. This decision was based on HypoVereinsbank's long-term rating (A1), the credit quality of the cover pool and the regulatory framework for the German Pfandbrief. Moody's had already confirmed its Aa1 rating for the mortgage Pfandbrief on June 13.

On June 17, 2008, Fitch Ratings also confirmed its AAA rating for HypoVereinsbank's public Pfandbriefs and mortgage Pfandbriefs. This decision was justified by the adequate level of excess cover for covered assets and covered bonds.

HVB share relative to Prime Banks index and Prime All Share (HVB share from January 1 to June 30, 2008, in €)



Consolidated Income Statement

for the period from January 1 to June 30, 2008

Income/expenses

	NOTES	1/1–30/6/2008	1/1–30/6/2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Net interest		1,794	1,913	(119)	(6.2)
Dividends and other income from equity investments		125	231	(106)	(45.9)
Net interest income	4	**1,919**	**2,144**	**(225)**	**(10.5)**
Net fees and commissions	5	781	975	(194)	(19.9)
Net trading income	6	(329)	819	(1,148)	
Net other expenses/income	7	57	49	+ 8	+ 16.3
Net non-interest income		**509**	**1,843**	**(1,334)**	**(72.4)**
TOTAL REVENUES		**2,428**	**3,987**	**(1,559)**	**(39.1)**
Payroll costs		(1,022)	(1,149)	+ 127	(11.1)
Other administrative expenses		(615)	(626)	+ 11	(1.8)
Amortisation, depreciation and impairment losses					
on intangible and tangible assets		(122)	(123)	+ 1	(0.8)
Operating costs		**(1,759)**	**(1,898)**	**+ 139**	**(7.3)**
OPERATING PROFIT		**669**	**2,089**	**(1,420)**	**(68.0)**
Provisions for risks and charges		(21)	(25)	+ 4	(16.0)
Write-down on goodwill		—	—	—	—
Restructuring costs		—	(3)	+ 3	(100.0)
Net write-downs of loans and provisions					
for guarantees and commitments	8	(256)	(390)	+ 134	(34.4)
Net income from investments	9	(26)	383	(409)	
PROFIT BEFORE TAX		**366**	**2,054**	**(1,688)**	**(82.2)**
Income tax for the period		(120)	(617)	+ 497	(80.6)
NET PROFIT/LOSS		**246**	**1,437**	**(1,191)**	**(82.9)**
Minorities		(52)	(43)	(9)	+ 20.9
CONSOLIDATED PROFIT/LOSS OF HVB GROUP		**194**	**1,394**	**(1,200)**	**(86.1)**

Earnings per share

	NOTES	1/1–30/6/2008	1/1–30/6/2007
			in €
Earnings per share of HVB Group	10	0.24	1.80
Earnings per share of HVB Group (adjusted)[1]	10	0.24	1.30

1 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations and the gain on disposal of Indexchange and Munich Re and restructuring costs

Reconciliation with the consolidated income statement for 2007, including the results of discontinued operations

INCOME/EXPENSES	NOTES	1/1–30/6/2007
		€ millions
NET PROFIT OF HVB GROUP	**11**	**1,394**
Net profit after tax of discontinued operations	11	3,690
Minority interest in the net profit of discontinued operations	11	—
NET PROFIT OF HVB GROUP including discontinued operations	**11**	**5,084**

Earnings per share including discontinued operations

	1/1–30/6/2007
Earnings per share in €	**6.55**

Since no conversion rights or option rights on conditional capital existed at June 30, 2008, there is no calculation of diluted earnings per share.

Consolidated Income Statement (Continued)

for the period from April 1 to June 30, 2008

Income/expenses

	1/4–30/6/2008	1/4–30/6/2007	CHANGE	
	€ millions	€ millions	€ millions	in %
Net interest	868	839	+ 29	+ 3.5
Dividends and other income from equity investments	109	164	(55)	(33.5)
Net interest income	**977**	**1,003**	**(26)**	**(2.6)**
Net fees and commissions	383	488	(105)	(21.5)
Net trading income	318	469	(151)	(32.2)
Net other expenses/income	23	22	+ 1	+ 4.5
Net non-interest income	**724**	**979**	**(255)**	**(26.0)**
TOTAL REVENUES	**1,701**	**1,982**	**(281)**	**(14.2)**
Payroll costs	(517)	(578)	+ 61	(10.6)
Other administrative expenses	(310)	(306)	(4)	+ 1.3
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(61)	(59)	(2)	+ 3.4
Operating costs	**(888)**	**(943)**	**+ 55**	**(5.8)**
OPERATING PROFIT	**813**	**1,039**	**(226)**	**(21.8)**
Provisions for risks and charges	(21)	(19)	(2)	+ 10.5
Write-down on goodwill	—	—	—	—
Restructuring costs	—	(3)	+ 3	(100.0)
Net write-downs of loans and provisions				
for guarantees and commitments	(69)	(181)	+ 112	(61.9)
Net income from investments	(39)	113	(152)	
PROFIT BEFORE TAX	**684**	**949**	**(265)**	**(27.9)**
Income tax for the period	(201)	(326)	+ 125	(38.3)
NET PROFIT/LOSS	**483**	**623**	**(140)**	**(22.5)**
Minorities	(7)	(22)	+ 15	(68.2)
CONSOLIDATED PROFIT/LOSS OF HVB GROUP	**476**	**601**	**(125)**	**(20.8)**

Earnings per share

		in €
	1/4–30/6/2008	1/4–30/6/2007
Earnings per share of HVB Group	0.59	0.74
Earnings per share of HVB Group (adjusted)[1]	0.59	0.60

1 2007 adjusted for the gain on disposal of Munich Re and restructuring costs

Reconciliation with the consolidated income statement for 2007, including the results of discontinued operations

	€ millions
INCOME/EXPENSES	1/4–30/6/2007
NET PROFIT OF HVB GROUP	**601**
Net profit after tax of discontinued operations	1
Minority interest in the net profit of discontinued operations	—
NET PROFIT OF HVB GROUP including discontinued operations	**602**

Earnings per share including discontinued operations

	1/4–30/6/2007
Earnings per share in €	**0.58**

Balance Sheet

at June 30, 2008

Assets

	NOTES	30/6/2008	31/12/2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Cash and cash balances		440	551	(111)	(20.1)
Financial assets held for trading	(12)	182,644	180,855	+ 1,789	+ 1.0
Financial assets at fair value through profit or loss	(13)	12,607	12,937	(330)	(2.6)
Available-for-sale financial assets	(14)	7,029	6,739	+ 290	+ 4.3
Investments in associates, joint ventures					
and non-consolidated subsidiaries	(15)	272	317	(45)	(14.2)
Held-to-maturity investments	(16)	2,968	3,058	(90)	(2.9)
Loans and receivables with banks	(17)	69,750	48,866	+ 20,884	+ 42.7
Loans and receivables with customers	(18)	164,429	160,246	+ 4,183	+ 2.6
Hedging derivatives		455	500	(45)	(9.0)
Property, plant and equipment		1,368	1,337	+ 31	+ 2.3
Investment properties		1,829	1,890	(61)	(3.2)
Intangible assets		755	770	(15)	(1.9)
of which: Goodwill		424	421	+ 3	+ 0.7
Tax assets		2,445	2,180	+ 265	+ 12.2
Assets of discontinued operations and non-current					
assets or disposal groups held for sale	(20)	7	265	(258)	(97.4)
Other assets		2,325	1,618	+ 707	+ 43.7
Total assets		**449,323**	**422,129**	**+ 27,194**	**+ 6.4**

Liabilities

	NOTES	30/6/2008	31/12/2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Deposits from banks	(21)	106,503	86,702	+ 19,801	+ 22.8
Deposits from customers	(22)	114,100	108,626	+ 5,474	+ 5.0
Debt securities in issue	(23)	70,942	79,568	(8,626)	(10.8)
Financial liabilities held for trading		125,799	115,228	+ 10,571	+ 9.2
Hedging derivatives		558	473	+ 85	+ 18.0
Changes in fair value of portfolio hedged items		84	87	(3)	(3.4)
Tax liabilities		1,311	1,316	(5)	(0.4)
Liabilities of discontinued operations and					
of disposal groups held for sale	(24)	4	10	(6)	(60.0)
Other liabilities		4,724	4,581	+ 143	+ 3.1
Provisions	(25)	1,522	1,540	(18)	(1.2)
Shareholders' equity		23,776	23,998	(222)	(0.9)
Shareholders' equity attributable to shareholders of HVB AG		22,991	23,190	(199)	(0.9)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Own shares		(2)	(2)	—	—
Other reserves		7,060	6,913	+ 147	+ 2.1
Change in valuation of financial instruments	(27)	(533)	7	(540)	
AfS reserve		298	619	(321)	(51.9)
Hedge reserve		(831)	(612)	(219)	(35.8)
Consolidated profit 2007		4,074	4,074	—	—
Net profit/loss 1/1–30/6/2008		194	—	+ 194	
Minority interest		785	808	(23)	(2.8)
Total shareholders' equity and liabilities		**449,323**	**422,129**	**+ 27,194**	**+ 6.4**

Statement of Changes in Shareholders' Equity

at June 30, 2008

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OWN SHARES	OTHER RESERVES	
					OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at January 1, 2007	**2,252**	**8,886**	**(3)**	**4,061**	**(814)**
Change from capital increase against cash contribution	155	906	—	—	—
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)	—	—	—	—	—
Actuarial losses on defined benefit plans	—	—	—	—	—
Changes in holdings of, and net income from, own equity instruments	—	—	—	—	—
Dividend payouts	—	—	—	—	—
Transfers from net income	—	—	—	321	—
Changes in group of consolidated companies	—	—	—	817	590
Reserve arising from foreign currency translation and other changes	—	—	—	4	—
Shareholders' equity at June 30, 2007	**2,407**	**9,792**	**(3)**	**5,203**	**(224)**
including:					
shareholders' equity of discontinued operations					
and disposal groups held for sale	—	—	—	—	(2)
Shareholders' equity at January 1, 2008	**2,407**	**9,791**	**(2)**	**6,913**	**(189)**
Change from capital increase against cash contribution	—	—	—	—	—
Change from capital increase against contributions in kind	—	—	—	—	—
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)	—	—	—	—	—
Actuarial losses on defined benefit plans	—	—	—	148	148
Change in holdings of, and net income from, own equity instruments	—	—	—	—	—
Dividend payouts[1]	—	—	—	—	—
Transfers from net income	—	—	—	—	—
Changes in group of consolidated companies	—	—	—	(2)	—
Reserve arising from foreign currency translation and other changes	—	—	—	1	—
Shareholders' equity at June 30, 2008	**2,407**	**9,791**	**(2)**	**7,060**	**(41)**
including:					
shareholders' equity of discontinued operations					
and disposal groups held for sale	—	—	—	—	—

1 The Annual General Meeting of Shareholders on July 30, 2008 has decided to pay a dividend of €402 million to the shareholders out of the consolidated profit which amounts to €4,074 million and that a further €3,672 million be transferred to retained earnings. The total dividend payout of €402 million represents 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.

€ millions

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS		CONSOLIDATED PROFIT	PROFIT/ LOSS 1/1–30/6	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF HVB AG	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
AfS RESERVE	HEDGE RESERVE					
1,195	**(323)**	**622**	**—**	**16,690**	**3,298**	**19,988**
—	—	—	—	1,061	—	1,061
—	—	—	—	—	—	—
131	(516)	—	—	(385)	—	(385)
(148)	50	—	—	(98)	—	(98)
—	—	—	5,084	5,084	43	5,127
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	(301)	—	(301)	(33)	(334)
—	—	(321)	—	—	—	—
(404)	135	—	—	548	(2,448)	(1,900)
—	—	—	—	4	(17)	(13)
774	**(654)**	**—**	**5,084**	**22,603**	**843**	**23,446**
—	—	—	—	—	—	—
619	**(612)**	**4,074**	**—**	**23,190**	**808**	**23,998**
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(340)	(373)	—	—	(713)	—	(713)
17	154	—	—	171	—	171
—	—	—	194	194	52	246
—	—	—	—	148	—	148
—	—	—	—	—	—	—
—	—	—	—	—	(34)	(34)
—	—	—	—	—	—	—
—	—	—	—	(2)	2	—
2	—	—	—	3	(43)	(40)
298	**(831)**	**4,074**	**194**	**22,991**	**785**	**23,776**
—	—	—	—	—	—	—

Cash Flow Statement

(abridged version)

€ millions		
HVB GROUP	2008	2007
Cash and cash equivalents at January 1[1]	**551**	**508**
Cash flows from operating activities	**806**	**(3,042)**
Cash flows from investing activities	**(765)**	**3,320**
Cash flows from financing activities	**(152)**	**(352)**
Effects of exchange rate changes	—	(7)
Less non-current assets or disposal groups		
held for sale and discontinued operations	—	(12)
Cash and cash equivalents at June 30	**440**	**415**

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.

Selected Notes

1 Accounting and valuation principles

IFRS basis

The present Half-yearly Financial Report has been prepared in accordance with the regulations defined in the International Financial Reporting Standards (IFRS) and complies with IAS 34, which covers interim reporting. At the same time, this Half-yearly Financial Report prepared in accordance with IFRS meets the requirements in place since the 2007 financial year for capital-market oriented companies to provide financial reports during the year. These requirements have arisen under the German Securities Act (WpHG) as a result of the implementation of the EU Transparency Directive.

The IFRS changes regarding the disclosure of financial instruments implemented in the 2007 financial statements have been continued in the present Half-yearly Financial Report.

The IFRIC interpretations 11, 12 and 14 to be applied for the first time in the 2008 financial year have had no material consequences for accounting and valuation.

Moreover, we have applied the same accounting and valuation principles in 2008 as in the consolidated financial statements for 2007 (please refer to the HVB Group Annual Report, starting on page 135).

We did not avail ourselves of the possibility of reviewing the present local Half-yearly Financial Report of HVB Group compliant with Section 37w (5) of the German Securities Trading Act (WpHG).

Segment reporting

Largely the same methodology and assignment principles have been applied in segment reporting as at year-end 2007. The interest rate for assessing the equity capital allocated to the companies assigned to more than one division (HVB AG, HVB Banque Luxembourg) amounted to 3.8% in 2007. This rate was revised in line with the change in the interest level for the 2008 financial year and has totalled 3.97% since January 1, 2008. This change has no materially significant effects overall, so the figures for the previous periods have not been restated.

Furthermore, the income statement is shown for the whole of the Corporates & Commercial Real Estate Financing division and is no longer divided into the subdivisions of Corporates (including the contributions to earnings from business with commercial real estate customers) and Global Transaction Banking, which up until now have been reported separately.

At the same time, a number of smaller reorganisations took place with a view to giving the divisions a strategic orientation and changes were made in the cost allocation, which led to modified assignments of operating costs. The figures for the previous year have been adjusted to take account of the reorganisation in the area of operating costs.

Selected Notes (Continued)

2 Changes in the group of companies included in consolidation

The following companies, among others, have been consolidated in the financial statements of HVB Group for the first time in the first half year of 2008
– BaLea Soft GmbH & Co. KG, Hamburg
– BaLea Soft Verwaltungsgesellschaft mbH, Hamburg
– HVB Investitionsbank GmbH, Hamburg
– LFL Luftfahrzeug Leasing GmbH, Hamburg
– Mobility Concept GmbH, Munich
– SRQ Finanzpartner AG, Berlin
– Structured Lease GmbH, Grünwald
– Blue Capital Equity GmbH, Hamburg
– Blue Capital Equity Management GmbH, Hamburg
– Blue Capital Fonds GmbH, Hamburg
– Blue Capital GmbH, Hamburg
– Blue Capital Treuhand GmbH, Hamburg
– Blue Capital USA Immobilien Verwaltungs GmbH, Hamburg
– H.F.S. Immobilienfonds GmbH, Ebersberg
– HVB FondsFinance GmbH, Munich
– V.M.G. Vermietungsgesellschaft mbH, Munich
– WealthCap Investorenbetreuung GmbH, Munich
– WealthCap Real Estate Management GmbH, Munich

The following company left the group of companies included in consolidation by HVB Group in the first half year of 2008:
– HVB Capital LLC V, Wilmington (wound up as of January 30, 2008)

When comparing figures for the first half year of 2008 with the results achieved in the first half year of 2007, those companies which were consolidated after June 30, 2007 in the 2007 financial year also have an impact. Essentially, this concerns HVB Asset Management Holding GmbH, Munich; Euro ImmoProfil, Munich (a special property fund compliant with Section 66 et seq. of the German Investment Act), and the following special purpose entities compliant with SIC 12: Bavaria Universal Funding Corporation (BUFCO), Delaware; Black Forest Funding Corporation, Delaware; Arabella Funding Ltd., St. Helier; and Salome Funding Plc., Dublin. In addition, the transfer of the investment banking activities of UniCredit Banca Mobiliare S.p.A. (UBM) to HVB AG with effect from April 1, 2007 against the issue of new bearer shares has the same economic effect for the period of the first quarter 2008 as an initial consolidation.

3 Segment reporting

Income statement broken down by division for the period from January 1 to June 30, 2008

€ millions

	MARKETS & INVESTMENT BANKING	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION	HVB GROUP[2]
TOTAL REVENUES						
1/1–30/6/2008	308	782	868	250	220	2,428
1/1–30/6/2007	1,719	769	913	235	351	3,987
Operating costs						
1/1–30/6/2008	(557)	(284)	(657)	(155)	(106)	(1,759)
1/1–30/6/2007	(681)	(267)	(682)	(145)	(123)	(1,898)
OPERATING PROFIT						
1/1–30/6/2008	(249)	498	211	95	114	669
1/1–30/6/2007	1,038	502	231	90	228	2,089
Net write-downs of loans and						
provisions for guarantees and						
commitments						
1/1–30/6/2008	—	(121)	(81)	3	(57)	(256)
1/1–30/6/2007	(2)	(102)	(80)	(6)	(200)	(390)
Other items[1]						
1/1–30/6/2008	(35)	14	13	1	(40)	(47)
1/1–30/6/2007	222	2	—	6	125	355
PROFIT BEFORE TAX						
1/1–30/6/2008	(284)	391	143	99	17	366
1/1–30/6/2007	1,258	402	151	90	153	2,054

1 contains the following income statement items: provisions for risks and charges, write-down on goodwill, restructuring costs and net income from investments
2 see Note 10, "Income statement and earnings per share of discontinued operations", for information on amounts attributable to discontinued operations in 2007

Selected Notes (Continued)

Income statement of the Markets & Investment Banking division

€ millions							
INCOME/EXPENSES	1/1–30/6 2008	1/1–30/6 2007	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net interest income	**601**	**675**	**293**	**308**	**346**	**226**	**283**
Net fees and commissions	72	218	38	34	86	54	139
Net trading income	(357)	818	312	(669)	(286)	26	463
Net other expenses/income	(8)	8	(7)	(1)	17	(9)	6
Net non-interest income	**(293)**	**1,044**	**343**	**(636)**	**(183)**	**71**	**608**
TOTAL REVENUES	**308**	**1,719**	**636**	**(328)**	**163**	**297**	**891**
Payroll costs	(221)	(354)	(104)	(117)	(76)	(78)	(196)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(336)	(327)	(165)	(171)	(151)	(175)	(182)
Operating costs	**(557)**	**(681)**	**(269)**	**(288)**	**(227)**	**(253)**	**(378)**
OPERATING PROFIT	**(249)**	**1,038**	**367**	**(616)**	**(64)**	**44**	**513**
Restructuring costs	(1)	—	(1)	—	(27)	—	—
Net write-downs of loans and provisions for guarantees and commitments	—	(2)	23	(23)	32	44	(1)
Net income from investments and other items[1]	(34)	222	(33)	(1)	220	16	7
PROFIT BEFORE TAX	**(284)**	**1,258**	**356**	**(640)**	**161**	**104**	**519**
Cost-income ratio in %	180.8	39.6	42.3	n. a.	139.3	85.2	42.4

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

Developments in the Markets & Investment Banking division
In the second quarter of 2008, the performance of the Markets & Investment Banking division was much more favourable than in the previous quarter, which had been strongly impacted by the difficult capital market environment during the heightening turmoil on the financial markets. The first signs of stabilisation in the financial markets were seen in April and May. In this environment the division's profit before tax recovered to a significantly positive figure of €356 million in the second quarter of 2008. This profit contribution is the best quarterly result since the start of the financial market crisis in the third quarter of 2007.

In the process, the division generated an operating profit of €367 million in the second quarter of 2008, in particular due to a very positive contribution of €312 million from net trading income. A profit in the Structured Credit unit also contributed to this result.

Despite the improved results in the second quarter, a loss before tax of €284 million was posted for the first six months of this financial year due to the extreme market distortions in the first three months of 2008, compared with an outstanding result of €1,258 million generated in the same period last year in an extremely favourable market environment.

The first half-year of 2008 showed an operating loss of €249 million (previous year: profit of €1,038 million). Total revenues of €308 million include a loss in net trading income of €357 million (previous year: profit of €818 million). There was a decline in net interest income essentially on account of lower dividend income from the private equity business and from net fees and commissions on account of the absence of large individual transactions due to the persistently difficult market environment.

Operating costs fell by €124 million (down 18.2%), despite the inclusion of UBM's investment banking activities, especially as a result of much lower payroll costs (down 37.6%) on account of lower expenses for performance bonuses.

"Net income from investments and other items" included the gain of €219 million on the sale of Indexchange Investment AG in 2007; this line contains no significant items in the first half of 2008.

Income statement of the Corporates & Commercial Real Estate Financing division

							€ millions
INCOME/EXPENSES	1/1–30/6 2008	1/1–30/6 2007	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net interest income	**566**	**539**	**288**	**278**	**268**	**254**	**278**
Net fees and commissions	210	226	100	110	81	95	106
Net trading income	—	—	1	(1)	3	(1)	(1)
Net other expenses/income	6	4	—	6	1	4	3
Net non-interest income	**216**	**230**	**101**	**115**	**85**	**98**	**108**
TOTAL REVENUES	**782**	**769**	**389**	**393**	**353**	**352**	**386**
Payroll costs	(117)	(105)	(61)	(56)	(61)	(53)	(51)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(167)	(162)	(86)	(81)	(91)	(85)	(81)
Operating costs	**(284)**	**(267)**	**(147)**	**(137)**	**(152)**	**(138)**	**(132)**
OPERATING PROFIT	**498**	**502**	**242**	**256**	**201**	**214**	**254**
Restructuring costs	—	—	—	—	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	(121)	(102)	(66)	(55)	(4)	(37)	(51)
Net income from investments and other items[1]	14	2	9	5	(17)	(9)	3
PROFIT BEFORE TAX	**391**	**402**	**185**	**206**	**180**	**168**	**206**
Cost-income ratio in %	36.3	34.7	37.8	34.9	43.1	39.2	34.2

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

Developments in the Corporates & Commercial Real Estate Financing division

The comments on results refer to the entire Corporates & Commercial Real Estate Financing division for the first time. Up until now the Corporates (including Commercial Real Estate Financing) and the Global Transaction Banking subdivisions have been shown separately.

In the first six months of 2008 the Corporates & Commercial Real Estate Financing division generated a remarkable profit before tax of €391 million, supported by its good operating performance.

Despite the difficult business environment following the financial market crisis, the excellent operating profit of last year was almost matched in 2008 (down 0.8%). In the process, total revenues developed very satisfactorily, climbing +1.7%. Net interest income grew a sharp 5.0%. The main growth drivers in this connection are the increase in earnings from the deposit-taking business as a result of a rise in volumes and higher contributions to earnings from finance lease transactions in the course of pressing ahead leasing operations. Net fees and commissions fell by 7.1% as against last year. At the same time the exceptionally high earnings from derivative operations last year returned to normal in 2008. This decline was partially compensated by significant increases in earnings in the field of structured finance and in Global Transaction Banking. The 6.4% rise in operating costs compared to the first half of 2007 reflects the first-time inclusion of leasing subsidiaries in 2008 due to the stronger focus placed on leasing operations. Without these first-time consolidation effects, the rise is 3.7% and is due primarily to higher payroll costs following an increase in the workforce as part of the division's expansion strategy. At 36.3%, the cost-income ratio of the Corporates and Commercial Real Estate Financing division has remained at an excellent level (last year: 34.7%).

Profit before tax of €391 million declined by 2.7% year-on-year due to the rise in net write-downs of loans and provisions for guarantees and commitments, but is based on a pleasingly stable operating performance at a high level.

Selected Notes (Continued)

Income statement of the Retail division

							€ millions
INCOME/EXPENSES	1/1–30/6 2008	1/1–30/6 2007	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net interest income	**529**	**540**	**266**	**263**	**269**	**269**	**269**
Net fees and commissions	338	367	161	177	151	151	172
Net trading income	—	1	—	—	—	1	—
Net other expenses/income	1	5	1	—	3	4	2
Net non-interest income	**339**	**373**	**162**	**177**	**154**	**156**	**174**
TOTAL REVENUES	**868**	**913**	**428**	**440**	**423**	**425**	**443**
Payroll costs	(300)	(311)	(151)	(149)	(154)	(146)	(150)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(357)	(371)	(181)	(176)	(188)	(184)	(181)
Operating costs	**(657)**	**(682)**	**(332)**	**(325)**	**(342)**	**(330)**	**(331)**
OPERATING PROFIT	**211**	**231**	**96**	**115**	**81**	**95**	**112**
Restructuring costs	—	—	—	—	3	—	—
Net write-downs of loans and provisions for guarantees and commitments	(81)	(80)	(31)	(50)	(52)	(15)	(13)
Net income from investments and other items[1]	13	—	(6)	19	34	(2)	—
PROFIT BEFORE TAX	**143**	**151**	**59**	**84**	**66**	**78**	**99**
Cost-income ratio in %	75.7	74.7	77.6	73.9	80.9	77.6	74.7

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

Developments in the Retail division

The Retail division almost matched last year's exceptionally good figure (€151 million) by generating a profit before tax of €143 million in the first half of 2008. With total revenues declining slightly and stable net write-downs of loans and provisions for guarantees and commitments, this performance can be attributed to strict cost management and earnings in net income from investments.

The 4.9% decline in total revenues to €868 million is also a result of customers' lack of confidence on account of the persistent financial market turmoil. Apart from the cautiousness seen in the field of securities investments, this lack of confidence is also shown by a change in general investment behaviour. Examples of this are the weaker securities brokerage business on the one hand and the stronger-than-average demand for time deposits on the other.

Net interest income declined slightly by 2.0% at mid 2008, to €529 million, among other things due to the further strategic reduction in the volume of real estate loans which could not be completely offset by the increase in the volume of time deposits. Net fees and commissions fell 7.9%, to €338 million, compared to an above-average result in the first half of 2007 and against the backdrop of the already-mentioned effects of the financial market turbulence. In the process, the division managed to counteract the significant decline in its traditional securities operations by successfully selling products which focus particularly on the sustained generation of revenues (known as mandated business). Above all, this includes the distribution of the newly developed "HVB Vermögensdepot Privat", which is specially geared to the new flat tax on capital income, with a sales volume of around €1.6 billion in the first half of 2008.

Continued strict cost management helped reduce operating costs by 3.7%, reflecting a decline of 3.5% in payroll costs, notably due to a reduction in the headcount, and of 3.8% in other administrative expenses (including amortisation, depreciation and impairment losses), particularly as a result of lower IT expenses and less expenditure on back office operations. This led to an almost unchanged cost-income ratio of 75.7% in the first half of 2008 despite the fall in total revenues.

Income statement of the Wealth Management division

							€ millions
INCOME/EXPENSES	1/1–30/6 2008	1/1–30/6 2007	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net interest income	**87**	**77**	**49**	**38**	**50**	**45**	**40**
Net fees and commissions	161	166	75	86	77	70	79
Net trading income	1	(8)	(1)	2	1	1	(7)
Net other expenses/income	1	—	(2)	3	5	(1)	—
Net non-interest income	**163**	**158**	**72**	**91**	**83**	**70**	**72**
TOTAL REVENUES	**250**	**235**	**121**	**129**	**133**	**115**	**112**
Payroll costs	(56)	(47)	(28)	(28)	(25)	(22)	(24)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(99)	(98)	(50)	(49)	(56)	(46)	(48)
Operating costs	**(155)**	**(145)**	**(78)**	**(77)**	**(81)**	**(68)**	**(72)**
OPERATING PROFIT	**95**	**90**	**43**	**52**	**52**	**47**	**40**
Restructuring costs	—	—	—	—	(2)	—	—
Net write-downs of loans and provisions for guarantees and commitments	3	(6)	6	(3)	(1)	—	(2)
Net income from investments and other items[1]	1	6	1	—	14	1	5
PROFIT BEFORE TAX	**99**	**90**	**50**	**49**	**63**	**48**	**43**
Cost-income ratio in %	62.0	61.7	64.5	59.7	60.9	59.1	64.3

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

Developments in the Wealth Management division

The Wealth Management division encompasses the Wealth Management Sales of HVB AG (WEM HVB AG), the DAB Group, the private banking activities of HVB Banque Luxembourg and Wealth Management Capital Holding GmbH, Munich, including their participating interests consolidated for the first time in January 2008 (essentially Blue Capital Equity GmbH, Blue Capital Fonds GmbH, HVB Fonds Finance GmbH, WealthCap Real Estate Management GmbH and H.F.S. Immobilienfonds GmbH).

The business model implemented by WEM HVB AG of providing service tailored specifically to the target group of very wealthy customers proved to be a strong cornerstone in the sustained positive performance in the difficult market environment in the first half of 2008. In contrast to its competitors, WEM HVB AG is positioned as a generalist offering its clientele credit facilities from a single source alongside the typical wealth management investment products.

The Wealth Management division's second-quarter profit before tax of €50 million was a complement to both the previous quarter's results and the good quarterly results of the corresponding period last year. It is important to note in comparisons with the fourth quarter of 2007 that the proportion of the gain on disposal of Financial Markets Service Bank GmbH (FMS Bank) attributable to the division, around €17 million, is included in net income from investments.

At €99 million, profit before tax in the first half of 2008 improved over the same period last year by a pleasing 10.0%.

At the same time the total revenues of the Wealth Management division increased by €15 million, or 6.4%, compared to the first half of 2007, despite the difficult market environment. The initially consolidated holdings of Wealth Management Capital Holding GmbH had a beneficial effect overall in this regard. While net fees and

Selected Notes (Continued)

commissions declined by 3.0% due to customers' restraint on the securities markets, net interest income increased a significant 13.0%. This reflects the current trend of shifting investments from the securities business to short-term forms of investments, especially to demand and time deposits. Generally, there is a marked trend towards reliable deposit-taking business. These developments were particularly noticed by WEM HVB AG and the DAB Group. HVB Banque Luxembourg's fee-generating activities with wealthy private clients were likewise impacted by the markets in the course of the first half of 2008. Wealth Management Capital Holding GmbH posted a rise in dividend income in the first half year, which contributed to the positive performance of the Wealth Management division.

The €10 million increase in operating costs (up 6.9%) is largely due to payroll costs and can essentially be attributed to the initially consolidated holdings. At 62.0%, the cost-income ratio matched the good level posted last year.

Income statement of the Other/consolidation division

							€ millions
INCOME/EXPENSES	1/1–30/6 2008	1/1–30/6 2007	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
TOTAL REVENUES	**220**	**351**	**127**	**93**	**212**	**151**	**150**
Operating costs	**(106)**	**(123)**	**(62)**	**(44)**	**(37)**	**(50)**	**(30)**
OPERATING PROFIT	**114**	**228**	**65**	**49**	**175**	**101**	**120**
Restructuring costs	1	(3)	1	—	45	(3)	(3)
Net write downs of loans and provisions							
for guarantees and commitments	(57)	(200)	(1)	(56)	(15)	(98)	(114)
Net income from investments and other items[1]	(41)	128	(31)	(10)	(159)	(6)	79
PROFIT BEFORE TAX	**17**	**153**	**34**	**(17)**	**46**	**(6)**	**82**

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

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 (which also includes the remaining holdings in the Real Estate Restructuring Portfolio) and consolidation effects.

The total revenues of this segment declined sharply, from €351 million in 2007 to €220 million in the first half of 2008. This development results almost exclusively from net interest income, which benefited in the previous year from a non-recurring item of €93 million arising from the interest payments on purchase prices in conjunction with the disposal of discontinued operations. In addition, the strategic reduction of volumes in the Special Credit Portfolio (including the remaining holdings from the Real Estate Restructuring portfolio) resulted in lower net interest income. There was a considerable 13.8% decline in operating costs both in payroll costs and in other administrative expenses. Net write-downs of loans and provisions for guarantees and commitments relating to the Special Credit Portfolio declined significantly by 71.5%, to €57 million. The higher profit contribution recorded under "Net income from investments and other items" in the previous year can be attributed notably to the gain of €47 million on the disposal of Nordinvest realised in the first quarter of 2007 and the profit of €113 million from the sale of the remaining shares in Münchener Rückversicherungs-Gesellschaft AG in the second quarter of 2007. The profit before tax totalled €17 million at mid 2008. It was down on the profit of €153 million recorded last year, with a significant reduction in net write-downs of loans and provisions for guarantees and commitments, primarily as a result of the non-recurring income from interest payments on purchase prices mentioned above and from the gains on the above-mentioned disposals posted under net income from investments.

4 Net interest income

		€ millions
	1/1–30/6/2008	1/1–30/6/2007
Interest income from		
lending and money market transactions	5,582	5,659
other interest income	2,947	2,691
Interest expense from		
deposits	(3,604)	(3,550)
debt securities in issue and		
other interest expenses	(3,131)	(2,887)
Net interest	**1,794**	**1,913**
Dividends and other income		
from equity investments		
Dividends and other similar income	123	227
Companies accounted for using		
the equity method	2	4
Total	**1,919**	**2,144**

5 Net fees and commissions

		€ millions
	1/1–30/6/2008	1/1–30/6/2007
Management, brokerage and		
consultancy services	415	549
Collection and payment services	99	119
Lending operations	203	238
Other service operations	64	69
Total	**781**	**975**

This item comprises the balance of fee and commission income of €1,421 million (2007: €1,269 million) and fee and commission expense of €640 million (2007: €294 million).

6 Net trading income

		€ millions
	1/1–30/6/2008	1/1–30/6/2007
Net gains on financial assets		
held for trading[1]	(302)	643
Private equity realisation gains[2]	6	99
Effects arising from hedge accounting	2	(4)
Changes in fair value		
of hedged items	463	130
Changes in fair value		
of hedging derivatives	(461)	(134)
Net gains on financial assets at		
fair value through profit or loss	(25)	57
Other net trading income	(10)	24
Total	**(329)**	**819**

1 including dividends on financial assets held for trading
2 the gains on the disposal of actively managed holdings in the private equity business are recorded here

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 and gains realised on disposal 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.

7 Net other expenses/income

		€ millions
	1/1–30/6/2008	1/1–30/6/2007
Other income	118	164
Other expenses	(61)	(115)
Total	**57**	**49**

Selected Notes (Continued)

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

	€ millions	
	1/1–30/6/2008	1/1–30/6/2007
Additions	**(855)**	**(908)**
Allowances for losses		
on loans and receivables	(811)	(884)
Allowances for losses		
on guarantees and commitments	(44)	(24)
Releases	**558**	**483**
Allowances for losses		
on loans and receivables	551	478
Allowances for losses		
on guarantees and commitments	7	5
Recoveries from write-offs		
of loans and receivables	**41**	**35**
Total	**(256)**	**(390)**

The effect of €18 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.

9 Net income from investments

	€ millions	
	1/1–30/6/2008	1/1–30/6/2007
Receivables	—	1
Available-for-sale financial assets	(33)	104
Shares in affiliated companies	19	258
Companies accounted for using		
the equity method	—	—
Held-to-maturity investments	—	—
Land and buildings	4	20
Investment properties[1]	(16)	—
Total	**(26)**	**383**

1 impairments and write-ups

Net income from investments breaks down as follows:

	€ millions	
	1/1–30/6/2008	1/1–30/6/2007
Gains on the disposal of	**9**	**383**
Receivables	—	1
available-for-sale financial assets	(18)	104
shares in affiliated companies	23	258
companies accounted for using		
the equity method	—	—
held-to-maturity investments	—	—
land and buildings	4	20
Write-downs and value adjustments on	**(35)**	**—**
available-for-sale financial assets	(15)	—
shares in affiliated companies	(4)	—
companies accounted for using		
the equity method	—	—
held-to-maturity investments	—	—
investment properties[1]	(16)	—
Total	**(26)**	**383**

1 impairments and write-ups

The gains on disposal arising from the sale of shares in affiliated companies in 2007 relate to a gain of €219 million on the disposal of Indexchange and of €47 million on the disposal of Nordinvest.

The gains on disposal generated from available-for-sale financial assets in 2007 can essentially be attributed to the gain of €113 million on the disposal of Munich Re.

10 Earnings per share

HVB GROUP	1/1–30/6/2008	1/1–30/6/2007
Net profit (€ millions)	194	1,394
Net profit (adjusted, € millions)[1]	194	1,012
Average number of shares	802,383,672	776,541,406
Earnings per share (€)	0.24	1.80
Earnings per share (adjusted, €)[1]	0.24	1.30

1 2007 adjusted for the effect arising from interest payable on the purchase price relating to the disposal of discontinued operations and the gain on disposal of Indexchange and Munich Re and restructuring costs

11 Income statement and earnings per share of discontinued operations

There were no discontinued operations to be defined in the first half of 2008. Apart from the HVB AG branches in Tallinn und Vilnius, the Bank Austria Group, IMB, HVB Bank Ukraine, AS UniCredit Bank, Riga and the HVB AG branches in Tallinn and Vilnius defined as discontinued operations at year-end 2006 were fully sold or transferred in the first half of 2007. Consequently, the gains of €3,772 million on the disposal of the transferred companies in the first half of 2007 are included in the income statement of discontinued operations shown below before taxes. The taxes accruing on these gains on disposal compliant with IFRS totalled €82 million. At the same time, the income and expenses of the HVB AG branches in Tallinn and Vilnius not transferred until the third quarter of 2007 are included up to and including March 1, 2007 (economic completion date).

The income statement of discontinued operations in the first half year of 2007 was as follows:

	€ millions
	1/1–30/6/2007
Net interest income	2
Net fees and commissions	1
Net trading income	—
Net other expenses/income	—
TOTAL REVENUES	**3**
Operating costs	(3)
OPERATING PROFIT	**—**
Provisions for risks and charges	—
Write-down on goodwill	—
Restructuring costs	—
Net write-downs of loans and provisions	
for guarantees and commitments	—
Net income from investments	3,772
PROFIT BEFORE TAX	**3,772**
Income tax for the period	(82)
PROFIT AFTER TAX	**3,690**
Minorities	—
NET PROFIT	**3,690**

Earnings per share of discontinued operations

	1/1–30/6/2007
Earnings per share in €	**4.75**

Selected Notes (Continued)

Notes to the Balance Sheet

12 Financial assets held for trading

		€ millions
	30/6/2008	31/12/2007
Balance-sheet assets		
Fixed-income securities	61,635	64,391
Equity instruments	12,521	18,084
Other financial assets held for trading	34,566	39,122
Positive fair value from derivative		
financial instruments	**73,922**	**59,258**
Total	**182,644**	**180,855**

The financial assets held for trading at June 30, 2008 include €2,210 million (December 31, 2007: €1,706 million) in subordinated assets.

13 Financial assets at fair value through profit or loss

		€ millions
	30/6/2008	31/12/2007
Fixed-income securities	9,969	10,389
Equity instruments	—	—
Investment certificates	2	3
Promissory notes	2,636	2,545
Other financial assets at fair value		
through profit or loss	—	—
Total	**12,607**	**12,937**

The financial assets at fair value through profit or loss at June 30, 2008 include €257 million (December 31, 2007: €276 million) in subordinated assets.

14 Available-for-sale financial assets

		€ millions
	30/6/2008	31/12/2007
Fixed-income securities	3,802	3,545
Equity instruments	2,572	2,460
Other available-for-sale financial assets	560	619
Impaired assets	95	115
Total	**7,029**	**6,739**

Available-for-sale financial assets at June 30, 2008 include financial assets of €1,598 million (December 31, 2007: €1,209 million) valued at cost.

The available-for-sale financial assets at June 30, 2008 contain a total of €95 million in impaired assets, for which €14 million in impairments was recognised as affecting the current result in the income statement in the period under review. None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets at June 30, 2008 include €446 million (December 31, 2007: €473 million) in subordinated assets.

15 Investments in associates, joint ventures and non-consolidated subsidiaries

€ millions		
	30/6/2008	31/12/2007
Non-consolidated subsidiaries	231	282
Joint ventures	—	—
Associated companies accounted for using		
the equity method	33	34
of which: goodwill	—	—
Other associated companies	8	1
Total	**272**	**317**

16 Held-to-maturity investments

€ millions		
	30/6/2008	31/12/2007
Fixed-income securities	2,929	3,017
Other held-to-maturity investments	22	24
Impaired assets	17	17
Total	**2,968**	**3,058**

The held-to-maturity investments at June 30, 2008 contain a total of €17 million in impaired assets, for which no impairments were taken to the income statement during the period under review. None of the non-impaired debt instruments are financial instruments past due.

The held-to-maturity investments at June 30, 2008 include €22 million (December 31, 2007: €24 million) in subordinated assets.

17 Loans and receivables with banks

€ millions		
	30/6/2008	31/12/2007
Loans to central banks	**1,282**	**6,081**
Loans to banks	**68,468**	**42,785**
Current accounts and demand deposits	18,337	10,265
Other loans to banks	50,131	32,520
Total	**69,750**	**48,866**

The loans and receivables with banks at June 30, 2008 include €1,153 million (December 31, 2007: €1,126 million) in subordinated assets.

18 Loans and receivables with customers

€ millions		
	30/6/2008	31/12/2007
Current accounts	8,775	8,062
Repos[1]	6,909	3,160
Mortgage loans	67,278	69,956
Finance leases	1,169	929
Other loans and receivables	80,298	78,139
Total	**164,429**	**160,246**

1 repurchase agreements

The loans and receivables with customers at June 30, 2008 include €217 million (December 31, 2007: €197 million) in subordinated assets.

Selected Notes (Continued)

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

Analysis of allowances for loans and receivables

€ millions	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES[1]	TOTAL
Balance at January 1, 2008	**4,573**	**520**	**5,093**
Changes affecting income			
Gross additions	775	36	811
Releases	(535)	(16)	(551)
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	(314)	(1)	(315)
Effects of currency translation and other changes not affecting income	(53)	(3)	(56)
Non-current assets or disposal groups held for sale	—	—	—
Balance at June 30, 2008	**4,446**	**536**	**4,982**

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES[1]	TOTAL
Balance at January 1, 2007	**5,595**	**473**	**6,068**
Changes affecting income			
Gross additions	784	100	884
Releases	(465)	(13)	(478)
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	(297)	(75)	(372)
Effects of currency translation and other changes not affecting income	(12)	19	7
Non-current assets or disposal groups held for sale	—	—	—
Balance at June 30, 2007	**5,605**	**504**	**6,109**

1 including provisions for country risk

20 Non-current assets or disposal groups held for sale

Compliant with IFRS 5, non-current assets held for sale and the assets of a disposal group held for sale are shown separately in the balance sheet. This item has developed as follows:

– In December 2007, among other things, real estate sold to third parties from Euro ImmoProfil, which was consolidated for the first time at December 31, 2007, was classified as held for sale compliant with IFRS 5. After ownership, benefits and obligations were transferred in the first quarter of 2008, the assets involved were derecognized.
– The other investment properties already classified as held for sale compliant with IFRS 5 in 2007 relate to the disposal of a portfolio of non-strategic real estate. Ownership, benefits and obligations relating to the holdings still recognised at June 30, 2008 were not yet transferred in the first half year of 2008.

		€ millions
ASSETS	30/6/2008	31/12/2007
Cash and cash balances	—	—
Financial assets held for trading	—	—
Financial assets at fair value through profit or loss	—	—
Available-for-sale financial assets	—	—
Investments in associates, joint ventures and		
non-consolidated subsidiaries	—	7
Held-to-maturity investments	—	—
Loans and receivables with banks	—	—
Loans and receivables with customers	—	—
Hedging derivatives	—	—
Property, plant and equipment	—	—
Investment properties	7	257
Intangible assets	—	—
Tax assets	—	—
Other assets	—	1
Total assets	**7**	**265**

21 Deposits from banks

		€ millions
	30/6/2008	31/12/2007
Deposits from central banks	**18,881**	**16,559**
Deposits from banks	**87,622**	**70,143**
Current accounts and demand deposits	20,225	9,490
Other deposits from banks	67,397	60,653
Total	**106,503**	**86,702**

22 Deposits from customers

		€ millions
	30/6/2008	31/12/2007
Current accounts and demand deposits	33,437	37,060
Savings deposits	13,941	14,580
Other deposits from customers	66,722	56,986
Total	**114,100**	**108,626**

23 Debt securities in issue

		€ millions
	30/6/2008	31/12/2007
Listed securities	**50,223**	**57,003**
Bonds	48,603	55,286
Other securities	1,620	1,717
Unlisted securities	**20,719**	**22,565**
Bonds	20,465	22,158
Other securities	254	407
Total	**70,942**	**79,568**

Selected Notes (Continued)

24 Liabilities of disposal groups held for sale

The following table shows the breakdown of the liabilities of disposal groups held for sale:

		€ millions
	30/6/2008	31/12/2007
Deposits from banks	—	1
Deposits from customers	—	4
Financial liabilities held for trading	—	—
Tax liabilities	—	—
Other liabilities	4	5
Provisions	—	—
Total	**4**	**10**

For information regarding changes compared with 2007, please refer to Note (20), "Non-current assets or disposal groups held for sale".

25 Provisions

		€ millions
	30/6/2008	31/12/2007
Provisions for pensions and similar commitments	110	105
Provisions for financial guarantees	187	163
Restructuring provisions	117	126
Other provisions	1,108	1,146
Total	**1,522**	**1,540**

26 Own shares

At June 30, 2008, 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 was carried out on the basis of the authorisation issued under the resolution passed at HVB AG's Annual General Meeting of Shareholders on June 27, 2007.

For the purposes of securities trading as permitted under Section 71 (1) No. 7 of the German Stock Corporation Act, a total of 666,300 own shares of treasury stock were purchased by HVB AG and controlled or majority-owned companies at the respective current market prices as part of normal securities trading, and a total of 666,300 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 €39.89 per share and resold at an average price of €38.89 per share. The shares purchased during the period under review amounted to an equivalent of €2.0 million, or 0.09% of capital stock.

The highest number of own shares of treasury stock held during the year was 1 share.

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 201,832 own shares as collateral as of June 30, 2008. This represents €0.6 million, or 0.03% of capital stock.

27 Change in valuation of financial instruments

The reserves arising from changes in the valuation of financial instruments declined by €0.5 billion in the first half compared to the 2007 year-end total. In the process, the cash flow hedge reserve decreased by €0.2 billion and the available-for-sale reserve by €0.3 billion. This decline can essentially be attributed to negative fair value fluctuations in our holdings as a result of the difficult stock market environment in 2008. The largest individual item is a market fluctuation of minus €141 million in our shareholding in Babcock & Brown Limited, Sydney. In the first half of 2008, €87 million is attributable to negative 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.

28 Subordinated capital

The following table shows the breakdown of subordinated capital included in deposits from banks and customers and debt securities in issue:

		€ millions
	30/6/2008	**31/12/2007**
Subordinated liabilities	7,539	8,014
Participating certificates outstanding	614	614
Hybrid capital instruments	2,337	2,376
Total	**10,490**	**11,004**

Selected Notes (Continued)

Other Information

29 Contingent liabilities and other commitments

		€ millions
	30/6/2008	31/12/2007
Contingent liabilities[1]	**24,458**	**25,355**
Financial guarantees and commitments	24,458	25,355
Other commitments	**67,353**	**60,609**
Irrevocable credit commitments	51,385	47,580
Other commitments	15,968	13,029
Total	**91,811**	**85,964**

1 contingent liabilities are offset by contingent assets to the same amount

30 Notes to selected structured products

The effects of the financial market crisis on the performance of HVB Group and the resulting burdens on the income statement and the available-for-sale reserve in the first half of 2008 have already been described in the Interim Management Report on page 6. Additional information regarding selected structured products is given below in order to provide greater transparency.

The assets of consolidated conduits are shown alongside tranches retained by HVB Group from its own securitisation transactions and holdings of asset-backed securities (ABS) transactions issued by third parties, broken down by various criteria.

ABS portfolio

In a securitisation transaction, above all the originator transfers credit receivables and/or credit risks to third parties. The securitisation itself is usually performed via special purpose vehicles (SPVs). In order to refinance the acquisition of receivables, these SPVs issue securities on the capital market that are secured by the receivables acquired. This serves to transfer the associated credit risks to investors in the form of asset-backed securities. The securities issued by SPVs are generally divided into tranches which differ above all in terms of seniority in the servicing of claims to repayment and interest payments. These tranches are generally assessed by rating agencies.

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:

- Residential mortgage-backed securities (RMBS) relate to mortgage loans in the private sector (residential mortgage loans),
- Commercial mortgage-backed securities (CMBS) relate to mortgage loans in the commercial sector (commercial mortgage loans),
- Collateralised loan obligations (CLO) relate to commercial bank loans,
- Collateralised bond obligations (CBO) relate to securities portfolios.

Besides this, consumer loans, credit card receivables and lease receivables are also securitised.

Positions retained from own securitisation transactions and in third-party ABS transactions broken down by rating class (HVB Group without consolidated conduits which are shown separately):

€ millions				
HVB GROUP BOOK VALUES	30/6/2008			
	SENIOR	MEZZANINE	JUNIOR	TOTAL
Positions retained from own securitisations	**378**	**234**	**87**	**699**
Positions in third-party ABS transactions	**6,421**	**1,379**	**142**	**7,942**
Residential mortgage-backed securities (RMBS)	2,758	406	67	**3,231**
thereof:				
US subprime	—	—	—	**—**
US Alt A	31	6	—	**37**
Commercial mortgage backed securities (CMBS)	1,102	345	—	**1,447**
Collateralised debt obligations (CDO)	701	87	5	**793**
thereof:				
US subprime	3	7	4	**14**
US Alt A	3	—	1	**4**
Collateralised loan obligations (CLO)/Collateralised bond obligations (CBO)	669	258	53	**980**
Consumer loans	430	100	—	**530**
Credit cards	129	13	—	**142**
Leases	282	74	—	**356**
Others	350	96	17	**463**
Unfunded collateralised debt obligations (CDO) (derivatives)[1]	**32**	**163**	**181**	**376**
Total	**6,831**	**1,776**	**410**	**9,017**

1 The amount shown in the table represents the book value (fair value).

The positions are classified as senior, mezzanine and junior on the basis of external ratings, or internal ratings where no external rating exists. Only those tranches with the best rating (AAA in the case of external ratings) are carried as senior tranches. Only tranches with low ratings (worse than CCC in external ratings) and unrated tranches (known as first loss pieces) are carried as junior tranches; all other tranches are grouped together as mezzanine tranches.

Selected Notes (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions broken down by region (HVB Group without consolidated conduits which are shown separately):

HVB GROUP BOOK VALUES	30/6/2008				€ millions
	EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations	**699**	**—**	**—**	**—**	**699**
Positions in third-party ABS transactions	**6,348**	**501**	**516**	**577**	**7,942**
Residential mortgage-backed securities (RMBS)	2,808	38	108	277	**3,231**
thereof:					
US subprime	—	—	—	—	**—**
US Alt A	—	37	—	—	**37**
Commercial mortgage-backed securities (CMBS)	1,213	83	130	21	**1,447**
Collateralised debt obligations (CDO)	274	136	189	194	**793**
thereof:					
US subprime	—	14	—	—	**14**
US Alt A	—	4	—	—	**4**
Collateralised loan obligations (CLO)/Collateralised bond obligations (CBO)	850	96	11	23	**980**
Consumer loans	486	13	12	19	**530**
Credit cards	78	—	64	—	**142**
Leases	271	42	—	43	**356**
Others	368	93	2	—	**463**
Unfunded collateralised debt obligations (CDO) (derivatives)[1]	**43**	**333**	**—**	**—**	**376**
Total	**7,090**	**834**	**516**	**577**	**9,017**

1 The amount shown in the table represents the book value (fair value).

Positions retained from own securitisation transactions and in third-party ABS transactions broken down by remaining maturity (HVB Group without consolidated conduits which are shown separately):

HVB GROUP BOOK VALUES	30/6/2008			€ millions
	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations	**135**	**277**	**287**	**699**
Positions in third-party ABS transactions	**463**	**5,500**	**1,979**	**7,942**
Residential mortgage-backed securities (RMBS)	102	2,334	795	**3,231**
thereof:				
US subprime	—	—	—	**—**
US Alt A	17	18	2	**37**
Commercial mortgage-backed securities (CMBS)	72	854	521	**1,447**
Collateralised debt obligations (CDO)	68	578	147	**793**
thereof:				
US subprime	3	5	6	**14**
US Alt A	—	4	—	**4**
Collateralised loan obligations (CLO)/Collateralised bond obligations (CBO)	19	582	379	**980**
Consumer loans	48	480	2	**530**
Credit cards	24	118	—	**142**
Leases	53	270	33	**356**
Others	77	284	102	**463**
Unfunded collateralised debt obligations (CDO) (derivatives)[1]	**2**	**130**	**244**	**376**
Total	**600**	**5,907**	**2,510**	**9,017**

1 The amount shown in the table represents the book value (fair value).

Selected Notes (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions broken down by class as per IAS 39 (HVB Group without consolidated conduits which are shown separately):

€ millions

HVB GROUP BOOK VALUES	30/6/2008					
	HELD FOR TRADING	FAIR-VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations	**333**	**—**	**—**	**—**	**366**	**699**
Positions in third-party ABS transactions	**6,884**	**224**	**—**	**81**	**753**	**7,942**
Residential mortgage-backed securities (RMBS)	2,905	58	—	—	268	**3,231**
thereof:						
US subprime	—	—	—	—	—	**—**
US Alt A	36	1	—	—	—	**37**
Commercial mortgage-backed securities (CMBS)	1,323	31	—	—	93	**1,447**
Collateralised debt obligations (CDO)	481	66	—	57	189	**793**
thereof:						
US subprime	14	—	—	—	—	**14**
US Alt A	4	—	—	—	—	**4**
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)	851	12	—	1	116	**980**
Consumer loans	513	—	—	—	17	**530**
Credit cards	115	—	—	—	27	**142**
Leases	294	14	—	5	43	**356**
Others	402	43	—	18	—	**463**
Unfunded collateralised debt obligations (CDO) (derivatives)[1]	**376**	**—**	**—**	**—**	**—**	**376**
Total	**7,593**	**224**	**—**	**81**	**1,119**	**9,017**

1 The amount shown in the table represents the book value (fair value).

Consolidated conduits

Alongside the directly held portfolios of own and external ABS transactions listed above, further similar portfolios are held through conduits managed by HVB (SPVs that issue short-term commercial paper to refinance their assets) that are consolidated by HVB. Essentially these involve credit receivables of third parties that are securitised by HVB using the services of the conduits.

Positions in consolidated conduits broken down by product category and rating class

				€ millions
CONSOLIDATED CONDUITS BOOK VALUES	30/6/2008			
	SENIOR	MEZZANINE	JUNIOR	TOTAL
Residential mortgage loans/Residential mortgage-backed securities (RMBS)	398	1,237	—	**1,635**
Commercial mortgage loans/Commercial mortgage-backed securities (CMBS)	912	267	—	**1,179**
Collateralised debt obligations (CDO)	4	—	—	**4**
Collateralised loan obligations (CLO)/Collateralised bond obligations (CBO)	70	96	—	**166**
Consumer loans	312	710	—	**1,022**
Credit cards	—	170	—	**170**
Leases	396	192	—	**588**
Others	911	822	—	**1,733**
Total	**3,003**	**3,494**	**—**	**6,497**

The positions are classified as senior, mezzanine and junior on the basis of external ratings, or internal ratings where no external rating exists. Only those tranches with the best rating (AAA in the case of external ratings) are carried as senior tranches. Only tranches with low ratings (worse than CCC in external ratings) and unrated tranches (known as first loss pieces) are carried as junior tranches; all other tranches are grouped together as mezzanine tranches.

Selected Notes (Continued)

Positions in consolidated conduits broken down by product category and region

€ millions					
CONSOLIDATED CONDUITS BOOK VALUES	30/6/2008				
	EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Residential mortgage loans/Residential mortgage-backed securities (RMBS)	1,237	2	—	396	**1,635**
Commercial mortgage loans/Commercial mortgage-backed securities (CMBS)	1,044	135	—	—	**1,179**
Collateralised debt obligations (CDO)	—	4	—	—	**4**
Collateralised loan obligations (CLO)/Collateralised bond obligations (CBO)	—	166	—	—	**166**
Consumer loans	1,022	—	—	—	**1,022**
Credit cards	170	—	—	—	**170**
Leases	588	—	—	—	**588**
Others	714	1,019	—	—	**1,733**
Total	**4,775**	**1,326**	**—**	**396**	**6,497**

Positions in consolidated conduits broken down by product category and remaining maturity

€ millions				
CONSOLIDATED CONDUITS BOOK VALUES	30/6/2008			
	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Residential mortgage loans/Residential mortgage-backed securities (RMBS)	396	—	1,239	**1,635**
Commercial mortgage loans/Commercial mortgage-backed securities (CMBS)	18	23	1,138	**1,179**
Collateralised debt obligations (CDO)	—	—	4	**4**
Collateralised loan obligations (CLO)/Collateralised bond obligations (CBO)	—	7	159	**166**
Consumer loans	1,022	—	—	**1,022**
Credit cards	170	—	—	**170**
Leases	588	—	—	**588**
Others	709	606	418	**1,733**
Total	**2,903**	**636**	**2,958**	**6,497**

Positions in consolidated conduits broken down by product category and class as per IAS 39

CONSOLIDATED CONDUITS BOOK VALUES	30/6/2008					
€ millions	HELD FOR TRADING	FAIR-VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Residential mortgage loans/Residential mortgage-backed securities (RMBS)	—	—	1,633	2	—	**1,635**
Commercial mortgage loans/ Commercial mortgage-backed securities (CMBS)	—	101	1,044	—	34	**1,179**
Collateralised debt obligations (CDO)	—	—	—	4	—	**4**
Collateralised loan obligations (CLO)/ Collateralised bond obligations (CBO)	—	—	—	129	37	**166**
Consumer loans	—	—	1,022	—	—	**1,022**
Credit cards	—	—	170	—	—	**170**
Leases	—	—	588	—	—	**588**
Others	—	133	1,245	28	327	**1,733**
Total	**—**	**234**	**5,702**	**163**	**398**	**6,497**

Selected Notes (Continued)

31 Members of the Supervisory Board and Management Board

Supervisory Board

Alessandro Profumo
Chairman

Peter König
Deputy Chairman

Dr Lothar Meyer
Deputy Chairman

Gerhard Bayreuther
since July 30, 2008

Aldo Bulgarelli

Beate Dura-Kempf

Sergio Ermotti

Paolo Fiorentino

Dario Frigerio

Giulio Gambino
since July 30, 2008

Klaus Grünewald

Günter Guderley
until July 30, 2008

Stephan Hofmeister
from July 1, 2008 to July 30, 2008

Friedrich Koch
until July 30, 2008

Hanns-Peter Kreuser
until June 30, 2008

Ranieri de Marchis

Beate Mensch
since July 30, 2008

Roberto Nicastro

Vittorio Ogliengo

Panagiotis Sfeliniotis

Professor Hans-Werner Sinn

Maria-Magdalena Stadler
until July 30, 2008

Jutta Streit
since July 30, 2008

Ursula Titze
until July 30, 2008

Michael Voss
since July 30, 2008

Jens-Uwe Wächter

Management Board

Willibald Cernko
Retail division
until April 30, 2008

Stefan Ermisch
Markets & Investment Banking division
Internal organisation, integration and establishment of global investment banking activities of the UniCredit Group at HVB
until June 5, 2008

Rolf Friedhofen
Chief Financial Officer (CFO)

Henning Giesecke
Chief Risk Officer (CRO)
since May 1, 2008

Heinz Laber
Human Resources Management
Chief Operating Officer (COO)[1]

Dr Stefan Schmittmann
Corporates & Commercial Real Estate Financing division
until April 30, 2008

Ronald Seilheimer
Markets & Investment Banking division, Markets;
Corporates & Commercial Real Estate Financing division[1]

Matthias Sohler
Chief Operating Officer (COO)
until April 30, 2008

Dr Wolfgang Sprissler
Board Spokesman
Retail division and Wealth Management division[1]

Andrea Umberto Varese
Chief Risk Officer (CRO)
until April 30, 2008

Andreas Wölfer
Wealth Management division
until April 30, 2008

Munich, August 29, 2008

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft
The Management Board

Friedhofen

Giesecke

Laber

Seilheimer

Sprissler

1 since May 1, 2008

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 for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Management Report 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 for the remaining months of the financial year.

Munich, August 29, 2008

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft
The Management Board

Friedhofen

Giesecke

Laber

Seilheimer

Sprissler

Summary of Quarterly Financial Data

€ millions	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Operating performance					
Net interest income	977	942	1,062	923	1,003
Net fees and commissions	383	398	381	365	488
Net trading income	318	(647)	(265)	38	469
Net other expenses/income	23	34	106	14	22
TOTAL REVENUES	**1,701**	**727**	**1,284**	**1,340**	**1,982**
Operating costs	(888)	(871)	(839)	(839)	(943)
OPERATING PROFIT	**813**	**(144)**	**445**	**501**	**1,039**
Provisions for risks and charges	(21)	—	(129)	(7)	(19)
Write-down on goodwill	—	—	—	—	—
Restructuring costs	—	—	19	(3)	(3)
Net write-downs of loans and provisions					
for guarantees and commitments	(69)	(187)	(40)	(106)	(181)
Net income from investments	(39)	13	221	7	113
PROFIT BEFORE TAX	**684**	**(318)**	**516**	**392**	**949**
Income tax for the period	(201)	81	132	(309)	(326)
NET PROFIT	**483**	**(237)**	**648**	**83**	**623**
Minorities	(7)	(45)	(45)	(30)	(22)
NET PROFIT/LOSS OF HVB GROUP NEW	**476**	**(282)**	**603**	**53**	**601**
Earnings per share[1] in €, HVB Group	0.59	(0.35)	0.43	0.30	0.60

1 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
Q3 2007 figure adjusted for restructuring costs and tax charges arising from German tax reforms; unadjusted earnings per share total €0.04
Q2 2007 figure adjusted for the gain on disposal of Munich Re and restructuring costs; unadjusted earnings per share total €0.74

Financial Calendar

Important Dates 2008	
Half-yearly financial report at June 30, 2008	August 29, 2008
Quarterly Financial Report at September 30, 2008	November 12, 2008

Contacts
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