

Financial Statements (2): Consolidated Financial Statements

Consolidated Income Statement and Appropriation of Net Income for the Year Ended December 31, 2006 (HVB Group compliant with IFRS 5)	105
Earnings Per Share	106
Balance Sheet at December 31, 2006	108
Statement of Changes in Shareholders' Equity	110
Cash Flow Statement	112
Notes to the Consolidated Financial Statements	114
Consolidated financial statements in accordance with IFRS	114
Accounting and Valuation	115
1 Uniform Group accounting policies	115
2 Consistency	115
3 Published, not yet operative IFRSs that have not yet been applied early	117
4 Companies included in consolidation	117
5 Principles of consolidation	119
6 Financial instruments	119
7 Assets held for trading purposes	121
8 Placements, loans and advances	121
9 Allowances for losses on loans and advances and for losses on guarantees and indemnities	121
10 Investments	122
11 Property, plant and equipment	122
12 Lease operations	122
13 Intangible assets	123
14 Assets of discontinued operations and non-current assets or disposal groups held for sale	123
15 Liabilities	123
16 Liabilities held for trading purposes	123
17 Provisions	123
18 Other liabilities	124
19 Foreign currency translation	124
20 Income tax for the period	124
Segment Reporting	125
21 Notes to segment reporting by business segment (primary segmentation)	125
22 Income statement broken down by division	129
23 Balance sheet figures, broken down by division	138
24 Risk provision rates, broken down by operating division, HVB Group new	138
25 Employees, broken down by operating and service division	140
26 Segment reporting by region (secondary segmentation)	140
Notes to the Income Statement	141
27 Net interest income	141
28 Dividends and other income from equity investments	141
29 Net fees and commissions	141
30 Net trading, hedging and fair value income	141
31 Net other expenses/income	141
32 Operating costs	142
33 Provisions for risks and charges	142
34 Restructuring costs	143
35 Net write-downs of loans and provisions for guarantees and commitments	143

Financial Statements (2): Consolidated Financial Statements

Notes to the Income Statement (contd.)		
36	Net income from investments	143
37	Other non-operating expenses	144
38	Income tax for the period	144
39	Income statement and earnings per share of discontinued operations	145
40	Earnings per share	146
<hr/>		
Notes to the Consolidated Balance Sheet		147
41	Cash reserve	147
42	Assets held for trading purposes	147
43	Placements with, and loans and advances to, other banks	147
44	Loans and advances to customers	148
45	Allowances for losses on loans and advances	150
46	Analysis of total volume of lending and loan-loss provision ratios	150
47	Investments	151
48	Property, plant and equipment	155
49	Intangible assets	156
50	Income tax assets	157
51	Other assets	157
52	Balance sheet at December 31, 2006, HVB Group new (pro forma)	157
53	Assets of discontinued operations	159
54	Non-current assets or disposal groups held for sale	159
55	Subordinated assets	160
56	Repurchase agreements	160
57	Securitisation, full HVB Group	160
58	Deposits from other banks	162
59	Amounts owed to other depositors	162
60	Promissory notes and other liabilities evidenced by paper	163
61	Liabilities held for trading purposes	164
62	Provisions	164
63	Income tax liabilities	166
64	Other liabilities	166
65	Subordinated capital	167
66	Liabilities of discontinued operations	168
67	Liabilities of disposal groups held for sale	168
68	Shareholders' equity	169
69	Treasury stock	169
70	Foreign currency assets and liabilities	169
71	Trust business	170
72	Assets assigned or pledged as security for own liabilities	170
73	Collateral received that the new HVB Group may sell on or pledge on	170
<hr/>		
Notes to the Cash Flow Statement		171
74	Notes to items in the cash flow statement	171
<hr/>		
Information on Financial Instruments Compliant with IAS 32		172
75	Fair value of financial instruments	172
<hr/>		
Other Information		174
76	Key capital ratios (based on German Commercial Code), full HVB Group	174
77	Contingent liabilities and other commitments	176
78	Statement of responsibility	177
79	Information on relationships with related parties	177
80	Fees paid to the independent auditors	180
81	Employees	180
82	Offices	181
83	Members of the Supervisory Board and Management Board	182
<hr/>		
Auditor's Report		183
<hr/>		

Consolidated Income Statement and Appropriation of Net Income

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

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

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

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

Consolidated Income Statement and Appropriation of Net Income continued

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

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

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

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

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

- Gains of €669 million on the disposal of HVB Splitska banka, which belongs to the BA-CA Group, and of €1,756 million on the disposal of the Bank BPH Group disclosed in net income from investments
- Restructuring costs of the discontinued operations totalling €248 million. €225 million of this total relates to the creation of provisions at BA-CA for reorganisation and restructuring in the Retail, Corporates, Markets & Investment Banking and Global Banking Services divisions as well as Support Services and Risk Management

- Non-recurring expense of €278 million in net write-downs of loans and provisions and for guarantees and commitments relating to a change of methods used by BA-CA
- Expenses of €31 million arising from a change in the parameters used to calculate the fair value of assets (fair-value discount) shown in the income statement item “Other non-operating expenses”

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

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

EARNINGS PER SHARE

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

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

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

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

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

Balance Sheet

at December 31, 2006

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

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

Statement of Changes in Shareholders' Equity

€ millions	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES	
				PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at Jan. 1, 2005 before initial application of new and revised IFRSs	2,252	9,103	227	—
Effect of initial application of new and revised IFRSs	—	—	(245)	(245)
Shareholders' equity at Jan. 1, 2005 after initial application of new and revised IFRSs	2,252	9,103	(18)	(245)
Change from capital increase against cash contribution	—	—	—	—
Transaction costs of capital increase	—	—	—	—
Change from capital reductions	—	—	—	—
Change in valuation of financial instruments not affecting income	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—
Change in net income (loss), excl. minority interest	—	—	451	—
Actuarial losses on defined benefit plans	—	—	(561)	(561)
Change in holdings of, and net income from, own equity instruments	—	25	—	—
Dividend payouts	—	—	—	—
Changes in group of consolidated companies	—	—	83	—
Reserve arising from foreign currency translation and other changes	—	—	103	—
Shareholders' equity at Dec. 31, 2005	2,252	9,128	58	(806)
Shareholders' equity at Jan. 1, 2006 before initial application of new and revised IFRSs	2,252	9,128	864	—
Effect of initial application of new and revised IFRSs	—	—	(806)	(806)
Shareholders' equity at Jan. 1, 2006 after initial application of new and revised IFRSs	2,252	9,128	58	(806)
Change from capital increase against cash contribution	—	—	—	—
Transaction costs of capital increase	—	—	—	—
Change from capital reductions	—	—	—	—
Change in valuation of financial instruments not affecting income	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—
Change in net income (loss), excl. minority interest	—	—	3,798	—
Actuarial losses on defined benefit plans	—	—	(8)	(8)
Change in holdings of, and net income from, own equity instruments	—	(1)	—	—
Dividend payouts	—	—	—	—
Changes in group of consolidated companies	—	—	18	—
Reserve arising from foreign currency translation and other changes	—	(244)	195	—
Shareholders' equity at Dec. 31, 2006	2,252	8,883	4,061	(814)
including:				
shareholders' equity of discontinued operations and disposal group held for sale	—	—	1,912	(590)

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

Cash Flow Statement

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

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

Notes to the Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

As a globally active company, the Bayerische Hypo- und Vereinsbank Group (the “Bank” or “HVB Group”) prepares its financial statements in accordance with the requirements of the International Accounting Standards Board (IASB).

This gives the Bank’s shareholders and all other interested parties a reliable and internationally comparable basis for evaluating the Bank and its profitability. The Bank’s value-based management is similarly based on these accounting principles.

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

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

In addition to the requirements of Section 315 (1, 2), German Commercial Code, Management’s Discussion and Analysis also meets the criteria for a Financial Review set forth in IAS 1. Also incorporated is a risk report pursuant to Section 315, German Commercial Code.

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

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

Accounting and Valuation

1 Uniform Group accounting policies

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

2 Consistency

In accordance with the IFRS Framework for the presentation of financial statements together with IAS 1 and IAS 8, the Bank applies the accounting and disclosure principles consistently from one period to the next. Where accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted against retained earnings. Where the Bank effects changes in its accounting policies, any resulting adjustments are similarly recognised retroactively. With the exception of the new and revised IFRS, we have applied the same accounting and valuation principles in 2006 as in the consolidated financial statements for 2005.

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

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

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

minorities. The reserves have increased by €1,108 million, this being the balance of the unrealised actuarial loss (€1,372 million) and the capitalised excess cover for plan assets (€264 million). Investments (excess cover for plan assets) declined by €264 million accordingly.

In addition, the following changes to the standards were applicable for the first time, but they have not had any material consequences for HVB Group:

- Change in IAS 21 "The effects of changes in foreign exchange rates"
- Additions to IAS 39 "Financial instruments: recognition and measurement" and IFRS 4 "Insurance contracts"
- Change in IAS 39 regarding cash flow hedge accounting
- Interpretation IFRIC 4 on leases

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

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

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

- In the new income statement structure, net interest income contains interest income and expenses arising from trading operations that were previously carried under trading profit. Furthermore, the income from investment properties (rental income) previously carried in net interest income is now assigned to net other expenses/income.
- Net fees and commissions contains fees and commissions arising from trading operations (previously carried in trading profit).
- Net trading, hedging and fair value income is shown without interest, fee and commission income arising from trading operations. Dividend income arising from trading operations remains part of net trading, hedging and fair value income. Furthermore, net trading, hedging and fair value income contains gains on the valuation of financial instruments at fair value through profit and loss, which were previously carried in net income from investments.

Accounting and Valuation continued

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

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

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

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

New income statement structure

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

Old income statement structure¹

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

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

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

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

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

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

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

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

4 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 488 (2005: 421) companies. Of this total, 396 relate to discontinued operations, meaning that 92 companies relate to continuing operations (= HVB Group new). This total includes special purpose entities, which SIC 12 requires to be consolidated.

The group of companies included in consolidation has been defined taking into account materiality criteria. All fully consolidated companies prepared their annual financial statements for the period ended December 31, 2006. The group of consolidated companies does not include any companies that are not fully consolidated. 28 (2005: 28) companies are accounted for using the equity method, including one company in the new HVB Group.

The following companies (participations) are no longer included in consolidation for the new HVB Group.

- Activest Investmentgesellschaft mbH, Munich
- Activest Investmentgesellschaft Luxembourg S.A., Luxembourg
- HVB Wealth Management Holding GmbH, Munich
- Westfalenbank AG, Bochum
- HVB Systems GmbH, Unterföhring
- HVB Risk Management Products Inc., New York

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

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

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

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

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

Accounting and Valuation continued

The following companies, among others, have been consolidated for the first time in the 2006 financial statements for the new HVB Group with effect from January 1, 2006:

- HVB Immobilien AG, Munich, with a further 37 material companies
- HVB Capital Partners AG, Munich

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

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

In addition, the following companies belonging to the BA-CA sub-group, among others, were added with effect from January 1, 2006:

- CA IB Corporate Finance Beratungs Ges.m.b.H., Vienna (sub-group)
- Nova Banjalucka Banka a.d., Banja Luka
- Universale International Realitäten GmbH, Vienna (sub-group)
- CA IB Securities S.A., Warsaw
- BPH Towarzystwo Funduszy Inwestycyjnych S.A., Warsaw
- BPH PBK Zarzadzanie Funduszami Sp. z.o.o., Warsaw
- CA IB Polska S.A., Warsaw
- CA IB International Markets AG, Vienna
- CA IB International Markets Ltd., London

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

The following companies, among others, left the BA-CA sub-group:

- HVB Splitska banka d.d., Split
- Bank BPH S.A., Cracow

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

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

- BPH Leasing S.A., Warsaw
- BPH Bank Hipoteczny S.A., Warsaw
- BPH Towarzystwo Funduszy Inwestycyjnych S.A., Warsaw
- BPH PBK Zarzadzanie Funduszami Sp. z.o.o. Warsaw

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

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

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

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

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

5 Principles of consolidation

Consolidation is performed by offsetting the purchase price of a subsidiary against the value of the interest held in the completely recalculated shareholders' equity of the consolidated subsidiary at the time of acquisition. This amount is the difference between the assets and liabilities of the acquired company, carried at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under investments. Compliant with IAS 36, scheduled amortisation is no longer taken on goodwill. Instead the goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the divisions and subdivisions. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the contribution to results at the time of acquisition. The goodwill is checked for impairment at least once a year at business unit level. This involves comparing the carrying amount of the business unit with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell. Since the value in use far exceeds the carrying amount for the business units to which goodwill is allocated, the values in use have been used as the recoverable amount. When the values in use are calculated, a uniform rate of 8.4% for the cost of capital is used for discounting. The cash flows have been budgeted for the next three years. No growth factor has been assumed for the government perpetuals.

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

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

6 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one company and a financial liability or equity instrument of another company. According to IAS 39, all financial instruments are to be recorded in the balance sheet, classified in specific categories and measured in accordance with this classification:

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

Such assets are measured at fair value and recognised in profit or loss in the income statement. A fair-value discount was applied for the first time in 2006 to take account of other factors influencing the calculation of the fair value and thus increase the quality of our conservative fair value calculation. The fair-value discount essentially relates to financial instruments classified as held for trading and financial instruments measured at fair value through profit and loss are shown under assets held for trading purposes and liabilities held for trading purposes. The fair value option is essentially applied for hedges of financial assets. These financial instruments are carried under investments or receivables. At the same time, the fair value option has also been used for some liabilities evidenced by paper with embedded derivatives.

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

Accounting and Valuation continued

- Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss or available for sale, or they meet the definition of loans and receivables. HtM financial instruments are measured at amortised cost, with premiums and discounts included on a pro rata basis. Write-downs are taken where there is a rating-related decline in value. If the reasons for the write-down no longer apply, a subsequent write-up is taken to the income statement up to, but no more than, the amortised cost; held-to-maturity financial instruments are included under investments.
- All other financial assets are classified as available for sale (AfS) securities and receivables. They are measured at fair value. The difference between the fair value and amortised cost is carried in a separate item under shareholders' equity (AfS reserve) in the balance sheet until the asset is sold or an impairment to be recognised in profit or loss as defined in IAS 39.67 has occurred. The impairment of an AfS non-equity instrument is reversed in a way that affects reported net income when there is objective evidence that the fair value of the available-for-sale financial instrument has risen. Impairments of AfS equity instruments may only be reversed against the AfS reserve in a way that does not affect reported net income. Available-for-sale holdings are not reclassified into categories that are valued at amortised cost. Available-for-sale financial instruments are largely included in investments.

Purchases and sales of financial instruments are recognised at the trade date. Premiums and discounts are netted directly with the financial instruments. The fair value of the financial instruments can normally be reliably measured. It is not possible to determine the fair value of some unlisted investments and a very few derivatives. These are carried at amortised cost.

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

Hedges between financial instruments are recognised in accordance with the two forms described in IAS 39: the fair value hedge and the cash flow hedge.

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

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction and that will affect reported net income. The Bank applies the method of accounting for cash flow hedges for derivatives used to hedge future interest cash flows. The Bank recognises derivatives in accordance with cash flow hedge accounting when they are used to hedge future interest cash flows as part of the Bank's asset/liability management system. Future variable interest payments for variable receivables and liabilities are converted into fixed interest payments primarily by means of interest rate swaps. Hedging instruments are measured at fair value under this method of accounting. Changes in fair value are divided into an effective and an ineffective portion. A hedge is regarded as highly effective if, at inception and throughout the life of the hedge, the company can expect changes in the cash flows of the hedged item to be offset almost completely by changes in the cash flows of the

hedging instrument. To demonstrate effectiveness, the expected future variable interest cash flows arising from variable receivables and liabilities (including rolling short-term positions) being hedged at the end of each quarter or at the balance sheet date are shown alongside the variable interest rate payments arising from the interest rate derivatives in detailed maturity schedules. The effective portion of the hedging instrument is recognised in a separate equity item (hedge reserve) in the balance sheet. The changes in value of these derivatives are offset by future compensating effects arising from the hedge relationship, which must not yet be shown in the balance 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 in the income statement. Depending on its classification, the hedged item is recognised at amortised cost or, in the case of available-for-sale assets, at fair value.

The IAS 39-specific equity items available-for-sale reserve and hedge reserve are not included when calculating the figures for profitability ratios. A discussion of the risks inherent in financial instruments is included in the Risk Report alongside the detailed information in the notes to the consolidated financial statements.

7 Assets held for trading purposes

Besides securities held for trading purposes, this item includes the positive market values of traded derivatives and derivatives used to hedge currency risk arising from financial instruments that are not available-for-sale or fair-value-option securities.

Provided they are held for trading purposes, note loans, registered bonds and Treasury bills are carried as other assets held for trading purposes.

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

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

8 Placements, loans and advances

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

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

Estimates of loan losses already incurred, the structure and quality of the loan portfolios and general economic factors are taken into account when calculating allowances for losses on loans and advances.

Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made to cover all identifiable risks arising from lending operations. They are reversed as soon as the loan default risk has ceased, or used if the receivable is classified uncollectable and written off. Acute country-specific transfer risks are included in this process.

Portfolio allowances are formed on the basis of historic loan-loss rates taking into account the economic environment and current events. The Bank applies the loss confirmation period method for this. The loss confirmation period represents the period between a default event occurring, or a borrower defaulting, and the point at which the Bank identifies the default and sets up loan losses and – where appropriate – a specific loan-loss provision accordingly. Loan losses for which no or inadequate specific provisions have been created are treated as consumption of general provisions.

Accounting and Valuation continued

10 Investments

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

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

Compliant with IAS 40.30 in conjunction with IAS 40.56, land and buildings held by the Bank as investments with a view to generating rental income and/or capital gains are carried at amortised cost. Scheduled depreciation is taken on investment property over its economic useful life of 25–50 years using the straight-line method. The rental income and funding expense arising from these investments are recorded in net interest income. All other income and expenses arising from land and buildings not used by the Bank are included in net income from investments.

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

11 Property, plant and equipment

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

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

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

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

12 Lease operations

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

HVB Group as lessor

Under finance leases, the lessor recognises the leased asset in the balance sheet as a receivable at an amount equal to the net investment in the lease. The lease payments are broken down into the finance charge and the redemption payment. The redemption payment reduces the amount of the outstanding liability (net investment); the finance charge is treated as interest expense. Interest and similar income is recognised on the basis of a constant, periodic rate of return relating to the net investment outstanding. The term "net investment" is defined in detail in Note 44 "Loans and advances to customers". HVB Group leases both movable property and real estate as a lessor under finance leases.

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

HVB Group as lessee

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

The lease payments relating to finance leases are broken down into two components: the finance charge and the redemption payment. The redemption payment reduces the residual liability, and the finance charge is shown as interest expense. Lease payments relating to operating leases are treated as rental expense and recognised in general administrative expenses. Contracts in which the Bank acts as lessee are comparatively insignificant.

13 Intangible assets

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

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

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

15 Liabilities

Liabilities that are not hedged items of an effective fair value hedge are reported at amortised cost, taking into account deferred premiums and discounts on a pro rata basis. The fair value option has been applied for some liabilities evidenced by paper with embedded derivatives.

16 Liabilities held for trading purposes

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

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

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

17 Provisions

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

When assessing provisions for uncertain liabilities and anticipated losses on pending transactions, the Bank uses a best estimate compliant with IAS 37.36 ff. Long-term provisions are discounted.

Accounting and Valuation continued

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

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

The discount rate is based on the long-term interest rate for first-class, fixed-income corporate bonds at the balance sheet date. The amount of the provisions recognised in the balance sheet is calculated essentially using the provisions recognised in the previous year plus the pension expense determined at the beginning of the financial year less payments for the current financial year affecting liquidity and less payments to the plan assets of the current financial year. The plan assets set up by HVB AG and a number of subsidiaries to fund pension obligations are described in detail in Note 62 "Provisions".

18 Other liabilities

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

19 Foreign currency translation

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

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

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

20 Income tax for the period

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

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

Segment Reporting

21 Notes to segment reporting by division (primary segmentation)

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

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

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

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

COMPONENTS OF THE NEW HVB GROUP SEGMENTS

Retail division

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

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

Wealth Management division

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

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

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

Segment Reporting continued

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

Corporates & Commercial Real Estate Financing division

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

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

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

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

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

Commercial Real Estate Financing

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

Markets & Investment Banking division

The global Markets & Investment Banking (MIB) division of the UniCredit Group started out as a virtual organisation in mid-2006. Headquartered in Munich, it has offices at all the major financial centres worldwide, including London, New York, Hong Kong and Singapore. Around 2,000 employees at 40 locations serve some 1,100 institutional customers and 270 multinationals. HypoVereinsbank has been defined as the UniCredit Group's centre of competence for investment banking. All related activities are intended to be pooled at HVB, due in part to the expertise and know-how we possess in this area. Some 70% of the business volume and revenues of investment banking activities of the UniCredit Group are already generated by HypoVereinsbank today and thus currently flow into the balance sheet and income statement of HypoVereinsbank. The goal is to increase

the proportion of this business volume by integrating the respective activities of other units in the UniCredit Group and boosting our market share. At the same time all activities will focus on selected products and customer segments where HypoVereinsbank can provide differentiated expertise. The ambitious growth targets of this new player in the European investment banking marketplace are of direct importance to HypoVereinsbank.

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

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

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

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

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

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

Other/consolidation division

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

Global Banking Services

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

Group Corporate Centre

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

Segment Reporting continued

METHOD OF SEGMENT REPORTING

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

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

Net interest income continues to be broken down using the market interest calculation method. In the case of companies assigned to several divisions, capital allocation for the purpose of calculating the return on investment calls for core capital amounting to 7% of risk-weighted assets relating to equivalent risk assets for credit and market risks (= risk-weighted assets plus market risks weighted with a factor of 12.5) to be assigned to the divisions. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest income. The percentage used to assess the equity capital allocated to the companies

assigned to several divisions (HVB AG, HVB Banque Luxembourg) has been reduced from 5% to 3.4%. This rate, which equals the 3-month EURIBOR plus a premium in the amount of the average 5-year UniCredit credit spread, is set for one year as part of the budgeting process. Equity capital is not standardised for the subsidiaries.

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

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

22 Income statement broken down by division

€ millions	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	MARKETS & INVESTMENT BANKING	OTHER/ CONSOLI- DATION	HVB GROUP NEW	DISCONTINUED OPERATIONS	FULL HVB GROUP
TOTAL REVENUES								
2006	1,728	550	1,302	2,279	93	5,952	5,215	11,167
2005	1,694	569	1,276	1,889	(215)	5,213	4,428	9,641
Operating costs								
2006	(1,422)	(336)	(495)	(1,163)	(279)	(3,695)	(2,905)	(6,600)
2005	(1,557)	(387)	(541)	(1,110)	(290)	(3,885)	(2,723)	(6,608)
OPERATING PROFIT (LOSS)								
2006	306	214	807	1,116	(186)	2,257	2,310	4,567
2005	137	182	735	779	(505)	1,328	1,705	3,033
Net write-downs of loans and provisions for guarantees and indemnities								
2006	(173)	(10)	(264)	16	(502)	(933)	(728)	(1,661)
2005	(267)	(4)	(402)	(52)	(254)	(979)	(503)	(1,482)
Other items¹								
2006	(16)	542	(12)	(163)	(57)	294	2,117	2,411
2005	(44)	(45)	(49)	(27)	(291)	(456)	204	(252)
PROFIT (LOSS) BEFORE TAX								
2006	117	746	531	969	(745)	1,618	3,699	5,317
2005	(174)	133	284	700	(1,050)	(107)	1,406	1,299

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

Segment Reporting continued

Income statement of the Retail division

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

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

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

At €306 million, operating profit was more than double the amount posted in 2005. Total revenues increased by €34 million, or 2.0%, to €1,728 million. This development was largely supported by the 7.7% increase in net fees and commissions. This results in part from the successful marketing of innovative investment products, like the "HVB Best of Funds" with a volume of €540 million, "HVB Flex Bonus" with €150 million in the first quarter, "HVB 2 x 5% Profianleihe" with around €380 million in the second quarter and the "HVB Höchststand-Zertifikat" with €200 million in the third quarter. In the fourth quarter, a strong emphasis was placed on boosting sales of the successful investment product "KombiAnlage plus". In the process, we managed to acquire a volume of €1.3 billion in new investments, which will have a positive impact on our future earnings potential in the long run. Net interest income remained almost stable (down 0.6%). At the same time, we managed to almost fully offset the planned reduction of our real estate portfolio by increasing volumes and margins in the deposit-taking business. Operating costs declined by a total of 8.7%, to €1,422 million, reflecting both the success of our PRO efficiency enhancement programme and the benefits generated from efficient cost management. This involves cost reductions posted in both payroll costs and other administrative expenses

(including depreciation on property, plant and equipment). The cost-income ratio improved sharply, by 9.6 percentage points to 82.3%, benefiting from the increase in total revenues and the simultaneous decline in operating costs as a result of general efficiency enhancement. Taking the 35.2% reduction in net write-downs of loans and provisions for guarantees and commitments and the lower restructuring costs into account, the division generated profit before tax of €117 million (2005: loss of €174 million). As expected, the net profit for 2006 was generated largely in the first two quarters of the year, while the total declined in the third quarter decreased in line with the weaker business cycle in the summer months. With regard to the small loss generated in the fourth quarter of 2006, it must be noted that the third quarter of 2006 benefited from the positive catch-up effect arising from the technical reorganisation of the new segment structure. At the same time, the fourth quarter's results were affected by the transfers to the Special Credit Portfolio disclosed under the "Other/consolidation" segment for the first time at September 30, 2006. Adjusted for these effects, profit before tax in the fourth quarter would have been slightly higher than the adjusted figure for the third quarter. Besides the isolated result for the fourth quarter, the focus was placed on the sustainable generation of income in the future building on our "KombiAnlage plus" investment product.

Segment Reporting continued

Income statement of the Wealth Management division¹

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

¹ also includes the activities of the Activest companies in the first half of the year

² contains the following income statement items: provisions for risks and charges, write-down on goodwill, net income from investments and other non-operating expenses

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

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

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

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

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

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

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

Segment Reporting continued

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

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

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

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

This can be largely attributed to the strong operating performance, which led to a 12.8% rise in operating profit. In the process, total revenues posted 5.8% growth, driven by a 6.4% rise in net interest income and the 4.9% improvement in net fees and commissions

which benefited from higher income from advisory fees under structured finance. In addition, a 3.3% reduction was achieved in operating costs as a result of strict cost management, helping the cost-income ratio to improve to 40.3% in 2006.

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

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

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

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

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

Thus, net interest income was depressed by the continued reduction of volumes, as planned, and decreased by 19.2%. By contrast, net fees and commissions rose by around one quarter. This can be attributed in particular to very lively business with interest derivatives. However, total revenues decreased by 14.6% overall. Compared to 2005, operating costs were reduced by more than a third. This results from the savings in payroll costs entailed in the portfolio disposals

coupled with lower other administrative expenses and a decline in amortisation, depreciation and impairment losses on intangible and tangible assets. On account of the pleasing development on the cost side alone, the cost-income ratio improved significantly, by 9.6 percentage points to 25.6%.

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

Segment Reporting continued

Income statement of the Markets & Investment Banking division

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

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

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

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

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

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

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

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

Income statement of the Other/consolidation division

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

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

The Other/consolidation division contains Global Banking Services, Group Corporate Centre, including the profit contributions from the newly created Special Credit Portfolio assigned to this segment, plus the Real Estate Restructuring segment previously shown separately and consolidation effects. Total revenues amounted to €93 million in the year under review, following a negative total of €215 million for the previous year. This improvement can be attributed for the most part to the far lower expenses arising from the HVB Immobilien sub-group than in the previous year. The total expenses of €256 million arising from the HVB Immobilien sub-group in the previous year had an impact on total revenues. Total revenues were enhanced by the rise in net trading, hedging and fair value income attributable to the positive effects of currency translation compliant with IAS 21.28 following on from a negative effect in the previous year. This is offset by declining net interest income partly as a result of the planned reduction in volume in the former Real Estate Restructuring segment and lower dividend income. Operating costs fell by 3.8%, despite the expense involved in the initial consolidation of the HVB Immobilien sub-group. The operating loss improved by €319 million compared with the previous year to €186 million. The segment recorded a loss before tax of €745 million at December 31, 2006. This is due mostly

to the higher loan-loss provisions of €502 million required primarily for the newly created Special Credit Portfolio and the operating loss caused by restructuring costs of €44 million. The net loss before taxes in 2005 amounted to €1,050 million. Besides the operating loss and restructuring costs of €249 million, this total included loan-loss provisions of €254 million as well as non-recurring expenditure of €225 million arising in conjunction with the acquisition of real estate from the assets of a real estate fund management by the Bank's Internationales Immobilien-Institut GmbH (iii-investments) subsidiary.

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

Segment Reporting continued

23 Balance sheet figures, broken down by division

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

1 2005 figures including HVB Splitska banka

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

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

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

Segment Reporting continued

25 Employees, broken down by operating and service division

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

26 Segment reporting by region (secondary segmentation)

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

Income statement, broken down by region

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

Total volume of lending, broken down by region

€ millions	2006	2005
Germany	174,779	180,134
Rest of Europe	41,285	38,496
Americas	5,794	11,753
Asia	3,096	4,994
Consolidation	(14,882)	(8,049)
HVB Group new	210,072	227,328
Discontinued operations and non-current assets or disposal groups held for sale	108,022	110,299
Consolidation	(4,764)	(2,900)
Full HVB Group¹	313,330	334,727

Employees, broken down by region

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

¹ 2005 figures including HVB Splitska banka

Notes to the Income Statement

27 Net interest income

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

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

28 Dividends and other income from equity investments

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

29 Net fees and commissions

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

This item comprises the balance of fee and commission income of €2,190 million (2005: €2,093 million) and fee and commission expense of €437 million (2005: €370 million). In terms of the year-on-year change in net fees and commissions, the profit contributions

made by the sold Activest companies are only included in net fees and commissions for 2006 up to the middle of the year, which has a negative effect when compared to 2005. Adjusted for consolidation and currency effects, the rate of increase in net fees and commissions totalled 7.0%. In the process, net fees and commissions from the securities and depositary business rose by around 9% in adjusted terms.

30 Net trading, hedging and fair value income

HVB GROUP NEW	2006 € millions	2005 € millions
Net gains on financial instruments		
held for trading	673	464
Equity contracts	112	89
Interest rate and currency contracts	241	239
Dividend income arising from trading operations	320	136
Private equity realisation gains¹	38	—
Effects arising from hedge accounting	—	4
Net gains on financial instruments designated		
at fair value through profit or loss	27	(13)
Other net trading, hedging and fair value income	30	(79)
Total	768	376

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

31 Net other expenses/income

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

Notes to the Income Statement continued

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

32 Operating costs

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

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

Information on stock options

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

Information on performance shares

	2006 PERFORMANCE SHARES	2005 PERFORMANCE SHARES
Number	1,142,300	1,256,800
UCI stock market price (€)	5.951	4.817
Date of conditional granting	June 23, 2006	Nov. 25, 2005
Granting upon satisfaction of criteria	Dec. 31, 2009	Dec. 31, 2008
Fair value of each performance share at granting date (€)	5.574	4.461

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

33 Provisions for risks and charges

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

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

34 Restructuring costs

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

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

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

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

HVB GROUP NEW	2006 € millions	2005 € millions
Non-consolidated subsidiaries	(2)	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	7	—
Total¹	5	—

¹ Net release

36 Net income from investments

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

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

Notes to the Income Statement continued

37 Other non-operating expenses

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

38 Income tax for the period

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

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

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

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

The tax rate applicable in the year under review remained unchanged at 26.4%. It comprises the current rate of corporate income tax in Germany of 25.0% and the solidarity surcharge of 5.5% of corporate income tax.

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

The item tax effects arising from different tax laws comprises primarily current and deferred trade tax in Germany calculated using non-uniform tax rates, and a reduction in corporate income tax and the solidarity surcharge resulting from the deductibility of municipal trade tax. This item also includes the income from the capitalisation of the discounted corporate income tax credit.

The item effects on taxes arising from valuation adjustments and the non-recognition of deferred taxes contains the effects arising from the reduction and increase of deferred tax assets compliant with IAS 12.56 and IAS 12.37. In the previous year, it also included the effects due to the non-recognition of deferred tax assets due to tax losses carried forward and temporary differences in the current financial year. In addition, this item includes the effects of temporary differences associated with subsidiaries for which, compliant with IAS 12.39 and IAS 12.44, no deferred tax assets or liabilities may be recognised.

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

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

German corporations are generally charged a definitive corporate income tax rate of 25.0% (previous year: 25.0%), irrespective of whether the earnings are distributed or not. Deferred taxes were measured for the Bank's domestic companies using a uniform rate of corporate income tax, including the solidarity surcharge, of 26.4%, and a rate of municipal trade tax dependent on the respective multiplier. Given the deductibility of municipal trade tax when calculating corporate income tax, this results in an unchanged total assessment rate for deferred taxes of 39.8% at HVB AG.

The available-for-sale reserve was reduced by €42 million due to deferred taxes in the year under review. Deferred tax assets of €124 million were offset against the hedge reserve in the current year. On account of the option set forth in IAS 19.93 A, deferred tax assets of €149 million were directly offset from shareholders' equity. In each case, the deferred tax items offset directly against reserves are amounts before adjustment of minority interest.

Compliant with IAS 12, no deferred tax assets have been recognised for tax losses of the new HVB Group carried forward totalling €5,142 million (2005 HVB Group new: €5,290 million) and deductible temporary differences of €1,130 million (2005 HVB Group new: €1,104 million).

39 Income statement and earnings per share of discontinued operations

The following have been defined as discontinued operations: the BA-CA Group, HVB Bank Ukraine, IMB, AS UniCredit Bank, Riga, and the HVB AG branches in Tallinn and Vilnius.

Income statement of discontinued operations

€ millions	2006	2005
Net interest income	2,966	2,684
Net fees and commissions	1,715	1,475
Net trading, hedging and fair value income	462	280
Net other expenses/income	72	(11)
Total revenues	5,215	4,428
Operating costs	(2,905)	(2,723)
Operating profit	2,310	1,705
Provisions for risks and charges	(103)	(11)
Write-down on goodwill	—	—
Restructuring costs	(248)	(108)
Net write-downs of loans and provisions for guarantees and commitments	(728)	(503)
Net income from investments	2,499	323
Non-operating expenses	(31)	—
Profit before tax	3,699	1,406
Income tax for the period	(242)	(248)
Net profit	3,457	1,158
Minorities	(677)	(389)
Net profit	2,780	769

Notes to the Income Statement continued

The net profit (after taxes and minorities) of the discontinued operations totalling €2,780 million was heavily affected in 2006 by the non-recurring effects accruing at BA-CA, which yielded a net gain. Non-recurring effects of €1,868 million are included in the net profit before tax of €3,699 recorded for 2006. We have defined the following as non-recurring effects: the gains on the disposal of the Bank BPH Group (€1,756 million) and HVB Splitska banka (€669 million) recognised in net income from investments offset by restructuring costs of €248 million, non-recurring expense in net write-downs of loans and provisions for guarantees and commitments of €278 million due to changes in methods used and other non-operating expenses of €31 million. Non-recurring expenses of €178 million (restructuring costs of €108 million and additional provisions of €70 million for losses on loans and advances) were included in the previous year.

Adjusted for these items, the profit before tax for 2006 totalled €1,831 million, or €247 million higher than the adjusted previous-year figure of €1,584 million.

The operating profit of the discontinued operation rose by €605 million, or 35.5%, to €2,310 million. Almost €400 million of this increase is attributable to the BA-CA Group and €164 million to IMB. The increase in operating profit is a result of the 17.8% rise in total revenues. Operating costs rose by 6.7%. As a result of the lower net income from investments (adjusted for non-recurring effects) and the higher provisions for risks and charges, the good operating performance overall did not lead to a corresponding rise in the profit before tax adjusted for non-recurring effects.

Earnings per share of discontinued operations

	2006	2005
Earnings per share (€)	3.71	1.03
Earnings per share (adjusted, €) ¹	1.38	1.16

¹ 2006 figures adjusted for restructuring costs, additional write-downs of loans and provisions for guarantees and commitments, other non-operating expenses and the gain on disposal of HVB Splitska banka and Bank BPH

2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances

40 Earnings per share

FULL HVB GROUP	2006	2005
Net profit adjusted for minorities (€ millions) ¹	2,160	1,163
Average number of shares	750,699,140	750,699,140
Earnings per share (€)	5.89	0.86
Earnings per share (adjusted, €) ¹	2.88	1.55

¹ 2006 figures adjusted for the defined non-recurring effects

2005 figures adjusted for restructuring costs and additional provisions for losses on loans and advances

Notes to the Consolidated Balance Sheet

41 Cash reserve¹

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Cash on hand and balances with central banks	3,191	7,269
Treasury bills and other bills eligible for refinancing with central banks	20	488
Treasury bills, zero-interest Treasury notes and similar instruments of public-sector entities	—	322
Bills of exchange	20	166
Total	3,211	7,757

¹ cash and cash equivalents

42 Assets held for trading purposes

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Debt securities and other fixed-income securities	45,709	41,838
Money market instruments	667	1,594
Bonds and notes	45,042	40,244
issued by public-sector borrowers	5,521	7,651
issued by other borrowers	39,521	32,593
of which:		
Marketable securities	45,624	41,692
listed	40,280	36,387
unlisted	5,344	5,305
Equity securities and other variable-yield securities	19,917	11,663
Equity securities	16,493	9,833
Investment securities	3,288	1,697
Other	136	133
of which:		
Marketable securities	19,311	10,986
listed	19,276	10,899
unlisted	35	87
Positive fair values from derivative financial instruments	35,114	44,371
Other assets held for trading purposes	6,471	5,647
Total	107,211	103,519

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	243	1
Joint ventures	—	—
Associated companies	11	53
Other participating interests	91	20
Total	345	74

43 Placements with, and loans and advances to, other banks

Placements with, and loans and advances to, other banks, broken down by type of business

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Placements, loans and advances		
Municipal loans	478	1,436
Real estate loans	—	24
Other placements, loans and advances	17,549	21,035
Investments	23,237	34,734
Total	41,264	57,229

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Banks in Germany	17,641	16,235
Banks in other regions	23,623	40,994
Total	41,264	57,229

Notes to the Consolidated Balance Sheet continued

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Repayable on demand	12,919	13,459
With agreed maturities	28,345	43,770
up to 3 months	19,963	27,516
from 3 months to 1 year	1,928	7,331
from 1 year to 5 years	4,104	5,939
from 5 years and over	2,350	2,984
Total	41,264	57,229

The carrying amount of the placements with, and loans and advances to, other banks designated as at fair value through profit or loss at initial recognition (fair-value option) totals €521 million.

Placements with, and loans and advances to, related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	5,442	399
Joint ventures	—	—
Associated companies	31	791
Other participating interests	46	73
Total	5,519	1,263

44 Loans and advances to customers

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Loans and advances		
Municipal loans	13,864	19,004
Real estate loans	87,841	111,514
Other loans and advances	65,363	140,093
Investments	2,930	4,032
Total	169,998	274,643

Loans and advances to customers in Germany and other regions

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Customers in Germany	136,054	154,175
Customers in other regions	33,944	120,468
Total	169,998	274,643

Loans and advances to customers, broken down by maturity

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Repayable on demand	13,658	23,423
With agreed maturities	156,340	251,220
up to 3 months	22,838	35,679
from 3 months to 1 year	11,999	18,774
from 1 year to 5 years	34,040	55,602
from 5 years and over	87,463	141,165
Total	169,998	274,643

The carrying amount of the loans and advances to customers designated as at fair value through profit or loss at initial recognition (fair-value option) totals €2,705 million.

Loans and advances to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	1,124	2,559
Joint ventures	9	10
Associated companies	123	254
Other participating interests	1,298	3,072
Total	2,554	5,895

Amounts receivable from lease operations (finance lease)		
€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Gross investment value (by remaining maturity)		
up to 3 months	155	470
from 3 months to 1 year	171	1,059
from 1 year to 5 years	435	3,116
from 5 years and over	24	3,309
Total gross investment	785	7,954
of which: unguaranteed residual values	—	1,147
Unrealised finance income (by remaining maturity)		
up to 3 months	(6)	(45)
from 3 months to 1 year	(21)	(139)
from 1 year to 5 years	(37)	(438)
from 5 years and over	(2)	(747)
Total unrealised finance income	(66)	(1,369)
Net investment (by remaining maturity)		
up to 3 months	149	425
from 3 months to 1 year	150	920
from 1 year to 5 years	398	2,678
from 5 years and over	22	2,562
Total net investment	719	6,585

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

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

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

Notes to the Consolidated Balance Sheet continued

45 Allowances for losses on loans and advances

Analysis of provisions for losses on loans and advances

€ millions	COUNTERPARTY RISK	PORTFOLIO ALLOWANCES	TOTAL
Balance at January 1, 2005 Full HVB Group	12,924	480	13,404
Changes affecting income			
Gross additions	2,705	502	3,207
Releases	(1,651)	(97)	(1,748)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	53	37	90
Use of existing loan-loss allowances	(2,328)	(306)	(2,634)
Effects of currency translation and other changes not affecting income	275	(24)	251
Non-current assets or disposal groups held for sale	(59)	—	(59)
Balance at December 31, 2005 Full HVB Group	11,919	592	12,511
Balance at January 1, 2006 Full HVB Group	11,919	592	12,511
Discontinued operations	(3,159)	(124)	(3,283)
Balance at January 1, 2006 HVB Group new	8,760	468	9,228
Changes affecting income			
Gross additions	1,592	281	1,873
Releases	(853)	(11)	(864)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	(397)	—	(397)
Use of existing loan-loss allowances	(3,569)	(267)	(3,836)
Effects of currency translation and other changes not affecting income	62	2	64
Non-current assets or disposal groups held for sale	—	—	—
Balance at December 31, 2006 HVB Group new	5,595	473	6,068

Breakdown of allowances for losses on loans and advances

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Placements with, and loans and advances to, other banks	102	169
Loans and advances to customers	5,493	11,750
Portfolio allowances	473	592
Total	6,068	12,511

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

Total volume of lending

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Placements with, and loans and advances to, other banks	18,027	22,495
Loans and advances to customers	167,068	270,611
Contingent liabilities arising from guarantees and indemnities	24,977	39,513
Total	210,072	332,619

Ratio of allowances to total lendings

	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Total allowances for losses on loans and advances (€ millions)	6,317	12,993
Allowances for losses on loans and advances (€ millions)	6,068	12,511
Allowances for losses on guarantees and indemnities (€ millions)	249	482
Total volume of lending (€ millions)	210,072	332,619
Provision rate¹ (%)	3.01	3.91

¹ total allowances divided by total volume of lending

Net addition rate

	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Net write-downs of loans and provisions for guarantees and commitments (€ millions)	933	1,482
Total volume of lending (€ millions)	210,072	332,619
Net addition rate¹ (%)	0.44	0.45

¹ net write-downs of loans and provisions for guarantees and commitments divided by total volume of lending

Loan-loss rate

	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Use of existing loan-loss allowances (€ millions)	3,836	2,634
+ Use of allowances for losses on guarantees and indemnities (€ millions)	3	14
– Recoveries from written-off loans and advances (€ millions)	90	87
Loan losses (€ millions)	3,749	2,561
Total volume of lending (€ millions)	210,072	332,619
Loan-loss rate¹ (%)	1.78	0.77

¹ loan losses divided by total volume of lending

Breakdown of carrying amounts at December 31, 2006

HVB GROUP NEW	NON-CONSOLIDATED SUBSIDIARIES	COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD	PARTICIPATING INTERESTS	DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES	EQUITY SECURITIES AND OTHER VARIABLE-YIELD SECURITIES	TOTAL
€ millions						
Marketable securities	22	—	996	14,127	1,476	16,621
listed securities	22	—	846	13,338	855	15,061
unlisted securities	—	—	150	789	621	1,560

€2,832 million of the debt securities and other fixed-income securities mature in 2007.

The increase in the loan-loss rate to 1.78% in the year under review arose largely in conjunction with the greater use of existing loan-loss allowances (loan defaults) relating to various portfolio disposals.

47 Investments

Analysis of investments

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Held-to-maturity investments		
Debt securities and other fixed-income securities	471	8,017
Available-for-sale investments	7,138	14,697
Non-consolidated subsidiaries	588	1,149
Participating interests	1,884	1,693
Debt securities and other fixed-income securities	2,700	7,491
Equity securities and other variable-yield securities	1,966	4,364
of which: long-term securities	1,413	3,788
Fair-value-option investments	11,728	21,136
Debt securities and other fixed-income securities	11,613	19,134
Equity securities and other variable-yield securities	115	2,002
Companies accounted for using the equity method	35	1,036
of which: goodwill	—	83
Investment property	473	533
Total	19,845	45,419

Notes to the Consolidated Balance Sheet continued

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

	NON-CONSOLIDATED SUBSIDIARIES	PARTICIPATING INTERESTS	COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD		INVESTMENT PROPERTY	TOTAL
			TOTAL	OF WHICH: GOODWILL		
€ millions						
Acquisition cost						
Balance at Jan. 1, 2006						
Full HVB Group	1,844	2,094	949	83	895	5,782
Balance at Jan. 1, 2006						
Discontinued operations	(1,041)	(211)	(815)	(83)	(333)	(2,400)
Balance at Jan. 1, 2006						
HVB Group new	803	1,883	134	—	562	3,382
Changes in consolidated group	71	152	—	—	1,156	1,379
Changes arising from foreign						
currency translation	(2)	—	—	—	—	(2)
Additions	20	228	—	—	4	252
Reclassifications	89	(3)	—	—	14	100
Disposals	(220)	(232)	—	—	(136)	(588)
Non-current asstes or						
disposal groups held for sale	—	(1)	—	—	(676)	(677)
Balance at Dec. 31, 2006						
HVB Group new	761	2,027	134	—	924	3,846
Changes in valuation not affecting income						
Balance at Jan. 1, 2006						
Full HVB Group	11	431	—	—	—	442
Balance at Jan. 1, 2006						
Discontinued operations	(11)	(24)	—	—	—	(35)
Balance at Jan. 1, 2006						
HVB Group new	—	407	—	—	—	407
Changes in consolidated group	—	—	—	—	—	—
Changes arising from foreign						
currency translation	—	—	—	—	—	—
Changes in value not affecting income	8	224	—	—	—	232
Reclassifications	—	—	—	—	—	—
Disposals	—	(53)	—	—	—	(53)
Non-current asstes or						
disposal groups held for sale	—	—	—	—	—	—
Balance at Dec. 31, 2006						
HVB Group new	8	578	—	—	—	586

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

	NON-CONSOLIDATED SUBSIDIARIES	PARTICIPATING INTERESTS	COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD		INVESTMENT PROPERTY	TOTAL
			TOTAL	OF WHICH: GOODWILL		
€ millions						
Cumulative change arising from accounting using the equity method, full HVB Group						
Balance at Jan. 1, 2006						
Full HVB Group	—	—	159	—	—	159
Balance at Jan. 1, 2006						
Discontinued operations	—	—	(155)	—	—	(155)
Balance at Jan. 1, 2006						
HVB Group new	—	—	4	—	—	4
Write-downs and write-ups						
Balance at Jan. 1, 2006						
Full HVB Group	(706)	(832)	(72)	—	(362)	(1,972)
Balance at Jan. 1, 2006						
Discontinued operations	303	73	1	—	119	496
Balance at Jan. 1, 2006						
HVB Group new	(403)	(759)	(71)	—	(243)	(1,476)
Changes in consolidated group	(46)	—	—	—	(451)	(497)
Changes arising from foreign currency translation	2	(1)	(2)	—	1	—
Write-downs	(8)	(7)	(30)	—	(186)	(231)
Write-ups	—	—	—	—	11	11
Reclassifications	92	—	—	—	(4)	88
Disposals	182	46	—	—	59	287
Non-current assets or disposal groups held for sale	—	—	—	—	362	362
Balance at Dec. 31, 2006						
HVB Group new	(181)	(721)	(103)	—	(451)	(1,456)
Carrying amounts						
Balance at Dec. 31, 2005						
Full HVB Group	1,149	1,693	1,036	83	533	4,411
Balance at Dec. 31, 2006						
HVB Group new	588	1,884	35	—	473	2,980

Notes to the Consolidated Balance Sheet continued

The following table shows the breakdown of debt securities and other fixed-income securities, as well as equity securities and other variable-yield securities:

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Debt securities and other fixed-income securities	14,784	34,642
Money market instruments	38	1,731
Bonds and notes	14,746	32,911
issued by public-sector borrowers	7,492	14,543
issued by other borrowers	7,254	18,368
Equity securities and other variable-yield securities	2,081	6,366
of which:		
Equity securities	871	2,109
Investment securities	1,184	2,575

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	—	9
Joint ventures	—	—
Associated companies	96	131
Other participating interests	—	123
Total	96	263

Major investments in listed non-banks

	2006		2005	
	INTEREST ¹ in %	MARKET VALUE € millions	INTEREST ¹ in %	MARKET VALUE € millions
Agrob AG	52.7	22	52.7	22
Babcock & Brown Ltd.	4.9	179	8.4	206
ERGO Versicherungsgruppe Aktiengesellschaft	<5.0	527	<5.0	400
Köhler & Krenzer Fashion AG	<50.0	13	<50.0	18
Münchener Rückversicherungs-Gesellschaft AG	2.2	659	4.9	1,281
Nordex AG	4.3	38	5.7	17
Wüstenrot & Württembergische AG	7.5	140	7.5	94
HVB Group new		1,578		2,038
Discontinued operations				
Unternehmens Invest AG ²	13.0	9	13.0	6
Wienerberger AG	0.6	21	5.2	132
Full HVB Group		1,608		2,176

1 aggregate total
2 sold in 2007

Where percentages are shown with <, the figure stated has been rounded.
Thus <50.0% corresponds to 49.99%, for instance.

Fair value of investments

The fair value of investment property in the new HVB Group totalled €516 million (2005: €562 million, full HVB Group). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods.

The fair value of major investments in listed non-banks totals €1.6 billion. The comparison with the carrying amount gives rise to a price reserve of around €0.5 billion.

The Bank does not have any entrepreneurial objectives with regard to the interests listed below and does not exercise any influence over financial or operational decisions.

48 Property, plant and equipment

€ millions	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	LEASED ASSETS FROM OPERATING LEASE	CONSTRUCTION IN PROGRESS	TOTAL
Acquisition/production cost					
Balance at Jan. 1, 2006					
Full HVB Group	3,340	2,325	77	53	5,795
Balance at Jan. 1, 2006					
Discontinued operations	(1,088)	(1,032)	(77)	(44)	(2,241)
Balance at Jan. 1, 2006					
HVB Group new	2,252	1,293	—	9	3,554
Changes in consolidated group	149	(13)	—	—	136
Changes arising from foreign currency translation	—	(6)	—	—	(6)
Additions	8	89	—	2	99
Reclassifications	(17)	5	—	(8)	(20)
Disposals	(58)	(179)	—	—	(237)
Non-current assets or disposal groups held for sale	(56)	(7)	—	(1)	(64)
Balance at Dec. 31, 2006					
HVB Group new	2,278	1,182	—	2	3,462
Depreciation and write-ups					
Balance at Jan. 1, 2006					
Full HVB Group	(1,296)	(1,739)	(35)	(2)	(3,072)
Balance at Jan. 1, 2006					
Discontinued operations	299	753	35	1	1,088
Balance at Jan. 1, 2006					
HVB Group new	(997)	(986)	—	(1)	(1,984)
Changes in consolidated group	(46)	13	—	—	(33)
Changes arising from foreign currency translation	—	3	—	—	3
Scheduled depreciation	(50)	(92)	—	—	(142)
Non-scheduled depreciation	(22)	(3)	—	—	(25)
Write-ups	—	—	—	—	—
Reclassifications	10	1	—	—	11
Disposals	39	174	—	—	213
Non-current assets or disposal groups held for sale	37	4	—	1	42
Balance at Dec. 31, 2006					
HVB Group new	(1,029)	(886)	—	—	(1,915)
Carrying amounts					
Balance at Dec. 31, 2005					
Full HVB Group	2,044	586	42	51	2,723
Balance at Dec. 31, 2006					
HVB Group new	1,249	296	—	2	1,547

Notes to the Consolidated Balance Sheet continued

49 Intangible assets

Write-downs on goodwill are shown in a separate item in the income statement. Amortisation of software and other intangible assets is

normally stated under amortisation, depreciation and impairment losses on intangible and tangible assets under operating costs.

Analysis of intangible assets

€ millions	GOODWILL FROM SUBSIDIARIES	SOFTWARE		OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS FOR INTANGIBLE ASSETS
		OF WHICH: ACQUIRED	OF WHICH: INTERNALLY- GENERATED		
Acquisition/production cost					
Balance at Jan. 1, 2006					
Full HVB Group	3,956	884	511	206	327
Discontinued operations at Jan. 1, 2006	(2,865)	(417)	(202)	(152)	(39)
Balance at Jan. 1, 2006					
HVB Group new	1,091	467	309	54	288
Changes in consolidated group	—	(44)	—	(49)	—
Changes arising from foreign currency translation	—	(1)	(1)	—	—
Additions	—	30	17	—	52
Reclassifications	—	80	144	—	(224)
Disposals	—	(33)	(118)	—	(1)
Non-current assets or disposal groups held for sale	(5)	(6)	—	—	—
Balance at Dec. 31, 2006					
HVB Group new	1,086	493	351	5	115
Amortisation, write-downs and write-ups					
Balance at Jan. 1, 2006					
Full HVB Group	(1,901)	(686)	(305)	(120)	(96)
Discontinued operations at Jan. 1, 2006	1,234	349	104	86	—
Balance at Jan. 1, 2006					
HVB Group new	(667)	(337)	(201)	(34)	(96)
Changes in consolidated group	—	43	—	35	—
Changes arising from foreign currency translation	—	1	—	—	—
Scheduled amortisation and write-downs	—	(65)	(73)	(2)	—
Non-scheduled amortisation and write-downs	—	(3)	—	—	—
Write-ups	—	—	—	—	—
Reclassifications	—	—	(88)	—	88
Disposals	—	31	118	—	1
Non-current assets or disposal groups held for sale	3	4	—	—	—
Balance at Dec. 31, 2006					
HVB Group new	(664)	(326)	(244)	(1)	(7)
Carrying amounts					
Balance at Dec. 31, 2005					
Full HVB Group	2,055	198	206	86	231
Balance at Dec. 31, 2006					
HVB Group new	422	167	107	4	108

50 Income tax assets

€ millions	2006	2005
	HVB GROUP NEW	FULL HVB GROUP
Current tax assets	240	224
Deferred tax assets	2,505	3,067
Total	2,745	3,291

51 Other assets

€ millions	2006	2005
	HVB GROUP NEW	FULL HVB GROUP
Positive fair values arising from derivative financial instruments	1,258	3,118
Miscellaneous other assets	1,606	2,117
Prepaid expenses	157	338
Total	3,021	5,573

**Positive fair values arising from derivative
financial instruments**

This item mostly reflects derivatives used to hedge market interest rate risk.

Miscellaneous other assets

This item includes non-banking receivables, among other things.

**52 Balance sheet at December 31, 2006,
HVB Group new (pro forma)**

Assets	Dec. 31, 2006	Dec. 31, 2005	CHANGE	
	€ millions	€ millions	€ millions	in %
Cash reserve	3,211	3,557	(346)	(9.7)
Assets held for trading purposes	107,211	88,601	+ 18,610	+ 21.0
Placements with, and loans and advances to, other banks	54,977	48,897	+ 6,080	+ 12.4
Loans and advances to customers	169,998	185,241	(15,243)	(8.2)
Allowances for losses on loans and advances	(6,068)	(9,228)	+ 3,160	+ 34.2
Investments	19,845	26,981	(7,136)	(26.4)
Property, plant and equipment	1,547	1,568	(21)	(1.3)
Intangible assets	808	947	(139)	(14.7)
Income tax assets	2,745	2,274	+ 471	+ 20.7
Other assets	3,021	2,820	+ 201	+ 7.1
Non-current assets or disposal groups held for sale	1,004	—	+ 1,004	+ 100.0
Total assets	358,299	351,658	+ 6,641	+ 1.9

Notes to the Consolidated Balance Sheet continued

Liabilities	Dec. 31, 2006	Dec. 31, 2005	CHANGE	
	€ millions	€ millions	€ millions	in %
Deposits from other banks	85,672	72,465	+ 13,207	+ 18.2
Amounts owed to other depositors	92,136	93,381	(1,245)	(1.3)
Promissory notes and other liabilities evidenced by paper	76,938	83,784	(6,846)	(8.2)
Liabilities held for trading purposes	59,962	59,775	+ 187	+ 0.3
Provisions	1,683	1,522	+ 161	+ 10.6
Income tax liabilities	1,439	1,347	+ 92	+ 6.8
Other liabilities	5,214	5,636	(422)	(7.5)
Subordinated capital	12,142	13,243	(1,101)	(8.3)
Liabilities of disposal groups held for sale	1,242	—	+ 1,242	+ 100.0
Shareholders' equity	21,871	20,505	+ 1,366	+ 6.7
Shareholders' equity attributable to shareholders of HVB AG	21,019	19,650	+ 1,369	+ 7.0
Minority interest	852	855	(3)	(0.4)
Total shareholders' equity and liabilities	358,299	351,658	+ 6,641	+ 1.9

The following assumptions were applied when preparing the pro forma balance sheets for the new HVB Group at the reporting dates of December 31, 2005 and December 31, 2006:

- To simplify things, it was assumed in the pro forma views at the two reporting dates of December 31, 2005 and December 31, 2006 that the gains on disposal determined on the day of the Extraordinary Meeting of Shareholders on October 25, 2006 would also have been realisable on these two reporting dates. Moreover, costs to sell were disregarded in each case.
- Any effects from reinvesting the gains on disposal in the balance sheet and income statement are not included in the pro forma view, as no definite decisions had been made with regard to possible reinvestment and hence no concrete earnings expectations can be assumed. The effects of these transactions are not shown in the income statement for the same reasons.
- Under applicable German tax law, the gain on disposal arising from the sale of shareholdings is not subject to corporate income tax, solidarity surcharge or municipal trade tax. An amount of 5% of the gain on disposal is classified as a non-deductible operating expense and is consequently subject to corporate income plus solidarity surcharge and municipal trade tax. The gain on the disposal of the foreign branch in Vilnius, Lithuania, is subject to an income tax charge of 19%, while the gain on the disposal of the foreign branch in Riga, Latvia, is subject to an income tax charge of 24%. The tax charges have been allocated to the tax provision.
- As HVB Group exercised in the first quarter of 2006 the new option in the revised IAS 19.93A "Employee benefits" to be applied retroactively permitting unrealised actuarial gains or losses to be carried in shareholders' equity outside the profit or loss for the period, the comparison values for the previous years and the statement of changes in shareholders' equity have been adjusted accordingly.

53 Assets of discontinued operations

€ millions	Dec. 31, 2006
Assets	
Cash reserve	2,874
Assets held for trading purposes	17,188
Placements with, and loans and advances to, other banks	32,694
Loans and advances to customers	88,504
Allowances for losses on loans and advances	(2,755)
Investments	18,296
Property, plant and equipment	915
Intangible assets	1,984
Income tax assets	1,022
Other assets	2,725
Total assets	163,447

54 Non-current assets or disposal groups held for sale

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

- HVB Payments & Services (PAS)
The Bank's PAS payments subsidiary was sold to Postbank with effect from January 1, 2007. Under the terms of the deal, Postbank took over the handling of payments for HVB.
- On December 13, 2006, the Management Board of HVB AG announced the sale to Värde Partners, Inc., of a portfolio of non-strategic real estate carried under investments. Consequently, this real estate portfolio is classified as held for sale compliant with IFRS 5. A valuation expense of €130 million carried in net income from investments was incurred in this context, which IFRS 5.41c requires to be disclosed.

– In addition, various other investment properties previously carried under investments have been classified as held for sale. This is also the case for individual buildings which were carried under property, plant and equipment on account of their predominant use for bank operations.

– A resolution was adopted in the fourth quarter of 2006 to sell the Bank's Nordinvest, Norddeutsche Investment-Gesellschaft mbH (Nordinvest), Hamburg, subsidiary. On January 31, 2007, HVB AG and Pioneer Global Asset Management S.p.A. (PGAM) agreed on a sale to PGAM. The goal is integrate Nordinvest into the Pioneer Investments Group.

– On November 7, 2006, HVB AG announced that it had reached agreement with Barclays Bank PLC on the sale of Indexchange AG for €240 million.

– As HVB Group companies concentrate on their respective core competencies, HVB Banque Luxembourg S. A., Luxembourg, will cease to offer depositary banking services from the middle of 2007 in accordance with a resolution adopted during the year under review. Consequently, the balance sheet totals relating to its depositary banking activities have been classified as held for sale.

€ millions	Dec. 31, 2006
Assets	
Cash reserve	—
Assets held for trading purposes	—
Placements with, and loans and advances to, other banks	3
Loans and advances to customers	614
Allowances for losses on loans and advances	—
Investments	343
Property, plant and equipment	22
Intangible assets	4
Income tax assets	5
Other assets	13
Total assets	1,004

Notes to the Consolidated Balance Sheet continued

55 Subordinated assets

The following asset items include subordinated assets:

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Placements with, and loans and advances to, other banks	1,377	2,690
of which:		
to non-consolidated subsidiaries	96	26
to joint ventures	—	—
to associated companies	—	2
to other participating interests	—	—
Loans and advances to customers	494	791
of which:		
to non-consolidated subsidiaries	—	5
to joint ventures	—	—
to associated companies	—	—
to other participating interests	—	—
Assets held for trading purposes	2,433	1,777
Investments	328	910
Total	4,632	6,168

56 Repurchase agreements

As a seller under repurchase agreements, the new HVB Group entered into sales and repurchase transactions for securities with a carrying amount of €27.0 billion. These securities continue to be shown under the Bank's assets, and the consideration received in return is stated under liabilities (see also Note 72 "Assets assigned or pledged as security for own liabilities"). They comprise mainly repo transactions on international money markets and open-market transactions with central banks.

57 Securitisation

Securitisation involves passing on to the capital market, either in part or in full, loan default risks associated with selected loan portfolios defined precisely in advance. The prime motivation for the Bank's securitisation programmes is the desire to reduce the risk in the Bank's loan portfolio and to achieve the optimum capital allocation for creating value. The transfer of risk and the ensuing reduction in capital requirements is achieved by collateralisation in the form of guarantees or credit derivatives (credit default swaps, credit-linked notes and so on) in the case of synthetic securitisation, and by selling balance sheet assets (true sale) in the case of traditional securitisation.

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

At December 31, 2006, the total volume of lending in the full HVB Group's full set of ongoing securitisation programmes totalled €30.0 billion (2005: €28.9 billion), serving to deduct €21.4 billion (2005: €19.4 billion in accordance with the German Banking Act) from risk-weighted assets in accordance with the German Banking Act.

With the true sale transactions which have been carried out, namely GELDILUX-TS-2005 S.A., GELDILUX-TS-2003 S.A., and SUCCESS-2005 B.V. (Bank Austria Creditanstalt Leasing GmbH), the underlying receivables with a carrying amount of €6.5 billion are still fully shown in the balance sheet in accordance with the elimination regulations of IAS 39. The carrying amount of the associated liabilities in accordance with IAS 39.94 is €6.5 billion.

As a rule, the originator of securitisation programmes retains a small slice of the risk in the form of a first loss piece or an interest subparticipation.

The Bank sold this lowest ranking tranche in the two new transactions Provide A 2006-1 and Promise XXS 2006-1.

In the programmes listed below, the first loss pieces total €203 million and the interest subparticipations €115 million.

ISSUER HVB GROUP NEW	TRANSACTION NAME	LEGAL TRANSACTION MATURITY	TYPE OF ASSET SECURITISED	TOTAL VOLUME OF LENDING	REDUCTION IN RISK- WEIGHTED ASSETS COMPLIANT WITH THE GERMAN BANKING ACT ¹
		Transaction call date		€ millions	€ millions
Bayerische Hypo- und Vereinsbank AG	Amadeus	July 1, 2038 June 28, 2006	Securities portfolio		expired in June 2006
Bayerische Hypo- und Vereinsbank AG	PROMISE-A 2000-1	Feb. 28, 2011 May 30, 2006	Corporate loans		expired in May 2006
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2001-1	Dec. 27, 2039 Dec. 27, 2007	Private mortgage loans	393	370
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2002-1	July 23, 2054 Jan. 18, 2009	Private mortgage loans	2,866	1,162
Bayerische Hypo- und Vereinsbank AG	Building Comfort 2003-1	Oct. 31, 2054 Jan. 23, 2009	Private mortgage loans	2,858	1,156
Bayerische Hypo- und Vereinsbank AG	PROMISE-A 2002-1	July 28, 2012 April 28, 2006	Corporate loans		expired in April 2006
Bayerische Hypo- und Vereinsbank AG	LOMBARD Sec. No. 1	May 15, 2017 Feb. 15, 2006	Corporate loans		expired in March 2006
Bayerische Hypo- und Vereinsbank AG	PROMISE COLOR 2003-1	Feb. 28, 2016 Feb. 28, 2008	Corporate loans	450	419
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2003-1	July 28, 2055 Oct. 28, 2009	Private mortgage loans	2,129	1,386
Bayerische Hypo- und Vereinsbank AG	PROMISE-XXS 2003-1	Sept. 28, 2015 June 28, 2007	Corporate loans	792	720
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2004-1	Nov. 27, 2045 Feb. 27, 2010	Private mortgage loans	2,419	1,497
HVB Banque Luxembourg S. A.	GELDILUX-TS-2003-1	June 15, 2009 Jan. 15, 2007	Euroloans	562	522
Total for 1998–2003 HVB Group new				12,469	7,232
Bayerische Hypo- und Vereinsbank AG	Wolfgang	Dec. 31, 2040 Jan. 1, 2008	Securities portfolio	505	340
Total for 2004 HVB Group new				505	340
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2005-1	Aug. 25, 2048 Feb. 25, 2011	Private mortgage loans	4,146	2,570
HVB Banque Luxembourg S. A.	GELDILUX-TS-2005-1	Dec. 10, 2012 Series 1: July 10, 2008 Series 2: Jan. 10, 2009 Series 3: July 10, 2010	Euroloans	5,488	5,184
Total for 2005 HVB Group new				9,634	7,754
Bayerische Hypo- und Vereinsbank AG	PROVIDE-A 2006-1	Aug. 25, 2048 May 1, 2012	Private mortgage loans	2,843	1,851
Bayerische Hypo- und Vereinsbank AG	PROMISE-XXS 2006-1	May 12, 2024 Aug. 12, 2012	Corporate loans	3,065	2,862
Total for 2006 HVB Group new				5,908	4,713

Notes to the Consolidated Balance Sheet continued

ISSUER HVB GROUP NEW	TRANSACTION NAME	LEGAL TRANSACTION MATURITY	TYPE OF ASSET SECURITISED	TOTAL VOLUME OF LENDING	REDUCTION IN RISK- WEIGHTED ASSETS COMPLIANT WITH THE GERMAN BANKING ACT ¹
		Transaction call date		€ millions	€ millions
Discontinued operations					
Bank Austria Creditanstalt AG	PROMISE Austria-2002	Feb. 28, 2013 May 29, 2006	Corporate loans		expired in May 2006
Bank Austria Creditanstalt Leasing GmbH	Success-2005 B.V.	July 15, 2015 Oct. 15, 2010	Leasing receivables	425	425
Bank Austria Creditanstalt AG	PROMISE XXS-2006-1	May 12, 2024 Aug. 12, 2012		1,074	951
Total discontinued operations				1,499	1,376
Full HVB Group				30,015	21,415

¹ does not include any retained risks in the form of first loss pieces or interest subparticipations.

Other retained tranches are not listed

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

58 Deposits from other banks

Deposits from other banks in Germany and other regions

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Banks in Germany	33,690	37,497
Banks in other regions	51,982	76,242
Total	85,672	113,739

Deposits from other banks, broken down by maturity

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Repayable on demand	20,420	16,394
With agreed maturities	65,252	97,345
up to 3 months	49,263	65,965
from 3 months to 1 year	4,944	7,304
from 1 year to 5 years	5,075	9,562
from 5 years and over	5,970	14,514
Total	85,672	113,739

Amounts owed to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	16,191	2,699
Joint ventures	—	311
Associated companies	7	10,730
Other participating interests	155	136
Total	16,353	13,876

59 Amounts owed to other depositors

Amounts owed to other depositors in Germany and other regions

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Customers in Germany	74,527	75,326
Customers in other regions	17,609	83,095
Total	92,136	158,421

Amounts owed to other depositors, broken down by maturity –
Savings deposits and home-loan savings deposits

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
With agreed maturities		
up to 3 months	13,696	21,102
from 3 months to 1 year	105	3,166
from 1 year to 5 years	723	5,576
from 5 years and over	1,270	6,867
Total	15,794	36,711

Other liabilities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Repayable on demand	40,114	65,303
With agreed maturities	36,228	56,407
up to 3 months	26,366	37,117
from 3 months to 1 year	2,033	7,013
from 1 year to 5 years	2,871	4,781
from 5 years and over	4,958	7,496
Total	76,342	121,710

Amounts owed to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	1,120	1,632
Joint ventures	1	3
Associated companies	6	138
Other participating interests	3,270	2,933
Total	4,397	4,706

60 Promissory notes and other liabilities evidenced by paper

Promissory notes and other liabilities evidenced by paper,
broken down by type of business

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Debt securities in issue	58,238	83,305
Mortgage bonds	26,066	31,047
Public-sector bonds	2,918	5,042
Other debt securities	28,819	46,194
Money market instruments	435	1,022
Registered notes in issue	18,689	21,477
Mortgage bonds	14,463	16,201
Public-sector bonds	4,135	5,212
Other debt securities	91	64
Other promissory notes and liabilities evidenced by paper	11	1,200
Total	76,938	105,982

Promissory notes and other liabilities evidenced by paper,
broken down by maturity

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
With agreed maturities		
up to 3 months	12,134	14,487
from 3 months to 1 year	11,613	19,683
from 1 year to 5 years	32,475	42,956
from 5 years and over	20,716	28,856
Total	76,938	105,982

Promissory notes and other liabilities evidenced by paper,
payable to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	1,388	1,668
Joint ventures	—	—
Associated companies	39	52
Other participating interests	31	104
Total	1,458	1,824

Notes to the Consolidated Balance Sheet continued

61 Liabilities held for trading purposes

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Negative fair values arising from derivative financial instruments	36,964	45,253
Other liabilities held for trading purposes	22,998	18,385
Total	59,962	63,638

The negative fair values arising from derivative financial instruments are carried as liabilities held for trading purposes. Also included under other liabilities held for trading purposes are warrants, certificates and bonds issued by the Bank's trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

62 Provisions

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Provisions for pensions and similar commitments	190	3,905
Allowances for losses on guarantees and indemnities	249	482
Restructuring provisions	243	564
Other provisions	1,001	721
including:		
long-term liabilities to employees	106	126
Total	1,683	5,672

Provisions for pensions, HVB Group new

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

The direct commitments are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. The pension obligations are reduced by the fair value of plan assets. In addition, Group companies make contributions for commitments made by independent pension organisations. The pension obligations funded through pension funds or retirement benefit corporations with matching cover are recognised as defined contribution plans or treated materially as defined contribution obligations in compliance with IAS 19.58 and IAS 19.104. The cost of such plans totalled €71 million (2005: €98 million).

For the purpose of calculating the amounts of these commitments, the valuation parameters of the HVB Group were unchanged:

in %	Dec. 31, 2006/ Jan. 1, 2007	Dec. 31, 2005/ Jan. 1, 2006
Interest rate	4.25	4.25
Expected return on plan assets	5.0	5.0
Rate of increase in pension obligations	1.5	1.5
Rate of increase in future compensation and vested rights	2.0	2.0
Rate of increase over career	0–1.5	0–1.5

Funding status

€ millions	2006 HVB GROUP NEW
Present value of unfunded pension commitments	134
Present value of funded pension commitments	2,399
Outstanding actuarial loss	—
Fair value of plan assets	(2,343)
Capitalised excess cover of plan assets	—
Recognised pension provisions	190

With effect from January 1, 2006, HVB Group has exercised the new option in the revised IAS 19.93 A "Employee benefits" permitting unrealised actuarial gains or losses to be carried in shareholders' equity outside the profit or loss for the period.

Movements in provisions for pension plans shown in the balance sheet are as follows:

€ millions	2006
Balance at Jan. 1, 2006 before change in IAS 19 Full HVB Group	2,797
Effect of initial application of amended IAS 19	1,108
Balance at Jan. 1, 2006 before change in IAS 19 Full HVB Group	3,905
– discontinued operation at Jan. 1, 2006	3,653
Balance at January 1, 2006 HVB Group new	252
Pension expense	52
Payments affecting liquidity	(100)
Allocations to plan assets	—
Excess cover for plan assets	—
Range for treatment not affecting income	(12)
Changes in consolidated group	13
Changes arising from foreign currency translation	—
Non-current assets or disposal groups held for sale	(15)
Balance at Dec. 31, 2006 HVB Group new	190

The following table shows the breakdown of pension expense:

€ millions	2006 HVB GROUP NEW
Present value of the pension claims vested in the year under review	43
Interest expense	107
Expected income from plan assets	(113)
Losses from changes to plans	15
Total	52

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

The following table shows the breakdown of the plan assets of the trustees used to fund the pension commitments:

€ millions	2006 HVB GROUP NEW
Receivables from (secured by) HVB AG	1
Investment securities	2,342
Fixed-income securities	—
Total	2,343

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

€ millions	2006 HVB GROUP NEW
Balance at Jan. 1, 2006	2,255
Plan assets of pension plans included for the first time	—
Allocations to plan assets	—
Actual income from plan assets	113
Disbursements to beneficiaries	(95)
Additional allocations in the form of benefits not taken	99
Changes in exchange rates	(2)
Changes in consolidated group	(12)
Non-current assets or disposal groups held for sale	(15)
Balance at Dec. 31, 2006	2,343

Related party relationships with regard to pension plans

€ millions	2006 HVB GROUP NEW
Funding body for pension plans in the form of defined contribution plans	
Placements, loans and advances	—
Allowances for losses on loans and advances	—
Liabilities	28
Net write-downs of loans and provisions for guarantees and commitments	—
Funding body for pension plans in the form of defined benefit plans	
Placements, loans and advances	—
Allowances for losses on loans and advances	—
Liabilities	40
Net write-downs of loans and provisions for guarantees and commitments	—

Notes to the Consolidated Balance Sheet continued

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

€ millions	ALLOWANCES FOR LOSSES ON GUARANTEES AND INDEMNITIES	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
Balance at Jan. 1, 2006 Full HVB Group	482	564	721
Discontinued operations	(150)	(112)	(232)
Balance at Jan. 1, 2006 HVB Group new	332	452	489
Changes in consolidated group	(1)	(41)	350
Changes arising from foreign currency translation	—	—	—
Transfers to provisions	67	26	264
Reversals	(41)	(11)	(63)
Reclassifications	(105)	(61)	29
Amounts used	(3)	(101)	(66)
Non-current assets or disposal groups held for sale	—	(21)	(2)
Balance at Dec. 31, 2006 HVB Group new	249	243	1,001

The allowances for losses on guarantees and indemnities primarily include allowances for guarantee risks, documentary credits, irrevocable credit commitments and litigation risks in the lending business.

The restructuring provisions set up in 2004 and 2005 will be used in 2007 and 2008 following the partial use in 2006.

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

63 Income tax liabilities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Current tax liabilities	562	563
Deferred tax liabilities	816	1,328
Total	1,378	1,891

64 Other liabilities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Negative fair values arising from derivative financial instruments	1,569	3,783
Miscellaneous other liabilities	3,415	5,233
Deferred income	230	390
Total	5,214	9,406

Negative fair values arising from derivative financial instruments

This item mostly reflects derivatives used to hedge market interest rate risk.

Miscellaneous other liabilities

This item includes mostly absorbed losses, offsetting balances and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

65 Subordinated capital

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Subordinated liabilities	8,514	11,990
Participating certificates outstanding	619	1,830
Hybrid capital instruments	3,009	3,792
Total	12,142	17,612

Subordinated capital, broken down by maturity

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
With agreed maturities		
up to 3 months	570	459
from 3 months to 1 year	473	549
from 1 year to 5 years	6,022	7,661
from 5 years and over	5,077	8,943
Total	12,142	17,612

Participating certificates outstanding

The participating certificates outstanding comprise the following major issues:

ISSUER	YEAR OF ISSUE	TYPE	NOMINAL AMOUNT, € millions	INTEREST RATE	MATURITY
Bayerische Hypo- und Vereinsbank AG	1997	Bearer participating certificates	409	6.75	2007
Bayerische Hypo- und Vereinsbank AG	2001	Bearer participating certificates	100	6.30	2011

Pursuant to Section 10 (4, 5 and 5a) and Section 7 of the German Banking Act and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities, participating certificates outstanding and hybrid capital instruments) was carried as core capital, supplementary capital and tier III capital in 2006.

Subordinated liabilities

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

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

The Bank incurred interest expenses of €534 million in connection with subordinated liabilities. This item includes proportionate interest of €162 million.

There were no subordinated liabilities payable to related entities in 2006.

Notes to the Consolidated Balance Sheet continued

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

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

If there is a reduction in the amount paid to the holders, the amount which is reduced has to be subsequently paid in the following financial years – as long as such payment does not result in a net loss. However, holders are only entitled to such subsequent payments during the life of the participating certificates.

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

Hybrid capital instruments

At December 31, 2006, the new HVB Group had hybrid core capital of €2,707 million (compliant with the German Banking Act) to bolster its capital base.

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

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

In contrast to traditional components of core capital such as shares, the claim to a share of profit takes the form of a fixed interest payment in the case of hybrid capital. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long term.

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

66 Liabilities of discontinued operation

The following table shows the breakdown of the liabilities of discontinued operations:

€ millions	2006
Deposits from other banks	50,495
Amounts owed to other depositors	59,641
Promissory notes and other liabilities evidenced by paper	21,898
Liabilities held for trading purposes	5,237
Provisions	4,521
Income tax liabilities	655
Other liabilities	3,597
Subordinated capital	5,634
Total liabilities	151,678

67 Liabilities of disposal groups held for sale

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

€ millions	2006
Deposits from other banks	8
Amounts owed to other depositors	1,176
Liabilities held for trading purposes	—
Provisions	37
Income tax liabilities	1
Other liabilities	20
Total liabilities	1,242

68 Shareholders' equity

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

Breakdown of subscribed capital

At December 31, 2006, the subscribed capital of HVB AG totalled €2,252 million (2005: €2,252 million) and consisted of the following:

	2006	2005
Shares of common bearer stock (no par shares)	736,145,540	736,145,540
Shares of registered preferred stock (no par shares)	14,553,600	14,553,600

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

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

Authorised capital increase

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT DEC 31, 2006 € millions
2004	April 29, 2009	990	990

The resolution adopted at the Annual General Meeting of Shareholders on April 29, 2004 with regard to the release of the remaining €137 million and the simultaneous approval of a new amount of €990 million was entered in the Commercial Register on December 18, 2006.

Conditional capital

YEAR AUTHORISED	AVAILABLE UNTIL	ORIGINAL AMOUNT € millions	BALANCE AT DEC 31, 2006 € millions
2003	May 14, 2008	375	375

69 Treasury stock

At December 31, 2006, neither HVB AG nor any controlled companies nor any companies in which a majority interest is held had significant holdings of shares (treasury stock) or other equity instruments of HVB AG in their portfolios.

Compliant with Section 71 (1) No. 7 of the German Stock Corporation Act, the purchase of treasury stock during the reporting period from January 1 to May 23, 2006 was carried out on the basis of the authorisation issued under the resolutions passed at the Bank's Annual General Meeting of Shareholders on May 12, 2005; the purchase of treasury stock during the period from May 24 to December 31, 2006 was carried out on the basis of the authorisation issued under the resolutions passed at the Bank's Annual General Meeting of Shareholders on May 23, 2006.

For the purposes of securities trading as permitted under Section 71 (1) No. 7 of the German Stock Corporation Act, a total of 3,625,295 shares of treasury stock were purchased by HVB AG and controlled or majority-owned companies at the respective current market prices as part of normal securities trading, and a total of 3,201,833 shares of treasury stock were sold at the respective current market prices.

The treasury stock was purchased at an average price of €30.27 per share and resold at an average price of €30.51 per share. The shares purchased during the period under review amounted to an equivalent of €11 million, or 0.5% of capital stock.

The highest number of shares of treasury stock held by the Bank on any given day during the reporting period was 81,368, equivalent to €0.2 million or 0.01% of capital stock.

Within the scope of lending operations, the Bank and its controlled or majority-owned companies had, in accordance with Section 71e (1) 2 of the German Stock Corporation Act, received a total of 76,175 treasury shares as collateral as of December 31, 2006. This represents €0.2 million, or 0.01% of capital stock.

70 Foreign currency assets and liabilities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Foreign currency assets ¹	62,846	116,933
of which:		
US dollars	42,718	51,852
Japanese yen	4,666	8,732
Swiss francs	5,478	21,318
Foreign currency liabilities (excl. equity capital) ²	60,740	97,046
of which:		
US dollars	38,035	40,933
Japanese yen	2,423	7,291
Swiss francs	2,534	18,086

¹ foreign currency assets of discontinued operations in 2006: €56,987 million

² foreign currency liabilities of discontinued operations in 2006: €54,355 million

Notes to the Consolidated Balance Sheet continued

The differences in amount between foreign-currency assets and liabilities arise because only on-balance-sheet items are shown in the list. Off-balance-sheet items (i. e. also transactions concluded for hedging purposes) are not included.

71 Trust business

The following tables show the volume of trust business not stated in the consolidated balance sheet.

Trust assets

€ millions	2006	2005
Placements with, and loans and advances to, other banks	267	402
Loans and advances to customers	424	1,279
Equity securities and other variable-yield securities	90	6,656
Debt securities	—	2,988
Participating interests	—	35
Property, plant and equipment	—	113
Other assets	—	11
Remaining trust receivables	—	1
HVB Group new	781	
Discontinued operations and disposal group held for sale	13,462	
Full HVB Group	14,243	11,485

Trust liabilities

€ millions	2006	2005
Deposits from other banks	8	231
Amounts owed to other depositors	374	10,297
Promissory notes and other liabilities evidenced by paper	399	803
Miscellaneous other liabilities	—	154
HVB Group new	781	
Discontinued operations and disposal group held for sale	13,462	
Full HVB Group	14,243	11,485

72 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of the new HVB Group for which the Bank provides collateral are special credit facilities provided by KfW and similar institutions, which the Bank has issued as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements and for securities lending transactions.

The own liabilities referred to here break down as follows:

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Deposits from other banks	28,977	43,734
Amounts owed to other depositors	5,520	5,058
Promissory notes and other liabilities evidenced by paper	—	4,401
Contingent liabilities	188	6,510
Total	34,685	59,703

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

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Assets held for trading purposes	12,243	13,168
Placements with, and loans and advances to, other banks	—	7,216
Loans and advances to customers	8,878	18,597
Investments	13,564	20,722
Property, plant and equipment	—	—
Total	34,685	59,703

73 Collateral received that the new HVB Group may sell on or pledge on

As part of repurchase agreements and securities lending transactions, the new HVB Group has received collateral that it may sell on or pledge on at any time without the collateral provider having to be in arrears. The associated fair value in the new HVB Group totals €20 billion.

Notes to the Cash Flow Statement

74 Notes to items in the cash flow statement

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

The cash and cash equivalents shown correspond to the cash reserve item in the balance sheet, and contain cash on hand, balances with central banks and Treasury bills and other bills eligible for refinancing with central banks.

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

In the 2006 financial year, investments in fully consolidated companies were acquired for a purchase price of €216 million, which resulted in an outflow of cash and cash equivalents totalling €156 million. At the same time, proceeds from the disposal of investments totalling €4,783 million were generated, €1,607 million of which was in cash. The following table shows the breakdown of assets and liabilities relating to fully consolidated companies acquired and sold:

FULL HVB GROUP € millions	ACQUIRED	SOLD
Assets	494	18,313
Cash reserve	41	1,050
Assets held for trading purposes	—	822
Placements with, and loans and advances to, other banks	54	3,406
Loans and advances to customers	113	10,071
Allowances for losses on loans and advances	(6)	(596)
Investments	206	2,690
Property, plant and equipment	15	285
Other assets	71	585
Liabilities	494	18,313
Deposits from other banks	128	2,861
Amounts owed to other depositors	154	11,053
Provisions	6	89
Other liabilities	206	4,310

Changes in the balance of cash and cash equivalents arising from changes in the group of consolidated companies are shown separately in the cash flow statement.

Information on Financial Instruments

Compliant with IAS 32

75 Fair value of financial instruments

The fair values stated for financial instruments as defined in IAS 32 are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

€ billions	2006 CARRYING AMOUNT	2006 FAIR VALUE	2005 CARRYING AMOUNT	2005 FAIR VALUE
Assets				
Cash reserve	3.2	3.2	7.8	7.8
Assets held for trading purposes	107.2	107.2	103.5	103.5
Placements with, and loans and advances to, other banks ¹	41.3	41.1	57.2	57.2
Loans and advances to customers ¹	170.0	170.7	274.6	278.5
Investments ²	19.8	19.9	45.6	45.9
Other assets ³	1.3	1.3	5.6	5.6
HVB Group new	342.8	343.4		
Discontinued operations and disposal group held for sale	160.2	160.6		
Full HVB Group	503.0	504.0	494.3	498.5
Liabilities				
Deposits from other banks	(85.7)	(85.6)	(113.7)	(113.8)
Amounts owed to other depositors	(92.1)	(92.4)	(158.4)	(159.1)
Promissory notes and other liabilities evidenced by paper	(76.9)	(78.4)	(106.0)	(108.8)
Liabilities held for trading purposes	(60.0)	(60.0)	(63.6)	(63.6)
Other liabilities ⁴	(1.6)	(1.6)	(9.4)	(9.4)
Subordinated capital	(12.1)	(12.4)	(17.6)	(17.9)
HVB Group new	(328.4)	(330.4)		
Discontinued operations and disposal group held for sale	(144.1)	(143.9)		
Full HVB Group	(472.5)	(474.3)	(468.7)	(472.6)

¹ fair values calculated taking into account allowances for losses on loans and advances

² held-to-maturity, available-for-sale and fair-value-option investments

³ positive fair values of derivative financial instruments compliant with IAS 39

⁴ negative fair values of derivative financial instruments compliant with IAS 39

€ billions	2006 CARRYING AMOUNT	2006 FAIR VALUE	2005 CARRYING AMOUNT	2005 FAIR VALUE
Other items				
Irrevocable credit commitments HVB Group new	45.2	45.2		
Irrevocable credit commitments				
Discontinued operations and disposal group held for sale	11.7	11.7		
Other items full HVB Group	56.9	56.9	52.8	52.8

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash reserve as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates.

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

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

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally acceptable models used to calculate the price of options. The common Black & Scholes (equity, currency and index instruments) or lognormal models (interest instruments) are used to value simple European options. In the case of more exotic instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the exotic instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters.

The fair values of irrevocable credit commitments and contingent liabilities are equivalent to their carrying amounts.

The difference at HVB Group between the fair values and carrying amounts totals €1.0 billion for assets and €1.8 billion for liabilities. The balance of these values is a negative €0.8 billion.

Other Information

76 Key capital ratios (based on German Commercial Code), full HVB Group

Under Section 10, German Banking Act, in conjunction with Section 2, Principle 1, the core capital ratio (ratio of core capital to risk-weighted assets) must be at least 4.0% and the equity capital ratio (ratio of equity capital to risk-weighted assets) at least 8.0%. In addition, the equity funds ratio must be at least 8.0%. The latter is calculated as the ratio of total equity funds to the sum of risk-weighted assets and eligible amounts for market risk positions multiplied by 12.5.

Equity funds consist of core capital and supplementary capital (equity capital), plus tier III capital. Tier III capital reflects short-term subordinated liabilities used exclusively to cover market risk positions. The Bank uses internal models to measure market risk positions in the corporate group.

Based on financial statements approved by the Supervisory Board, equity funds, risk assets and market risk positions at December 31, 2006 were as follows:

€ millions	2006 FULL HVB GROUP	2005 FULL HVB GROUP
Equity funds¹		
Tier I		
Shares of common stock	2,208	2,208
Additional paid-in capital, retained earnings, minority interest, treasury stock	10,298	9,722
Hybrid capital instruments (silent partnership certificates and trust preferred securities) excluding prorated interest	2,707	3,702
Other	3,101	1,459
Total core capital	18,314	17,091
Tier II		
Unrealised reserves in land and buildings and in securities	192	227
Offsetting reserves for general banking risks	46	49
Cumulative shares of preferred stock	70	61
Participating certificates outstanding	1,283	1,721
Subordinated liabilities	9,157	8,545
Other	(613)	(653)
Total supplementary capital	10,135	9,950
Deductible items	(1,745)	(1,723)
Total equity capital	26,704	25,318
Tier III capital	363	697
Total equity funds	27,067	26,015

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

	2006 FULL HVB GROUP	2005 FULL HVB GROUP
Risk-weighted assets (€ billions)		
On-balance-sheet assets	187.7	200.0
Traditional off-balance-sheet assets	31.5	32.3
Banking-book derivatives	0.1	0.2
Total risk-weighted assets	219.3	232.5
Total market risk positions (€ billions)	11.0	12.2

At December 31, 2006, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows:

in %	2006 FULL HVB GROUP	2005 FULL HVB GROUP
Core capital ratio (core capital/risk-weighted assets)	8.4	7.3
Core capital ratio (core capital/ [risk-weighted assets + 12.5 x market risk positions])	8.0	7.0
Equity capital ratio (equity capital/risk-weighted assets)	12.2	10.9
Equity funds ratio (equity funds/ [risk-weighted assets + 12.5 x market risk positions])	11.8	10.6

Pursuant to Sections 10 and 10a of the German Banking Act, the Bank's equity funds amount to €27,067 million. The liable equity, comprising core capital and supplementary capital less the deductible items, totals €26,704. Supplementary capital includes unrealised reserves of €192 million pursuant to Section 10 (2b) 1 No. 6 of the German Banking Act.

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

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

FULL HVB GROUP € millions	CORE CAPITAL	SUPPLEMENTAR CAPITAL	DEDUCTIBLE ITEMS	TIER III CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet					
Shareholders' equity	19,988				19,988
Subordinated capital (hybrid capital instruments, participating certificates outstanding and subordinated liabilities)	3,409	14,367			17,776
Reconciliation to the equity funds compliant with the German Banking Act					
Consolidated profit (loss)	(622)				(622)
Available-for-sale reserve	(1,195)				(1,195)
Hedge reserve	323				323
Cumulative shares of preferred stock	(70)	70			0
Deduction of intangible assets	(2,804)				(2,804)
Use of goodwill privilege under banking supervisory regulations	1,475	(632)			843
Ineligible profit components under banking supervisory regulations	(1,459)				(1,459)
Deductible items due to banking supervisory regulations (e.g. market-smoothing, residual maturity limitation, proportionate interest)	(691)	(3,564)			(4,255)
Reclassifications due to banking supervisory regulations		(363)		363	0
Eligible tier III capital unused				0	0
Unrealised reserves in land and buildings and in securities		192			192
Deductible items due to non-consolidated investments			(1,745)		(1,745)
Other effects (e.g. differences in group of consolidated companies and principles of consolidation)	(40)	65	0	0	25
Equity funds compliant with German Banking Act	18,314	10,135	(1,745)	363	27,067

Other Information continued

77 Contingent liabilities and other commitments

€ millions	2006	2005
Contingent liabilities¹	24,977	39,534
Rediscounted bills of exchange	0	21
Guarantees and indemnities	24,977	39,513
Loan guarantees	6,436	10,141
Guarantees and indemnity agreements	15,874	25,499
Documentary credits	2,667	3,873
Other commitments	58,298	61,058
Commitments arising from sale option to resell transactions	0	449
Irrevocable credit commitments	45,243	52,341
Book credits	41,412	45,003
Guarantees	2,600	4,514
Mortgage and municipal loans	1,161	2,681
Bills of exchange	70	143
Delivery obligations from securities lending transactions	11,772	5,940
Other commitments	1,283	2,328
HVB Group new	83,725	
Discontinued operations and disposal group held for sale	23,622	603
Full HVB Group	106,897	101,195

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

Contingent liabilities payable to related entities

€ millions	2006 HVB GROUP NEW	2005 FULL HVB GROUP
Non-consolidated subsidiaries	438	793
Joint ventures	—	323
Associated companies	—	55
Other participating interests	—	—
Total	438	1,171

Neither contingent liabilities nor other commitments contain any significant items.

In the new HVB Group, the largest single items under other commitments are commitments arising from rental, leasing and maintenance agreements, and from rental of office space and use of technical equipment, amounting to €678 million (2005: €458 million) each year. The contracts run for standard market periods and no charges have been put off to future years.

The Bank has declared its willingness to provide income subsidies to offset any losses incurred by hotel operating companies in which it holds an indirect majority stake.

As part of real estate financing and development operations, the Bank has assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by its H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement. The Bank has provided performance guarantees for the holders of shares in bond/money market funds offered by some of its capital investment companies.

Commitments for uncalled payments on shares not fully paid up amounted to €549 million at year-end 2006 (2005: €519 million), and similar obligations for shares in cooperatives totalled €1 million (2005: €1 million). Under Section 22 (3 and 24) of the German Private Limited Companies Act, the Bank was also liable for defaults on such calls in respect of three companies for an aggregate of €1 million (2005: €16 million).

Under Section 26 of the German Private Limited Companies Act and End of 2005 on the basis of its holding in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, the Bank was liable for calls for additional capital of €46 million (2005: €45 million), and of €8 million (2005: €14 million) with regard to CMP Fonds I GmbH at year-end 2006. In addition, under Article 5 (4) of the Articles of Association, the Bank is jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

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

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

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

78 Statement of responsibility

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

1. Banks in Germany

Bankhaus Neelmeyer AG, Bremen

DAB Bank AG, Munich¹

Financial Markets Service Bank GmbH, Munich

Vereinsbank Victoria Bauspar Aktiengesellschaft, Munich

2. Banks in other regions

HVB Banque Luxembourg Société Anonyme, Luxembourg

HVB Singapore Limited, Singapore

3. Financial companies

Beteiligungs- und Handelsgesellschaft in Hamburg mit beschränkter Haftung, Hamburg

HVB Alternative Financial Products AG, Vienna

4. Companies with bank-related auxiliary services

HypoVereinsFinance N.V., Amsterdam

¹ the company provides a Statement of Responsibility with the same wording for direktanlage.at AG, Salzburg, in its annual report

The Bank's commitment arising from the above Statement of Responsibility declines by the extent to which the Bank's shareholding decreases in the future with regard to such commitments of the relevant company that did not arise until after the Bank's shareholding decreased.

HVB AG no longer provides a Statement of Responsibility for companies which left HVB Group during the 2006 financial year or an earlier financial year but for which a Statement of Responsibility had been provided in earlier annual reports. Liabilities of these companies arising after their departure from HVB Group are not covered by either the above Statement of Responsibility or by Statements of Responsibility provided earlier.

HVB AG no longer issues a Statement of Responsibility covering

- Bank Austria Creditanstalt Aktiengesellschaft, Vienna, which left HVB Group on January 9, 2007, or
- AS UniCredit Bank, Riga (formerly HVB Bank Latvia AS, Riga), which left HVB Group on January 10, 2007, respectively, and
- Joint Stock Commercial Bank HVB Bank Ukraine, Kiev, with regard to which the transfer of shares is expected to take place at the end of the first quarter of 2007,

but for which previous Annual Reports of HVB AG carried Statements of Responsibility. Liabilities of these companies accruing after they left HVB Group at the date stated in each case are no longer covered by previously issued Statements of Responsibility.

79 Information on relationships with related parties

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

At the Annual General Meeting of Shareholders on May 23, 2006, the so-called opting-out clause under the Act concerning the Disclosure of Management Board Remuneration was used and, following a proposal by the Management Board and Supervisory Board, it was resolved that in the Bank's annual and consolidated financial statements for the financial years 2006 to 2010, at the latest until March 22, 2011, however, the information required in Section 285 (1) No. 9a and (5) to (9) and Section 314 (1) No. 6a (5) to (9) of the German Commercial Code is not to be disclosed. Hence the emoluments paid to members of the Management Board are not shown on an individualised basis.

Other Information continued

Emoluments paid to members of the Supervisory Board and Management Board and to executives at Bereichsvorstand level

€ millions	FIXED SALARY		PROFIT-RELATED COMPONENTS		LONG-TERM INCENTIVES ¹		TOTAL	
	2006	2005	2006	2005	2006	2005	2006	2005
Management Board of HVB AG	4	5	5	4	1	7	10	16
Supervisory Board of HVB AG								
for Supervisory Board activities	0.8	1	0	0	0	0	0.8	1
Former members of the Management Board of HVB AG and their surviving dependants							11	12
Executives at Bereichsvorstand level							22	29
Severance packages/provisions for severance packages for former members of the Management Board and executives at Bereichsvorstand level							2	25

¹ cash value of the share-based compensation

Details of share-based compensation

	Number
Members of the Management Board of HVB AG	
Options	
Stock options 2005	472,000
Stock options 2006	508,633
Performance shares	
Performance shares 2005	201,000
Performance shares 2006	195,333

For more details of the stock options and performance shares, please refer to Note 32, where the UniCredit Group's long-term incentive programme underlying these instruments is described.

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

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

Under the pension commitments to the members of the Management Board, a total of €560,000 was transferred to provisions for pensions in 2006, €463,000 million of which was deferred compensation invested in a fund in 2006.

At December 31, 2006, HVB AG had pension provisions for members of the Management Board and their surviving dependants compliant with Section 285, German Commercial Code, totalling €92 million. The pension provision for retired members of the Management Board compliant with IFRS totalled €124 million.

No compensation was paid to members of the Supervisory Board in 2006 for services rendered.

In 2006, expense allowances totalling €86,978.73 were paid to members of the Supervisory Board.

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2006.

€	FIXED COMPENSATION	VARIABLE COMPENSATION	COMPENSATION FOR COMMITTEE WORK	TOTAL (EXCL. VALUE-ADDED TAX)
Alessandro Profumo, Chairman	50,000.00	22,400.00	20,000.00	92,400.00 (63,155.40) ⁶
Peter König ¹ , Deputy Chairman	37,500.00	16,800.00	16,328.77	70,628.77
Dr Lothar Meyer, Deputy Chairman	37,500.00	16,800.00	40,000.00	94,300.00
Aldo Bulgarelli	25,000.00	11,200.00		36,200.00 (24,742.70) ⁶
Beate Dura-Kempf ²	20,410.96	9,144.11		29,555.07
Sergio Ermotti ³	9,041.10	4,050.41		13,091.51 (8,948.05) ⁶
Paolo Fiorentino	25,000.00	11,200.00		36,200.00 (24,742.70) ⁶
Dario Frigerio	25,000.00	11,200.00		36,200.00 (24,742.70) ⁶
Klaus Grünewald	25,000.00	11,200.00		36,200.00
Anton Hofer	25,000.00	11,200.00	20,000.00	56,200.00
Friedrich Koch	25,000.00	11,200.00		36,200.00
Hanns-Peter Kreuser	25,000.00	11,200.00		36,200.00
Ranieri de Marchis	25,000.00	11,200.00	20,000.00	56,200.00 (38,412.70) ⁶
Herbert Munker ⁴	4,589.04	2,055.89	3,671.23	10,316.16
Roberto Nicastro	25,000.00	11,200.00		36,200.00 (24,742.70) ⁶
Vittorio Ogliengo	25,000.00	11,200.00		36,200.00 (24,742.70) ⁶
Carlo Salvatori ⁵	15,958.90	7,149.59		23,108.49 (15,794.65) ⁶
Professor Hans-Werner Sinn	25,000.00	11,200.00		36,200.00
Maria-Magdalena Stadler	25,000.00	11,200.00		36,200.00
Ursula Titze	25,000.00	11,200.00		36,200.00
Jens-Uwe Wächter	25,000.00	11,200.00		36,200.00
Helmut Wunder	25,000.00	11,200.00		36,200.00
Total	550,000.00	246,400.00	120,000.00	916,400.00 800,624.30⁶

1 member of the Audit Committee since March 9, 2006

2 since March 9, 2006

3 since August 22, 2006

4 until March 8, 2006

5 until August 21, 2006

6 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

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

€ millions	2006	2005
Management Board of HVB AG	5	1
Supervisory Board of HVB AG	1	1
Executives at Bereichsvorstand level	2	7

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

Other Information continued

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

Section 15a of the German Securities Trading Act (WpHG) requires the members of the Management Board and the Supervisory Board, and certain people closely related to them, to disclose transactions involving shares of HVB AG, or financial instruments based on such shares, provided the value of such transactions exceeds the amount of €5,000.00 in a given calendar year.

The following transactions have been notified to HVB AG for the 2006 financial year:

NAME, FUNCTION	TYPE OF TRANSACTION	NAME OF SECURITY	GERMAN SECURITIES IDENTIFICATION NUMBER/ISIN NUMBER	COMPLETION DATE	NUMBER	PRICE PER SHARE in €	VOLUME in €
Helmut Wunder, member of the Supervisory Board of HVB AG	Sale	Common bearer stock of Bayerische Hypo-und Vereinsbank Aktiengesellschaft	WKN: 802200 ISIN DE 0008022005	September 14, 2006	500	33.50	16,750.00

All transactions have been published under Corporate Governance on the Bank's website at www.hvb.com/dealings.

At December 31, 2006, the members of the Management Board held no shares of HVB AG. At that same date, the members of the Supervisory Board held less than 1% of the entire stock issued by HVB AG.

80 Fees paid to the independent auditors

The following table shows the breakdown of fees of €14 million recorded as expense in the year under review, as paid to the independent auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, for activities performed for the full HVB Group:

€ millions	2006
Fee for auditing of the financial statements	9
Other auditing and appraisal services	1
Tax advisory services	1
Other services	3

81 Employees

The average number of people employed by the Bank was as follows:

	2006	2005
Employees (excluding trainees)	24,848	26,281
Full-time	19,712	21,038
Part-time	5,136	5,243
Trainees	1,244	1,174
Discontinued operations	24,012	31,408

82 Offices

Offices, broken down by region

	JAN. 1, 2006 FULL HVB GROUP	ADDITIONS		REDUCTIONS		CHANGE IN CONSOLIDATED GROUP	DEC. 31, 2006 FULL HVB GROUP	DEC. 31, 2006 DISCONTINUED OPERATIONS	DEC. 31, 2006 HVB GROUP NEW
		NEW OPENINGS		CLOSURES	CONSOLI- DATIONS				
Germany									
Baden-Wuerttemberg	25	1					26		26
Bavaria	394	1		1	36		430		430
Berlin	8				3		11		11
Brandenburg	8						8		8
Bremen	8						8		8
Hamburg	35		1		1		35		35
Hesse	16	1			1		18	1	17
Lower Saxony	27						27		27
Mecklenburg-Western Pomerania	8						8		8
North Rhine-Westphalia	21				1		22		22
Rhineland-Palatinate	22						22		22
Saarland	9						9		9
Saxony	10				4		14		14
Saxony-Anhalt	11	1					12		12
Schleswig-Holstein	73			1			72		72
Thuringia	9				1		10		10
Subtotal	684	4	1	2	47		732	1	731
Other regions									
Austria	401	2		17	6		392	383	9
Other western Europe	15	2			6		23	4	19
Central and eastern Europa	1,185	81	20		(542)		704	700	4
Africa	2		1				1		1
Americas	14		1		(1)		12	1	11
Asia	15	1	3				13		13
Australia	0						0		0
Subtotal	1,632	86	25	17	(531)		1,145	1,088	57
Total	2,316	90	26	19	(484)		1,877	1,089	788

Other Information continued

83 Members of the Supervisory Board and Management Board

Supervisory Board

Alessandro Profumo
Chairman

Peter König
Deputy Chairman

Dr Lothar Meyer
Deputy Chairman

Aldo Bulgarelli

Beate Dura-Kempf
since March 9, 2006

Sergio Ermotti
since August 22, 2006

Paolo Fiorentino

Dario Frigerio

Klaus Grünewald

Günter Guderley
since January 1, 2007

Anton Hofer
until December 31, 2006

Friedrich Koch

Hanns-Peter Kreuser

Ranieri de Marchis

Herbert Munker
until March 8, 2006

Roberto Nicastro

Vittorio Ogliengo

Carlo Salvatori
until August 21, 2006

Professor Hans-Werner Sinn

Maria-Magdalena Stadler

Ursula Titze

Jens-Uwe Wächter

Helmut Wunder

Management Board

Johann Berger
until August 31, 2006

Willibald Cernko
since February 23, 2006

Jan-Christian Dreesen
until February 9, 2006

Rolf Friedhofen

Heinz Laber

Dr Stefan Schmittmann
(deputy Board member
until September 11, 2006)

Ronald Seilheimer

Matthias Sohler

Dr Wolfgang Sprissler
Board Spokesman

Andrea Umberto Varese

Andreas Wölfer

Munich, March 20, 2007

Bayerische Hypo- und Vereinsbank
Aktiengesellschaft

The Management Board

Cernko Friedhofen Laber Schmittmann

Seilheimer Sohler Sprissler Varese Wölfer

Auditor's Report

We have audited the consolidated financial statements prepared by the Bayerische Hypo- und Vereinsbank Aktiengesellschaft, München comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to

possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Munich, March 20, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Becker
Wirtschaftsprüfer

Pukropski
Wirtschaftsprüfer