

Strategy, Business Model and Results

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Chairman's Letter



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

Dear Shareholders,

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

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

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

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

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

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

The operating and business results described in this Annual Report are testimony that the strategic and operational decisions made up to this point have been well-founded. Even more important, however, has been the extraordinary commitment demonstrated by all those who work at HVB and the fact that these results

were achieved despite the uncertainties and immense pressures faced by our colleagues, and I would like to express my heartfelt thanks to all of them.

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

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



Alessandro Profumo
Chairman of the Supervisory Board

Letter to our Shareholders



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

Dear shareholders,
business partners
and friends of HVB,

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

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

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

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

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

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

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

Letter to our Shareholders continued

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

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

All the divisions have a clear strategy for boosting their business volumes, their market shares and their profitability with a view to making themselves even more attractive for their respective customer groups. Last year we already made a successful return to the marketplace with a range of product and service promotions. The package of measures we are using to seize the initiative comprises new custo-

mer care models and attractive products, like the free Welcome Account for our retail customers. In addition, we are further expanding our regional presence, especially in corporate banking and wealth management. The impressive number of new customers that we succeeded in acquiring last year implies that, here too, we are on the right track.

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

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

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

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

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

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

2006 has seen us build an outstanding position from which to continue our efforts in Germany. We aim to exploit this tailwind throughout the current financial year. Back in the 16th century, the French author Michel de Montaigne commented: “No wind serves him who addresses his

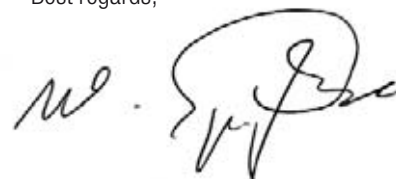
voyage to no certain port.” In line with this, we have set ourselves highly ambitious financial targets for this and the subsequent years, as outlined at the Capital Markets Day staged by the UniCredit Group at the start of July 2006. We will continue to advance the value-based realignment of our Bank. Thus we are looking to be among the top German banks in terms of profitability.

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

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

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

Best regards,



Wolfgang Sprissler

Summary of Divisional Results

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

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

- Retail division: over 100% increase¹, as rising revenues augmented the effect of an important decrease in operating costs (–8.7% yoy).
- Wealth Management division (WEM): increase¹ of 17.6% yoy despite Activest disposals, with Private Banking posting a solid 45% yoy rise thanks to double digit top line growth, combined with a significant decrease in costs.
- Corporates & Commercial Real Estate Financing division (CCREF): increase¹ of 9.8% yoy with a distinct rise in Corporates, stemming from both higher revenues and lower costs, and the ongoing restructuring of CREF carried on with no significant drag on operating profit.
- Markets & Investment Banking division (MIB): increase¹ of 43.3% yoy as the higher level of activity of all major business segments led to over 20% increase in operating revenues.

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

¹ increase in Group operating profit

Divisional highlights¹

€ millions	RETAIL	WEALTH MANAGEMENT	CORPORATES & COMMERCIAL REAL ESTATE FINANCING	MARKETS & INVESTMENT BANKING	
Total revenues					
2006	1,728	550	1,103 ³	199 ⁴	2,279
2005	1,694	569	1,043 ³	233 ⁴	1,889
Operating costs					
2006	(1,422)	(336)	(444) ³	(51) ⁴	(1,163)
2005	(1,557)	(387)	(459) ³	(82) ⁴	(1,110)
Operating profit					
2006	306	214	659 ³	148 ⁴	1,116
2005	137	182	584 ³	151 ⁴	779
Profit before taxes					
2006	117	746	447 ³	84 ⁴	969
2005	(174)	133	360 ³	(76) ⁴	700
Cost-income ratio² in %					
2006	82.3	61.1	40.3 ³	25.6 ⁴	51.0
2005	91.9	68.0	44.0 ³	35.2 ⁴	58.8

1 please refer to the Notes for more detailed information

2 based on total revenues

3 Corporates

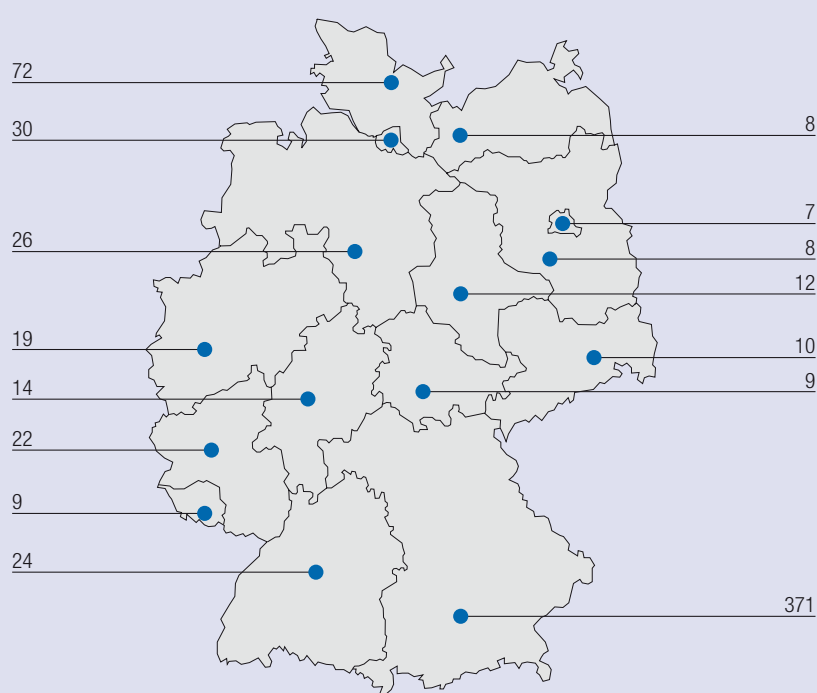
4 Commercial Real Estate Financing

Retail Division

Divisionalisation boosts growth opportunities

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

Retail: offices in Germany



Offices by state

STATE	DEC. 31, 2006	%
Baden-Wuerttemberg	24	3.7
Bavaria	371	57.9
Berlin	7	1.1
Brandenburg	8	1.2
Hamburg	30	4.7
Hesse	14	2.2
Lower Saxony	26	4.1
Mecklenburg-Western Pomerania	8	1.2
North Rhine-Westphalia	19	3.0
Rhineland-Palatinate	22	3.4
Saarland	9	1.4
Saxony	10	1.6
Saxony-Anhalt	12	1.9
Schleswig-Holstein	72	11.2
Thuringia	9	1.4
Total¹	641	100.0

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

Range of products and services tailored to demand

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

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

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

Earnings performance in the Retail division

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

Improved advisory processes support rise in cross-selling rate

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

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

Further expansion of alternative sales channels

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

Systematic pursuit of customer acquisition

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

Retail Division continued

Securities operations record solid growth rates

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

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

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

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

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

HVB wins market share in instalment loan business

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

Excellent performance in insurance business

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

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

Further increase in deposit-taking operations

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

Real estate finance as a basic product for cross-selling

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

Significant expansion of e-business and cash management

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

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

Outlook: focus on optimised advisory services

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

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

Private customers

Demand-driven range of products and services

Private banking customers

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

Small business customers

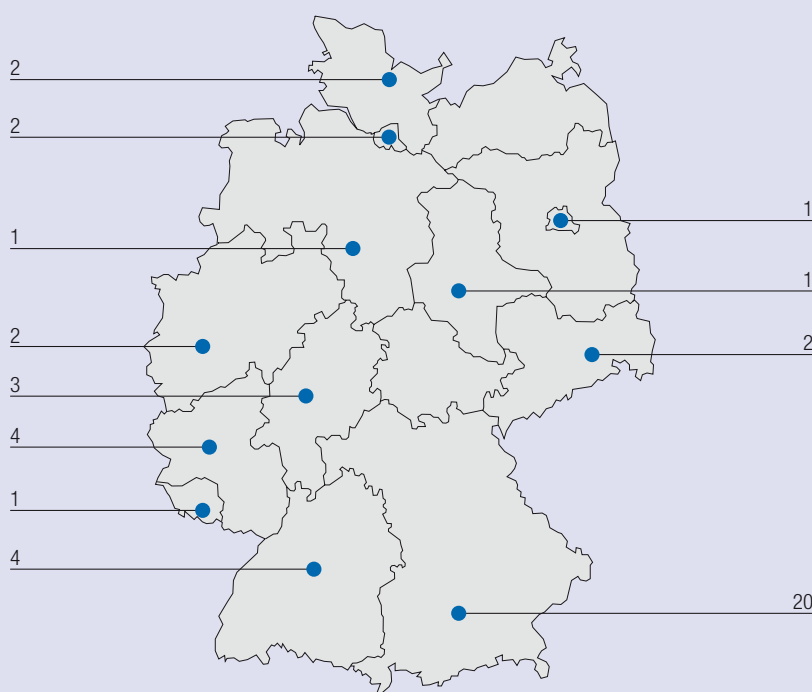
Demand-driven range of products and services for the private and business needs of entrepreneurs

Wealth Management Division

Market environment with huge growth opportunities

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

Wealth Management: offices in Germany



Offices by state

STATE	DEC. 31, 2006	%
Baden-Wuerttemberg	4	9.3
Bavaria	20	46.5
Berlin	1	2.3
Hamburg	2	4.7
Hesse	3	7.0
Lower Saxony	1	2.3
North Rhine-Westphalia	2	4.7
Rhineland-Palatinate	4	9.3
Saarland	1	2.3
Saxony	2	4.7
Saxony-Anhalt	1	2.3
Schleswig-Holstein	2	4.7
Total¹	43	100.0

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

Personal, independent, forward-looking advice

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

Earnings performance in the Wealth Management division

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

In 2006, the Wealth Management (WEM) division's results were also boosted by the gain realised when the Activest companies (Activest Investmentgesellschaft mbH, Munich, Activest Investmentgesellschaft Luxembourg S.A., Luxembourg and Activest Investmentgesellschaft Schweiz AG, Berne)

were sold to Pioneer Investments. The sale yielded a gain on disposal of €543 million, which is reported under net income from investments. The Activest companies were deconsolidated with effect from July 1, 2006. Hence the 2006 results cannot be compared to last year, but the adjusted figures can be used for comparison.

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

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

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

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

Strategy and value levers of the new division offer clear advantages

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

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

Wealth Management Division continued

Relationship model geared to holistic asset management

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

Competent staff – a basic requirement for our customers

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

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

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

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

Special expertise in managing inheritances and trusts bridges generations

With our inheritance management and trust management, we also offer our customers cross-generational asset planning, underscoring the stringent quality standards we impose on our advisory activities. After all, a challenge such as planning the transfer of wealth to the next generation is one of the most personal issues addressed in the field

of financial advice. Our certificated experts in trust and inheritance issues see to the needs of heirs, testators and trusts, as well as clients thinking of setting up a trust, from the initial idea to the asset management activities.

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

HypoVereinsbank sells Activest to Pioneer Investments

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

Excellent performance by Wealth Management subsidiaries

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

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

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

Outlook: systematic alignment of the business model and organic growth

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

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

Target customer group		Product basket
Family office customers	Institutional	<ul style="list-style-type: none"> Personal wealth management for very wealthy families (investment and financing)
Wealthy private customers	Individual	<ul style="list-style-type: none"> Full spectrum of WEM products and services (with focus on investment)
Professionals/SMEs	Individual	<ul style="list-style-type: none"> Full spectrum of WEM products and services (investment and financing)
Private foundations and private asset management companies	Individual	<ul style="list-style-type: none"> Professional portfolio management
Business owners with business side in Corporates	Individual	<ul style="list-style-type: none"> Full spectrum of WEM products and services (investment and financing)
Corporate customers (public-sector corporations)	Institutional	<ul style="list-style-type: none"> AM-specific WEM products and services (separate security account and transaction account)

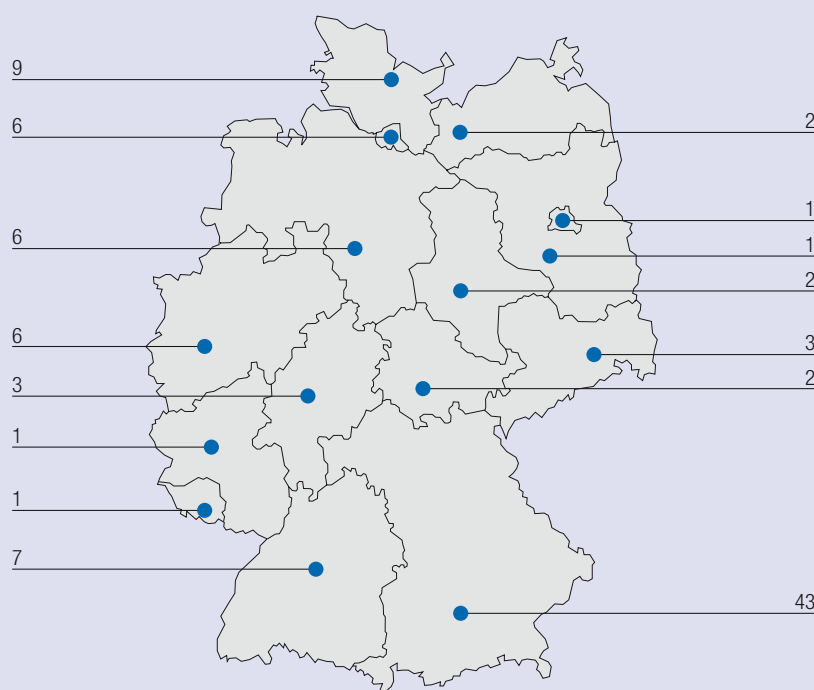
- Customer allocated fully to Wealth Management
- Revenue share (customer not allocated fully to Wealth Management)

Corporates & Commercial Real Estate Financing Division

Corporate Banking

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

Corporate Banking: offices in Germany



Offices by state

STATE	DEC. 31, 2006	%
Baden-Wuerttemberg	7	7.5
Bavaria	43	46.2
Berlin	1	1.1
Brandenburg	1	1.1
Hamburg	6	6.5
Hesse	3	3.2
Lower Saxony	6	6.5
Mecklenburg-Western Pomerania	2	2.2
North Rhine-Westphalia	6	6.5
Rhineland-Palatinate	1	1.1
Saarland	1	1.1
Saxony	3	3.2
Saxony-Anhalt	2	2.2
Schleswig-Holstein	9	9.7
Thuringia	2	2.2
Total¹	93	100.0

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

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

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

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

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

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

**Second value driver:
greater advisory expertise and
suitable product solutions**

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

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

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

Corporates & Commercial Real Estate Financing Division continued

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

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

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

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

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

Earnings performance of Corporates

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

Outlook: growth initiatives in several lines of business

Corporates will again seek to act as a value driver for customers and to remain the market player with the highest customer satisfaction in 2007. We intend to support our customers' growth in the course of the increasing cross-border expansion of medium-sized corporate customers and be seen as the driver of

process and product innovation in corporate banking. To this end, Corporates will launch further growth initiatives in the following areas in 2007:

- Organic growth (recruitment and training of new corporate customer relationship managers) and opening of five branches in regions with low market penetration (south-western Germany, North Rhine-Westphalia, Lower Saxony)
- Greater concentration on sectors and industries in which HVB can tap further potential with its core expertise: public-sector finance, renewable energy, global shipping and maritime industry
- Further expansion in innovative product areas (derivatives, structured finance, foreign trade, cash management and corporate finance)
- Leasing products and services: the Uni-Credit Group's Corporate division plays an outstanding role in leasing operations in Europe. We will seek to transfer this expertise to Germany through HVB Leasing

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

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

Customer segment	Product range
Large caps Revenues > €250m	<ul style="list-style-type: none"> • Tool-based analysis and advisory instruments • Focus: international operations and capital market
Mid caps Revenues €15m – €250m	<ul style="list-style-type: none"> • Tool-based analysis and advisory instruments • Focus: structured finance
Small caps Revenues €3m – €15m	<ul style="list-style-type: none"> • Finance • Cash management • Trade finance • Derivatives
Public-sector customers	<ul style="list-style-type: none"> • Structured finance • Derivatives • Asset management products

Corporates & Commercial Real Estate Financing Division continued

Commercial Real Estate Financing

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

Implementing the business model

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

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

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

Development of the real estate market

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

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

New business approach and development in 2006

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

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

Earnings development

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

Outlook: continued focus on premium segments

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

Regional differences that are still evident between the individual markets will hardly diminish in the course of this year.

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

Markets & Investment Banking Division

Competence centre for global financial markets and investment banking services

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

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

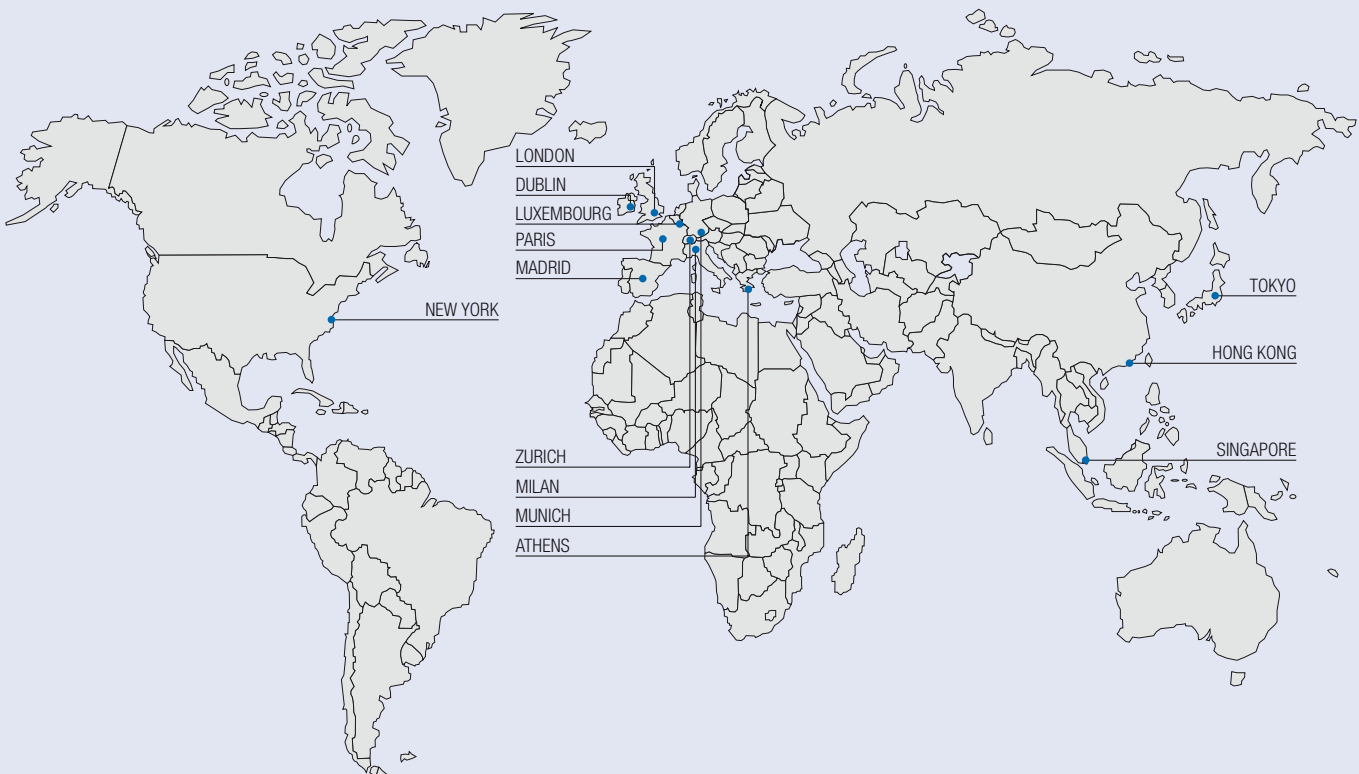
Integrated business model

Our integrated business model covers the entire value chain of the global markets and investment banking business. MIB takes its lead from the strategic goals of its various

client groups. It provides origination, trading, structuring and distribution services to institutional customers, public clients, multi-nationals and corporates. MIB also develops specialist products for all the other divisions: Retail, Wealth Management, and Corporates & Commercial Real Estate Financing.

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

Markets & Investment Banking: operating offices worldwide



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

2006: another year of strong financial performance

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

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

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

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

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

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

Development of important business lines within Markets

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

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

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

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

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

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

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

Markets & Investment Banking Division continued

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

Development of the main business units within Investment Banking

- Financing, which encompasses acquisition leveraged finance, project finance, structured commodity finance and other structured transactions, experienced a record deal flow. We acted as bookrunner and mandated lead arranger (MLA) for KION, one of the largest ever German leveraged buy-outs (LBO).
- Loan Syndication tightened our strong market position in this business field thanks to its in-depth knowledge of complex transactions and strong placement power. The markets rewarded our overall performance in 2006 with a # 1 ranking among German LBO bookrunners (source: Dealogic).
- Structured Credit had another successful year offering our customers access to unique products in the credit asset class. Structured Credit carried out a series of innovative transactions in 2006 that were well received by investors. Major successes were also scored with asset-backed securities (ABS) in Central and Eastern Europe. Among other things, HVB was the first bank to give its clients access to the Russian consumer loan market through a euro-denominated ABS issue. Another major transaction was Breeze II, which was named Senior Debt Deal of The Year 2006 (source: Euromoney/Ernst & Young).

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

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

Global Research: leading skills in Germany

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

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

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

Outlook: spotlighting integration and key growth initiatives

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

Selected growth initiatives for 2007

- Markets will focus on expanding its FICC business and leveraging the potential inherent in the existing Equities network. In the Structured Derivatives business, we will make greater use of both customer potential and the product range (e.g. risk management advisory for multinationals).
- Investment Banking will scale up its business in ECM and M&A, and Corporate Finance is to be expanded. In terms of financing activities, we aim to selectively capture new markets by leveraging our innovative, tailor-made products. Structured Credit will focus more heavily on customer-centric solutions and securitisation activities.



Landmark leveraged finance transaction

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



Breeze II – Senior Debt Deal of the Year 2006

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



HVB named Best Provider of Structured Products

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



EquityAnalystAward for Global Research

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

Global Banking Services Division

The birth of a new division

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

Broad range of services

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

PRO: programmes continued

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

Cost management: systematic cost management yields sustained cost cuts

The cost management system rolled out at the start of 2006 is an important part of the value-based development of HVB. This new function is tasked with constantly streamlining banking processes and boosting efficiency in the use of resources. Under the cost management programme we managed to reduce non-personnel costs by more than €60 million in 2006. These cost reductions were based on over 40 individual initiatives. They range from consolidating the relevant consumables and improving standards and guidelines through to sustain-

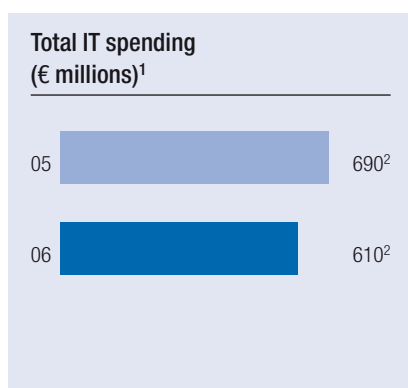
ably optimising the advertising budget. At the same time, HVB has also benefited from the bundling of volumes within the UniCredit Group and the systematic exchange and implementation of best practice methods to cut back costs. In 2007, a number of further cost-cutting measures throughout all major cost categories will achieve additional reductions.

Back office consolidation

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

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

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



¹ IT spending without depreciation or amortisation, but including capital spending

² without BA-CA, CEE, Activest

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

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

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

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

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

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

Re-organisation of Logistics & Facility Management (CLF)

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

1. Corporate Real Estate Asset Management. This unit is tasked with providing the best possible standardised workstations and appropriate facilities for the core business and administrative units. It is also expected to preserve the value of the Bank's real estate portfolio by applying defined investment criteria aimed at securing strategic management over the medium and long term.

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