This document constitutes a supplement to the four base prospectuses dated 4 March 2009, 11 March 2008, 25 June 2007 and 27 June 2006, each as supplemented from time to time, pursuant to section 16 paragraph 1 of the German Securities Prospectus Act *(Wertpapierprospektgesetz)*.

Supplement

to the Prospectus dated 4 March 2009

Bayerische Hypo- und Vereinsbank AG

Munich, Federal Republic of Germany

Euro 50,000,000,000 Debt Issuance Programme

for the issuance of Notes (including Pfandbriefe and Credit Linked Instruments), Certificates and Warrants

and

to the Prospectus dated 11 March 2008

Bayerische Hypo- und Vereinsbank AG

Munich, Federal Republic of Germany

Euro 50,000,000,000 Debt Issuance Programme

for the issuance of Notes (including Pfandbriefe and Credit Linked Instruments), Certificates and Warrants

and

to the Prospectus dated 25 June 2007

Bayerische Hypo- und Vereinsbank AG

Munich, Federal Republic of Germany

Euro 50,000,000,000 Debt Issuance Programme

for the issuance of Notes (including Pfandbriefe), Certificates and Warrants

and

to the Prospectus dated 27 June 2006

Bayerische Hypo- und Vereinsbank AG

Munich, Federal Republic of Germany

Euro 50,000,000,000 Debt Issuance Programme

for the issuance of Notes (including Pfandbriefe), Certificates and Warrants

HypoVereinsbank
UniCredit Group

Arranger and Dealer
UniCredit (HVB)

23 March 2009

This supplement is to be read and construed in conjunction with the base prospectuses dated 4 March 2009 (the "**Prospectus 2009**"), 11 March 2008 (the "**Prospectus 2008**"), 25 June 2007 (the "**Prospectus 2007**") and 27 June 2006 (the "**Prospectus 2006**", and the Prospectus 2006, the Prospectus 2007, the Prospectus 2008 and the Prospectus 2009, each a "Prospectus" and together the "**Prospectuses**"), and in connection with any issue of Instruments, with the relevant Final Terms and/or Terms and Conditions. Therefore, with respect to issues under the Prospectuses references in the Final Terms and/or Terms and Conditions to the Prospectus are to be read as references to the relevant Prospectus as amended and supplemented.

Bayerische Hypo- und Vereinsbank AG accepts responsibility for the information contained in this Supplement and declares that, having taken all reasonable care to ensure that this is the case, the information contained in this Supplement is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Investors who have already agreed to purchase or subscribe for the Instruments before the supplement is published shall have the right, exercisable within two working days after the publication of the Supplement, to withdraw their acceptances, pursuant to section 16 paragraph 3 of the German Securities Prospectus Act.

Bayerische Hypo- und Vereinsbank AG, MCD2 Debt Capital Markets Documentation, Arabellastraße 12, 81925 Munich, Germany, fax no.: +49-89-378 33 15964, has been appointed as recipient for the revocation notices according to Section 16 Paragraph 3 in connection with section 8 paragraph 1 sentence 4 of the German Securities Prospectus Act.

This Supplement and the Prospectuses are available during usual business hours on any weekday (except Saturdays and public holidays) at the office of Bayerische Hypo- und Vereinsbank AG, MCD2 Debt Capital Markets Documentation, Arabellastraße 12, 81925 Munich, Germany.

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Bayerische Hypo- und Vereinsbank AG announces the following changes with regard to the Prospectuses:

1. CHANGES TO THE PROSPECTUS 2009

- On the first page of the Prospectus 2009 the last sentence in the first paragraph "*This Prospectus replaces and supersedes the Prospectus dated 11 March 2008, as supplemented by the supplements dated 26 March 2008, 28 May 2008 and 2 March 2009.*" is replaced by the following sentence: "*This Prospectus replaces and supersedes the Prospectus dated 11 March 2008, as supplemented by the supplements dated 26 March 2008, 28 May 2008 and 26 February 2009.*"
- After page 604 of the Prospectus 2009 the information extracted from the 2008 Annual Report (*2008 Geschäftsbericht*) as laid out in Appendix 1 of this Supplement is inserted as F-Pages into the Prospectus 2009.

2. CHANGES TO THE PROSPECTUS 2008

- Immediately after the Consolidated Interim Report September 30, 2008 (*Zwischenbericht zum 30. September 2008*) inserted as H-Pages into the Prospectus 2008 the information extracted from the 2008 Annual Report (*2008 Geschäftsbericht*) as laid out in Appendix 1 of this Supplement is inserted as F-Pages into the Prospectus 2008.

3. CHANGES TO THE PROSPECTUS 2007

- Immediately after the Consolidated Interim Report September 30, 2008 (*Zwischenbericht zum 30. September 2008*) inserted as H-Pages into the Prospectus 2007 the information extracted from the 2008 Annual Report (*2008 Geschäftsbericht*) as laid out in Appendix 1 of this Supplement is inserted as F-Pages into the Prospectus 2007.

4. CHANGES TO THE PROSPECTUS 2006

- Immediately after the Consolidated Interim Report September 30, 2008 (*Zwischenbericht zum 30. September 2008*) inserted as H-Pages into the Prospectus 2006 the information extracted from the 2008 Annual Report (*2008 Geschäftsbericht*) as laid out in Appendix 1 of this Supplement is inserted as F-Pages into the Prospectus 2006

Consolidated Income Statement and Appropriation of Net Income

for the year ended December 31, 2008

Income/Expenses

	NOTES	2008	2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Net interest		4,059	3,753	+ 306	+ 8.2
Dividends and other income from equity investments		200	376	(176)	(46.8)
Net interest income	32	**4,259**	**4,129**	**+ 130**	**+ 3.1**
Net fees and commissions	33	1,453	1,721	(268)	(15.6)
Net trading income	34	(1,911)	592	(2,503)	—
Net other expenses/income	35	147	169	(22)	(13.0)
Net non-interest income		**(311)**	**2,482**	**(2,793)**	**—**
TOTAL REVENUES		**3,948**	**6,611**	**(2,663)**	**(40.3)**
Payroll costs		(1,961)	(2,067)	+ 106	(5.1)
Other administrative expenses		(1,281)	(1,250)	(31)	+ 2.5
Amortisation, depreciation and impairment losses					
on intangible and tangible assets		(253)	(259)	+ 6	(2.3)
Operating costs	36	**(3,495)**	**(3,576)**	**+ 81**	**(2.3)**
OPERATING PROFIT		**453**	**3,035**	**(2,582)**	**(85.1)**
Provisions for risks and charges	37	(6)	(161)	+ 155	(96.3)
Write-down on goodwill		—	—	—	—
Restructuring costs	38	(26)	13	(39)	—
Net write-downs of loans and provisions					
for guarantees and commitments	39	(760)	(536)	(224)	+ 41.8
Net income from investments	40	(256)	611	(867)	—
PROFIT/(LOSS) BEFORE TAX		**(595)**	**2,962**	**(3,557)**	**—**
Income tax for the period	41	(54)	(794)	+ 740	(93.2)
NET PROFIT/(LOSS)		**(649)**	**2,168**	**(2,817)**	**—**
Minorities		(22)	(118)	+ 96	(81.4)
NET PROFIT/(LOSS) OF HVB GROUP		**(671)**	**2,050**	**(2,721)**	**—**

Balance Sheet

at December 31, 2008

Assets

	NOTES	2008	2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Cash and cash balances	44	558	551	+ 7	+ 1.3
Financial assets held for trading	8, 45	199,019	180,855	+ 18,164	+ 10.0
Financial assets at fair value through profit or loss	9, 46	13,335	12,937	+ 398	+ 3.1
Available-for-sale financial assets	10, 47	5,636	6,739	(1,103)	(16.4)
Investments in associates, joint ventures					
and non-consolidated subsidiaries	11, 48	250	317	(67)	(21.1)
Held-to-maturity investments	12, 49	6,020	3,058	+ 2,962	+ 96.9
Loans and receivables with banks	13, 50	46,451	48,866	(2,415)	(4.9)
Loans and receivables with customers	13, 51	175,518	160,246	+ 15,272	+ 9.5
Hedging derivatives	53	2,654	500	+ 2,154	> + 100.0
Property, plant and equipment	15, 54	1,877	1,337	+ 540	+ 40.4
Investment properties	17, 55	1,723	1,890	(167)	(8.8)
Intangible assets	18, 56	795	770	+ 25	+ 3.2
of which: Goodwill		424	421	+ 3	+ 0.7
Tax assets	57	2,792	2,180	+ 612	+ 28.1
of which: Deferred tax assets		2,371	1,856	+ 515	+ 27.7
Assets of discontinued operations					
and non-current assets or					
disposal groups held for sale	19, 58	4	265	(261)	(98.5)
Other assets	59	1,970	1,618	+ 352	+ 21.8
Total assets		**458,602**	**422,129**	**+ 36,473**	**+ 8.6**

Liabilities

	NOTES	2008	2007	CHANGE	
		€ millions	€ millions	€ millions	in %
Deposits from banks	20, 61	83,867	86,702	(2,835)	(3.3)
Deposits from customers	20, 62	114,962	108,626	+ 6,336	+ 5.8
Debt securities in issue	20, 63	63,639	79,568	(15,929)	(20.0)
Financial liabilities held for trading	21, 64	163,944	115,228	+ 48,716	+ 42.3
Hedging derivatives	65	617	473	+ 144	+ 30.4
Hedge adjustment of hedged items					
in the fair value hedge portfolio	22, 66	554	87	+ 467	>+ 100.0
Tax liabilities	67	1,938	1,316	+ 622	+ 47.3
of which: Deferred tax liabilities		1,394	608	+ 786	>+ 100.0
Liabilities of discontinued operations and					
of disposal groups held for sale	68	4	10	(6)	(60.0)
Other liabilities	23, 69	4,562	4,581	(19)	(0.4)
Provisions	24, 70	1,491	1,540	(49)	(3.2)
Shareholders' equity	71	23,024	23,998	(974)	(4.1)
Shareholders' equity attributable to shareholders of HVB AG		22,217	23,190	(973)	(4.2)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Own shares		—	(2)	+ 2	+ 100.0
Other reserves		9,996	6,913	+ 3,083	+ 44.6
Change in valuation of financial instruments		23	7	+ 16	>+ 100.0
AfS reserve		(306)	619	(925)	—
Hedge reserve		329	(612)	+ 941	—
Consolidated profit		—	4,074	(4,074)	(100.0)
Minority interest		807	808	(1)	(0.1)
Total shareholders' equity and liabilities		**458,602**	**422,129**	**+ 36,473**	**+ 8.6**

Statement of Changes in Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OWN SHARES	OTHER RESERVES	
					OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at Jan. 1, 2007	**2,252**	**8,886**	**(3)**	**4,061**	**(814)**
Change from capital increase against contributions in kind	155	905	—	—	—
Change in valuation of financial instruments not affecting income	—	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—	—
Change in net income (loss)	—	—	—	1,674	—
Actuarial losses on defined benefit plans	—	—	—	33	33
Change in holdings of, and net income from, own equity instruments	—	—	1	—	—
Dividend payouts	—	—	—	—	—
Transfers from net income	—	—	—	321	—
Changes in group of consolidated companies	—	—	—	838	592
Reserve arising from foreign currency translation and other changes	—	—	—	(14)	—
Shareholders' equity at Dec. 31, 2007	**2,407**	**9,791**	**(2)**	**6,913**	**(189)**
Shareholders' equity at Jan. 1, 2008	**2,407**	**9,791**	**(2)**	**6,913**	**(189)**
Change in valuation of financial instruments not affecting income	—	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—	—
Net income (loss)	—	—	—	(671)	—
Actuarial losses on defined benefit plans	—	—	—	50	50
Change in holdings of, and net income from, own equity instruments	—	—	—	—	—
Dividend payouts	—	—	—	—	—
Transfers from net income	—	—	—	3,672	—
Changes in group of consolidated companies	—	—	—	(11)	—
Reserve arising from foreign currency translation and other changes	—	—	2	43	—
Shareholders' equity at Dec. 31, 2008	**2,407**	**9,791**	**—**	**9,996**	**(139)**

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS		CONSOLIDATED PROFIT	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF HVB AG	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
AFS RESERVE	HEDGE RESERVE				€ millions
1,195	**(323)**	**622**	**16,690**	**3,298**	**19,988**
—	—	—	1,060	—	1,060
(34)	(617)	—	(651)	—	(651)
(137)	192	—	55	—	55
—	—	4,074	5,748	118	5,866
—	—	—	33	—	33
—	—	—	1	—	1
—	—	(301)	(301)	(58)	(359)
—	—	(321)	—	—	—
(405)	136	—	569	(2,460)	(1,891)
—	—	—	(14)	(90)	(104)
619	**(612)**	**4,074**	**23,190**	**808**	**23,998**
619	**(612)**	**4,074**	**23,190**	**808**	**23,998**
(924)	982	—	58	—	58
1	(41)	—	(40)	—	(40)
—	—	—	(671)	22	(649)
—	—	—	50	—	50
—	—	—	—	—	—
—	—	(402)	(402)	(68)	(470)
—	—	(3,672)	—	—	—
—	—	—	(11)	2	(9)
(2)	—	—	43	43	86
(306)	**329**	**—**	**22,217**	**807**	**23,024**

Cash Flow Statement

		€ millions
	2008	2007
Net profit/(loss) after tax of HVB Group[1]	(649)	2,168
Net profit/(loss) after tax of discontinued operations[1]	—	3,698
Net profit after tax, including discontinued operations[1]	**(649)**	**5,866**
Write-downs, provisions for losses on, and write-ups of, loans and		
receivables and additions to provisions for losses on guarantees and indemnities	831	626
Write-downs and depreciation less write-ups on long-term assets	617	484
Change in other non-cash positions	(2,064)	486
Profit from the sale of investments, property, plant and equipment	(29)	(862)
Other adjustments (mainly taxes on income paid, interest received less interest paid		
and dividends received and reclassification of the profits from discontinued operations)	(4,443)	(7,932)
Subtotal	**(5,737)**	**(1,332)**
Change in assets and liabilities from operating activities after correction		
for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	41,042	(797)
Loans and receivables with banks	2,539	(3,621)
Loans and receivables with customers	(14,690)	3,148
Other assets from operating activities	(84)	3,084
Deposits from banks	(3,279)	(49)
Deposits from customers	5,752	14,341
Debt securities in issue	(15,163)	(7,555)
Other liabilities from operating activities	(9,719)	(6,359)
Taxes on income paid	(469)	(183)
Interest received	15,871	17,276
Interest paid	(11,974)	(14,016)
Dividends received	946	702
Cash flows from operating activities	**5,035**	**4,639**

1 including minorities

€ millions		
	2008	2007
Proceeds from the sale of investments	1,869	660
Proceeds from the sale of property, plant and equipment	54	89
Payments for the acquisition of investments	(4,534)	(8,877)
Payments for the acquisition of property, plant and equipment	(312)	(217)
Effects of the change in the group of companies included in consolidation (including discontinued operations)	—	4,263
Cash flows from investing activities	**(2,923)**	**(4,082)**
Change in additional paid-in capital	—	—
Dividend payments	(402)	(301)
Other financing activities, net (subordinated and hybrid capital)	(1,792)	(9)
Other financing activities, net	89	(204)
Cash flows from financing activities	**(2,105)**	**(514)**
Cash and cash equivalents at end of previous period [1]	**551**	**508**
Net cash provided/used by operating activities	**5,035**	**4,639**
Net cash provided/used by investing activities	**(2,923)**	**(4,082)**
Net cash provided/used by financing activities	**(2,105)**	**(514)**
Effects of exchange rate changes	—	—
Less disposal group held for sale and discontinued operations	—	—
Cash and cash equivalents at end of period[1]	**558**	**551**

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

Notes to the Consolidated Financial Statements

Consolidated financial statements in accordance with IFRS

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

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 16/06/2002 of the European Parliament and of the Council of July 19, 2002 together with further regulations governing the adoption of certain IFRSs within the framework of the EU endorsement, in conjunction with Section 315a of the German Commercial Code (HGB). Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All the standards and interpretations subject to mandatory adoption in the EU for the 2008 financial year have been applied. Section 315a of the German Commercial Code also contains national regulations to be applied alongside the IFRS by companies active on the capital market.

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

The Management's Discussion and Analysis meets the requirements of Section 315 (1, 2) of the German Commercial Code. Also incorporated is a risk report pursuant to Section 315, German Commercial Code.

Compliant with Section 264b of the German Commercial Code, the following companies are exempted from the obligation to prepare a management report and to disclose their annual financial statements:

- HVZ GmbH & Co. Objekt KG, Munich
- Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
- Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
- Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
- A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
- HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
- KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße I KG, Munich
- Omnia Grundstücks-GmbH & Co. Objekt Ostragehege KG, Munich
- Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
- Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
- SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich
- Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
- TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich.

Accounting and Valuation

1 Uniform Group accounting policies

The separate financial statements of the domestic and foreign subsidiaries are incorporated in our consolidated financial statements in accordance with uniform principles of accounting and valuation. Where options have been exercised, the details are explained under the balance sheet items concerned.

2 Consistency

In accordance with the IFRS Framework for the presentation of financial statements together with IAS 1 and IAS 8, we apply the accounting and disclosure principles consistently from one period to the next. Where accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted against retained earnings. Where we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively.

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

The interpretations IFRIC 11 (Group and Treasury Share Transactions) and IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction) to be applied for the first time in the 2008 financial year in the EU have had no material consequences for the consolidated financial statements of HVB Group. We have applied the exposure draft regarding embedded derivatives in IFRIC 9 and IAS 39 published by the IASB at the end of December 2008 in conjunction with the new reclassification rules in the 2008 financial year.

Apart from this, the accounting and valuation principles applied in 2008 are the same as those applied in the consolidated financial statements for 2007, with the exception of the new reclassification rules (amendment to IAS 39.50) and the introduction of the fair value hedge portfolio for interest rate risks.

3 Application of new reclassification rules

The amendment of IAS 39.50 dated October 15, 2008 represents a further harmonisation with US GAAP which prevents distortions in competition and simultaneously maintains transparency. The reclassification options are summarised below.

A reclassification of financial assets classified as held for trading is only possible if the intention to trade in the short term no longer exists. It should be noted in this regard that, in rare circumstances, financial assets held for trading may be reclassified as loans and receivables, held-to-maturity financial instruments or available-for-sale financial instruments, provided the conditions for the respective categories are met. The financial crisis meets the definition of a rare circumstance, with the result that we have reclassified non-marketable financial instruments in accordance with IAS 39.50B. In the case of non-marketable financial instruments (where no active market exists), it is enough to give up the intention to trade for a reclassification to be carried out. In the case of holdings carried at amortised cost, the fair value at the date of reclassification is stated as the original cost. In exceptional cases where an asset has been reclassified with retroactive effect from July 1, 2008, the fair value at July 1 is stated as the original cost. Any possible future write-up may only be made up to the original cost determined at the date of reclassification and not to the historic cost. In this context, the criteria for the category must be met at the time of reclassification. Where an active market exists at the present time, only a reclassification to held-to-maturity financial instruments or available-for-sale financial instruments is possible. A later reclassification back to the held-for-trading category is not possible.

Accounting and Valuation (Continued)

In the exposure draft regarding embedded derivatives published at the end of December 2008 with proposed amendments to IFRIC 9 and IAS 39, the IASB specified for the first time that a test for embedded derivatives must be carried out at the date of reclassification. The IFRIC 9 applicable at September 30 only called for such a test at the date of acquisition and/or the date of changes in contractual conditions, meaning that such a test was not necessary at the date of reclassification. IDW ERS HfA 26 of December 5, 2008 comes to the same conclusion in its draft statement regarding the reclassification of financial assets compliant with the amended IAS 39 and IFRS 7. The amendment of IFRIC 9 recently made available by the IASB has changed this interpretation. In line with the amendment of IFRIC 9, a reclassification of synthetic ABS from the held-for-trading portfolio is no longer possible where they contain embedded derivatives that are not measured separately and carried at fair value.

The reclassified holdings are now shown in Note 74.

We have made use of these reclassification options by reclassifying mostly asset-backed securities and fixed-income securities issued by financial institutions, for which an active market no longer exists, from held for trading to loans and receivables in the third quarter of 2008 with retroactive effect from July 1, 2008. The fair value of the financial instruments reclassified as loans and receivables at July 1, 2008 totalled €14.1 billion.

In the fourth quarter of 2008, we only reclassified assets in the amount of €0.2 billion from held for trading to loans and receivables on a prospective basis.

We have not reclassified any holdings from the available-for-sale portfolio.

4 Published IFRS that are not yet the subject of mandatory adoption and that have not been the subject of early adoption

The standards and interpretations newly published or revised by the IASB, which only become the subject of mandatory adoption for financial years beginning on or after January 1, 2009, have not been the subject of early adoption.

Among other things, the new IFRS 8 "Operating Segments", which replaces the old regulations governing segment reporting (IAS 14), is the subject of mandatory adoption with effect from January 1, 2009.

5 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 120 (2007: 105) companies. The group of consolidated companies also includes 33 companies and fund assets which SIC 12 requires to be consolidated as special purpose entities.

With regard to the programmes consolidated for the first time in 2007, a total of 11 special purpose entities (2007: 10) have been incorporated in the figures through the two customer conduit programmes Arabella and Salome.

The group of companies included in consolidation has been defined taking into account materiality criteria. All fully consolidated subsidiaries prepared their annual financial statements for the period ended December 31, 2008. The group of consolidated companies does not include any companies that are not fully consolidated. One company: Ramius Fund of Funds Group LLC, Delaware (formerly: Ramius HVB Partners LLC, Delaware) is accounted for using the equity method (no change compared with 2007).

The following companies and fund assets, among others, have been consolidated for the first time in the 2008 financial statements of HVB Group:
– 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
– WealthCap PEIA Management GmbH, Munich (formerly: HVB FondsFinance GmbH, Munich)
– V.M.G. Vermietungsgesellschaft mbH, Munich
– WealthCap Investorenbetreuung GmbH, Munich
– WealthCap Real Estate Management GmbH, Munich
– BaLea Soft GmbH & Co. KG, Hamburg
– BaLea Soft Verwaltungsgesellschaft mbH, Hamburg
– HVB Investitionsbank GmbH, Hamburg
– LFL Luftfahrzeugleasing GmbH, Hamburg
– Mobility Concept GmbH, Munich
– Structured Lease GmbH, Grünwald
– Ocean Breeze Energy GmbH & Co. KG, Munich
– Ocean Breeze Finance S.A., Luxembourg, Compartment I
– Ocean Breeze Finance S.A., Luxembourg, Compartment II
– Pensionskasse der HypoVereinsbank VVaG, Munich
– Rosenkavalier 2008 GmbH, Munich.

The following companies are no longer consolidated for HVB Group at December 31, 2008, as they are no longer considered material from the point of view of the corporate group:
– Hypo (UK) Holdings Limited i.L., London
– Parus Gesellschaft für Immobilienverwaltung mbH, Munich
– ANWA Gesellschaft für Anlagenverwaltung mbH, Munich
– Bayerische Wohnungsgesellschaft für Handel und Industrie mbH, Munich
– Betaterra Gesellschaft für Immobilienverwaltung mbH, Munich
– Alexandersson Real Estate I B.V., Apeldoorn
– HVB Alternative Financial Products AG, Vienna.

In addition, HVB Capital LLC V, Wilmington, was liquidated on January 30, 2008 and Blue Capital Treuhand GmbH, Hamburg, was absorbed by WealthCap Investorenbetreuung GmbH, Munich, on September 16, 2008.

In total, HVB Group has 295 affiliated and associated companies and joint ventures that were neither fully consolidated nor fully accounted for using the equity method.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these non-consolidated companies makes up around 4.5% of consolidated profit of the HVB Group, while such companies provide around 0.2% of consolidated assets. The interests in these companies are carried as available-for-sale financial assets.

	2008	2007
Subsidiaries total	**400**	**455**
Consolidated companies	120	105
Non-consolidated companies	280	350
Joint ventures	**6**	**9**
of which:		
accounted for using the equity method	—	—
Associated companies	**10**	**10**
of which:		
accounted for using the equity method	1	1

HVB has applied the option given in Section 313 (4) of the German Commercial Code. The separate list of holdings drawn up in compliance with Section 313 (2) of the German Commercial Code contains all subsidiaries, joint ventures and associated companies, broken down by whether they are included in the consolidated financial statements or not – together with other holdings. The full list of our shareholdings is published as part of the present financial statements by the operator of the electronic Federal Gazette in accordance with Section 325 (2) of the German Commercial Code and can be accessed via the homepage of the company register in accordance with Section 8b (2) of the German Commercial Code. It can also be called up on our homepage at www.hvb.de/annualreport.

Accounting and Valuation (Continued)

6 Principles of consolidation

Consolidation is performed by offsetting the purchase price of a subsidiary against the value of the interest held in the completely recalculated shareholders' equity of the consolidated subsidiary at the time of acquisition. This amount represents the difference between the assets and liabilities of the acquired company, measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under investments in associates, joint ventures and non-consolidated subsidiaries. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the divisions. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment once a year at the cash-generating unit level. This involves comparing the carrying amount of the CGU with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell. Since the value in use far exceeds the carrying amount for the CGUs to which goodwill is allocated, the values in use have been used as the recoverable amount. When the values in use are calculated, the divisional plans are employed as the basis and a uniform rate of 8.4% for the cost of capital is used for discounting. No growth factor has been assumed for the government perpetuity.

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

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

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

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

7 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one company and a financial liability or equity instrument of another company.

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

Among other things, the balance sheet disclosures and earnings contributions of the financial instruments must be shown separately, broken down by the IAS 39 valuation categories. In the present consolidated financial statements, we have included these changes in the explanatory notes to the balance sheet and the income statement. The information required by IFRS 7 regarding risks in connection with financial instruments is also provided in the Risk Report within Management's Discussion and Analysis. Compliant with IFRS 7.36A, the maximum credit exposure is the same as the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees and lending commitments, the nominal amount disclosed in Note 78 for the guarantee/amount of the lending commitments not yet utilised.

IAS 39 requires all financial instruments to be recognised in the balance sheet, classified in the given categories and measured in line with this classification.

Financial assets and liabilities at fair value through profit or loss

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

  – Financial assets and liabilities held for trading.

    Financial assets and liabilities classified as held for trading at the time of initial recognition are financial instruments acquired or incurred for the purpose of short-term profit-taking as a result of changes in market prices or of realising a profit margin. Financial assets and liabilities held for trading purposes also include derivatives, with the exception of hedging derivatives, which qualify for hedge accounting and which are shown under financial assets and liabilities held for trading.

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

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

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

Loans and receivables

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

Held-to-maturity investments

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

Accounting and Valuation (Continued)

Available-for-sale financial assets

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

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

  – Equity instruments for which there is no quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost. Besides shares in unlisted companies, this primarily concerns investments in private equity funds, which we measure at cost. It is not possible to reliably determine a fair value for these equity instruments since there is no active market in these instruments and, especially with regard to investments in private equity funds, not all the information relevant for measuring fair value is available promptly. Consequently, they are not included in the AfS reserve.

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

Determination of fair value

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

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

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

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

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

Financial guarantees

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

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

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

Embedded derivatives

– Outside the portfolio held for trading purposes or at fair value through profit or loss, detachable embedded derivative financial instruments within a structured product are detached from the underlying contract and recorded as separate derivative financial instruments. The underlying contract is then accounted for in accordance with the classification made. The change in value arising from the derivatives that are detached and carried at fair value is recognised in the income statement.

Hedge accounting

– Hedges between financial instruments are recognised in accordance with the forms described in IAS 39: the fair value hedge and the cash flow hedge. In the fourth quarter of 2008, HVB Group changed the previously applied macro cash flow hedge accounting to the fair value hedge similarly permitted by IAS 39 for interest rate risks at portfolio level in large areas of asset/liability interest rate risk management. This is described additionally below alongside the principles covering general fair value hedges.

A fair value hedge is a hedge of the exposure to changes in the fair value of a recognised asset, liability, or an unrecognised firm commitment – or an identified portion thereof – that is attributable to a particular risk and that might affect net income for the period. In this respect, a high level of effectiveness is required, with the changes in the fair value of the hedged item with regard to the hedged risk and hedging derivative compensating each other within a range of 80–125%. In fair value hedge accounting, we use derivatives to hedge changes in the fair value of recognised assets and liabilities. Under this method, the hedging instrument is measured at fair value through profit or loss. The carrying amounts of the hedged item are adjusted by the valuation results relating to the hedged risk – in a way that affects the income statement.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction and that will affect reported net income. We use derivatives in cash flow hedge accounting to hedge future interest cash flows. We employ the cash flow hedge accounting method to account for derivatives serving to hedge future interest cash flows as part of asset/liability management. Variable interest payments for variable receivables and liabilities are converted into fixed payments primarily by means of interest rate swaps. Hedging instruments are measured at fair value under this method of accounting. Changes in fair value are divided into an effective and an ineffective portion. A hedge is regarded as highly effective if, at inception and throughout the life of the hedge, the Company can expect changes in the cash flows of the hedged item to be offset almost completely by changes in the cash flows of the hedging instrument. To demonstrate effectiveness, the expected future variable interest cash flows arising from variable receivables and liabilities (including rolling short-term positions) being hedged at the end of each quarter or at the balance sheet date are compared with the variable interest rate payments arising from the interest rate derivatives in detailed maturity buckets. The effective portion of the hedging instrument is recognised in a separate equity item (hedge reserve) in the balance sheet. The changes in value of these derivatives are offset by future compensating effects arising from the hedge relationship, which must not yet be shown in the balance sheet. The hedge reserve is reversed and taken to the income statement in the periods during which the cash flows of the hedged financial instruments affect net income for the period. These reversals affecting future reported net income are offset in the income statement by the cash flows from the hedged items. The ineffective portion is recognised directly in the income statement. Depending on its classification, the hedged item is recognised at amortised cost or, in the case of available-for-sale financial assets, at fair value.

Accounting and Valuation (Continued)

Fair value hedge portfolio for interest rate risks
In the fourth quarter of 2008, we changed the hedge accounting method for most areas in terms of the accounting treatment of hedges in asset/liability interest rate risk management. In place of the previously used macro cash flow hedge, we have applied the fair value hedge portfolio for interest rate risks similarly permitted by IAS 39 prospectively. The new approach to hedging the fair value with regard to a portfolio of interest-bearing financial assets and liabilities makes it largely possible to also reflect the usual bank risk management procedures to hedge fixed interest rate risks in the balance sheet. It is planned to switch the few remaining areas to the fair value hedge portfolio in 2009.

Under this accounting treatment of hedges across several items, the changes in value of the hedged amount of hedged items attributable to the hedged risk are recognised as separate asset and liability items and not as an adjustment to the carrying amount of individual items as is the case with micro hedges. The hedged amount of the hedged items is determined as part of interest rate risk management; the liabilities do not contain any sight or savings deposits. Thus we have not made use of sight and savings deposits in the hedged amount as permitted by the EU carved-out version of IAS 39 in this regard. Where the hedge conditions are met, the offsetting changes in value of the hedged amount of the hedged items and the hedging instruments (interest derivatives) are recognised directly in profit or loss. Hedge inefficiencies arising within the necessary hedge efficiency range of 80% to 125% are recognised as profit or loss in net hedging income.

The cash flow hedge reserve existing at the changeover date and the offsetting clean fair values of the existing cash flow hedge derivatives of the same amount are amortised over the remaining term of the hedging derivatives in net interest income, which means that they have no impact on profit or loss in the future until they are fully amortised. HVB AG Germany started to apply these mutually offsetting amortisations from December 1, 2008, such that the cash flow hedge reserve fixed at the changeover date was already reduced to a minor extent in 2008. The changes in value of the same hedged items and hedging derivatives, together with all new contracts arising after the changeover date are treated in accordance with the new fair value hedge portfolio model. To a minor extent, previous cash flow hedge derivatives have no longer been included in the new fair value hedge portfolio. Their portion of the cash flow hedge reserve was immediately taken to the income statement in net interest income. The subsequent measurement of these standalone derivatives is recognised in net trading income.

At the same time, HVB has employed a fair value hedge portfolio for interest rate risks since 2007 for a limited portfolio of liabilities.

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

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

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

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

10 Available-for-sale financial assets

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

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

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

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

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

12 Held-to-maturity investments

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

13 Loans and receivables

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

14 Impairment of financial assets

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

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

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

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

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

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

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

An impairment of equity instruments measured at cost occurs when the present value is permanently less than the initial cost (or, if an impairment loss has already been recognised in the past, the present value is permanently less than the initial cost less the impairment recognised). If there is objective evidence of an impairment, the present value of the equity instruments must be determined. The estimated future cash flows discounted by the current market return on a comparable asset are used as the basis for determining this value. The amount of the impairment is calculated as the difference between the present carrying amount and the value of the equity instrument determined as described above. The impairment is taken to the income statement. An impairment of an equity instrument is not permitted to be reversed if the reasons for the impairment no longer apply.

15 Property, plant and equipment

Property, plant and equipment is valued at acquisition or production cost less depreciation – insofar as the assets are depreciable – using the straight-line method based on the assets' useful lives. Fixtures in rented buildings are depreciated over the term of the rental contract, taking into account any extension options, if this is shorter than the normal useful life of the asset concerned.

PROPERTY, PLANT AND EQUIPMENT	USEFUL ECONOMIC LIFE
Buildings	25–50 years
Fixtures in buildings not owned	10–25 years
Computer equipment	3–5 years
Other plant and office equipment	3–25 years

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

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

16 Lease operations

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

HVB Group as lessor

Under finance leases, the lessor recognises the leased asset in the balance sheet as a receivable from the lessee at an amount equal to the net investment in the lease. The lease payments are broken down into the finance charge and the redemption payment. The redemption payment reduces the amount of the outstanding liability (net investment); the finance charge is treated as interest expense. Interest and similar income is recognised on the basis of a constant, periodic rate of return relating to the net investment outstanding. The term “net investment” is defined in detail in Note 51, “Loans and receivables with customers”. HVB Group currently leases mobile assets as a lessor under finance leases.

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

HVB Group as lessee

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

The lease payments relating to finance leases are broken down into two components: the finance charge and the redemption payment. The redemption payment reduces the residual liability, and the finance charge is shown as interest expense.

Lease payments relating to operating leases are treated as rental expense and recognised in other operating expenses or operating costs. The corresponding leasing objects are not included as objects. Contracts in which HVB Group acts as lessee are comparatively insignificant.

17 Investment property

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

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

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

Accounting and Valuation (Continued)

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

18 Intangible assets

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

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

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

20 Liabilities

Deposits from banks and customers, and debt securities in issue that are not hedged items of an effective fair value hedge are reported at amortised cost.

Instead of the maturity analysis based on undiscounted cash flows required by IFRS 7.39A, we show a breakdown of the carrying amounts by maturity for the relevant liabilities in each case.

21 Financial liabilities held for trading

This item includes the negative market values of traded derivatives and all other derivatives that are not classified as hedging derivatives (which are recognised separately). Also included here are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

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

22 Hedge adjustment of hedged items in the fair value hedge portfolio

Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see Note 66).

23 Other liabilities

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

Furthermore, minority interests in the capital of a consolidated investment fund are also carried as liabilities from outstanding fund shares under other liabilities, provided the Bank consolidates these funds. Since these minorities are entitled to return their shares at any time to the fund for the redemption price, their shares represent liabilities from the Group's viewpoint. These liabilities are carried at their respective redemption price. Changes in the redemption price are recognised in the income statement.

24 Provisions

Present legal or constructive obligations as a result of past events involving a probable out-flow of resources, and whose amount can be reliably estimated, are recognised as provisions.

When assessing provisions for uncertain liabilities and anticipated losses on onerous transactions, we use a best estimate compliant with IAS 37.36 et seq. Long-term provisions are discounted.

In accordance with IAS 19, we use actuarial principles to determine the provisions for pensions and similar commitments. The amounts are calculated using the projected unit credit method, taking into account the present value of the defined benefit obligations, the fair value of plan assets, and unrealised actuarial gains and losses. Causes of such gains and losses include irregularities in the risk profile (e.g. higher or lower rates of early retirement or mortality than anticipated in the calculation principles applied) and changes in the applicable parameters.

We exercise the option for recognising unrealised actuarial gains or losses in shareholders' equity permitted in IAS 19.93A "Employee benefits".

The discount rate is based on the long-term interest rate for prime, fixed-yield corporate bonds at the balance sheet date. The amount of the provision shown in the balance sheet is calculated as the present value of the obligation determined at the end of the financial year less the fair value of the plan assets determined at the end of the financial year. The plan assets set up by HVB AG and a number of subsidiaries to fund pension obligations are described in detail in Note 70, "Provisions".

25 Foreign currency translation

The consolidated financial statements are prepared in euros, which is the reporting currency of the corporate group. Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for monetary items not denominated in the respective functional currency (generally the local currency in each case) and cash transactions not completed at the valuation date to be translated into euros using current market rates. Non-monetary items carried at fair value are similarly translated into euros using current market rates at the valuation date. Non-monetary items carried at cost are translated using the historic rate applicable at the time of acquisition.

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

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

Exchange rate differences resulting from the translation of a foreign operation are recognised in shareholders' equity without affecting profit or loss, and are only taken to the income statement if the operation is sold in part or in full.

26 Income tax for the period

Income tax for the period is accounted for in accordance with the principles set forth in IAS 12. Apart from a few exceptions allowed for in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (balance sheet approach). Deferred tax assets arising from unused losses carried forward for tax-reporting purposes are shown where permitted by IAS 12.

Since the concept is based on the approach of future tax assets and liabilities under the liability method, the assets and liabilities are computed using the tax rates that are expected to apply when the differences are reversed.

Segment Reporting

27 Notes to segment reporting by division (primary segmentation)

In segment reporting, the market-related activities of HVB Group are divided into the following global divisions: Markets & Investment Banking, Corporates & Commercial Real Estate Financing, Retail, and Wealth Management.

Also shown is the "Other/consolidation" segment that covers Global Banking Services and Group Corporate Centre activities and the effects of consolidation. The Group Corporate Centre activities also contain the Special Credit Portfolio (SCP) defined in 2006 and the remaining holdings from the former Real Estate Restructuring segment.

The income statement for the Corporates & Commercial Real Estate Financing division has been shown for the whole division since June 30, 2008 and is no longer divided into the Corporates (including the contributions to earnings from business with commercial real estate customers) and Global Transaction Banking subdivisions, which up until then had been reported separately.

Besides this, a number of smaller reorganisations have taken place with a view to giving the divisions a clear strategic orientation, and changes have been made to the cost allocation which led to modified assignments of operating costs. The figures for the comparable periods in the previous year have been adjusted to take account of these changes.

Components of the segments of HVB Group

Markets & Investment Banking division

The Munich-based Markets & Investment Banking division (MIB) forms the centre of competence for investment banking within the UniCredit Group and acts as a one-stop platform for all products and services relating to investment banking. The target groups served by MIB include multinationals, institutionals and public sector customers. The division also serves as a central product factory and sees itself as a supplier of innovative, specialised products for all regional sales units and the other divisions, who are thus also important individual customers and primary sales partners.

The division's product range encompasses all the main offerings to be expected of an international investment bank.

MIB sets clear regional priorities and focuses primarily on the core countries of the UniCredit Group: Italy, Germany and Austria. In addition, the division maintains a presence at all the major financial centres in the world, such as London, New York, Hong Kong, Singapore and Tokyo. Major subsidiaries assigned to this division include HVB Banque Luxembourg, which is assigned to several divisions, HVB Global Assets, HVB Capital Asia Ltd. and HVB Capital Partners AG.

MIB is divided into two business lines: Markets and Global Investment Banking.

The Markets business line covers trading, structuring and sales activities. Its major units include Rates & FX (FIC), Equities, Credit Markets, Global Distribution and Corporate Treasury Sales. These units are responsible for a wide range of transactions, including interest rate management and interest rate products, FX products, derivative products, structured products and brokerage.

Like Markets, Global Investment Banking covers a broad range of transactions, including financing operations, syndicated bonds, support for IPOs and capital increases, leveraged finance, project loans, mergers and acquisitions, and other corporate finance activities. It consists of the Financing, Equity and Debt Capital Markets, Regional Investment Banking/Coverage and Principal Investments units, together with private equity operations.

Outside of the business lines, MIB Global Research advises and supports our customers in tasks like asset allocation, securities selection and risk management.

Corporates & Commercial Real Estate Financing division

In our **corporate banking operations**, we concentrate on the needs of our around 77,000 customers, among other things, supporting their cross-border expansion; helping them to use new forms of financing and finance risk management; and opening them up to the capital market.

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

Lending is, and is set to remain, our core business, associated with an appropriate proportion of our customers' other financial activities. At the same time, we also create solutions for our customers in addition or as an alternative to the traditional loan. Besides providing sophisticated advisory services and the analysis and funding of current and non-current assets (working capital), we offer structured loans to a broad array of mid-sized enterprises. As part of our financial risk management, we advise our customers extensively on all possible ways of hedging entrepreneurial risks.

As part of a leading corporate banking group in central and eastern Europe, we support our customers through our European network.

Global Shipping has been set up as a separate line of business, representing a separate industry-marketing and product organisation with offices at the major ship-financing centres.

In **commercial real estate financing**, we aim to significantly improve the risk/return profile of portfolios and sustainably boost the profitability of the business. The consistent implementation of our selective lending policies based on the current market conditions and the sustained reduction of unprofitable portions of portfolios are playing an important role in this process. Our target customers have access to tailored products from HypoVereinsbank's full range, extending from classic real estate finance with interest hedging through to structuring, syndication and, where appropriate, securitisation of portfolios, and all the banking products offered by service and deposit-taking operations.

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

Retail division

We divide our customers into three groups: mass market, affluents and business customers. In particular, we are looking to exploit opportunities for growth in the affluents and business customers segments. To do so, we are investing in systematic customer contact, refining the needs-based approach for our products and focussing especially on cross-selling. We take a differentiated view of the mass market sector, relying heavily on automated processes for everything from online banking to more intensive use of self-service terminals in order to allow more time for advisory services. We expanded our real estate financing competence further in 2008, and are the only provider in Germany to not only market its own loans, but also select the best offering for the customer from more than 40 other providers.

Segment Reporting (Continued)

Our **mass market operations** have a clear setup following the restructuring in 2007. Our award-winning HVB Willkommenskonto, which we enhanced by adding a picture debit card in 2008, remains the market leader. Furthermore, we entered into a cooperation agreement with LEGO targeting younger people, which has helped us to acquire a large number of new, young customers. UniCredit Consumer Financing Germany has been marketing credit cards successfully since the first half of 2008 and has also been offering Komfortkredit consumer loans since June.

In the **affluents** segment, we have established a top-drawer standardised advisory process with our PremiumDialog and VermögensDialog advisory tools and are consistently enhancing and expanding our customer relationships. In response to the difficult stockmarket in 2008, we shifted our advisory focus to equity-independent asset classes with great success during the course of the year. In addition, we have launched the HVB VermögensDepot privat product, which offers a perfect combination of tax optimisation and performance.

Even in difficult times, we met the borrowing needs of our **business customers** by providing a constant volume of credit in 2008, thus flying in the face of the public discussions regarding more restrictive lending policies. HVB Business Dialog leverages our advisory skills to the full, enabling us to offer solutions tailored specifically to the needs of the customer. Our approach here focuses on bringing personal accounts under our umbrella alongside the business banking relationship. We provide offerings specially tailored to their profession for specific customer groups, such as doctors.

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

Wealth Management division

The Wealth Management division has set itself the goal of optimally meeting the specific expectations of wealthy customers with regard to a bank and the services it offers in line with demand. The division serves customers with an aggregate investment volume of €57 billion. Wealth Management is divided into four subdivisions.

HVB Wealth Management (WEM)

This unit serves roundly 39,000 HVB AG customers with assets under management of €25 billion. Our 527 employees offer individual, personal advice at 45 locations and six representative offices throughout Germany. Customers and customer groups with liquid assets in excess of €0.5 million are offered all-round, bespoke advice; the Family Office serves family groups with complex assets of more than €30 million.

WEM's strategic objectives are to satisfy high net worth individuals with a comprehensive range of advisory services, attractive products and outstanding customer relationships, and to increase its market share in the highly competitive wealth management environment. WEM aspires to quality leadership in the German market.

DAB Bank Group (DAB)

DAB is one of the most experienced Internet brokers, offering its customers innovative products and services in conjunction with outstanding conditions. As a direct bank, DAB gives its customers access to a broad range of services relating to wealth creation and protection using securities. It provides solutions for savers, investors and traders. In its corporate banking operations, DAB acts as a partner for asset managers, fund brokers, investment advisors, and retail and savings banks. Unlike most of its competitors, DAB focuses on its core business of brokerage involving securities. DAB has a workforce of 691 people serving around 1.1 million customers in Germany and Austria with an investment volume of €23 billion.

Wealth Management Capital Holding (WMC)
WMC structures and issues sophisticated investment products tailored exclusively to the Wealth Management customer group. It is one of the biggest initiators of closed-ended funds.119,000 customers are served by 230 employees in this unit.

HVB Luxembourg Private Banking (LUX)
The Private Banking unit based in Luxembourg provides specialised portfolio solutions for 12,000 customers with an investment volume of €3 billion and employs 76 people.

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

The **Global Banking Services** activities encompass IT application development and operation, purchasing, organisation, logistics and facility management, cost management, and back office functions for credit, accounts, foreign exchange, money market and derivatives. Payments and securities services have been outsourced.

The **Group Corporate Centre** activities contain the Special Credit Portfolio (SCP) defined in 2006 and the remaining holdings from the former Real Estate Restructuring segment (RER). In addition to the RER and SCP portfolios, the Group Corporate Centre activities include profit contributions that do not fall within the jurisdiction of the individual divisions. Among other items, this includes the profits of non-consolidated holdings, provided they are not assigned to the divisions, and the net income from securities holdings for which the Management Board is responsible. Also incorporated in this segment are the amounts resulting from decisions taken by management with regard to asset/liability management.

Method of segment reporting

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

Net interest income is broken down using the market interest calculation method. The equity capital allocation used to calculate the return on investment on companies assigned to several divisions is based on a system of individual core capital allocation for each division. This involves allocating core capital to the divisions over a range between 5.9% and 6.8% of risk-weighted assets. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. The percentage used to assess the equity capital allocated to the companies assigned to several divisions (HVB AG, HVB Banque Luxembourg) equals the 3-month EURIBOR plus a premium in the amount of the average 5-year UniCredit spread. This rate is set for one year as part of the budgeting process. The percentage rate changed from 3.8% to 3.97% in connection with the rules laid down for the 2008 financial year. The change in interest rate has no material effect. This is why we have not restated the previous periods. Equity capital is not standardised for the subsidiaries.

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

Segment Reporting (Continued)

28 Income statement broken down by division

	MARKETS & INVESTMENT BANKING	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION	HVB GROUP[2]
						€ millions
TOTAL REVENUES						
2008	(261)	1,612	1,616	443	538	3,948
2007	2,179	1,474	1,761	483	714	6,611
Operating costs						
2008	(1,081)	(586)	(1,313)	(310)	(205)	(3,495)
2007	(1,161)	(561)	(1,354)	(294)	(206)	(3,576)
OPERATING PROFIT/(LOSS)						
2008	(1,342)	1,026	303	133	333	453
2007	1,018	913	407	189	508	3,035
Restructuring costs						
2008	(7)	(1)	—	—	(18)	(26)
2007	(27)	—	3	(2)	39	13
Net write-downs of loans and provisions for guarantees and commitments						
2008	(493)	(384)	(71)	4	184	(760)
2007	74	(143)	(147)	(7)	(313)	(536)
Net income from investments and other items[1]						
2008	(189)	19	(19)	(5)	(68)	(262)
2007	458	(24)	32	21	(37)	450
PROFIT/(LOSS) BEFORE TAX						
2008	(2,031)	660	213	132	431	(595)
2007	1,523	746	295	201	197	2,962

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

2 the profit/(loss) of discontinued operations in 2007 is shown separately in Note 42, "Income statement and earnings per share of discontinued operations"

Income statement of the Markets & Investment Banking division

INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
						€ millions
Net interest income	**1,440**	**1,247**	**413**	**426**	**293**	**308**
Net fees and commissions	195	358	74	49	38	34
Net trading income	(1,901)	558	(1,100)	(444)	312	(669)
Net other expenses/income	5	16	7	6	(7)	(1)
Net non-interest income	**(1,701)**	**932**	**(1,019)**	**(389)**	**343**	**(636)**
TOTAL REVENUES	**(261)**	**2,179**	**(606)**	**37**	**636**	**(328)**
Payroll costs	(378)	(508)	(81)	(76)	(104)	(117)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(703)	(653)	(186)	(181)	(165)	(171)
Operating costs	**(1,081)**	**(1,161)**	**(267)**	**(257)**	**(269)**	**(288)**
OPERATING PROFIT/(LOSS)	**(1,342)**	**1,018**	**(873)**	**(220)**	**367**	**(616)**
Restructuring costs	(7)	(27)	(6)	—	(1)	—
Net write-downs of loans and provisions for guarantees and commitments	(493)	74	(260)	(233)	23	(23)
Net income from investments and other items[1]	(189)	458	(44)	(111)	(33)	(1)
PROFIT/(LOSS) BEFORE TAX	**(2,031)**	**1,523**	**(1,183)**	**(564)**	**356**	**(640)**
Cost-income ratio in %	n. a.	53.3	n. a.	694.6	42.3	n. a.

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

The performance of the Markets & Investment Banking division was heavily affected by the rapidly worsening financial crisis in the second half of 2008. As a result of these market distortions, the division recorded a loss of €1,183 million before tax in the fourth quarter of 2008, which was again much worse than in the previous quarter, giving rise to a loss of €2,031 million before tax for the year as a whole. In the previous year, we recorded a profit of €1,523 million before tax on account of the very positive market environment in the first half of 2007.

The situation on the financial markets deteriorated sharply once more in the fourth quarter of 2008. The net trading loss again worsened considerably in the fourth quarter of 2008 as a result of the financial crisis, to €1,100 million, compared with the previous quarter, giving rise to a net trading loss of €1,901 million for 2008 as a whole. Among the main factors causing the net trading loss were losses of €751 million on the valuation of ABS products. At the same time, the net trading loss notably includes negative factors in the Global Credit and Relative Value Arbitrage units. In addition, a loss of €126 million was recorded as a result of the bankruptcy of Lehman Brothers and a loss of €78 million was recorded as a result of trading positions of Icelandic counterparties.

Segment Reporting (Continued)

In net interest income, falling dividends from private equity funds were more than offset by higher trading-related interest and lower funding expenses for trading portfolios in the investment banking activities of UniCredit Banca Mobiliare transferred to HVB AG. Net interest income increased by a strong 15.5% overall. The Investment Banking subdivision made a notable contribution to this development, enabling it to report a net profit. Both customer-related financing activities (acquisition loans, structured loans, project and commodity loans) and advisory services regarding M&A and capital market transactions, which are built primarily on customer relationships in the core markets of the UniCredit Group, performed particularly well. Thus the M&A activity set up in 2007 enjoyed success in 2008 and has already reached fourth place in the league tables for M&A transactions in Germany. The Capital Markets unit, which is responsible for the issuance of equity and debt by companies and financial institutions among other things, was also able to record a very sound performance. In addition, the Fixed Income unit within the Markets subdivision was able to generate a very strong result primarily with customer-generated transactions. Nevertheless, net fees and commissions fell by almost 46% year-on-year, due especially to reluctance on the part of market players against the backdrop of the financial crisis.

Despite the inclusion of UBM's investment banking activities, operating costs fell by €80 million, or 6.9%, as a result of much lower payroll costs (down 25.6%) on account of lower expenses for performance bonuses.

Among other things, net write-downs of loans and provisions for guarantees and commitments totalling €493 million also include €136 million for risks relating to exposures to Iceland.

In 2007, net income from investments and other items included the gain of €219 million on the disposal of Indexchange Investment AG and the gain of €259 million on the disposal of FMS Bank; the net loss of €189 million recorded in the year under review can be attributed primarily to valuation expenses associated with the financial crisis.

Income statement of the Corporates & Commercial Real Estate Financing division

INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
						€ millions
Net interest income	**1,199**	**1,061**	**323**	**310**	**288**	**278**
Net fees and commissions	400	402	96	94	100	110
Net trading income	(2)	2	(1)	(1)	1	(1)
Net other expenses/income	15	9	2	7	—	6
Net non-interest income	**413**	**413**	**97**	**100**	**101**	**115**
TOTAL REVENUES	**1,612**	**1,474**	**420**	**410**	**389**	**393**
Payroll costs	(244)	(219)	(63)	(64)	(61)	(56)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(342)	(342)	(94)	(81)	(86)	(81)
Operating costs	**(586)**	**(561)**	**(157)**	**(145)**	**(147)**	**(137)**
OPERATING PROFIT	**1,026**	**913**	**263**	**265**	**242**	**256**
Restructuring costs	(1)	—	—	(1)	—	—
Net write-downs of loans and provisions for guarantees and commitments	(384)	(143)	(167)	(96)	(66)	(55)
Net income from investments and other items[1]	19	(24)	(18)	23	9	5
PROFIT/(LOSS) BEFORE TAX	**660**	**746**	**78**	**191**	**185**	**206**
Cost-income ratio in %	36.4	38.1	37.4	35.4	37.8	34.9

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 Corporates & Commercial Real Estate Financing division recorded a decidedly pleasing profit before tax of €660 million in 2008. The division represents an especially stable pillar in our business model in times of financial crisis like the present. Despite the difficult operating conditions and intense competition on the German market, the division succeeded in generating an excellent operating profit of €1,026 million, which was up a strong 12.4% on the already high total for the previous year.

The year-on-year increase in operating profit can be attributed to the clear increase of 9.4% in total revenues. The main factor behind this was the 13.0% rise in net interest income resulting from revenue growth in lending and deposit-taking operations from larger volumes together with a stepping up of lease operations. Higher dividend income was also realised in 2008. The high figure for net fees and commissions in 2007 was matched in 2008, with a decline in derivative operations offset by higher contributions to revenues from structured loans and from payment and foreign-trade products marketed by the Global Transaction Banking unit. Operating costs rose by 4.5% year-on-year. The higher payroll costs reflect the increase in the workforce undertaken as part of the division's growth strategy, whereas other administrative expenses remained unchanged as a result of strict cost management. At 36.4%, the cost-income ratio was at an outstanding level in 2008 and even better than the 38.1% recorded in the previous year on account of the excellent operating profit.

The increase in net write-downs of loans and provisions for guarantees and commitments compared with last year (2008: €384 million, 2007: €143 million) can be attributed to the effects of the financial crisis, serving to reduce the profit before tax by 11.5% year-on-year, to €660 million.

Segment Reporting (Continued)

Income statement of the Retail division

€ millions

INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net interest income	**1,053**	**1,078**	**258**	**266**	**266**	**263**
Net fees and commissions	567	669	106	123	161	177
Net trading income	—	2	—	—	—	—
Net other expenses/income	(4)	12	(5)	—	1	—
Net non-interest income	**563**	**683**	**101**	**123**	**162**	**177**
TOTAL REVENUES	**1,616**	**1,761**	**359**	**389**	**428**	**440**
Payroll costs	(588)	(611)	(147)	(141)	(151)	(149)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(725)	(743)	(192)	(176)	(181)	(176)
Operating costs	**(1,313)**	**(1,354)**	**(339)**	**(317)**	**(332)**	**(325)**
OPERATING PROFIT	**303**	**407**	**20**	**72**	**96**	**115**
Restructuring costs	—	3	2	(2)	—	—
Net write-downs of loans and provisions for guarantees and commitments	(71)	(147)	16	(6)	(31)	(50)
Net income from investments and other items[1]	(19)	32	(17)	(15)	(6)	19
PROFIT/(LOSS) BEFORE TAX	**213**	**295**	**21**	**49**	**59**	**84**
Cost-income ratio in %	81.3	76.9	94.4	81.5	77.6	73.9

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 was able to perform well in the deteriorating economic climate caused by the financial crisis, recording a profit before tax of €213 million (2007: €295 million).

The decline in total revenues resulting from marked cautiousness among our customers was very largely offset by lower costs (down 3.0%) and the halving of net write-downs of loans and provisions for guarantees and commitments to €71 million. Furthermore, the 2007 figures benefited from income recorded under "Net income from investments and other items".

Within total revenues, net interest income decreased by 2.3% year-on-year, to €1,053 million, notably on account of the further strategic reduction of the volume of real estate loans. The weaker lending activities were only partially offset by sharp rises in volumes on the deposit-taking side, primarily affecting time deposits.

The trend for our customers to prefer security-focused investments led to net fees and commissions of €567 million in 2008, which is 15.2% lower than the total for the previous year, with a sharp decline recorded for securities activities among customers. The successful distribution of innovative, new investment products reflecting the greater quality and security needs of our customers did not fully counteract this development. This includes products like our OptiAnleihe bonds or inflation-proof offerings with a total sales volume of €2,390 million in 2008.

The cost-income ratio deteriorated to 81.3% in 2008 after 76.9% in 2007, since the decline in total revenues was only partially offset by savings in operating costs. Payroll costs fell by 3.8%, notably due to a reduction in the headcount. Other administrative expenses (including amortisation, depreciation and impairment losses) declined by 2.4% thanks to systematic cost management and lower amortisation, depreciation and impairment losses. In all, operating costs fell by 3.0% compared with 2007.

Income statement of the Wealth Management division

						€ millions
INCOME/EXPENSES	2008	2007	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net interest income	**171**	**172**	**46**	**38**	**49**	**38**
Net fees and commissions	297	313	71	65	75	86
Net trading income	(28)	(6)	(1)	(28)	(1)	2
Net other expenses/income	3	4	2	—	(2)	3
Net non-interest income	**272**	**311**	**72**	**37**	**72**	**91**
TOTAL REVENUES	**443**	**483**	**118**	**75**	**121**	**129**
Payroll costs	(116)	(94)	(30)	(30)	(28)	(28)
Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets	(194)	(200)	(48)	(47)	(50)	(49)
Operating costs	**(310)**	**(294)**	**(78)**	**(77)**	**(78)**	**(77)**
OPERATING PROFIT/(LOSS)	**133**	**189**	**40**	**(2)**	**43**	**52**
Restructuring costs	—	(2)	—	—	—	—
Net write-downs of loans and provisions for guarantees and commitments	4	(7)	2	(1)	6	(3)
Net income from investments and other items[1]	(5)	21	(7)	1	1	—
PROFIT/(LOSS) BEFORE TAX	**132**	**201**	**35**	**(2)**	**50**	**49**
Cost-income ratio in %	70.0	60.9	66.1	102.7	64.5	59.7

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

Developments of 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 its participating interests consolidated for the first time in January 2008 (essentially Blue Capital Equity GmbH, Blue Capital Fonds GmbH, HVB FondsFinance GmbH and WealthCap Real Estate Management GmbH).

In recording a profit before tax of €132 million in 2008, the Wealth Management division was unable to match the figure of €201 million for the previous year in the challenging environment of the financial crisis. In this context, however, it is important to note that the profit for the previous year benefited from the proportion of the gain on disposal of FMS Bank attributed to the division, totalling €17 million, and that the total for the year under review is depressed by a valuation expense at DAB AG (on holdings designated as fair value option) caused by the financial crisis, which led to a net trading loss of €26 million.

Segment Reporting (Continued)

The total revenues of the Wealth Management division fell by €40 million, or 8.3%, year-on-year against the backdrop of the very difficult market environment throughout the year under review. The initially consolidated holdings of Wealth Management Capital Holding GmbH had a beneficial effect overall in this regard. While net fees and commissions declined by 5.1% due to customers' restraint on the securities markets coupled with lower portfolio-dependent securities revenues due among other things to lower prices on the securities markets, net interest income (without dividends) increased by a significant 11.2%. This reflects the current trend of shifting investments in the securities business to short-term forms of investment, especially demand and time deposits. Generally, there is a very clear trend towards secure deposit-taking business, which was particularly noticeable in WEM HVB AG and the DAB Group. HVB Banque Luxembourg's fee-earning activities with wealthy private clients were likewise impacted by market developments during the year under review. The volume placed by Wealth Management Capital Holding GmbH was below last year's level due to the market, with equity capital of €138 million and an investment volume of €238 million.

The rise of €16 million (5.4%) in operating costs results from higher payroll costs (up €22 million), essentially stemming from the holdings fully consolidated for the first time. Without the effects of initial consolidation, operating costs were reduced by more than 5% during the year under review by means of systematic cost management. The cost-income ratio rose by 9.1 percentage points year-on-year. If the valuation expense described above were eliminated from the net trading income at DAB, the cost-income ratio would total 66.1%.

Income statement of the Other/consolidation segment

€ millions						
INCOME/EXPENSES	**2008**	**2007**	**Q4 2008**	**Q3 2008**	**Q2 2008**	**Q1 2008**
TOTAL REVENUES	**538**	**714**	**215**	**103**	**127**	**93**
Operating costs	**(205)**	**(206)**	**(41)**	**(58)**	**(62)**	**(44)**
OPERATING PROFIT	**333**	**508**	**174**	**45**	**65**	**49**
Restructuring costs	(18)	39	(20)	1	1	—
Net write-downs of loans and provisions for guarantees and commitments	184	(313)	266	(25)	(1)	(56)
Net income from investments and other items[1]	(68)	(37)	(36)	9	(31)	(10)
PROFIT/(LOSS) BEFORE TAX	**431**	**197**	**384**	**30**	**34**	**(17)**

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 segment

The Other/consolidation segment encompasses the Global Banking Services and 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 €714 million in 2007 to €538 million in 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) among other things resulted in lower net interest income. At the same time, non-interest income remained at around the same level as in 2007 overall.

With hardly any change in operating costs, the operating profit fell to €333 million (2007: €508 million) primarily on account of the development of net interest income described above.

Net write-downs of loans and provisions for guarantees and commitments fell by a net €184 million in the year under review, essentially on account of success in reducing the special portfolios (former Real Estate Restructuring Portfolio and the Special Credit Portfolio). The net loss of €68 million recorded under net income from investments and other items in the year under review can mainly be attributed to impairment losses on investment properties. In the previous year, additions of €169 million to provisions notably in relation to potential take-back obligations arising from real estate transactions and provisions for legal risks arising from operations were offset in this item by the gain of €47 million on the disposal of Nordinvest and the gain of €113 million on the disposal of Münchener Rückversicherungs-Gesellschaft recognised in net income from investments. The profit before tax improved from €197 million in 2007 to €431 million in the year under review on the back of the net reversal recorded in net write-downs of loans and provisions for guarantees and commitments.

Segment Reporting (Continued)

29 Balance sheet figures, broken down by division

€ millions

	MARKETS & INVESTMENT BANKING	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	RETAIL	WEALTH MANAGEMENT	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables						
with banks						
2008	12,628	26,120	1,383	1,319	5,001	**46,451**
2007	13,340	26,804	2,244	1,170	5,308	**48,866**
Loans and receivables						
with customers						
2008	56,230	66,007	39,723	4,801	8,757	**175,518**
2007	40,438	58,771	42,649	4,879	13,509	**160,246**
Goodwill						
2008	304	117	—	3	—	**424**
2007	304	117	—	—	—	**421**
Deposits from banks						
2008	69,787	11,196	2,380	501	3	**83,867**
2007	72,307	12,606	2,376	209	(796)	**86,702**
Deposits from customers						
2008	33,722	32,949	31,493	12,258	4,540	**114,962**
2007	31,951	32,190	31,336	12,515	634	**108,626**
Debt securities in issue						
2008	4,917	5,140	573	322	52,687	**63,639**
2007	11,090	5,437	516	515	62,010	**79,568**
Risk-weighted assets						
(including equivalents for						
market risks and additionally						
for Basel II operational risks)						
2008 Basel II	73,093	47,940	11,274	2,930	13,010	**148,247**
2008 German Banking Act						
(KWG, Principle I)	75,044	51,070	20,260	3,896	10,620	**160,890**
2007 German Banking Act						
(KWG, Principle I)	53,818	49,064	23,170	3,704	15,775	**145,531**

1 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in Notes 58 and 68

30 Employees, broken down by operating and service division

	2008	2007
Markets & Investment Banking	2,475	2,539
Corporates & Commercial Real Estate Financing	2,903	2,545
Retail	8,224	9,095
Wealth Management	1,505	1,363
Global Banking Services	4,462	3,861
Group Corporate Centre	5,069	5,381
Total	**24,638**	**24,784**

31 Segment reporting, broken down by region (secondary segmentation)

The allocation of amounts to regions is based on the head office of the Group companies or offices involved.

Income statement, broken down by region

						€ millions
	GERMANY	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP
TOTAL REVENUES						
2008	4,793	65	(24)	111	(997)	(3,948)
2007	6,573	800	71	193	(1,026)	6,611
OPERATING PROFIT/(LOSS)						
2008	1,040	(374)	(94)	61	(180)	453
2007	2,698	373	(6)	153	(183)	3,035

Total assets, broken down by region

		€ millions
	2008	2007
Germany	342,270	305,764
Rest of Europe	185,502	174,447
Americas	21,138	20,013
Asia	9,531	9,743
Consolidation	(99,839)	(87,838)
Total	**458,602**	**422,129**

Employees, broken down by region

	2008	2007
Germany	22,461	22,692
Rest of Europe	1,599	1,496
Africa	3	5
Americas	269	297
Asia	306	294
Total	**24,638**	**24,784**

Notes to the Income Statement

32 Net interest income

	2008	2007
		€ millions
Interest income from		
lending and money market transactions	11,532	11,250
other interest income	5,216	6,213
Interest expense from		
deposits	(7,103)	(6,593)
debt securities in issue and		
other interest expenses	(5,586)	(7,117)
Net interest	**4,059**	**3,753**
Dividends and other income		
from equity investments		
Dividends and other similar income	202	369
Other income from companies		
using the equity method	(2)	7
Total	**4,259**	**4,129**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €12,317 million and €11,642 million, respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

33 Net fees and commissions

	2008	2007
		€ millions
Management, brokerage and consultancy services	795	1,087
Collection and payment services	197	195
Lending operations	397	409
Other service operations	64	30
Total	**1,453**	**1,721**

This item comprises the balance of fee and commission income of €2,535 million (2007: €2,437 million) and fee and commission expense of €1,082 million (2007: €716 million).

34 Net trading income

	2008	2007
		€ millions
Net gains on financial assets held for trading[1]	(1,655)	487
Private equity realisation gains[2]	(29)	119
Effects arising from hedge accounting	6	(3)
Changes in fair value of hedged items	(499)	434
Changes in fair value of hedging derivatives	505	(437)
Net gains on financial assets at fair value through		
profit or loss (fair value option)[3]	(206)	(7)
Other net trading income	(27)	(4)
Total	**(1,911)**	**592**

1 including dividends on financial assets held for trading
2 the gains/losses on the disposal and impairments on actively managed holdings in the private equity business are recorded here
3 also including the valuation results for derivatives concluded to hedge financial assets at fair value through profit or loss (effect in 2008: minus €579 million)

When measuring the fair value of financial liabilities held for trading, we realised income of €175 million on the measurement of the own credit spread.

The effects arising from hedge accounting include the hedge results of the fair value hedge portfolio and the individual micro fair value hedges as a net aggregate total.

The net gains on holdings at fair value through profit or loss (held-for-trading portfolio and fair value option) generally only contain the changes in fair value disclosed in the income statement. The interest income from held-for-trading portfolios is normally disclosed under net interest income. To ensure that the full contribution to profits is disclosed, the interest cash flows are only carried in net trading income for the interest rate swap trading book, which exclusively contains interest rate derivatives.

35 Net other expenses/income

	2008	2007
		€ millions
Other income	288	337
Other expenses	(141)	(168)
Total	**147**	**169**

Net other expenses/income totalled €147 million in 2008 (2007: €169 million). The total includes a net gain from current income and expenses regarding investment properties and from rental income less current expenses from mixed usage buildings. Furthermore, income from IT services performed for third parties by our HVB Information Services GmbH subsidiary helped to boost net other expenses/income.

In 2007, the largest item was a real estate transaction initiated by us entailing the discontinuation of potential obligation in conjunction with the relinquishment of property and buildings rented by the Bank, and disposal of finance lease properties. This gave rise to total net income of €78 million.

36 Operating costs

		€ millions
	2008	2007
Payroll costs	**(1,961)**	**(2,067)**
Wages and salaries	(1,650)	(1,748)
Social security costs	(232)	(245)
Pensions and other employee benefit costs	(79)	(74)
Other administrative expenses	**(1,281)**	**(1,250)**
Amortisation, depreciation and impairment losses	**(253)**	**(259)**
on property, plant and equipment	(126)	(135)
on software and other intangible assets,		
excluding goodwill	(127)	(124)
Total	**(3,495)**	**(3,576)**

A long-term incentive programme, including share-based remuneration transactions featuring compensation in UniCredit shares (stock options and performance shares), has been set up for executives and junior managers of all UniCredit Group companies selected using defined criteria.

The following statements relate to all HVB Group executives covered by the long-term incentive programme. The information provided in Note 83 in this regard showing the emoluments paid to members of the Management Board merely relates to the stock options and performance shares granted to members of the Management Board.

Information on stock options

STOCK OPTIONS	2008
Number	14,618,896
Strike price (€)	4.185
UCI stock market price at granting date (€)	4.185
Date of granting	June 25, 2008
Start of exercise period	July 10, 2012
End of exercise period	July 9, 2018
Fair value of each option at granting date (€)	0.6552

The stock options grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. The options cannot be exercised until the set exercise period has started. If the beneficiary has already left the UniCredit Group by that date, the stock options are normally forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis in certain exceptional circumstances, such as employee disability or retirement, or should an employer leave the UniCredit Group.

The fair values of the stock options at the date of granting are determined using Hull & White's trinomial model. The following parameters have been taken into account in this context:

– The probability of the option expiring due to the beneficiary leaving the Company prematurely after the lock-up period has expired
– Definition of an exercise barrier. This means that the options are only exercised before the end of the exercise period if the current price of the UniCredit shares exceeds the exercise price by the exercise barrier multiplier (a factor of 1.5 for stock options granted in 2008)
– Dividend yield of the UniCredit share
– Average historical daily volatility over the lock-up period.

Notes to the Income Statement (Continued)

Analysis of outstanding stock options

	2008			2007		
	NUMBER	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY	NUMBER	AVERAGE STRIKE PRICE (€)	AVERAGE MATURITY
Outstanding at start of period	**8,562,797**	**6.02**	**November 2018**	**5,852,433**	**5.42**	**July 2019**
Additions						
newly granted options	14,618,896	4.19	July 2018	3,329,054[1]	7.09	July 2017
Releases						
forfeited stock options	2,366,761	5.55	August 2018	618,690	5.43	April 2019
exercised stock options	—	—	—	—	—	—
expired stock options	—	—	—	—	—	—
Total at end of period	**20,814,932**	**4.78**	**August 2018**	**8,562,797**[1]	**6.02**	**November 2018**
Exercisable options at end of period	—	—	—	—	—	—

1 figures differ from previous year due to Group transfers

The fair value on the date of granting is recorded as an expense on the basis of the expected number of options exercised over the period.

Information on performance shares

PERFORMANCE SHARES	2008
Number	4,019,888
UCI stock market price at granting date (€)	4,185
Date of conditional granting	June 25, 2008
Granting upon satisfaction of criteria	December 31, 2011
Fair value of each performance share at granting date (€)	3.480

A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of three years, the relevant targets have been met and the beneficiary is still working for the UniCredit Group; otherwise the performance shares are normally forfeited (with regard to certain exceptions, please see the description of stock options).

Analysis of outstanding performance shares

	2008		2007	
	NUMBER	AVERAGE MATURITY	NUMBER	AVERAGE MATURITY
Outstanding at start of period	**3,209,305**	**January 2010**	**2,424,267**	**July 2009**
Additions				
newly granted performance shares	4,019,888	December 2011	1,046,153[1]	December 2010
Releases				
forfeited performance shares	838,266	June 2010	261,115	July 2009
transferred performance shares	—	—	—	—
Total at end of period	**6,390,927**	**March 2011**	**3,209,305[1]**	**January 2010**

1 figures differ from previous year due to Group transfers

The fair value on the date of granting is recorded as an expense for performance shares in the period that is decisive for fulfilling the respective criteria. The expenses for both programmes (stock options and performance shares) totalled €5.5 million at HVB Group and will be reimbursed to UniCredit when they fall due.

37 Provisions for risks and charges

Provisions for risks and charges totalled €6 million in the year under review (2007: €161 million). Within this total, reversals of provisions for litigation risks were largely offset by additions to provisions for building reconversion obligations and rental guarantees in 2008.

In 2007, the largest individual items were provisions set up to cover potential take-back obligations arising from real estate transactions and provisions for legal risks from business operations, with an aggregate total of €130 million. The total also included a net addition to other provisions and accruals for risks and charges in non-lending business and provisions for litigation risks.

38 Restructuring costs

Restructuring costs totalled €26 million in 2008. They relate primarily to the consolidation of various back office activities within the UniCredit Group.

A net reversal of €13 million was recognised under restructuring costs in 2007.

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

		€ millions
	2008	2007
Additions	**(1,754)**	**(1,798)**
Allowances for losses on loans and receivables	(1,636)	(1,743)
Allowances for losses on guarantees and indemnities	(118)	(55)
Releases	**923**	**1,172**
Allowances for losses on loans and receivables	897	1,146
Allowances for losses on guarantees and indemnities	26	26
Recoveries from write-offs of loans and receivables	**71**	**90**
Total	**(760)**	**(536)**

The effect of €72 million arising from the unwinding (2007: €64 million) 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. The unwinding is described in Note 14, "Impairment of financial assets".

Notes to the Income Statement (Continued)

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €5 million in the year under review. The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €663 million (2007: €507 million).

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

€ millions	2008	2007
Non-consolidated subsidiaries	—	1
Joint ventures	(2)	—
Associated companies	—	—
Other participating interests	(1)	6
Total[1]	**(3)**	**7**

1 balance released

40 Net income from investments

€ millions	2008	2007
Available-for-sale financial assets	(193)	71
Shares in affiliated companies	17	557
Companies accounted for using the equity method	—	—
Held-to-maturity investments	(17)	(39)
Land and buildings	20	14
Investment properties[1]	(83)	8
Total	**(256)**	**611**

1 impairments and write-ups together with fair value fluctuations for investment properties measured at market value

Net income from investments breaks down as follows:

€ millions	2008	2007
Gains on the disposal of	**24**	**749**
available-for-sale financial assets	(21)	174
shares in affiliated companies	25	560
companies accounted for using the equity method	—	—
held-to-maturity investments	—	1
land and buildings	20	14
Write-downs and value adjustments on	**(280)**	**(138)**
available-for-sale financial assets	(172)	(103)
shares in affiliated companies	(8)	(3)
companies accounted for using the equity method	—	—
held-to-maturity investments	(17)	(40)
investment properties[1]	(83)	8
Total	**(256)**	**611**

1 impairments and write-ups together with fair value fluctuations for investment properties measured at market value

The net loss from investments (gains on disposal less write-downs and value adjustments) of €210 million in 2008 arising from available-for-sale financial assets and held-to-maturity investments can be attributed primarily to negative effects from asset-backed-securities, Lehman bonds, Icelandic bonds and our holding in Babcock & Brown carried in these categories.

The gains on disposal of available-for-sale financial assets in 2007 essentially related to the gain of €113 million on the disposal of Münchener Rückversicherungs-Gesellschaft AG.

In 2007, the gains realised on the disposal of affiliated companies included a gain of €292 million on the disposal of FMS Bank, a gain of €219 million on the disposal of Indexchange and a gain of €47 million on the disposal of Nordinvest.

41 Income taxes for the period

	2008	2007
		€ millions
Current taxes	(185)	(326)
Deferred taxes	131	(468)
Total	**(54)**	**(794)**

The current taxes for 2008 include expenses for previous years totalling €6 million. In 2007, on the other hand, this item declined by €61 million due to tax reimbursements for previous years.

The deferred tax income in the year under review comprises income from the recognition of deferred tax assets on tax losses carryforwards (€482 million) and a deferred tax expense arising from the origination and reversal of temporary differences (€351 million).

The revaluation effects to be taken into account at December 31, 2007 as a result of the German corporate tax reform 2008 had a negative impact on deferred tax expenses in 2007.

The differences between computed income tax and recognised income tax are shown in the following reconciliation.

	2008	2007
		€ millions
Profit before tax	(595)	2,962
Applicable tax rate	15.8%	26.4%
Computed income taxes	+ 94	(782)
Tax effects		
arising from previous years and changes in tax rates	(5)	(134)
arising from foreign income	+ 129	+ 18
arising from non-taxable income	+ 42	+ 240
arising from different tax laws	(51)	(234)
arising from non-deductible expenses	(46)	(43)
arising from valuation adjustments and		
the non-recognition of deferred taxes	(217)	+ 141
arising from amortisation of goodwill	—	—
arising from other differences	—	—
Recognised income taxes	**(54)**	**(794)**

The tax rate applicable in the year under review is 15.8% (2007: 26.4%). It comprises the current rate of corporate income tax in Germany of 15.0% and the solidarity surcharge of 5.5% of corporate income tax.

In 2007, the adjustment item tax effects arising from previous years and changes in tax rates included, among other things, the positive effects of tax reimbursements for previous years offset against the negative valuation effects of changes in tax rates (especially due to the German tax reform 2008 amounting to €195 million).

The effect arising from tax of foreign income results from different tax rates applicable in other countries.

The item tax effects arising from different tax laws comprises primarily current and deferred trade tax in Germany for the current year calculated using tax rates which differ per municipality; in 2007, this item also comprises a reduction in corporate income tax and the solidarity surcharge resulting from the deductibility of trade tax.

In 2007, the item effects on taxes arising from valuation adjustments and the non-recognition of deferred taxes contained the complete effects on income taxes arising from the reduction and increase of deferred tax assets compliant with IAS 12.56 and IAS 12.37. In the year under review, this item for the most part comprises the effects arising from the non-recognition of deferred tax assets for tax loss carryforwards in individual countries.

Notes to the Income Statement (Continued)

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

		€ millions
	2008	**2007**
Deferred tax liabilities		
Loans and receivables with banks and customers,		
incl. provisions for losses on loans and receivables	140	106
Financial assets/liabilities held for trading	147	115
Investments	169	37
Property, plant and equipment/intangible assets	69	62
Other assets/other liabilities/derivatives	680	216
Deposits from banks/customers	81	2
Other	108	70
Recognised deferred tax liabilities	**1,394**	**608**
Deferred tax assets		
Financial assets/liabilities held for trading	412	329
Investments	146	55
Property, plant and equipment/intangible assets	71	52
Provisions	277	317
Other assets/other liabilities/derivatives	287	416
Loans and receivables with banks and customers,		
incl. provisions for losses on loans and receivables	217	206
Losses carried forward	846	364
Other	115	117
Recognised deferred tax assets	**2,371**	**1,856**

The German Tax Reform Act 2008 reduced the overall standard income tax burden on German corporations as of January 1, 2008. The corporate income tax rate irrespective of whether the earnings are distributed or not was reduced from 25% to 15%, while the solidarity surcharge remained unchanged at 5.5% of corporate income tax. At the same time, the possibility to deduct municipal trade tax was eliminated and the municipal trade tax factor was reduced from 5% to 3.5%.

At HVB AG, this resulted in an overall valuation rate for deferred taxes of 31.4%. Since the German Tax Reform Act already needed to be applied when measuring deferred taxes at the 2007 balance sheet date, compliant with IAS 12 there was fundamentally no change in the measurement of deferred taxes for our domestic companies as a result of modified tax rates in 2008.

Deferred tax assets of €24 million (2007: €9 million) were credited to the AfS reserve and deferred tax liabilities of €152 million were offset against the hedge reserve (2007: deferred tax assets of €256 million). On account of the option set forth in IAS 19.93A, deferred tax assets of €64 million (2007: €87 million) were directly credited to shareholders' equity. In each case, the deferred tax items offset directly against reserves are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for tax losses of HVB Group carried forward totalling €5,696 million (2007 HVB Group: €4,843 million) and deductible temporary differences of €1,335 million (2007 HVB Group: €1,108 million).

The deferred tax assets recognised on tax loss carryforwards were calculated using plans of the individual divisions, which are based on segment-specific and general macroeconomic assumptions. The amounts were measured taking into account appropriate valuation discounts. The planning horizon was extended from 3 years in 2007 to the current figure of 5 years. This was done in order to harmonise with prevailing opinion, which among other things has been included in the draft German Accounting Law Modernisation Act (Bilanzrechts-modernisierungsgesetz). The tax losses for the current year arose in individual tax entities of the Markets & Investment Banking division, in particular on account of the financial crisis. Measurement was carried out taking into account possible restrictions of local regulations regarding time and the so-called minimum taxation rule for domestic tax loss carryforwards.

42 Income statement and earnings per share of discontinued operations

At year-end 2006, the BA-CA Group, IMB, HVB Bank Ukraine, AS UniCredit Bank, Riga and the HVB AG branches in Tallinn and Vilnius were defined as discontinued operations. After these companies and branches were fully sold or transferred during 2007, the net income from investments shown in the income statement of discontinued operations in 2007 contains the gains of €3,782 million before taxes generated on the disposal of the companies and branches listed above. The taxes associated with these gains on disposal amount to €84 million compliant with IFRS. At the same time, the income and expenses of the HVB AG branches in Tallinn and Vilnius are included up to and including March 1, 2007 (economic completion date).

Income statement of discontinued operations

	€ millions
	2007
Net interest income	1
Net fees and commissions	—
Net trading income	—
Net other expenses/income	—
TOTAL REVENUES	**1**
Operating costs	(1)
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	3,782
PROFIT BEFORE TAX	**3,782**
Income tax for the period	(84)
PROFIT AFTER TAX	**3,698**
Minorities	—
NET PROFIT	**3,698**

Earnings per share of discontinued operations

	2007
Earnings per share (€)	4.68

43 Earnings per share

HVB GROUP	**2008**	**2007**
Net profit/(loss) (€ millions)	(671)	2,050
Net profit/(loss) (adjusted[1], € millions)	(671)	1,603
Average number of shares	802,383,672	789,462,539
Earnings per share (€)	(0.84)	2.60
Earnings per share (adjusted[1], €)	(0.84)	2.03

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

HVB GROUP, INCLUDING DISCONTINUED OPERATIONS	**2007**
Net profit/(loss) (€ millions)	5,748
Average number of shares	789,462,539
Earnings per share (€)	7.28

Notes to the Consolidated Balance Sheet

44 Cash and cash balances

Cash and cash balances contained cash on hand of €558 million in the year under review (2007: €551 million).

45 Financial assets held for trading

€ millions	2008	2007
Balance-sheet assets		
Fixed-income securities	47,433	64,391
Equity instruments	4,521	18,084
Other financial assets held for trading	27,576	39,122
Positive fair value from derivative financial instruments	**119,489**	**59,258**
Total	**199,019**	**180,855**

The financial assets held for trading include €1,630 million (2007: €1,706 million) in subordinated assets.

Financial assets held for trading from related entities

€ millions	2008	2007
Non-consolidated subsidiaries	19,815	11,601
Joint ventures	—	—
Associated companies	—	—
Other participating interests	104	94
Total	**19,919**	**11,695**

46 Financial assets at fair value through profit or loss

€ millions	2008	2007
Fixed-income securities	10,522	10,389
Equity instruments	—	—
Investment certificates	1	3
Promissory notes	2,812	2,545
Other financial assets at fair value through profit or loss	—	—
Total	**13,335**	**12,937**

82% of the promissory notes were issued by the federal states and regional authorities in the Federal Republic of Germany. The remaining promissory notes were issued by European central and regional governments.

On account of the prime ratings of the promissory notes, only minor effects in credit ratings are included in the fair value fluctuations.

The financial instruments at fair value through profit or loss include €287 million (2007: €276 million) in subordinated assets.

47 Available-for-sale financial assets

€ millions	2008	2007
Fixed-income securities	2,828	3,545
Equity instruments	2,180	2,460
Other available-for-sale financial assets	344	619
Impaired assets	284	115
Total	**5,636**	**6,739**

Available-for-sale financial assets include financial instruments of €1,471 million (2007: €1,209 million) valued at cost compliant with IAS 39.46(c). €1,289 million of this total relates to investments in private equity (of which, direct and co-investments: €551 million and other investments: €738 million). The invested capital flows back when the investments made are subsequently sold. We generated a gain of €33 million disclosed under net trading income from flow-backs of direct investments with a carrying amount of €41 million for the assets disposed of. The dividend income from private equity funds is recorded as net dividend income in net interest income.

The available-for-sale financial assets contain a total of €284 million in impaired assets for which impairments of €223 million were taken to the income statement during the year under review. None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets include €259 million (2007: €473 million) in subordinated assets.

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

€ millions	2008	2007
Non-consolidated subsidiaries	212	282
Joint ventures	—	—
Associated companies accounted for using the equity method	32	34
of which: goodwill	—	—
Other participating interests	6	1
Total	**250**	**317**

Change in portfolio of investments in associates, joint ventures and non-consolidated subsidiaries

€ millions

2007	NON-CONSOLIDATED SUBSIDIARIES	JOINT VENTURES	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD	OTHER ASSOCIATED COMPANIES	TOTAL
Carrying amounts at Jan. 1	**588**	**—**	**35**	**65**	**688**
Additions	**33**	**—**	**3**	**—**	**36**
Purchases	9	—	—	—	9
Write-ups	2	—	—	—	2
Changes from currency translation	—	—	—	—	—
Other additions[1]	22	—	3	—	25
Disposals	**(339)**	**—**	**(4)**	**(64)**	**(407)**
Sales	(41)	—	—	(46)	(87)
Impairments	(5)	—	—	—	(5)
Changes from currency translation	(2)	—	(4)	—	(6)
Non-current assets or disposal groups					
held for sale	(7)	—	—	—	(7)
Other disposals[1]	(284)	—	—	(18)	(302)
Carrying amounts at Dec. 31	**282**	**—**	**34**	**1**	**317**

2008	NON-CONSOLIDATED SUBSIDIARIES	JOINT VENTURES	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD	OTHER ASSOCIATED COMPANIES	TOTAL
Carrying amounts at Jan. 1	**282**	**—**	**34**	**1**	**317**
Additions	**10**	**—**	**2**	**6**	**18**
Purchases	1	—	—	—	1
Write-ups	—	—	—	—	—
Changes from currency translation	3	—	2	—	5
Other additions[1]	6	—	—	6	12
Disposals	**(80)**	**—**	**(4)**	**(1)**	**(85)**
Sales	(10)	—	—	—	(10)
Impairments	(8)	—	—	—	(8)
Changes from currency translation	(1)	—	—	—	(1)
Non-current assets or disposal groups					
held for sale	—	—	—	(1)	(1)
Other disposals[1]	(61)	—	(4)	—	(65)
Carrying amounts at Dec. 31	**212**	**—**	**32**	**6**	**250**

1 also including changes in the group of companies included in consolidation

Notes to the Consolidated Balance Sheet (Continued)

49 Held-to-maturity investments

€ millions		
	2008	2007
Fixed-income securities	6,008	3,017
Other held-to-maturity investments	12	24
Impaired assets	—	17
Total	**6,020**	**3,058**

The impaired assets of €17 million disclosed in 2007 were written down and taken to the income statement in full during the year under review. The held-to-maturity portfolio contains no further impaired assets.

None of the non-impaired debt instruments are financial instruments past due.

The held-to-maturity investments include €12 million (2007: €24 million) subordinated assets.

Development of held-to-maturity investments

€ millions		
	2008	2007
Balance at Jan. 1	**3,058**	**471**
Additions		
Purchases	3,116	2,579
Write-ups	—	11
Other additions	45	313
Disposals		
Sales	—	—
Redemptions at maturity	(175)	(206)
Write-downs	(17)	(51)
Other disposals	(7)	(59)
Balance at Dec. 31	**6,020**	**3,058**

Held-to-maturity investments of related entities

€ millions		
	2008	2007
Non-consolidated subsidiaries	2,127	2,124
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**2,127**	**2,124**

50 Loans and receivables with banks

€ millions		
	2008	2007
Loans to central banks	**4,998**	**6,081**
Loans to banks	**41,453**	**42,785**
Current accounts and demand deposits	15,467	10,265
Repos[1]	6,331	15,130
Reclassified securities	4,258	—
Other loans to banks	15,397	17,390
Total	**46,451**	**48,866**

1 repurchase agreements

The loans and receivables with banks include €845 million (2007: €576 million) in subordinated assets.

The figures stated for loans and receivables with banks are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

€ millions		
	2008	2007
Properly serviced loans and receivables		
Carrying amount before allowances	46,442	48,869
Portfolio allowances[1]	11	9
Carrying amount	**46,431**	**48,860**
Properly serviced loans and receivables past due		
Carrying amount before allowances	—	—
Portfolio allowances[1]	—	—
Carrying amount	**—**	**—**
Loans and receivables with allowances		
Carrying amount before allowances	269	83
Specific allowances	249	77
Carrying amount	**20**	**6**

1 including provisions for country risks

The loans and receivables with loan-loss provisions are defined as loans and receivables in rating classes 8–, 9 and 10. These include receivables of €1 million that meet the criteria for an allowance, but for which no allowance has been created on account of fully realisable collateral.

	€ millions
	2008
Loans and receivables broken down by rating class	
Free of counterparty risk	483
Not rated	7,640
Rating class 1 – 4	36,215
Rating class 5 – 8	2,085
Rating class 9 – 10	28
Collateral broken down by rating class	
Free of counterparty risk	25
Not rated	2
Rating class 1 – 4	8,320
Rating class 5 – 8	1,025
Rating class 9 – 10	—

Loans and receivables with related entities

		€ millions
	2008	2007
Non-consolidated subsidiaries	10,130	9,319
Joint ventures	—	—
Associated companies	—	—
Other participating interests	75	323
Total	**10,205**	**9,642**

51 Loans and receivables with customers

		€ millions
	2008	2007
Current accounts	7,082	8,062
Repos[1]	8,643	3,160
Mortgage loans	62,723	69,956
Finance leases	1,842	929
Reclassified securities	9,451	—
Other loans and receivables	85,777	78,139
Total	**175,518**	**160,246**

1 repurchase agreements

The loans and receivables with customers include €1,055 million (2007: €760 million) in subordinated assets. LBO loans with a volume of €8.2 billion are also included. The loans are recognised at amortised cost as part of the measurement of loans and receivables. Depending on the individual internal rating, a regular impairment test is performed as defined in IAS 39.58.

The figures stated for loans and receivables with customers are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

		€ millions
	2008	2007
Properly serviced loans and receivables		
Carrying amount before allowances	167,771	151,492
Portfolio allowances[1]	512	494
Carrying amount	**167,259**	**150,998**
Properly serviced loans and receivables past due		
Carrying amount before allowances	4,428	4,573
Portfolio allowances[1]	13	17
Carrying amount	**4,415**	**4,556**
Loans and receivables with allowances		
Carrying amount before allowances	7,900	9,188
Specific allowances	4,056	4,496
Carrying amount	**3,844**	**4,692**

1 including provisions for country risks

The loans and receivables with loan-loss provisions are defined as loans and receivables in rating classes 8–, 9 and 10. These include receivables of €107 million that meet the criteria for an allowance, but for which no allowance has been created on account of fully realisable collateral.

		€ millions
	2008	2007
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1 – 30 days	3,942	4,124
31 – 60 days	363	153
61 – 90 days	110	279

Notes to the Consolidated Balance Sheet (Continued)

	€ millions 2008
Value of collateral broken down by period past due	
1 – 30 days	1,067
31 – 60 days	68
61 – 90 days	27

	€ millions 2008
Loans and receivables broken down by rating class	
Free of counterparty risk	4,976
Not rated	4,051
Rating class 1 – 4	79,790
Rating class 5 – 8	83,214
Rating class 9 – 10	3,487
Collateral broken down by rating class	
Free of counterparty risk	123
Not rated	3,639
Rating class 1 – 4	26,235
Rating class 5 – 8	31,409
Rating class 9 – 10	2,378

Loans and receivables with related entities

€ millions	2008	2007
Non-consolidated subsidiaries	645	821
Joint ventures	3	7
Associated companies	206	118
Other participating interests	4,716	1,633
Total	**5,570**	**2,579**

Amounts receivable from lease operations (finance lease)

€ millions	2008	2007
Gross investment value (by remaining maturity)		
up to 12 months	811	373
from 1 year to 5 years	1,140	619
from 5 years and over	121	33
Total gross investment	**2,072**	**1,025**
of which:		
unguaranteed residual values	—	—
Unrealised finance income (by remaining maturity)		
up to 12 months	(94)	(38)
from 1 year to 5 years	(127)	(56)
from 5 years and over	(9)	(2)
Total unrealised finance income	**(230)**	**(96)**
Net investment (by remaining maturity)		
up to 12 months	717	335
from 1 year to 5 years	1,013	563
from 5 years and over	112	31
Total net investment	**1,842**	**929**

For the lessor, the gross investment in the lease is the aggregate of the minimum lease payments under a finance lease and any unguaranteed residual value accruing to the lessor. The minimum lease payments are the payments over the lease term that the lessee has to make or can be required to make together with any residual values guaranteed.

The unguaranteed residual value is that portion of the residual value of the leased asset which is not guaranteed to be realised by the lessor. The residual value of the leased asset is estimated at the inception of the lease.

Unrealised finance income is the difference between the lessor's gross investment in the lease and its present value (net investment).

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

Analysis of loans and receivables

€ millions	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at Jan. 1, 2007	**5,595**	**473**	**6,068**
Changes affecting income			
Gross additions	1,508	235	1,743
Releases	(1,131)	(15)	(1,146)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(1,376)	(194)	(1,570)
Effects of currency translation and other changes not affecting income	(23)	21	(2)
Non-current assets or disposal groups held for sale	—	—	—
Balance at Dec. 31, 2007	**4,573**	**520**	**5,093**
	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at Jan. 1, 2008	**4,573**	**520**	**5,093**
Changes affecting income			
Gross additions	1,585	51	1,636
Releases	(868)	(29)	(897)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(1,054)	—	(1,054)
Effects of currency translation and other changes not affecting income	69	(6)	63
Non-current assets or disposal groups held for sale	—	—	—
Balance at Dec. 31, 2008	**4,305**	**536**	**4,841**

Notes to the Consolidated Balance Sheet (Continued)

Breakdown of allowances for receivables

€ millions	Loans and receivables with banks 2008	Loans and receivables with banks 2007	Loans and receivables with customers 2008	Loans and receivables with customers 2007
Properly serviced receivables				
Carrying amount before allowances	46,442	48,869	172,199	156,065
Portfolio allowance	11	9	525	511
Carrying amount	**46,431**	**48,860**	**171,674**	**155,554**
Loans and receivables with allowances				
Carrying amount before allowances	269	83	7,900	9,188
Specific allowances	249	77	4,056	4,496
Carrying amount	**20**	**6**	**3,844**	**4,692**

53 Hedging derivatives

This item contains the positive fair values of €2,654 million of hedging derivatives used primarily to hedge market interest risk.

54 Property, plant and equipment

€ millions	2008	2007
Internally used property, plant and equipment[1]		
Land and buildings	1,061	1,106
Plant and office equipment	324	231
Other property	492	—
Total	**1,877**	**1,337**

1 including leased assets of €65 million (2007: €1 million)

Other property contains solely assets under construction by our Ocean Breeze Energy GmbH & Co. KG subsidiary, which was consolidated for the first time in 2008.

Development of internally used property, plant and equipment

2007	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	OTHER PROPERTY	INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT[1]
				€ millions
Acquisition costs at Jan. 1	**2,318**	**1,281**	**—**	**3,599**
Write-downs and write-ups from previous years	(1,069)	(1,010)	—	(2,079)
Carrying amounts at Jan. 1	**1,249**	**271**	**—**	**1,520**
Additions				
Purchases	2	69	—	71
Write-ups	—	—	—	—
Changes from currency translation	—	—	—	—
Other additions[2]	23	42	—	65
Disposals				
Sales	(52)	(30)	—	(82)
Amortisation and write-downs	(48)	(78)	—	(126)
Impairments	(2)	(1)	—	(3)
Changes from currency translation	—	—	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	—	—	—	—
Other disposals[2]	(66)	(42)	—	(108)
Carrying amounts at Dec. 31	**1,106**	**231**	**—**	**1,337**
Write-downs and write-ups from previous year plus year under review	1,119	1,087	—	2,206
Acquisition costs at Dec. 31	**2,225**	**1,318**	**—**	**3,543**

2008	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	OTHER PROPERTY	INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at Jan. 1	**2,225**	**1,318**	**—**	**3,543**
Write-downs and write-ups from previous years	(1,119)	(1,087)	—	(2,206)
Carrying amounts at Jan. 1	**1,106**	**231**	**—**	**1,337**
Additions				
Purchases	3	118	—	121
Write-ups	3	—	—	3
Changes from currency translation	—	—	—	—
Other additions[2]	5	94	492	591
Disposals				**—**
Sales	(1)	(13)	—	(14)
Amortisation and write-downs	(48)	(80)	—	(128)
Impairments	(3)	—	—	(3)
Changes from currency translation	—	—	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	—	—	—	—
Other disposals[2]	(4)	(26)	—	(30)
Carrying amounts at Dec. 31	**1,061**	**324**	**492**	**1,877**
Write-downs and write-ups from previous year plus year under review	1,060	846	—	1,906
Acquisition costs at Dec. 31	**2,121**	**1,170**	**492**	**3,783**

1 including leased assets
2 also including changes in the group of companies included in consolidation

Notes to the Consolidated Balance Sheet (Continued)

55 Investment properties

The fair value of investment property at HVB Group, which is measured at amortised cost, totalled €500 million (2007: €502 million). The appraisals prepared to calculate the fair values in this case are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. The fair values of the portfolios measured at fair value represents the results of valuation appraisals prepared by external assessors.

Investment properties

€ millions

2007	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at Jan. 1	**891**	**—**
Write-downs and write-ups from previous years	(418)	—
Carrying amounts at Jan. 1	**473**	**—**
Additions		
Purchases	12	—
Write-ups	8	—
Changes from currency translation	—	—
Other additions[1]	3	1,459
Disposals		
Sales	(13)	—
Amortisation and write-downs	(5)	—
Impairments	(3)	—
Changes from currency translation	—	—
Assets of discontinued operations and non-current assets or disposal groups held for sale	(26)	—
Other disposals[1]	(18)	—
Carrying amounts at Dec. 31	**431**	**1,459**
Write-downs and write-ups from previous year plus year under review	418	—
Acquisition costs at Dec. 31	**849**	**1,459**

1 also including changes in the group of companies included in consolidation

Investment properties

€ millions

2008	MEASURED AT COST	MEASURED AT FAIR VALUE
Acquisition costs at Jan. 1	**849**	**1,459**
Write-downs and write-ups from previous years	(418)	—
Carrying amounts at Jan. 1	**431**	**1,459**
Additions		
Purchases	2	—
Write-ups	2	—
Changes from currency translation	—	—
Other additions[1]	4	—
Disposals		
Sales	(10)	(42)
Amortisation and write-downs	(6)	—
Impairments	(2)	—
Changes from currency translation	—	(12)
Assets of discontinued operations and non-current assets or disposal groups held for sale	(2)	—
Net gains/(losses) on the adjustment of fair values	—	(98)
Other disposals[1]	(3)	—
Carrying amounts at Dec. 31	**416**	**1,307**
Write-downs and write-ups from previous year plus year under review	424	—
Acquisition costs at Dec. 31	**840**	**1,307**

1 also including changes in the group of companies included in consolidation

56 Intangible assets

Write-downs on goodwill are shown in a separate item in the income statement. Amortisation of software and other intangible assets is normally stated under amortisation, depreciation and impairment losses on intangible and tangible assets under operating costs.

€ millions

	2008	2007
Goodwill	**424**	**421**
Other intangible assets		
Internally generated intangible assets	212	180
Other intangible assets	159	169
Total	**795**	**770**

Development of intangible assets

€ millions			
2007	GOODWILL FROM SUBSIDIARIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at Jan. 1	**1,089**	**552**	**645**
Write-downs and write-ups from previous years	(667)	(363)	(448)
Carrying amounts at Jan. 1	**422**	**189**	**197**
Additions			
Purchases/internally generated intangible assets	—	60	56
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	19	20
Disposals			
Sales	(1)	(20)	(29)
Amortisation and write-downs	—	(48)	(63)
Impairments	—	(1)	(12)
Changes from currency translation	—	—	—
Assets of discontinued operations and non-current assets or			
disposal groups held for sale	—	—	—
Other disposals[1]	—	(19)	—
Carrying amounts at Dec. 31	**421**	**180**	**169**
Write-downs and write-ups from previous year plus year under review	667	412	523
Acquisition costs at Dec. 31	**1,088**	**592**	**692**
2008	GOODWILL FROM SUBSIDIARIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at Jan. 1	**1,088**	**592**	**692**
Write-downs and write-ups from previous years	(667)	(412)	(523)
Carrying amounts at Jan. 1	**421**	**180**	**169**
Additions			
Purchases/internally generated intangible assets	—	101	46
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	3	1	22
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(57)	(65)
Impairments	—	—	(5)
Changes from currency translation	—	—	—
Assets of discontinued operations and non-current assets or			
disposal groups held for sale	—	—	—
Other disposals[1]	—	(13)	(8)
Carrying amounts at Dec. 31	**424**	**212**	**159**
Write-downs and write-ups from previous year plus year under review	667	254	333
Acquisition costs at Dec. 31	**1,091**	**466**	**492**

1 also including changes in the group of companies included in consolidation

Notes to the Consolidated Balance Sheet (Continued)

57 Income tax assets

		€ millions
	2008	2007
Current tax assets	421	324
Deferred tax assets	2,371	1,856
Total	**2,792**	**2,180**

58 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.

		€ millions
ASSETS	31/12/2008	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	2	7
Held-to-maturity investments	—	—
Loans and receivables with banks	—	—
Loans and receivables with customers	—	—
Hedging derivatives	—	—
Property, plant and equipment	—	—
Investment properties	2	257
Intangible assets	—	—
Tax assets	—	—
Other assets	—	1
Total assets	**4**	**265**

– In December 2007, real estate which was sold to third parties from Euro ImmoProfil, a special property fund consolidated for the first time at December 31, 2007, was one of the items 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 derecognised.

– Ownership, benefits and obligations of the investment properties classified as held for sale compliant with IFRS 5 in 2007 were transferred in the first half of 2008. These properties related to the disposal of portfolio of non-strategic real estate.

59 Other assets

Other assets include prepaid expenses of €119 million (2007: €119 million).

60 Own securitisation

Synthetic securitisation requires the portfolio to be divided into at least two tranches. The credit risk inherent in the underlying receivables is spread over the tranches with different risk profiles. A traditional securitisation transaction (true sale), on the other hand, is structured in such a way that the cash flow from the underlying receivables services at least two tranches reflecting different risk profiles.

One of the goals of securitisation transactions is to reduce risk-weighted assets. Accordingly, the prime motivation for our securitisation programmes is the desire to reduce the risk in our loan portfolio and to achieve the optimum capital allocation for creating value. In order to reduce risk-weighted assets in a way that is recognised by the supervisory authorities, at least 50% of the risk-weighted assets relating to the mezzanine tranches of the underlying pool of receivables must be transferred compliant with Section 232 of the German Solvency Regulation; the securitising institution may retain the remaining portion. The extent to which the bank then actually retains risks depends on the current market conditions and the type of securitisation transaction (synthetic or traditional), among other factors.

In the case of synthetic securitisation, the transfer of risk and the ensuing reduction in capital requirements is essentially achieved using hedges in the form of guarantees and credit derivatives (credit default swaps, credit-linked notes). In the case of traditional securitisation, this is achieved by selling balance-sheet assets (true sale).

HVB Group continued its securitisation activities in 2008 with six new transactions (Geldilux-TS-2008, Building Comfort 2008, EuroConnect SME 2008-1, Permanent SFA Bridge 2008, SFA-2-2008 and SFA-3-2008). The corresponding volume of lending newly outplaced totalled €28.8 billion at year-end, serving to reduce a gross amount of €18.4 billion from risk-weighted assets compliant with Basel II. The Bank retained tranches from the securitisation transactions carried out in 2008 that should be included in risk-weighted assets with an amount of €2.8 billion, and deducted from liable equity with an amount of €42.2 million. Assuming a risk weighting of 1,250% for the deductible items, there is a net reduction of €15.1 billion for the securitisation transactions carried out in 2008.

At the same time, the Wolfgang, Promise Color 2003, Building Comfort 2002 and Building Comfort 2003 transactions, and Series 1 and Series 2 of Geldilux-TS-2005, expired during 2008 with an aggregate lending volume of €8.8 billion. This served to reduce an amount of €4.3 billion from risk-weighted assets compliant with Basel II.

At December 31, 2008, the total volume of lending in HVB Group's full set of securitisation programmes totalled €50.5 billion, serving to deduct a gross amount of €27.6 billion from risk-weighted assets compliant with Basel II or a net amount of €21.9 billion taking account of the retained tranches.

With the true sale transactions that have been carried out – Geldilux-TS-2005, Geldilux-TS-2007 and Geldilux-TS-2008 – the underlying receivables with a carrying amount of €5.6 billion are still fully shown in the balance sheet. Compliant with SIC 12, the special purpose entities set up for this purpose – Geldilux-TS-2005 S.A., Geldilux-TS-2007 S.A. and Geldilux-TS-2008 S.A. – are fully consolidated.

Furthermore, for the first time in 2008 the Bank carried out securitisation transactions with a view to using the securities generated in this way as collateral for repurchase agreements with the ECB (Rosenkavalier 2008). As part of this true sale transaction, the Bank securitised a loan portfolio of €11.6 billion and generated securities of €9.7 billion eligible for pledging with the ECB. In the case of Rosenkavalier, the Bank has retained all of the tranches (entailing no reduction in risk-weighted assets). HVB AG continues to carry the underlying receivables in its balance sheet, and the special purpose entity set up for this purpose has been fully consolidated.

Notes to the Consolidated Balance Sheet (Continued)

ISSUER	TRANSACTION NAME	LEGAL TRANSACTION MATURITY / TRANSACTION CALL DATE	TYPE OF ASSET SECURITISED	TOTAL VOLUME OF LENDING BASEL II € millions	REDUCTION IN RISK-WEIGHTED ASSETS COMPLIANT WITH BASEL II[1] € millions
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2003-1[2]	28/7/2055 28/10/2009	Private mortgage loans	865	—
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2004-1	27/11/2045 27/2/2010	Private mortgage loans	1,687	239
Total for 2003-2004				**2,552**	**239**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2005-1	25/8/2048 25/2/2011	Private mortgage loans	3,075	471
HVB Banque Luxembourg S.A.	Geldilux-TS-2005	10/12/2012 Series 3: 10/7/2010	Euroloans	2,002	1,789
Total for 2005				**5,077**	**2,260**
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2006-1	25/8/2048 1/5/2012	Private mortgage loans	2,088	432
Bayerische Hypo- und Vereinsbank AG	Promise-XXS 2006-1	12/5/2024 12/8/2012	Corporate loans	2,660	1,842
Total for 2006				**4,748**	**2,274**
HVB Banque Luxembourg S.A.	GELDILUX-TS-2007	8/9/2014 8/4/2012	Euroloans	2,100	1,871
Bayerische Hypo- und Vereinsbank AG / HVB Banque Luxembourg S.A.	EuroConnect Issuer LC 2007-1	15/3/2028 15/9/2013	Corporate loans	1,543	774
Bayerische Hypo- und Vereinsbank AG	EuroConnect Issuer SME 2007-1	15/11/2030 15/2/2015	Corporate loans	1,880	1,149
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2007-1	25/1/2051 25/7/2013	Private mortgage loans	3,752	645
Total for 2007				**9,275**	**4,439**
HVB Banque Luxembourg S.A.	GELDILUX-TS-2008	10/1/2014 10/8/2011	Euroloans	1,472	1,236
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2008	25/9/2050 25/9/2013	Private mortgage loans	3,139	591
Bayerische Hypo- und Vereinsbank AG	EuroConnect Issuer SME 2008-1	17/4/2033 17/4/2014	Corporate loans	1,536	1,191
Bayerische Hypo- und Vereinsbank AG	Permanent SFA Bridge 2008	30/12/2021 30/9/2013	Corporate loans	8,610	4,966
Bayerische Hypo- und Vereinsbank AG	SFA-3-2008	30/3/2028 30/12/2013	Corporate loans/ mortgage loans	10,079	7,475
Bayerische Hypo- und Vereinsbank AG	SFA-2-2008	30/3/2028 30/12/2013	Corporate loans	4,012	2,958
Total for 2008				**28,848**	**18,417**
Total				**50,500**	**27,629**

1 does not include any retained risks
2 no figures are calculated for these transactions under Basel II

The values shown are carrying amounts relating to the reporting date, December 31, 2008.

61 Deposits from banks

	2008	2007
€ millions		
Deposits from central banks	**29,549**	**16,559**
Deposits from banks	**54,318**	**70,143**
Current accounts and demand deposits	12,001	9,490
Reverse repos[1]	12,378	9,226
Other liabilities	29,939	51,427
Total	**83,867**	**86,702**

1 repurchase agreements

Deposits from banks, broken down by maturity

CARRYING AMOUNTS	2008	2007
€ millions		
Repayable on demand and undated	7,980	19,631
With agreed maturities	75,887	67,071
up to 3 months	59,828	51,006
from 3 months to 1 year	3,293	6,024
from 1 year to 5 years	6,125	5,922
5 years and over	6,641	4,119
Total	**83,867**	**86,702**

Amounts owed to related entities

	2008	2007
€ millions		
Non-consolidated subsidiaries	6,342	13,749
Joint ventures	—	—
Associated companies	151	4
Other participating interests	95	46
Total	**6,588**	**13,799**

62 Deposits from customers

	2008	2007
€ millions		
Current accounts and demand deposits	36,237	37,060
Savings deposits	13,648	14,580
Reverse repos[1]	12,245	3,867
Other liabilities	52,832	53,119
Total	**114,962**	**108,626**

1 repurchase agreements

Deposits from customers, broken down by maturity

CARRYING AMOUNT	2008	2007
€ millions		
Repayable on demand and undated	46,794	44,374
With agreed maturities	68,168	64,252
up to 3 months	45,807	48,916
from 3 months to 1 year	10,897	5,650
from 1 year to 5 years	5,945	4,027
5 years and over	5,519	5,659
Total	**114,962**	**108,626**

Liabilities to related entities and persons

	2008	2007
€ millions		
Non-consolidated subsidiaries	330	423
Joint ventures	1	—
Associated companies	68	91
Other participating interests	10,377	2,274
Total	**10,776**	**2,788**

Notes to the Consolidated Balance Sheet (Continued)

63 Debt securities in issue

€ millions	2008	2007
Listed securities	**42,451**	**57,003**
Bonds	40,679	55,286
Other securities	1,772	1,717
Unlisted securities	**21,188**	**22,565**
Bonds	20,891	22,158
Other securities	297	407
Total	**63,639**	**79,568**

Debt securities in issue, broken down by maturity

CARRYING AMOUNT (€ millions)	2008	2007
With agreed maturities		
up to 3 months	8,380	12,667
from 3 months to 1 year	5,728	13,119
from 1 year to 5 years	29,917	32,749
from 5 years and over	19,614	21,033
Total	**63,639**	**79,568**

Debt securities in issue, payable to related entities

€ millions	2008	2007
Non-consolidated subsidiaries	1,470	1,585
Joint ventures	—	—
Associated companies	—	—
Other participating interests	52	66
Total	**1,522**	**1,651**

64 Financial liabilities held for trading

€ millions	2008	2007
Negative fair values arising from		
derivative financial instruments	119,011	60,904
Other financial liabilities held for trading	44,933	54,324
Total	**163,944**	**115,228**

The negative fair values arising from derivative financial instruments are carried as financial liabilities held for trading purposes. Also included under other financial liabilities held for trading purposes are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities not held for trading purposes.

The cumulative changes in fair value resulting from the valuation of the own credit spread total €245 million.

65 Hedging derivatives

This item contains the negative fair values of €617 million arising from hedging derivatives used primarily to hedge market interest risk.

66 Hedge adjustment of hedged items in the fair value hedge portfolio

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €554 million. This is offset on the assets side by an economic equivalent amount of approximately the same size disclosed under hedging derivatives.

67 Income tax liabilities

€ millions	2008	2007
Current tax liabilities	544	708
Deferred tax liabilities	1,394	608
Total	**1,938**	**1,316**

68 Liabilities of disposal groups held for sale

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

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

69 Other liabilities

This item essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc. This item also includes the interests held by outside shareholders in the capital of certain investment funds, provided these are consolidated by us.

70 Provisions

		€ millions
	2008	**2007**
Provisions for pensions and similar obligations	104	105
Allowances for losses on guarantees and commitments	223	163
Restructuring provisions	92	126
Other provisions	1,072	1,146
Total	**1,491**	**1,540**

Provisions for pensions, HVB Group

The provisions for pensions and similar obligations include the direct commitments to HVB Group employees under company pension plans.

The direct commitments are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. The funded pension obligations are offset against the fair value of a plan's assets. The pension provision recognised in the previous year reflects the balance of the present value of the pension obligations and the fair value of the plan assets. In one instance in the year under review, the fair value of the plan assets for a given plan were greater than the present value of the corresponding funded pension obligation, so that the balance for the plan, after having been reduced as a result of the asset ceiling as specified in IAS 19.58B, is capitalised under other assets.

In addition, Group companies make contributions for commitments made by independent pension organisations. The pension obligations funded through retirement benefit corporations with matching cover are recognised as defined contribution plans. The cost of such plans totalled €40 million (2007: €50 million).

In the year under review, we have included the pension obligations financed by Pensionskasse der HypoVereinsbank VVaG in the disclosures regarding pension obligations for the first time. The standard, HVB Group valuations parameters were applied when calculating the obligations. Since the fair value of the plan assets exceeds the present value of the pension obligations, this change does not result in a defined benefit liability being recognised in the balance sheet.

Notes to the Consolidated Balance Sheet (Continued)

For the purpose of calculating the amounts of these commitments, the valuation parameters were modified as follows:

in %		
	31/12/2008/ 1/1/2009	31/12/2007/ 1/1/2008
Interest rate	5.75	5.25
Expected return on plan assets	5.25	5.25
Rate of increase in pension obligations	1.9	1.9
Rate of increase in future compensation and		
vested rights	2.75	2.5
Rate of increase over career	0–1.5	0–1.5

Funding status

€ millions	
	2008
Funded pension obligations:	
Present value of funded pension obligations	2,751
Fair value of plan assets	(3,010)
Reduction due to asset ceiling compliant with IAS 19.58B	104
Capitalised excess cover of plan assets	174
Recognised pension provisions	**19**
Unfunded pension obligations:	
Present value of unfunded pension obligations	85
Total recognised pension provisions	**104**

HVB Group applies the option permitted by IAS 19.93A, "Employee Benefits", to carry unrealised actuarial gains or losses in shareholders' equity outside the profit or loss for the period.

The following table shows the breakdown of pension expenses:

€ millions	
	2008
Present value of the pension claims vested in the year under review	(26)
Interest expense	(125)
Expected income from plan assets	122
Losses from changes to plans	—
Total	**(29)**

Pension expense is recognised in payroll costs (pension and other employee benefit costs) as a net amount.

The following table shows an analysis of the present value of funded pension obligations for 2008:

€ millions	
	2008
Balance at Jan. 1, 2008	**2,305**
Present value of the pension claims vested in the year under review	25
Interest expense	121
Contributions from plan participants	9
Actuarial gains (losses)	(178)
Payments affecting liquidity	(107)
Changes in consolidated group	589
Changes arising from foreign currency translation	(13)
Balance at Dec. 31, 2008	**2,751**

The following table shows an analysis of the present value of unfunded pension obligations for 2008:

€ millions	
	2008
Balance at Jan. 1, 2008	**82**
Present value of the pension claims vested in the year under review	1
Interest expense	4
Contributions from plan participants	—
Actuarial gains (losses)	(3)
Payments affecting liquidity	(4)
Changes in consolidated group	5
Changes arising from foreign currency translation	—
Balance at Dec. 31, 2008	**85**

HVB AG set up plan assets in the form of so-called contractual trust arrangements (CTA). This involved transferring the assets required to fund its pension obligations to legally independent trustees – including HVB Trust e.V. IAS 19.54 requires the assets transferred to be offset against the pension provisions, with the amount of the pension provisions in the corporate group declining accordingly.

The trustees' plan assets used to fund the pension obligations are invested in special-purpose funds set up specifically for this purpose (unit trusts).

The following table shows the development of the plan assets in the year under review:

	€ millions
	2008
Balance at Jan. 1, 2008	**2,322**
Expected income from plan assets	122
Actuarial gains (losses)	(104)
Allocations to plan assets	105
Employee contributions	—
Disbursements to beneficiaries	(107)
Additional allocations in the form of benefits not taken	—
Changes in exchange rates	(14)
Changes in consolidated group	686
Balance at Dec. 31, 2008	**3,010**

With regard to the plan assets, the item actuarial gains (losses) shows the difference between the expected income from plan assets and the income from plan assets actually realised. The balance of expected income and actuarial losses from plan assets gives the actual income from plan assets of €18 million.

The cumulative actuarial gains recognised in shareholders' equity compliant with IAS 19.93A total €203 million before deferred taxes or minority interests.

When the present value of the pension obligations was calculated, the differences between the expected and actual development in the composition of the eligible employees (experience adjustment) totalled minus €18 million in the year under review (2007: minus €27 million).

Allowances for losses on guarantees and commitments, restructuring provisions and other provisions

			€ millions
	ALLOWANCES FOR LOSSES ON GUARANTEES AND COMMITMENTS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
Balance at Jan. 1, 2008	**163**	**126**	**1,146**
Changes in consolidated group	—	—	9
Changes arising from foreign currency translation	—	—	2
Transfers to provisions	118	22	230
Reversals	(26)	(2)	(107)
Reclassifications	—	(20)	(26)
Amounts used	(32)	(34)	(182)
Assets of discontinued operations and			
non-current assets or disposal groups held for sale	—	—	—
Balance at Dec. 31, 2008	**223**	**92**	**1,072**

The allowances for losses on guarantees and commitments primarily include allowances for financial guarantees (guarantee risks and documentary credits).

Other provisions include provisions for litigation fees, damage payments, anticipated losses and long-term liabilities to employees such as service anniversary awards, early retirement and semi-retirement.

The provisions for the Retention Awards Programme are also carried under other provisions. In addition to the bonus for the current financial year, selected employees in investment banking receive a retention award which is disbursed later (after two years), provided that these employees are still working for HVB Group at that time. The award granted to the eligible employees attracts interest of 4.2% over the waiting period. No further provisions were set aside for the Retention Awards Programme in 2008 (2007: €18 million). No amounts were reversed or used in 2008 either, as the payments to employees arising from the programmes set up in 2006 and 2007 do not fall due until 2009 and 2010, respectively.

Notes to the Consolidated Balance Sheet (Continued)

71 Shareholders' equity

Analysis of subscribed capital, authorised capital increase and conditional capital of HVB AG.

Breakdown of subscribed capital

At December 31, 2008, the subscribed capital of HVB AG totalled €2,407 million (2007: €2,407 million) and consisted of the following:

	2008	2007
Shares of common bearer stock		
(no par shares)	787,830,072	787,830,072
Shares of registered preferred stock		
(no par shares)	14,553,600	14,553,600

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share.

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

Authorised capital increase

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT 31/12/2008 € millions
2004	29/4/2009	990	835

The resolution adopted at the Annual General Meeting of Shareholders on April 29, 2004 with regard to the release of the remaining €137 million and the simultaneous approval of a new amount of €990 million was entered in the Commercial Register on December 18, 2006. An amount of €155 million from the authorised capital increase was used for the transfer of the investment banking activities of UBM to HVB AG in April 2007 as part of a capital increase against a contribution in kind.

Conditional capital

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT 31/12/2008 € millions
2003	14/5/2008	375	—

Change in valuation of financial instruments

The changes in valuation of financial instruments amounted to an increase of €23 million in the year under review (2007: increase of €7 million). Within this total, the AfS reserve declined €0.9 billion compared with year-end 2007 in the difficult market environment, to minus €0.3 billion. Negative fair value fluctuations in our shareholdings, including our holdings in Ergo (down €216 million) and Babcock & Brown (down €160 million), served to depress the total. Negative mark-to-market fluctuations account for €214 million arising from asset-backed securities classified as available-for-sale for which the impairment criteria defined in IAS 39.59 were not present and for which consequently no write-downs needed to be taken. The decrease in the AfS reserve was offset by an increase of €0.9 billion in the hedge reserve.

72 Subordinated capital

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

€ millions	2008	2007
Subordinated liabilities	7,206	8,014
Participating certificates outstanding	205	614
Hybrid capital instruments	1,804	2,376
Total	**9,215**	**11,004**

Pursuant to Section 10 (4, 5, 5a and 7) of the German Banking Act and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities, participating certificates outstanding and hybrid capital instruments) was carried as core capital, supplementary capital and Tier III capital for regulatory purposes in 2008.

The following table shows the breakdown of subordinated capital by balance sheet item:

€ millions	2008	2007
Deposits from customers	389	461
Deposits from banks	907	898
Debt securities in issue	7,919	9,645
Total	**9,215**	**11,004**

We have incurred interest expenses of €650 million in connection with this subordinated capital. Subordinated capital includes proportionate interest of €217 million.

Subordinated liabilities
Subordinated liabilities include no individual items exceeding 10% of the total amount.

The borrower cannot be obliged to make early repayments in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated liabilities are only repaid after the claims of all primary creditors have been settled.

There were subordinated liabilities of €1,070 million payable to related entities in 2008.

Participating certificates outstanding
The following issue represents a major component of HVB Group's participating certificates outstanding:

ISSUER	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT € millions	INTEREST RATE in %	MATURITY
Bayerische Hypo- und Vereinsbank AG	2001	Bearer participating certificates	100	6.30	2011

Holders of participating certificates are subordinated creditors and are not entitled to a share of the proceeds on company liquidation.

In each case, the participating certificates grant holders an entitlement to an annual interest payment with priority over the entitlement of shareholders to dividend payments; the interest payments arising from the participating certificates are reduced if such payments would result in a net loss for the year.

In the event of the interest payment being reduced, the shortfall is to be paid in the subsequent financial years, provided this does not result in a net loss for the year; a claim to such subsegment payment only exists, however, during the term of the participating certificates.

Repayment is at the nominal amount; in the event of a net loss for the year or a reduction in the capital stock to cover losses, the redemption amount to which holders are entitled declines proportionately. Where net profits are generated in the subsequent financial years following a participation of the participating certificates in a net loss, the claims to repayment of the participating certificates are to be increased out of these profits before the net income is appropriated in any other way, once the legal reserves have been replenished; this obligation terminates when the participating certificates expire.

The interest payments will be disbursed in full for 2008, as no net loss was recorded for the year.

Hybrid capital instruments
At December 31, 2008, the HVB Group had hybrid core capital of €1,749 million (eligible amount compliant with the German Banking Act) to bolster its capital base.

Hybrid capital instruments include issues placed by specially created subsidiaries in the form of capital contributions from silent partners or preferred shares.

These instruments differ from supplementary capital in that they are subject to more stringent conditions in terms of maturity. The terms of issue for capital contributions from silent partners envisage a minimum term of ten years, while an unlimited term has been agreed with the investors for preferred shares. In addition, hybrid capital instruments are not repaid until after supplementary capital has been repaid (subordinated liabilities and participating certificates outstanding) in the event of bankruptcy.

In contrast to traditional components of core capital such as shares, the claim to a share of profit takes the form of a fixed interest payment in the case of hybrid capital. Moreover, hybrid capital can be issued as undated instruments as well as instruments in the long term.

Both the German Banking Supervisory Authority and the Basel Committee on Banking Supervision have expressly confirmed the recognition of hybrid capital for banking supervisory purposes.

Notes to the Cash Flow Statement

73 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities and financing activities for the year under review. Operating activities are defined broadly enough to allow the same breakdown as for operating profit.

The cash and cash equivalents shown correspond to the cash reserve item in the balance sheet.

Change in other non-cash positions comprises the changes in the valuation of financial instruments, net additions to deferred taxes, changes in provisions, changes in prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interest in net income.

No shares in fully consolidated companies were purchased or sold in 2008.

74 Information regarding reclassifications compliant with IFRS 7

We have made use of the reclassification options permitted for the first time in 2008 by the amended IAS 39.50 ff. (see also Note 3) by reclassifying in the third quarter of 2008 mostly asset-backed securities and fixed-income securities issued by financial institutions classified as held for trading in the amount of €13.5 billion (carrying amount as at December 31, 2008), for which there is no active market, to loans and receivables with retroactive effect from July 1, 2008. In addition, in the fourth quarter of 2008 we prospectively reclassified further assets amounting to €0.2 billion (carrying amount as at December 31, 2008) from the held-for-trading category to loans and receivables.

The following table shows the development of the reclassified holdings:

					€ millions
RECLASSIFIED FINANCIAL ASSETS	CARRYING AMOUNT OF ASSETS RECLASSIFIED IN 2008 AT THE EFFECTIVE DATE OF RECLASSIFICATION	NOMINAL AMOUNT OF ASSETS RECLASSIFIED IN 2008 AT THE EFFECTIVE DATE OF RECLASSIFICATION	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1] 31/12/2008	FAIR VALUE OF ALL RECLASSIFIED ASSETS 31/12/2008	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS 31/12/2008
Asset-backed securities and other debt securities	14,271	15,379	13,709	11,825	14,569

1 before portfolio allowance

Under IAS 39.50F, the carrying amount is the same as the fair value of the reclassified assets at the date when the reclassification took effect.

If the reclassification of financial assets from held to trading to loans and receivables had not been carried out in 2008, mark-to-market valuation of these holdings would have given rise to a loss of €1,792 million in the trading book for the period between the reclassification taking effect and December 31, 2008. This effect is a theoretical pro forma calculation as the holdings are measured at amortised cost on account of the reclassification.

As part of the reclassification, we posted allowances of €63 million on the reclassified holdings for 2008, of which €28 million relates to portfolio allowances and €35 million to specific allowances.

No reclassified assets were sold during 2008, meaning that no gains or losses were realised on disposal.

The fair value at the date when the reclassification takes effect represents the new historic cost, which is considerably lower than the nominal value. Accordingly, this difference (discount) is to be amortised for the first time over the remaining term of the reclassified financial assets, giving rise to an effect of €127 million recorded in net interest income.

The net effect of the reclassification on the income statement totals €1,856 million before tax, resulting from the losses avoided on mark-to-market valuation, the valuation result taken to the income statement and the accrual of the discount.

Other Information (Continued)

75 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 2008 have already been described in the Financial Review of the Management's Discussion and Analysis. 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, the originator transfers mainly 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 use the capital market to issue securities 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) relating to mortgage loans in the private sector (residential mortgage loans),
- Commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans),
- Collateralised loan obligations (CLO) relating to commercial bank loans,
- Collateralised bond obligations (CBO) relating to securities portfolios.

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
	31/12/2008			
CARRYING AMOUNTS	SENIOR	MEZZANINE	JUNIOR	TOTAL
Positions retained from own securitisations	**227**	**199**	**21**	**447**
Positions in third-party ABS transactions	**5,374**	**1,687**	**70**	**7,131**
Residential mortgage-backed securities (RMBS)	2,377	544	7	2,928
thereof:				
US subprime	—	—	—	—
US Alt A	22	17	4	43
Commercial mortgage-backed securities (CMBS)	933	350	—	1,283
Collateralised debt obligations (CDO)	375	239	4	618
thereof:				
US subprime	1	8	—	9
US Alt A	—	5	—	5
Collateralised loan obligations (CLO)/				
Collateralised bond obligations (CBO)	726	261	36	1,023
Consumer loans	388	77	—	465
Credit cards	107	12	—	119
Leases	188	103	7	298
Others	280	101	16	397
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**44**	**348**	**192**	**584**
Total	**5,645**	**2,234**	**283**	**8,162**

1 the amount shown in the table represents the carrying amount (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.

Other Information (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)

					€ millions
	31/12/2008				
CARRYING AMOUNTS	EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations	**447**	**—**	**—**	**—**	**447**
Positions in third-party ABS transactions	**5,708**	**585**	**407**	**431**	**7,131**
Residential mortgage-backed securities (RMBS)	2,562	43	119	204	2,928
thereof:					
US subprime	—	—	—	—	—
US Alt A	—	43	—	—	43
Commercial mortgage-backed securities (CMBS)	1,023	96	153	11	1,283
Collateralised debt obligations (CDO)	246	191	80	101	618
thereof:					
US subprime	—	9	—	—	9
US Alt A	—	5	—	—	5
Collateralised loan obligations (CLO)/					
Collateralised bond obligations (CBO)	875	82	5	61	1,023
Consumer loans	415	10	8	32	465
Credit cards	78	—	41	—	119
Leases	222	54	—	22	298
Others	287	109	1	—	397
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**36**	**548**	**—**	**—**	**584**
Total	**6,191**	**1,133**	**407**	**431**	**8,162**

1 the amount shown in the table represents the carrying amount (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)

				€ millions
	31/12/2008			
CARRYING AMOUNTS	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitsations	**44**	**296**	**107**	**447**
Positions in third-party ABS transactions	**355**	**5,040**	**1,736**	**7,131**
Residential mortgage-backed securities (RMBS)	52	2,112	764	2,928
thereof:				
US subprime	—	—	—	—
US Alt A	3	27	13	43
Commercial mortgage-backed securities (CMBS)	100	848	335	1,283
Collateralised debt obligations (CDO)	36	441	141	618
thereof:				
US subprime	1	—	8	9
US Alt A	—	—	5	5
Collateralised loan obligations (CLO)/				
Collateralised bond obligations (CBO)	12	637	374	1,023
Consumer loans	33	430	2	465
Credit cards	2	117	—	119
Leases	23	251	24	298
Others	97	204	96	397
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**13**	**296**	**275**	**584**
Total	**412**	**5,632**	**2,118**	**8,162**

1 the amount shown in the table represents the carrying amount (fair value)

Other Information (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
	31/12/2008					
CARRYING AMOUNTS	HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations	**44**	**—**	**159**	**—**	**244**	**447**
Positions in third-party ABS transactions	**589**	**177**	**5,715**	**67**	**583**	**7,131**
Residential mortgage-backed securities (RMBS)	22	45	2,616	—	245	2,928
thereof:						
US subprime	—	—	—	—	—	—
US Alt A	—	1	42	—	—	43
Commercial mortgage-backed securities (CMBS)	57	26	1,094	—	106	1,283
Collateralised debt obligations (CDO)	175	49	254	60	80	618
thereof:						
US subprime	—	—	9	—	—	9
US Alt A	1	—	4	—	—	5
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)	315	11	621	1	75	1,023
Consumer loans	4	—	445	—	16	465
Credit cards	—	—	95	—	24	119
Leases	—	10	246	5	37	298
Others	16	36	344	1	—	397
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**584**	**—**	**—**	**—**	**—**	**584**
Total	**1,217**	**177**	**5,874**	**67**	**827**	**8,162**

1 the amount shown in the table represents the carrying amount (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

Consolidated conduits				€ millions
	31/12/2008			
CARRYING AMOUNTS	SENIOR	MEZZANINE	JUNIOR	TOTAL
Residential mortgage loans/ Residential mortgage-backed securities (RMBS)	254	1,211	—	1,465
Commercial mortgage loans/ Commercial mortgage-backed securities (CMBS)	365	611	—	976
Collateralised debt obligations (CDO)	5	—	—	5
Collateralised loan obligations (CLO)/ Collateralised bond obligations (CBO)	77	77	—	154
Consumer loans	—	1,127	—	1,127
Credit cards	—	—	—	—
Leases	433	195	—	628
Others	624	834	—	1,458
Total	**1,758**	**4,055**	**—**	**5,813**

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.

Other Information (Continued)

Positions of consolidated conduits, broken down by product category and region

Consolidated conduits — € millions

CARRYING AMOUNTS	31/12/2008 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Residential mortgage loans/ Residential mortgage-backed securities (RMBS)	1,211	2	—	252	1,465
Commercial mortgage loans/ Commercial mortgage-backed securities (CMBS)	890	86	—	—	976
Collateralised debt obligations (CDO)	—	5	—	—	5
Collateralised loan obligations (CLO)/ Collateralised bond obligations (CBO)	—	154	—	—	154
Consumer loans	1,127	—	—	—	1,127
Credit cards	—	—	—	—	—
Leases	628	—	—	—	628
Others	661	797	—	—	1,458
Total	**4,517**	**1,044**	**—**	**252**	**5,813**

Positions of consolidated conduits, broken down by product category and remaining maturity

Consolidated conduits — € millions

CARRYING AMOUNTS	31/12/2008 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Residential mortgage loans/ Residential mortgage-backed securities (RMBS)	254	—	1,211	1,465
Commercial mortgage loans/ Commercial mortgage-backed securities (CMBS)	13	5	958	976
Collateralised debt obligations (CDO)	—	—	5	5
Collateralised loan obligations (CLO)/ Collateralised bond obligations (CBO)	—	77	77	154
Consumer loans	1,127	—	—	1,127
Credit cards	—	—	—	—
Leases	628	—	—	628
Others	791	371	296	1,458
Total	**2,813**	**453**	**2,547**	**5,813**

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

Consolidated conduits						€ millions
	31/12/2008					
CARRYING AMOUNTS	HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Residential mortgage loans/						
Residential mortgage-backed securities (RMBS)	—	—	1,463	2	—	1,465
Commercial mortgage loans/						
Commercial mortgage-backed securities (CMBS)	—	59	890	—	27	976
Collateralised debt obligations (CDO)	—	—	—	5	—	5
Collateralised loan obligations (CLO)/						
Collateralised bond obligations (CBO)	—	—	—	133	21	154
Consumer loans	—	—	1,127	—	—	1,127
Credit cards	—	—	—	—	—	—
Leases	—	—	628	—	—	628
Others	—	125	1,092	29	212	1,458
Total	**—**	**184**	**5,200**	**169**	**260**	**5,813**

Other Information (Continued)

76 Fair values of financial instruments compliant with IFRS 7

The fair values stated for financial instruments as defined in IFRS 7 are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the balance sheet date.

The fair values are calculated using the market information available at the reporting date and individual company valuation methods.

€ billions

	2008		2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets				
Cash and cash balances	0.6	0.6	0.6	0.6
Financial assets held for trading	199.0	199.0	180.9	180.9
Financial assets at fair value through profit or loss	13.3	13.3	12.9	12.9
Available-for-sale financial assets				
thereof measured				
at cost	1.5	1.5	1.2	1.2
at fair value	4.1	4.1	5.5	5.5
Investments in associates, joint ventures and non-consolidated subsidiaries	0.3	0.3	0.3	0.3
Held-to-maturity investments	6.0	5.9	3.1	3.1
Loans and receivables with banks	46.5	46.3	48.9	48.9
Loans and receivables with customers	175.5	177.9	160.2	161.8
Hedging derivatives	2.7	2.7	0.5	0.5
Total	**449.5**	**451.6**	**414.1**	**415.7**

	2008		2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Liabilities				
Deposits from banks	83.9	84.1	86.7	86.9
Deposits from customers	115.0	115.5	108.6	108.7
Debt securities in issue	63.6	64.0	79.6	79.3
Financial liabilities held for trading	163.9	163.9	115.2	115.2
Hedging derivatives	0.6	0.6	0.5	0.5
Hedge adjustment of liabilities in the fair value hedge portfolio	0.6	0.6	0.1	0.1
Other liabilities[1]	0.4	0.4	0.7	0.7
Total	**428.0**	**429.1**	**391.4**	**391.4**

1 interests held by outside shareholders in consolidated investment funds, which are designated as a separate class in accordance with IFRS 7, have been disclosed here since 2007

€ billions				
	2008		2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial guarantees and irrevocable credit commitments	**73.1**	**73.1**	**73.6**	**73.6**

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash reserve as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates taking into account the respective spreads. The spread used here for receivables is determined on the basis of Basel II-compliant expected loss values and the cost of capital. Where loans and receivables with banks and customers contain reclassified securities, these are stated at the fair value shown in Note 74.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. The fair value of the remaining securities is calculated as the net present value of future anticipated cash flows.

The fair values of single-currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally acceptable models used to calculate the price of options.

The common Black & Scholes (equity, currency and index instruments) or lognormal models (interest instruments) are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters.

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

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

The fair values of financial guarantees and irrevocable credit commitments are the same as their carrying amounts.

The difference in HVB Group between the fair values and carrying amounts totals €2.1 billion for assets and €1.1 billion for liabilities. The balance of these values is €1.0 billion.

Other Information (Continued)

77 Key capital ratios (based on German Commercial Code)

The capital ratio for banking supervisory purposes defined in the German Solvency Regulation represents the ratio of the eligible equity compliant with Section 10 of the German Banking Act (KWG) to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted equivalent of these risk positions). The capital ratio and the equity funds ratio must be at least 8.0%. Under Section 10 of the German Banking Act in conjunction with Section 2 of the German Solvency Regulation, the core capital ratio calculated as the ratio of core capital to total risk-weighted assets determined as described above must be at least 4.0%.

The eligible equity which is used to calculate the capital ratio in accordance with the German Solvency Regulation consists of the core capital, the supplementary capital and Tier III capital. The Tier III capital comprises current subordinated liabilities which we only use to back market risk positions. HVB Group mostly uses internal models to measure market risk positions.

The following tables show equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at December 31, 2008:

Equity funds[1]

		€ millions
	2008	**2007**
Tier I		
Shares of common stock	2,363	2,363
Additional paid-in capital, retained earnings, minority interest, own shares	17,224	15,843
Hybrid capital instruments (silent partnership certificates and trust preferred securities) without prorated interest	1,749	1,706
Other	214	196
50% deductible Items	(339)	(203)
Total core capital	**21,211**	**19,905**
Tier II		
Unrealised reserves in land and buildings and in securities	—	184
Offsetting reserves for general banking risks	46	46
Cumulative shares of preferred stock	44	44
Participating certificates outstanding	175	205
Subordinated liabilities	4,515	5,686
Value adjustment excess for IRBA positions	676	—
Other	19	19
50% deductible Items	(339)	(202)
Total additional capital for solvency purposes	**5,136**	**5,982**
Total equity capital	**26,347**	**25,887**
Tier III capital	—	—
Total equity funds	**26,347**	**25,887**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

Pursuant to Sections 10 and 10a of the German Banking Act, the equity funds of HVB Group amounted to €26,347 million at December 31, 2008. Supplementary capital includes no unrealised reserves pursuant to Section 10 (2b) 1 No. 6 and 7 of the German Banking Act.

Our equity funds compliant with the KWG rules are calculated on the basis of the individual financial statements of the consolidated companies, taking into account the special provisions of German banking supervisory regulations.

The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS:

€ millions				
	CORE CAPITAL	SUPPLEMENTARY CAPITAL	TIER III CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet				
Shareholder's equity	23,024	—	—	23,024
Reconciliation to the equity funds compliant with the German Banking Act				
AfS reserve	306	—	—	306
Hedge reserve	(329)	—	—	(329)
Cumulative shares of preferred stock	(44)	44	—	—
Deduction of intangible assets	(795)	—	—	(795)
Ineligible profit components under banking supervisory regulations	(2,391)	—	—	(2,391)
Hybrid capital recognised under banking supervisory regulations	1,749	—	—	1,749
Eligible portion of certificates outstanding	—	175	—	175
Eligible portion of subordinated liabilities	—	4,515	—	4,515
Reclassifications to Tier III capital due to banking supervisory regulations	—	0	0	0
Eligible Tier III capital unused	—	—	0	0
Unrealised reserves in land and buildings and in securities	—	0	—	0
Value adjustment excess for IRBA positions	—	676	—	676
Deductible items due to non-consolidated investments	(143)	(143)	—	(286)
Deductible items compliant with Sect.10 (6a), German Banking Act	(196)	(196)	—	(392)
Other effects (e.g. differences in group of consolidated companies and principles of consolidation)	30	65	0	95
Equity funds compliant with German Banking Act	**21,211**	**5,136**	**0**	**26,347**

€ billions	
	2008 BASEL II
Risk-weighted assets from	
on-balance-sheet counterparty risk positions	83.3
off-balance sheet counterparty risk positions	22.5
other counterparty risk positions[1]	1.5
derivative counterparty risk positions	18.7
Total credit risk-weighted assets	**126.0**
Risk-weighted asset equivalent for market risk positions	**12.2**
Risk-weighted asset equivalent for operational risk	**10.0**
Total risk-weighted assets	**148.2**

1 primarily including repos and securities lending transactions

At December 31, 2008, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows:

in %	
	2008 BASEL II
Core capital ratio (core capital/risk-weighted assets)	16.8
Core capital ratio II (core capital/(risk-weighted assets + 12.5 x market risk positions + 12.5 x operational risk))	14.3
Equity funds ratio (equity funds/(risk-weighted assets + 12.5 x market risk positions+ 12.5 x operational risk))	17.8

Other Information (Continued)

€ billions	
	2007 KWG/PRINCIPLE I
On-balance-sheet assets	108.7
Traditional off-balance-sheet assets	22.8
Bank-book derivatives	0.1
Total credit risk-weighted assets	**131.6**
Risk-weighted assets equivalent for market risk positions	**13.9**
Total risk-weighted assets	**145.5**

in %	
	2007 KWG/PRINCIPLE I
Core capital ratio I (core capital/risk-weighted assets)	15.1
Core capital ratio II (core capital/(risk-weighted assets +	
12.5 x market risk positions))	13.7
Equity funds ratio (equity funds/(risk-weighted assets +	
12.5 x market risk positions))	17.8

78 Contingent liabilities and other commitments

€ millions		
	2008	2007
Contingent liabilities[1]	**24,428**	**25,355**
Guarantees and indemnities	24,428	25,355
Other commitments	**67,068**	**60,609**
Irrevocable credit commitments	48,645	47,580
Other commitments	18,423	13,029
Total	**91,496**	**85,964**

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

Neither contingent liabilities other commitments contain any significant items. The gross volume of contingent liabilities for which provisions have been created in the above totals €584 million (2007: €470 million). The provisions of €195 million (2007: €163 million) set up for these liabilities have been deducted from the contingent liabilities recognised and are carried under provisions in the balance sheet (see Note 70, "Provisions").

Most of the other commitments of €18,423 million in the year under review relate to delivery obligations arising from securities lending transactions. Commitments arising from rental, leasing and maintenance agreements, and from rental of office space and use of technical equipment are also included. The contracts run for standard market periods and no charges have been put off to future years.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by our H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement.

Commitments for uncalled payments on shares not fully paid up amounted to €703 million at year-end 2008 (2007: €723 million), and similar obligations for shares in cooperatives totalled €1 million (2007: €1 million). Under Section 22 (3 and 24) of the German Private Limited Companies Act, we were also liable for defaults on such calls in respect of one company for an aggregate of €1 million (2007: €1 million).

Under Section 26 of the German Private Limited Companies Act (GmbHG), we were liable for calls for additional capital of €7 million (2007: €7 million) with regard to CMP Fonds I GmbH and were also liable for calls for additional capital of €58 million (2007: €58 million) with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, at year-end 2008. In addition, under Article (5) 4 of the Articles of Association of Liquiditäts-Konsortialbank GmbH, we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

At the balance sheet date, we had unlimited personal liability arising from shares in sixteen partnerships.

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest. We have made a similar representation for Vereinsbank Victoria Bauspar AG in accordance with Section 3 (1) of the by-laws of the Deposit Guarantee Fund for Bank-Related Savings and Loan Associations.

With a Statement of Responsibility dated December 21, 1993, HVB issued an undertaking to the State of Baden-Wuerttemberg (Ministry of Finance) to assume a liquidity provision obligation in the event of the sale, liquidation or bankruptcy of HVB Projekt GmbH.

In the same way as HVB AG and its affiliated banks assume liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Contingent liabilities payable to related entities

€ millions		
	2008	2007
Non-consolidated subsidiaries	3,062	1,671
Joint ventures	—	—
Associated companies	1	—
Other participating interests	51	8
Total	**3,114**	**1,679**

79 Statement of responsibility

HVB AG ensures that, to the extent of its shareholding, the companies set forth below are in a position to meet their contractual obligations except in the event of political risks:

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
DAB Bank AG, Munich[1]
Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich
2. Banks in other regions
HVB Banque Luxembourg Société Anonyme, Luxembourg
HVB Singapore Limited, Singapore
3. Financial companies
Beteiligungs- und Handelsgesellschaft in Hamburg mit
beschränkter Haftung, Hamburg
HVB Alternative Financial Products AG, Vienna
4. Companies with bank-related auxiliary services
HypoVereinsFinance N. V., Amsterdam

1 the Company provides a Statement of Responsibility with the same wording for selected subsidiaries in its annual report

If our shareholding in a particular company declines, our commitment arising from the above Statement of Responsibility shall decline to the same extent with regard to commitments of the relevant company that did not arise until after our shareholding decreased.

HVB AG no longer provides a Statement of Responsibility for companies which left HVB Group during the 2007 financial year or an earlier financial year, but for which a Statement of Responsibility had been provided in earlier annual reports. Liabilities of these companies arising after their departure from HVB Group are not covered by either the above Statement of Responsibility or by Statements of Responsibility provided earlier.

80 Trust business

Trust assets

€ millions		
	2008	2007
Loans and receivables with banks	110	104
Loans and receivables with customers	431	249
Equity securities and other variable-yield securities	200	173
Bonds	—	—
Participating interests	120	—
Property, plant and equipment	—	—
Other assets	—	—
Remaining trust receivables	—	—
Total	**861**	**526**

Trust liabilities

€ millions		
	2008	2007
Deposits from banks	207	8
Deposits from customers	654	518
Debt securities in issue	—	—
Other liabilities	—	—
Total	**861**	**526**

Other Information (Continued)

81 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €68.1 billion. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

The following table shows the breakdown of own liabilities for which we provide collateral:

		€ millions
	2008	**2007**
Deposits from banks	49,411	31,771
Deposits from customers	25,176	9,069
Debt securities in issue	—	—
Financial liabilities held for trading	19,596	—
Contingent liabilities	—	—
Total	**94,183**	**40,840**

The assets pledged as security for own liabilities can be broken down as follows:

		€ millions
	2008	**2007**
Financial assets held for trading	67,527	18,998
Financial assets at fair value through profit or loss	16,189	11,890
Available-for-sale financial assets	1,046	84
Held-to-maturity investments	—	—
Deposits from banks	312	976
Deposits from customers	9,109	8,892
Property, plant and equipment	—	—
Total	**94,183**	**40,840**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. The disclosure also provides information on the extent to which the security provided may be pledged or sold on by the borrower.

		€ millions
	2008	**2007**
Aggregate carrying amount of assets		
pledged as security	94,183	40,840
of which:		
pledged/sold on	48,282	29,179

82 Collateral received that HVB Group may sell on or pledge on

As part of repurchase agreements and securities lending transactions, the HVB Group has received security that it may sell on or pledge on at any time without the security provider having to be in arrears. The fair value of this security is €36.2 billion.

HVB Group has actually sold or pledged on €13.5 billion of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

83 Information on relationships with related parties

Transactions involving related parties are always conducted on an arm's length basis.

At the Annual General Meeting of Shareholders on May 23, 2006, the so-called opting-out clause under the Act concerning the Disclosure of Management Board Remuneration was used and a resolution was adopted, whereby the information required in Section 285 (1) No. 9a and (5) to (9) and Section 314 (1) No. 6a (5) to (9) of the German Commercial Code is not to be disclosed in our annual and consolidated financial statements for the financial years 2006 to 2010; this arrangement will not be applicable beyond March 22, 2011 at the latest. In addition, HVB is no longer a listed company as a result of the filing of the squeeze-out resolution in the Commercial Register on September 15, 2008. Hence the emoluments paid to members of the Management Board are not shown on an individualised basis.

Emoluments paid to members of the Supervisory Board and Management Board

								€ millions
	FIXED COMPENSATION		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVES[1]		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
Management Board of HVB AG	3	5	4	7	1	1	8	13
Supervisory Board of HVB AG for								
Supervisory Board activities	0.8	0.8	0.4[2]	0.3[3]	0	0	1.2	1.1
Former members of the Management Board of								
HVB AG and their surviving dependants							10	9
Transitional allowances								
for former members of the Management Board							8	0

1 cash value of the share-based compensation
2 relating to 2007 financial year, disbursed in 2008
3 relating to 2006 financial year, disbursed in 2007

Other Information (Continued)

Details of share-based compensation

	Number
MEMBERS OF THE MANAGEMENT BOARD OF HVB AG	
Options	
Stock options 2007	880,324
Stock options 2008	1,454,150
Performance shares	
Performance shares 2007	265,730
Performance shares 2008	355,158

For more details of the stock options and performance shares, please refer to Note 36, where the UniCredit Group's long-term incentive programme underlying these instruments is described.

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed compensation shown.

Compensation paid to members of the Management Board or employees of HVB AG for positions on Supervisory Boards of Group companies is to be surrendered to HVB AG.

Under the pension commitments to active members of the Management Board, provisions for pensions of €4,244,086.00 were transferred to provisions for former members of the Management Board in 2008 on account of the changes on the Management Board. €175,547.00 of this total was deferred compensation invested in a fund in 2008.

At December 31, 2008, the pension provisions of HVB AG for former members of the Management Board and their surviving dependants compliant with Section 285, German Commercial Code, increased to €94 million accordingly (2007: €90 million). Under IFRS, the pension provisions for retired members of the Management Board amount to €120 million.

No compensation was paid to members of the Supervisory Board in 2008 for services rendered.

In 2008, expense allowances totalling €74,737.58 were paid to members of the Supervisory Board.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2008:

				in €
	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	TOTAL (EXCL. VALUE-ADDED TAX)	
Alessandro Profumo, Chairman[1]	50,000.00	11,561.64	61,561.64	(42,077.38)[11]
Sergio Ermotti, Chairman[2]	25,000.00		25,000.00	(17,087.50)[11]
Peter König, Deputy Chairman	37,500.00	20,000.00	57,500.00	
Dr Lothar Meyer, Deputy Chairman[3]	37,500.00	40,000.00	77,500.00	
Dr Wolfgang Sprissler, Deputy Chairman[4]				
Gerhard Bayreuther[5]	10,547.95	8,438.36	18,986.31	
Aldo Bulgarelli	25,000.00	8,438.36	33,438.36	(22,855.12)[11]
Beate Dura-Kempf	25,000.00		25,000.00	
Paolo Fiorentino	25,000.00		25,000.00	(17,087.50)[11]
Dario Frigerio[6]	25,000.00		25,000.00	(17,087.50)[11]
Giulio Gambino[5]	10,547.95		10,547.95	
Klaus Grünewald	25,000.00		25,000.00	
Günter Guderley[7]	14,452.05	11,561.64	26,013.69	
Karl Guha[8]				
Stephan Hofmeister[9]	2,054.79		2,054.79	
Friedrich Koch[7]	14,452.05		14,452.05	
Hanns-Peter Kreuser[10]	12,397.26		12,397.26	
Ranieri de Marchis	25,000.00	20,000.00	45,000.00	(30,757.50)[11]
Beate Mensch[5]	10,547.95		10,547.95	
Roberto Nicastro	25,000.00		25,000.00	(17,087.50)[11]
Vittorio Ogliengo[6]	25,000.00		25,000.00	(17,087.50)[11]
Panagiotis Sfeliniotis	25,000.00		25,000.00	
Professor Hans-Werner Sinn	25,000.00		25,000.00	
Maria-Magdalena Stadler[7]	14,452.05		14,452.05	
Jutta Streit[5]	10,547.95		10,547.95	
Ursula Titze[7]	14,452.05		14,452.05	
Michael Voss[5]	10,547.95		10,547.95	
Jens-Uwe Wächter	25,000.00		25,000.00	
Dr Susanne Weiss[8]				
Total	**550,000.00**	**120,000.00**	**670,000.00**	**586,127.50**[11]

1 member and chairman until February 5, 2009
2 chairman since February 5, 2009
3 deputy chairman until February 5, 2009
4 member and deputy chairman since February 5, 2009
5 member since July 30, 2008
6 member until February 5, 2009
7 member until July 30, 2008
8 member since February 5, 2009
9 member from July 1 to July 30, 2008
10 member until June 30, 2008
11 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge for Supervisory Board members

Other Information (Continued)

The total amount of loans and advances made to, and liabilities assumed for, members of the Supervisory Board and Management Board and to executives at Bereichsvorstand level at the balance sheet date was as follows:

		€ millions
	2008	2007
Management Board of HVB AG	3	5
Supervisory Board of HVB AG	1	1
Executives at Bereichsvorstand level	1	1

Interest is payable on all loans and advances made to members of the Management Board and the Supervisory Board, and to the executives at Bereichsvorstand level at usual market rates.

84 Own shares

Compliant with Section 71 (1) No. 7 of the German Stock Corporation Act, the purchase of own shares during the reporting period from January 1 to July 30, 2008 was carried out on the basis of the authorisation issued under the resolutions passed at HVB AG's Annual General Meeting of Shareholders on June 27, 2007; the purchase of own shares during the period from July 31, 2008 to the delisting of HVB AG shares on the Frankfurt Stock Exchange at the end of September 15, 2008 was carried out on the basis of the authorisation issued under the resolutions passed at HVB AG's Annual General Meeting of Shareholders on July 30, 2008.

For the purposes of securities trading as permitted under Section 71 (1) No. 7 of the German Stock Corporation Act, 1,303,174 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 1,303,174 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 €40.44 per share and resold at an average price of €40.44 per share. The shares purchased during the period under review amounted to an equivalent of €4 million, or 0.16% of capital stock.

The highest number of own shares of treasury stock held on a single day during the year was 11,001, equivalent to €0.03 million, or 0.001% of capital stock.

Within the scope of lending operations, we and our controlled or majority-owned companies had, in accordance with Section 71e (1) 2 of the German Stock Corporation Act, received a total of 201,832 own shares as collateral as of September 15, 2008. This represents €0.6 million, or 0.03% of capital stock.

At December 31, 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.

85 Fees paid to the independent auditors

The following table shows the breakdown of fees of €11 million recorded as expense in the year under review, as paid to the independent auditors KPMG AG, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

	€ millions
	2008
Fee for auditing of the financial statements	6
Other auditing and appraisal services	2
Tax advisory services	—
Other services	3

86 Employees

Average number of people employed by us

	2008	2007
Employees (excluding trainees)	23,525	23,836
Full-time	18,556	18,865
Part-time	4,969	4,971
Trainees	1,122	1,171

87 Offices

Offices, broken down by region

	1/1/2008	ADDITIONS NEW OPENINGS	REDUCTIONS CLOSURES	REDUCTIONS CONSOLIDATIONS	CHANGE IN CONSOLIDATED GROUP	31/12/2008
Germany						
Baden-Wuerttemberg	33	1	—	—	—	34
Bavaria	458	4	3	—	4	463
Berlin	14	2	1	—	—	15
Brandenburg	9	—	—	—	—	9
Bremen	8	—	—	—	—	8
Hamburg	32	1	—	1	10	42
Hesse	19	2	1	—	—	20
Lower Saxony	28	2	—	—	—	30
Mecklenburg-Western Pomerania	9	—	—	—	—	9
North Rhine-Westphalia	30	2	5	—	—	27
Rhineland-Palatinate	25	—	—	—	—	25
Saarland	10	—	—	—	—	10
Saxony	16	1	3	—	—	14
Saxony-Anhalt	12	—	—	—	—	12
Schleswig-Holstein	73	—	6	—	—	67
Thuringia	10	—	1	—	—	9
Subtotal	**786**	**15**	**20**	**1**	**14**	**794**
Other regions						
Austria	9	—	—	—	(2)	7
Other western Europe	20	1	1	—	—	20
Central and eastern Europe	2	—	—	—	—	2
Africa	1	—	—	—	—	1
Americas	14	—	—	—	1	15
Asia	14	—	1	—	—	13
Subtotal	**60**	**1**	**2**	**—**	**(1)**	**58**
Total	**846**	**16**	**22**	**1**	**13**	**852**

Other Information (Continued)

88 Members of the Supervisory Board

Alessandro Profumo
Chairman
until February 5, 2009

Sergio Ermotti
Chairman[1]

Peter König
Deputy Chairman

Dr Lothar Meyer
Deputy Chairman[2]

Dr Wolfgang Sprissler
Deputy Chairman
since February 5, 2009

Gerhard Bayreuther
since July 30, 2008

Aldo Bulgarelli

Beate Dura-Kempf

Paolo Fiorentino

Dario Frigerio
until February 5, 2009

Giulio Gambino
since July 30, 2008

Klaus Grünewald

Günter Guderley
until July 30, 2008

Karl Guha
since February 5, 2009

Stephan Hofmeister
from July 1 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
until February 5, 2009

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

Dr Susanne Weiss
since February 5, 2009

1 since February 5, 2009
2 until February 5, 2009

89 Members of the Management Board

Willibald Cernko
Retail division
until April 30, 2008;
since January 1, 2009

Lutz Diederichs
Corporates & Commercial Real Estate Financing division
since January 1, 2009

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
Global Banking Services segment[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]
until December 31, 2008

Matthias Sohler
Global Banking Services segment
until April 30, 2008

Dr Wolfgang Sprissler
Board Spokesman
Retail division[1] and Wealth Management division[1]
until December 31, 2008

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

Dr Theodor Weimer
Board Spokesman
Markets & Investment Banking division
since January 1, 2009

Andreas Wölfer
Wealth Management division
until April 30, 2008;
since January 1, 2009

1 since May 1, 2008

Munich, March 10, 2009

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft
The Management Board

Cernko Diederichs Friedhofen Giesecke

Laber Weimer Wölfer

Auditor's Report

We have audited the consolidated financial statements prepared by the Bayerische Hypo- und Vereinsbank Aktiengesellschaft, München, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 11, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(Formerly
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Becker
Wirtschaftsprüfer

Pukropski
Wirtschaftsprüfer

Munich, 23 March 2009

Bayerische Hypo- und Vereinsbank AG