One Bank One UniCredit

2017

Annual Report

Banking that matters.

HypoVereinsbank
Member of UniCredit

Banking that matters.

HypoVereinsbank

Member of UniCredit

Financial Highlights

Key performance indicators

	1/1–31/12/2017	1/1–31/12/2016
Net operating profit	€1,517m	€1,096m
Cost-income ratio (based on operating income)	65.6%	70.7%
Profit before tax	€1,597m	€297m
Consolidated profit	€1,336m	€157m
Earnings per share	€1.66	€0.19

Balance sheet figures/Key capital ratios

	31/12/2017	31/12/2016
Total assets	€299,060m	€302,090m
Shareholders' equity	€18,874m	€20,420m
Common Equity Tier 1 capital[1]	€16,639m	€16,611m
Core capital (Tier 1 capital)[1]	€16,639m	€16,611m
Risk-weighted assets (including equivalents for market risk and operational risk)	€78,711m	€81,575m
Common Equity Tier 1 capital ratio[1, 2]	21.1%	20.4%
Core capital ratio (Tier 1 ratio)[1, 2]	21.1%	20.4%
Leverage ratio in accordance with Commission Delegated Regulation[1, 3]	5.1%	5.3%

	31/12/2017	31/12/2016
Employees (in FTEs)	13,405	14,748
Branch offices	553	579

1 in accordance with approved financial statements
2 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk
3 ratio of core capital to the sum total of the exposure values of all assets and off-balance-sheets items

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	STAND-ALONE RATING	CHANGED/ CONFIRMED	PFANDBRIEFS PUBLIC	PFANDBRIEFS MORTGAGE	CHANGED/ CONFIRMED
Fitch Ratings				bbb+	15/12/2017	AAA/stable	AAA/stable	15/5/2017 8/5/2017
Derivative Counterparty Ratings	BBB+				15/12/2017			
Deposits	BBB+	F2			15/12/2017			
Issuer Default Rating	BBB+	F2	negative		15/12/2017			
Moody's				baa2	31/5/2017	Aaa/–	Aaa/–	23/6/2015 23/6/2015
Counterparty Risk	A1	P-1	—		31/5/2017			
Deposits	A2	P-1	stable		31/5/2017			
Senior – Senior Unsecured Bank Debt	A2		stable		31/5/2017			
Senior Unsecured and Issuer Rating	Baa2	P-1	negative		12/12/2017			
Standard & Poor's				bbb+	03/11/2017	AAA/stable	—	9/11/2017
Issuer Credit Rating	BBB+	A-2	developing		03/11/2017			
Senior Subordinated Debt	BBB	—	—		03/11/2017			

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Corporate structure

Legal corporate structure

UniCredit Bank AG (HVB), formerly Bayerische Hypo- und Vereinsbank Aktiengesellschaft headquartered in Munich, was formed in 1998 through the merger of Bayerische Vereinsbank Aktiengesellschaft and Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft. It is the parent company of HVB Group. HVB has been an affiliated company of UniCredit S.p.A., Milan, Italy (UniCredit), since November 2005 and hence a major part of the UniCredit corporate group as a subgroup.

Since the shares held by minority shareholders of HVB were transferred to UniCredit compliant with Section 327a of the German Stock Corporation Act (Aktiengesetz – AktG), as resolved at the Annual General Meeting of Shareholders in June 2007 and entered in the Commercial Register on 15 September 2008, UniCredit has held 100% of the capital stock of HVB. Thus, trading in HVB shares officially ceased. As a capital-market-oriented company, however, HVB does remain listed on securities exchanges as an issuer of Pfandbriefs, bonds and certificates, among other things.

Organisation of management and control

Leadership function and Supervisory Board

The Management Board is the management body of HVB and consists of seven members as a basic principle. The Management Board is directly responsible for managing the Bank. It is obliged to act in the interests of the company and to increase its sustainable value. Within the framework of its leadership function, it is responsible above all for corporate planning and strategic orientation, and for ensuring adequate risk management and risk control. The Management Board provides the Supervisory Board with regular, timely and comprehensive reports particularly on all issues relevant to corporate planning and strategic development, the course of business, the state of the Bank and its subsidiaries, including the risk situation, and significant compliance issues. The members of the Management Board are jointly responsible for managing the Bank and for the proper business organisation of HVB. The responsibilities of the Management Board of HVB are specified in a schedule of responsibility, which forms part of the Management Board's internal regulations. The Management Board's internal regulations also specify particularly the matters reserved for the Management Board and the requirements for adopting resolutions and the required majorities.

Mr Heinz Laber resigned from the Management Board effective from the end of 31 October 2017 and Dr Theodor Weimer as well as Mr Andrea Varese effective from the end of 31 December 2017. Ms Sandra Betocchi Drwenski was appointed a new member of the Management Board to replace Mr Heinz Laber with effect from 1 November 2017 and has been in charge of the COO unit since that time. Ms Ljiljana Čortan was appointed to the Management Board as the Chief Risk Officer (CRO) with effect from 1 January 2018. Dr Michael Diederich assumes the office of Board Spokesman with effect from 1 January 2018.

The Supervisory Board of the Bank has 12 members and has an equal number of employee and shareholder representatives. The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business. The Supervisory Board has adopted by-laws specifically defining the details of the work within the Supervisory Board, the creation and tasks of committees and the tasks of the chairman of the Supervisory Board. In addition, the by-laws state that certain types of transactions require the approval of the Supervisory Board.

Mr Jens-Uwe Wächter and Mr Werner Habich resigned from the Supervisory Board as employee representatives effective from the end of 30 September 2017 and 30 November 2017 respectively. These gentlemen were succeeded on the Supervisory Board by the substitute members Mr Christian Staack with effect from 1 October 2017 and Mr Oliver Skrbot with effect from 1 December 2017, who were already elected in May 2015 in accordance with the German Act on the Co-determination of Employees in a Cross-border Merger (Gesetz über die Mitbestimmung der Arbeitnehmer bei einer grenzüberschreitenden Verschmelzung – MgVG).

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB is given in the Note "Members of the Supervisory Board" and the Note "Members of the Management Board" in the notes to the 2017 consolidated financial statements.

Statement pursuant to Section 289f (4) of the German Commercial Code

The Supervisory Board of UniCredit Bank AG adopted a target that one-third of the members of the Supervisory Board (i. e. four out of twelve) should be women, which was to be achieved by the end of the first statutory compliance period (30 June 2017). Both the shareholder and the employee representatives on the Supervisory Board were to contribute to achieving these targets. Since the election of the Supervisory Board in the spring of 2015, three women have been members of the Supervisory Board: Dr Marita Kraemer and Prof Dr Annette G. Köhler as shareholder representatives and Ms Beate Dura-Kempf as an employee representative. As the next Supervisory Board elections will not be taking place until 2020, the target can be achieved only by members resigning from the Supervisory Board. In 2016, the Supervisory Board discussed the successors for two members of the Supervisory Board and proposed Mr Paolo Cornetta (Head of HR Strategy of UniCredit S.p.A.) and Mr Francesco Giordano (Co-Chief Operating Officer of UniCredit S.p.A. and former CFO of UniCredit Bank AG) for election to the Supervisory Board. In view of the special aptitude and professional qualifications of the two candidates and the associated complementation of the Supervisory Board's overall profile, it was accepted that the target of four female Supervisory Board members could not be achieved when members were replaced in 2016. In the 2017 financial year, the Supervisory Board once again set a target that one-third of the members of the Supervisory Board should be women (i. e. four out of twelve), which is to be achieved by 31 December 2021. It was impossible to achieve the target upon the resignation of two employee representatives from the Supervisory Board as they were succeeded by the substitute members Mr Christian Staack and Mr Oliver Skrbot who were already elected in May 2015 in accordance with the German Act on the Co-determination of Employees in a Cross-border Merger (MgVG). Achieving this target will be given priority particularly during the scheduled elections to the Supervisory Board in the 2020 financial year.

For the proportion of women on the Management Board, the Supervisory Board adopted a target that one-seventh of the members should be women (i. e. one out of seven), which was to be achieved by the end of the first statutory compliance period (30 June 2017). In 2015, the Supervisory Board appointed Dr Michael Diederich (CIB) and in 2016, Mr Robert Schindler (Commercial Banking/Unternehmer Bank business unit) as well as Mr Guglielmo Zadra (Chief Financial Officer – CFO) as members of the Management Board. In view of the special aptitude and professional qualifications of the candidates and the associated complementation of the Management Board's overall profile, it was accepted in each case that the target of one-seventh of the Management Board members would not be achieved. In the 2017 financial year, the Supervisory Board once again set a target that one-seventh of the members of the Management Board should be women (i. e. one out of seven), which is to be achieved by 31 December 2021. By appointing Ms Sandra Betocchi Drwenski as a Management Board member (Chief Operating Officer – COO) from 1 November 2017 this target was achieved. In addition, Ms Ljiljana Čortan was appointed a Management Board member (Chief Risk Officer – CRO) from 1 January 2018.

For the proportion of women in the first and second management levels below the Management Board respectively, the Management Board set the following targets, which were to be achieved by the end of the first statutory compliance period (30 June 2017): 22 percent of women in the first management level and 24 percent in the second management level below the Management Board. The Bank has already long focused on measures to promote women and more mixed management teams: concepts for reconciling work and family life were developed; career development instruments were put in place to also support particularly female talents and top performers in their careers; talented women are made visible in discussion and management forums. The Bank already defined internal targets coupled with specific initiatives for the individual business segments in 2012. These are evaluated and followed up on a regular basis.

Based on this approach the proportion of women close to Management Board level has continually increased since 2012, even though the ambitious targets for the two management levels below the Management Board have not yet been reached. At 30 June 2017, the proportion of women at the first level below the Management Board was 18 percent (target: 22 percent) and at the second level below the Management Board 17 percent (target: 24 percent). The reasons for this can be found firstly in the structural conditions of the individual business segments. In areas with a traditionally rather low representation of women, the proportion of women in management positions increased only at a slow but steady rate while in areas with an equal distribution of men and women, the targets had already been met. Secondly, to date the Bank has deliberately applied sustainable measures effective in the medium term to prepare high-potential female employees for their career. This ensured that there was a steady improvement in the equal representation of men and women in the candidate pools for higher-level management positions.

Financial Review (Continued)

In the 2017 financial year, the Management Board confirmed the targets of 22 percent of women in the first and 24 percent in the second management level below the Management Board, which are now to be achieved by 31 December 2021. In future the Bank will place a greater focus than before on binding measures and percentages in the talent and successor pools as well as on promotion and appointment processes. Particularly in the rapidly changing environment of the banking business and in connection with our transformation strategy, it should be possible to easily achieve our gender goals.

Non-financial reporting
In the context of transposing the CSR Directive (Corporate and Social Responsibility) into German law, certain large undertakings have been obliged to add a non-financial statement to their group management report since the 2017 financial year. As a fully consolidated subgroup of the UniCredit corporate group, HVB Group waives publishing its own non-financial statement in accordance with Section 315b (2) of the German Commercial Code (Handelsgesetzbuch – HGB). The non-financial statement is issued, with a discharging effect for HVB, by our parent company, UniCredit S.p.A., Milan, and can be found on UniCredit's website (www.unicreditgroup.eu/en/a-sustainable-bank.html).

Overall bank management
HVB Group's objective is to generate a sustainable increase in corporate value. To take account of value-based management, we have implemented the principle of overall bank management based on earnings, risk, liquidity and capital aspects. This is explained in the Risk Report (please refer in particular to "Overall bank management" within the section entitled "Implementation of overall bank management" in the Risk Report). The key performance indicators (KPIs) applied within the framework of the overall bank management at HVB Group are stated at the relevant places in the Financial Review.

Business model, main products, sales markets, competitive position and locations in the 2017 financial year

HVB Group is part of UniCredit, a successful, pan-European commercial bank, with a simple business model and a fully plugged in Corporate & Investment Banking. It delivers a unique Western, Central and Eastern European network to our extensive client franchise. This enables us to combine our regional strength and local competence with the potential and know-how provided by an international banking group. Our integration into UniCredit is a strong basis for consistently exploiting its international network and economies of scale. UniCredit has a divisionally and regionally diversified business model. It facilitates unique access to leading banks in 14 core markets and 18 other countries worldwide for its customers.

As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, international companies and institutional customers. HVB Group has a well-developed network of branches in Germany, which was modified to accommodate changed patterns of customer behaviour in recent years. In total, HVB Group has 553 offices around the world, including 350 HVB branches in Germany. In addition to its branch network, customers are served irrespective of their location in HVB's online branch in the retail banking business and through Business Easy in the corporate banking business. A breakdown of the offices of HVB Group by region is shown in the Note "Offices" in the notes to the consolidated financial statements.

With our customer-centric business model, excellent capital base, stable operating profitability and solid funding foundation as well as a good market position in our core business areas, we are a sought-after and reliable partner for our customers and investors.

The business segments
HVB Group is divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking
– Other/consolidation

A detailed description of the individual segments/business segments, particularly regarding the customers allocated to them, the products and services offered, the organisational orientation as well as the competitive situation and the locations are contained in the Note "Method and components of segment reporting by business segment" in the notes to the 2017 consolidated financial statements.

Transform 2019

The persistently challenging conditions for the banking sector and the huge downward pressure on profitability and costs this entails is making a further adjustment of bank structures and processes necessary. In the second half of 2016 we therefore established the 2017–2019 Strategy Plan to ensure a successful future for the Bank going forward. Our now updated strategic planning is embedded in the group-wide Transform 2019 programme. Our programme is based on proactive action which, in addition to the increased realisation of cross-selling potential, also focuses on a further optimisation of our cost structure by streamlining the organisation and processes. At the same time, another adjustment of our staffing levels is being carried out. In this context, more jobs will be shed at HVB overall by 2019. The job cuts will affect all areas of the Bank. By exploiting normal staff fluctuation and continuing existing programmes to create new employment perspectives, we are implementing the job cuts in a socially responsible manner.

Corporate acquisitions and sales, and other major changes in the group of companies included in consolidation

In March 2016, we reached an agreement with Bremer Kreditbank Aktiengesellschaft, Bremen, on the sale of Bankhaus Neelmeyer AG, Bremen, which had until then been a fully owned subsidiary of HVB. The closing of the transaction ("closing") took place at the end of 31 March 2017. As a result of the closing, the company left the group of consolidated companies of HVB Group.

Other changes in the group of companies included in consolidation are listed in the Note "Companies included in consolidation" in the notes to the consolidated financial statements.

Economic report

Underlying economic conditions

According to projections by the IMF, the global economy grew by 3.7% in 2017. Growth accelerated above all in the USA and the eurozone but the environment and growth prospects also brightened for many emerging and developing countries. This development was buoyed by a pick-up in world trade and higher commodity prices. In particular, the increase in oil prices compared with 2016 eased the situation for oil-exporting countries such as Russia, especially in the second half of 2017. Economic growth in China also accelerated slightly in the past year. In this context, GDP growth and industrial production were supported above all by fiscal stimuli such as infrastructure projects while the change in China's economic structures towards more private consumption and services continued apace.

The US economy was one of the main drivers of growth in the global economy again in 2017. According to the Bureau of Economic Analysis, real GDP growth reached 2.3% in the USA and was thus higher than the previous year's figure (up 1.5%), although fiscal measures aiming to support growth including in particular a reduction in income and corporate tax, as announced by Donald Trump before his election as the new US president, were approved but will not take effect until 2018. The momentum in the labour market once again proved to be a key factor. The continued fall in the unemployment rate close to the 4% threshold combined with a significant decrease in the savings rate resulted in higher consumer spending and increased wage pressure and thus to a slight rise in the overall inflation rate.

In the eurozone the 2.5% increase in the GDP in 2017 according to EuroStat was considerably higher than in the previous year (up 1.8%). This acceleration was primarily attributable to a stronger recovery in global trade, especially in emerging countries. However, growth was once more largely driven by domestic demand, even though there was a moderate decline in the expansion rate of consumer spending as a result of higher inflation rates (negative purchase power effect).

Financial Review (Continued)

The extension of the ECB's bond-buying programme until the end of 2017 at a lower amount of €60 billion per month as announced in December 2016 ensured favourable financing terms also in 2017. The inflation rate in the eurozone increased to 1.5% for 2017 as a whole and was thus again below the ECB's target rate of 2% in the reporting period.

At country level (data according to the national statistical offices), the GDP in Germany grew by 2.2% in 2017 (not adjusted for calendar reasons) compared with 1.9% in 2016, while France recorded a 1.9% increase in growth in 2017 (previous year: 1.2%). Italy's economic growth accelerated to 1.5% in 2017 compared with 1.1% in the previous year, while the economic recovery in Spain, after a very strong year in 2016, is estimated to have weakened slightly from 3.2% to around 3.1% in 2017. In the United Kingdom, GDP growth came to 1.8% in 2017 compared with 1.9% in 2016.

Besides domestic demand, the pick-up in global trade gave further fillip to growth in the German economy in 2017. In addition to a robust rise in consumer spending, there were also positive stimuli from the construction industry. Strong exports also increased the demand for investments in equipment.

Sector-specific developments

At the beginning of 2017, the political risk was one of the main concerns of investors, particularly in respect of the cohesion of the eurozone. In the first half of 2017, market sentiment improved considerably in the wake of the election results in the Netherlands and France. In the second half of the year, the positive mood continued driven by very good macroindicators that exceeded original expectations. After the election results, attention focused increasingly on the ECB's future policies.

After the US election and following the interest rate increases by the FED, the level of interest rates in the USA rose sharply in 2017. The ten-year US treasury rose to over 2.60% by March 2017 and was thus more than one percentage point higher than the level in September 2016. Mid-2017 the yield fell to 2.04% but rose once again to 2.40% at the end of the year. In contrast to the USA, the central bank in Europe has not yet heralded a turnaround in interest rates. The 3-month Euribor remained at the level of minus 0.33% in 2017. The spreads continued to narrow on credit markets in 2017. For non-financials with good credit ratings the spreads narrowed in 2017 by 30 basis points (bps), following on from the 33bps narrowing in 2016. A similar development with a spread reduction of 22bps was seen in the senior bonds of banks in 2017. This development can be attributed to the ECB's purchase programme, the low interest rates and the positive economic environment.

The favourable sentiment was also felt on stock markets where the DAX 2017 rose by over 11%. Bank shares showed a slightly better performance than the overall market. The STOXX Europe 600 Banks index was up 7.5% in 2017 while the EURO STOXX 50 increased only by 5% over the year as a whole.

The ECB's purchase programme has been continued since April 2017 at a lower volume of €60 billion per month. The programme was extended for the period from January 2018 until at least September 2018 but reduced to a monthly volume of €30 billion. In addition, the last of the four tranche drawdowns under the TLTRO II programme took place in March 2017. This enabled liquidity of €233.5 billion to be provided to 474 banks, which was by far the largest net drawdown of the four TLTRO II tranches. The conditions for TLTRO II are favourable and involve rates as low as minus 0.4% provided banks are willing to expand their lending beyond set thresholds.

In 2017, the euro increased against the US dollar by over 14%. The appreciation of the single European currency reflects the robust growth in Europe. The euro rose 4% against the British pound in 2017. One driver was the outcome of the early general election in the United Kingdom, although the British pound appreciated again at year-end 2017 as a result of the progress made in the Brexit negotiations. The euro also increased significantly to more than 9% against the Swiss franc over the course of 2017.

In 2017, the Italian banking sector came under greater scrutiny from investors due to the large stock of impaired loans on its books. Several banks in Italy presented plans to reduce the high level of impaired loans and have partially implemented these. This was assisted by Italy's rescue package in the amount of €20 billion, which was used to support three Italian banks until July 2017. In addition, the partial consolidation within the sector continued. In December 2016, our parent company, UniCredit S.p.A., presented an extensive programme geared to reducing its portfolio of impaired loans, which does not involve any form of government aid. The action taken caused a significant improvement in investor sentiment regarding the Italian banking sector.

Operating performance of HVB Group

All the statements regarding the operating performance of HVB Group in this Management's Discussion and Analysis refer to the structure of our segmented income statement (see the Note "Income statement, broken down by business segment" in the notes to these consolidated financial statements). By doing so, we are following the Management Approach incorporated into our segment reporting.

	1/1–31/12/2017	1/1–31/12/2016	CHANGE	
Income/Expense	€ millions	€ millions	€ millions	in %
Net interest	2,541	2,518	+ 23	+ 0.9
Dividends and other income from equity investments	11	57	(46)	(80.7)
Net fees and commissions	1,103	1,066	+ 37	+ 3.5
Net trading income	928	903	+ 25	+ 2.8
Net other expenses/income	399	354	+ 45	+ 12.7
OPERATING INCOME	**4,982**	**4,898**	**+ 84**	**+ 1.7**
Payroll costs	(1,600)	(1,668)	+ 68	(4.1)
Other administrative expenses	(1,443)	(1,536)	+ 93	(6.1)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(227)	(257)	+ 30	(11.7)
Operating costs	**(3,270)**	**(3,461)**	**+ 191**	**(5.5)**
OPERATING PROFIT	**1,712**	**1,437**	**+ 275**	**+ 19.1**
Net write-downs of loans and provisions for guarantees and commitments	(195)	(341)	+ 146	(42.8)
NET OPERATING PROFIT	**1,517**	**1,096**	**+ 421**	**+ 38.4**
Provisions for risks and charges	(25)	(193)	+ 168	(87.0)
Restructuring costs	(7)	(645)	+ 638	(98.9)
Net income from investments	112	39	+ 73	>+ 100.0
PROFIT BEFORE TAX	**1,597**	**297**	**+ 1,300**	**>+ 100.0**
Income tax for the period	(261)	(140)	(121)	+ 86.4
PROFIT AFTER TAX	**1,336**	**157**	**+ 1,179**	**>+ 100.0**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**1,336**	**157**	**+ 1,179**	**>+ 100.0**
attributable to the shareholder of UniCredit Bank AG	1,332	153	+ 1,179	>+ 100.0
attributable to minorities	4	4	—	—

Net interest

At €2,541 million, net interest in the 2017 financial year was slightly higher than the previous-year figure (€2,518 million) in a challenging environment of persistently very low interest rates.

In the Commercial Banking business segment there was a 2.3% decline in net interest to €1,461 million. Deposit-taking operations continued to be weighed down by the persistently ultra-low interest rates. It was not possible to make up for the fall in profit in the deposit-taking business despite an increase in real estate financing in the retail customer business with slightly falling margins, a very good rise in consumer lending activities (up 57.3%) and higher income from lending transactions with corporate customers.

Financial Review (Continued)

In the CIB business segment, net interest fell a significant 15.2% to €895 million. This decline was due to the low interest rates particularly in trading-induced interest coupled with lower interest income as a result of narrower margins in the lending business. It should also be taken into account that net interest in the previous year benefited from income in connection with the sale of a credit portfolio to finance commercial property.

In the Other/consolidation segment, income from net interest came to €185 million compared with an expense of €32 million in the previous year. This figure is largely influenced by the positive non-recurring effect from the reversal of provisions.

Dividends and other income from equity investments
Dividends and other income from equity investments came to €11 million during the reporting period. This is attributable to dividend income of €10 million and companies accounted for using the equity method of €1 million.

Income of €57 million from dividends and other income from equity investments was generated in the previous year. In this context it should be noted that the previous year included an extraordinary dividend payout from our investment in EURO Kartensysteme GmbH, Frankfurt am Main, as well as another significant dividend yield from our shareholdings.

Net fees and commissions
In the 2017 financial year, net fees and commissions rose by €37 million, or 3.5%, to €1,103 million. This development is mainly due to higher commission income from payment services, which was up by €45 million to €264 million. In addition, net fees and commissions from management, brokerage and consultancy services increased by €29 million to €562 million. In our lending business, we generated net fees and commissions of €288 million, which did not match the previous year's good figure (€329 million).

Net trading income
Net trading income increased by €25 million, or 2.8%, to €928 million, compared with the already high year-ago figure. This improved result compared with the equivalent figure in the previous year was generated particularly in the Fixed Income and Currencies area. By contrast, there were slight declines in the results in the Treasury business and in the business with equity derivatives. The contribution to profit from valuation adjustments, which mainly include credit value adjustments, funding value adjustments and effects from a change in own credit spreads, turned out to be somewhat lower than in the previous year.

Net other expenses/income
Net other expenses/income were up by €45 million, or 12.7%, to €399 million in the reporting period compared with the previous year. In this context, net income generated from our Bard Offshore 1 wind farm made a significant contribution to profit, which amounted to €203 million in 2017 (previous year: €219 million). We generated much more profit from the disposal of loans and receivables than in the previous year. On the expenses side, the contributions to the European bank levy are a substantial individual item, which was slightly higher than the year-ago figure.

Operating costs
In the development of operating costs, we are benefitting from the continuation of our longstanding and consistent cost management as well as already from our Transform 2019 programme. Compared with the previous year, we reduced operating costs by €191 million, or 5.5%, to €3,270 million. This decrease is attributable to payroll costs, which fell by €68 million, or 4.1%, to €1,600 million, mainly on account of the lower headcount. Other administrative costs were also down by 6.1% to €1,443 million. These lower costs are primarily due to reductions in marketing expenses and expenses from advisory services as well as in the cost of outsourced services. Amortisation, depreciation and impairment losses on intangible and tangible assets also declined by 11.7% to €227 million.

Operating profit (before net write-downs of loans and provisions for guarantees and commitments)
The operating profit of HVB Group rose overall by €275 million, or 19.1%, to €1,712 million in the 2017 financial year, both on the back of higher operating income (up 1.7% to €4,982 million) and the reductions in operating costs. This resulted in a significant improvement in the cost-income ratio (ratio of operating expenses to operating income) to 65.6% after 70.7% in 2016.

Net write-downs of loans and provisions for guarantees and commitments and net operating profit

In the reporting period, there was a decrease of €146 million in net write-downs of loans and provisions for guarantees and commitments to the ultra-low level of €195 million. This produced a significant decline in the cost of risk (ratio of net write-downs of loans and provisions for guarantees and commitments to average holdings of receivables with customers) of 16 basis points compared with 29 basis points in the equivalent period in the previous year. In the previous year, higher write-downs were still recognised to reflect the worsening situation throughout the shipping industry.

Net operating profit rose a sharp €421 million, or 38.4%, to €1,517 million.

Provisions for risks and charges

In the 2017 financial year, there were net expenses for provisions for risks and charges of €25 million after €193 million in the previous year. These are largely provisions for legal risks in both years. The legal risks of HVB Group are described in detail in the section entitled "Operational risk" in the Risk Report of this Management's Discussion and Analysis.

Restructuring costs

In the 2017 financial year, restructuring costs came to €7 million. The restructuring costs of €645 million reported for the previous year were very largely attributable to the measures planned in the course of the Transform 2019 strategy programme.

Net income from investments

Net income from investments amounted to €112 million in the reporting period. This figure was generated with gains on disposal of €140 million almost exclusively relating to gains on the disposal of available-for-sale financial assets (€141 million). These gains are essentially due to the sale of two of our shareholdings. By contrast, net write-downs and impairment charges totalling an expense of €28 million were taken on the available-for-sale financial assets (expense of €12 million) and investment properties (expense of €12 million) and companies accounted for using the equity method (expense of €4 million).

In the previous year, we generated net income from investments of €39 million, which was attributable to gains on disposal of €52 million. Of this figure, €33 million related to the sale of investment properties.

Profit before tax, income tax for the period and consolidated profit

In the reporting period, we generated a good profit before tax of €1,597 million in a persistently challenging market environment. This significantly exceeds the previous-year figure by €1,300 million. In this context, however, it should be taken into account that the figure in the previous year (€297 million) was weighed down by restructuring costs of €645 million that arose in connection with the measures implemented under the Transform 2019 programme.

Income tax expense rose to €261 million after €140 million in the previous year, partly as a result of the increases in profit in the reporting period. By contrast, the capitalisation of losses carried forward for tax purposes and a non-recurring effect from the reversal of provisions had a tax-reducing effect.

After deducting income tax, we generated a consolidated profit of €1,336 million in the reporting period, which is significantly higher than the consolidated profit of the previous year (€157 million), partly due to the restructuring costs incurred in the previous year, as described.

Return on allocated capital

The profitability ratio return on allocated capital (ROAC) presents the consolidated profit of HVB Group (accruing to the HVB shareholder) as a ratio of the allocated capital. With ROAC, the allocated capital is determined on the basis of the average risk-weighted assets (including equivalents for market risk and operational risk). In the process, 12% equity (previous year: 11%) is allocated to the average risk-weighted assets. In the reporting period, this ratio increased to 13.9% after 1.7% in the previous year.

Appropriation of net income

In the 2017 financial year, the profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (equivalent to the consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €1,300 million. We will propose to the Shareholders' Meeting that a dividend of €1,300 million be paid in total to UniCredit S.p.A. (UniCredit), Milan, Italy. This represents a dividend of around €1.62 per share after around €3.75 for the 2016 financial year. The consolidated profit of €3,005 million (consisting of the consolidated profit of €5 million and a withdrawal from other retained earnings of €3,000 million) reported in the previous year was distributed to UniCredit in accordance with a resolution adopted by the Shareholders' Meeting on 22 May 2017.

Financial Review (Continued)

Segment results by business segment
In the 2017 financial year, all the business segments generated a profit before tax or consolidated profit and significantly increased the results compared with the previous year:

(€ millions)

Profit before tax/(loss)	1/1–31/12/2017	1/1–31/12/2016
Commercial Banking	357	286
Corporate & Investment Banking	906	343
Other/consolidation	334	(332)
Total	**1,597**	**297**

(€ millions)

Consolidated profit	1/1–31/12/2017	1/1–31/12/2016
Commercial Banking	301	197
Corporate & Investment Banking	667	228
Other/consolidation	368	(268)
Total	**1,336**	**157**

The income statements for each business segment and comments on the economic performance of the individual business segments are provided in the Note "Income statement, broken down by business segment" in the notes to the 2017 consolidated financial statements. The tasks of each business segment are described in detail under the Note "Method and components of segment reporting by business segment" in the notes to the consolidated financial statements.

General comments on the business situation in 2017 and comparison with last year's expectations
As in previous years, HVB Group operated in a persistently challenging market environment in the 2017 financial year. As a result of our well-balanced and robust business model, we nevertheless managed to generate good results both in our operating business and in profit before tax. This means that our expectations concerning a significant increase in profit before tax outlined in the outlook of the 2016 Management's Discussion and Analysis were fully met. We also succeeded in fulfilling goals in our operating business. With an increase in operating income of 1.7% over the previous year, we more than achieved our goal to again match the operating income of the 2016 financial year in the reporting period. At the same time, we achieved year-on-year improvements in the results of significant components of operating income, such as in net interest, net fees and commissions, net trading income and net other expenses/income. In addition, we managed to reduce operating costs to a higher degree than planned thanks to our strict cost management and the consistent implementation of measures under the Transform 2019 programme. As a result, there was a stronger than planned improvement in the cost-income ratio to 65.6%.The lower than planned net write-downs of loans and provisions for guarantees and commitments also helped us to achieve good operating performance.

At 21.1%, the CET1 capital ratio was at an excellent level, as planned, in the reporting period and thus even improved contrary to our planning.

Our expectations concerning the performance of our business segments, for which we planned an increase in profit before tax in each case, were exceeded in the 2017 financial year due to the higher contributions made to profit before tax.

Financial situation

Total assets
The total assets of HVB Group decreased by €3.0 billion, or 1.0%, to €299.1 billion in the reporting period compared with year-end 2016.

The decline in total assets can be primarily attributed on the assets side to the €18.6 billion decrease to €75.5 billion in financial assets held for trading, largely due to the lower positive fair values of derivative financial instruments (down €15.0 billion to €43.4 billion). In addition, equity instruments recognised in the balance sheet fell by €3.6 billion to €32.1 billion. The portfolio of financial assets at fair value through profit or loss likewise decreased by €7.1 billion to €21.5 billion, almost exclusively in fixed-income securities. Furthermore, loans and receivables with banks were down by €2.7 billion to €30.3 billion, primarily by €2.3 billion in cash collateral and pledged credit balances and by €1.6 billion in other receivables, while reverse repos increased by €1.0 billion and current accounts by €0.5 billion. There was also a decline in customer receivables, which fell by €0.3 billion to €121.2 billion. Within this total, there were decreases in current accounts and non-performing loans and receivables (down €0.8 billion respectively), receivables under finance leases (down €0.3 billion), reclassified securities (down €0.4 billion) and repos (down €0.2 billion). In this context, the increase of €1.5 billion in other receivables and of €0.7 billion in mortgage loans partially made up for this development. Non-current assets or disposal groups held for sale shown in the balance sheet fell by €0.6 billion to €0.5 billion. This decrease largely involves assets in connection with the sale and deconsolidation of our subsidiary Bankhaus Neelmeyer AG, Bremen, to Bremer Kreditbank Aktiengesellschaft, Bremen. The closing took place at the end of 31 March 2017. In particular, the cash and cash balances shown on the assets side rose by €26.6 billion to €36.4 billion. This increase mainly occurred in balances with central banks (up €25.1 billion to €30.4 billion) and is partially related to borrowings within the framework of the ECB's TLTRO programmes (see the explanations below regarding the liabilities side). Furthermore, there was an increase in holdings in available-for-sale financial assets. At year-end 2017, these amounted to €6.8 billion and had thus risen by €0.9 billion compared with year-end 2016, mainly in fixed-income securities.

On the liabilities side, particularly the financial liabilities held for trading declined by €16.6 billion to €56.2 billion. As on the assets side, it was mainly the negative fair values of derivative financial instruments that decreased (down €14.8 billion). The decline of €1.1 billion in liabilities of disposal groups held for sale is related to the sale and deconsolidation of the subsidiary Bankhaus Neelmeyer AG like the respective balance sheet item on the assets side. By contrast, deposits from banks rose a significant €9.8 billion to €67.4 billion. Within this total, the deposits from central banks increased by €3.9 billion to €19.9 billion compared with year-end 2016. This development is attributable to renewed borrowings under the ECB's TLTRO programme which was offered as support for the real economy. As an inexpensive targeted longer-term refinancing operation, a volume of €5.6 billion was allocated to HVB Group in the first half of 2017 and in 2016, a volume of €7.0 billion that is being used to implement our growth initiatives in lending operations with our customers. Furthermore, within the deposits from banks shown in the balance sheet, particularly term deposits increased by €4.8 billion and other liabilities by €1.8 billion compared with year-end 2016, while especially cash collateral and pledged credit balances were down by €1.6 billion. The €7.1 billion increase in deposits from customers is mainly attributable to term deposits (up €5.9 billion) and current accounts (up €1.7 billion) whereas cash collateral and pledged credit balances as well as promissory notes and repos fell by €0.2 billion respectively. Debt securities in issue rose compared with year-end 2016 by €1.3 billion, which is primarily due to the increase in registered public-sector Pfandbriefs and mortgage Pfandbriefs.

The shareholders' equity shown in the balance sheet fell by €1.5 billion to €18.9 billion at the balance sheet date of 31 December 2017. This decline is largely attributable to the dividend payout of €3,005 million to UniCredit S.p.A., Milan, Italy, as resolved by the Shareholders' Meeting in the second quarter of 2017. This development was partially balanced out by the consolidated profit of €1,300 million generated in the 2017 financial year and the increase of €182 million in other reserves.

Further or more detailed information on the individual items of the balance sheet is contained in the Notes to the Balance Sheet and in Other Information in the notes to the 2017 consolidated financial statements.

The contingent liabilities and other commitments not recognised in the balance sheet amounted to €68.3 billion at 31 December 2017 compared with €71.0 billion at year-end 2016. This figure includes contingent liabilities in the form of financial guarantees of €21.1 billion (31 December 2016: €21.9 billion) and other commitments of €47.2 billion (31 December 2016: €49.2 billion) almost exclusively related to irrevocable credit commitments. These contingent liabilities are offset by contingent assets of the same amount.

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

The total risk-weighted assets of HVB Group (including market risk and operational risk) determined in accordance with Basel III requirements amounted to €78.7 billion at 31 December 2017 and were thus €2.9 billion lower than year-end 2016.

The risk-weighted assets for credit risk (including counterparty default risk) determined by applying partial use decreased by €2.0 billion to €58.9 billion. Among other things, this decrease was due to the exchange rate development of the US dollar and deconsolidation of our subsidiaries Bankhaus Neelmeyer AG and Redstone Mortgages Ltd.

The risk-weighted assets for market risk rose by €0.1 billion to €11.1 billion. An increase in market risk on the part of HVB's internal market risk model and market risk according to standard methods was partially compensated for by a slight decrease in credit valuation adjustments as an expression of the risk of changes in credit ratings of counterparties in the OTC derivatives business.

The risk-weighted asset equivalents for operational risk amounted to €8.7 billion at 31 December 2017, thus falling by €1.0 billion compared with year-end 2016. This is partly due to the positive development in the risk profile of HVB Group.

At 31 December 2017, the Common Equity Tier 1 capital compliant with Basel III excluding hybrid capital (CET1 capital) and the Tier 1 capital of HVB Group amounted to €16.6 billion (in accordance with approved annual financial statements) and thus match the figure reported at year-end 2016 (31 December 2016; €16.6 billion in accordance with approved annual financial statements). The CET1 capital ratio (ratio of Common Equity Tier 1 capital to the total amount

Financial Review (Continued)

of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) and the Tier 1 capital ratio under Basel III (including market risk and operational risk) amounted to 21.1% at 31 December 2017 (year-end 2016: 20.4% in both cases). The increase is predominantly attributable to the decline in risk-weighted assets. Own funds amounted to €17.3 billion at 31 December 2017 (31 December 2016: €17.2 billion in accordance with approved annual financial statements). The own funds ratio was 22.0% at 31 December 2017 (31 December 2016: 21.1%).

To ensure sufficient liquidity at all times, key figures are used, among other things, which act as triggers. A bank's liquidity is evaluated using the liquidity ratio defined in the German Banking Act/German Liquidity Regulation (KWG/LiqV). This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if this ratio is at least 1.00. At HVB, this figure had increased to 1.46 by the end of December 2017 after 1.15 at year-end 2016. A detailed description of the management of liquidity and the liquidity position is given in the section entitled "Liquidity risk" in the Risk Report of our 2017 consolidated financial statements. This section also describes the related liquidity coverage ratio according to Basel III used for measuring the Bank's ability to meet its short-term payment obligations.

The leverage ratio is determined by setting the Tier 1 capital measure against the total exposure measure. The total exposure measure is the sum total of the exposure values of all assets and off-balance sheet items. The leverage ratio in accordance with approved consolidated financial statements of HVB Group in accordance with the Commission Delegated Regulation (EU) 2015/62 amounted to 5.1% at 31 December 2017 (year-end 2016: 5.3%). The decline in the leverage ratio is attributable to the increase in the total exposure measure, particularly the cash and cash balances.

Ratings
The ratings of countries and banks are subject to constant monitoring by rating agencies. In recent years the implementation of new regulatory requirements (especially the Bank Resolution and Recovery Directive – BRRD) has resulted in an adjustment of the rating methods used by rating agencies. Consequently, the specification of the liability cascade in Germany (Section 46f KWG) has been effective since January 2017.

S&P responded to this specification by placing the counterparty credit rating of HVB (BBB) in March 2017 on "credit watch developing" and introducing the senior subordinated debt instrument rating. S&P assigned an initial rating of BBB– to the senior subordinated debt securities in order to take account of their subordinate ranking within the senior unsecured securities. The status "credit watch developing" shows that the rating can be upgraded, remain the same or downgraded depending on the details of resolution strategy of UniCredit Group. In November 2017, S&P upgraded the counterparty credit rating of HVB from BBB to BBB+. The improved rating followed the upgrade of UniCredit S.p.A. to BBB which, in turn, was caused by Italy also being upgraded to BBB. The reasons given by S&P for the upgrade were the upswing in the economy and a better environment for the banking system in Italy. The outlook remains unchanged at "credit watch developing". In this context, the rating for the senior subordinated securities of HVB were upgraded from BBB– to BBB.

In April 2017, Fitch Ratings adjusted the derivative counterparty rating, the issuer default rating and the deposit rating of HVB from A– to BBB+. By doing so, Fitch Ratings responded to the change in the ratings of UniCredit S.p.A. (BBB) which in turn was triggered by the downgrading of the Italian State to BBB. The outlook remains negative, as Fitch believes the fungibility of capital and liquidity could increase within banking groups under the direct supervision of the ECB. Fitch Ratings confirmed the ratings of HVB in December 2017.

In May 2017, Moody's confirmed the counterparty risk rating at A1. In this context, the A2 assessment for deposit rating and the senior-senior unsecured bank debt rating was affirmed. HVB's senior unsecured rating adjusted to Baa2 in May was confirmed in December 2017. However, the outlook was changed from stable to negative in this connection. Moody's believes that the negative outlook reflects the potentially lower likelihood of support from the government for subordinated senior unsecured securities of German issuers after the transposition of the BRRD amended in November 2017 into German law. The amendment of the BRRD requires that an EU-wide subordinated senior unsecured class of debtors is introduced which will serve to ensure a closer harmonisation of the liability cascades of banks within the EU. For German banks, this might result in the senior unsecured securities classified as subordinate in accordance with Section 46f KWG ranking pari passu with the newly introduced class of debtors.

Significant investments

In the 2017 financial year, investments were made mainly in the IT infrastructure, which primarily serve the purpose of digitalisation and the adjustment to stricter internal and external requirements. No significant investments were made beyond those apart from the investments required in the ordinary course of business.

Report on subsequent events (events after the reporting period)

At its meeting on 16 February 2018, the Supervisory Board appointed Jan Kupfer and Dr Emanuele Buttà as members of the Management Board with effect from 1 March 2018. Mr Kupfer will be in charge of the Corporate & Investment Banking business segment and succeeds Dr Michael Diederich, who was appointed Board Spokesman of UniCredit Bank AG as per 1 January 2018. Dr Emanuele Buttà is taking over the Private Clients Bank business unit from Peter Buschbeck which together with the Unternehmer Bank business unit constitutes the Commercial Banking business segment of the Bank.

Forecast report/Outlook

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

General economic outlook

Growth in the global economy is likely to pick up again slightly in 2018. For the current year, the IMF expects a growth rate in global output of 3.9% compared with 3.7% in 2017. While the economic development in the USA will probably also pick up, it should contract slightly in the eurozone. The outlook for many emerging and developing countries, particularly for the CEE region (Central and Eastern Europe), will no doubt continue to be friendly again in 2018. On account of their high level of integration in global value chains, CEE EU countries in particular will benefit from the continuing recovery in world trade. A negative factor for the global economy is the weaker growth projected in China. Besides the ongoing transformation of the economy, this development can be attributed to stricter allocation guidelines for real estate loans and house purchases and the related process of normalisation in the Chinese real estate market. In addition, there is still uncertainty about global trade and the global economy due to the yet unforeseeable consequences of the Brexit decision and the current US administration in office under Donald Trump.

The US economy will make a significant contribution to global growth also in 2018. Not least thanks to supportive fiscal measures, we expect real GDP growth to come to 2.6% in the USA this year and thus be 0.3 percentage points higher than in the previous year. In this context, strong stimuli are expected to take effect probably around mid-year due to a lowering of income and corporate tax. Afterwards, however, growth will weaken towards the end of the year as the US economy is already in a late phase of a historically long upswing. A key growth driver will continue to be private consumption. But investment expenditure is also projected to respond positively in the short term to adjustments to tax rates and the possibilities of tax write-offs. As capacities in the US economy have by and large been fully utilised, the inflation and wage pressure should continue to gradually increase.

Financial Review (Continued)

In the current year, we project 2.3% growth in the eurozone and thus expect a slight decline compared with 2017 (up 2.5%). While the trend in world trade should also support the economy in the eurozone in 2018, an ongoing appreciation of the euro and the expiring of favourable financing conditions are likely to have a slightly dampening effect. Growth in the eurozone is expected to once more be driven primarily by domestic demand in 2018. While consumer spending is not expected to expand any further on account of higher inflation rates (negative purchase power effect) and an already low savings rate, investments in the eurozone should be revived by the high liquidity and profitability of companies and a good development in world trade.

The ECB's bond-buying programme, which has been continued at a lower amount of €30 billion per month since January 2018 and is scheduled to last until the end of September 2018 or longer if necessary, will keep financing costs low also in 2018. We expect a slight increase to 1.6% in overall inflation in the eurozone for 2018 as a whole.

At country level, we forecast a GDP growth rate in Germany of 2.3% in 2018 compared with 2.2% in 2017 (not adjusted for calendar reasons). At 1.8%, growth in France is projected to be slightly lower in 2018 than in the previous year (up 1.9%). In Italy, we expect economic growth in 2018 to remain at the previous year's level of 1.5%. In Spain, the economic recovery is likely continue to weaken from around 3.1% in 2017 to around 2.7% in 2018. In the United Kingdom, we anticipate much weaker GDP growth of 0.9% this year compared with the 1.8% increase in 2017.

Domestic consumption and exports are likely to be the key drivers of German economic growth again in 2018. In this context, particularly manufacturing companies will benefit from the ongoing expansion in world trade. Furthermore, we expect the recovery in investments to continue and gain momentum. Private consumption should also record solid growth based on a historically low unemployment rate coupled with moderate wage increases. But the construction industry will probably once again contribute to growth in 2018, which is signalised by record levels in business expectations and a large backlog of completions in comparison with the building permits granted.

Sector development in 2018

In 2018, a key focus will be placed on the ECB's future policy. Market expectations are that the ECB will further reduce or phase out purchases in October 2018. Interest rates are not expected to be raised until after the purchase programme has ended in 2019. Even after the end of the monthly net purchases by the ECB, the central bank will continue to be a significant factor for the development of the spreads and interest rate levels as maturities under the programme are reinvested in order to purchase assets.

Banks are making increasing progress in reducing impaired loans. Strong growth in Europe and a rise in interest rates will have a positive impact on the European banking sector in the medium term and result in a trend towards an increase in lending and higher interest margins. In addition, the reduction in impaired loans is expected to be continued, which will benefit from the consistently favourable macroenvironment, the continuous monitoring of this subject by the banking supervisory authorities and other measures taken by banks.

Important regulatory topics in 2018 are likely to be the continued standardisation of creditor hierarchies of banks in Europe based on the French model, the topping up of the required TLAC and MREL ratios by issuing suitable debt instruments, IFRS 9 and preparations for the resolved Basel III reforms. In addition, the new Markets in Financial Instruments Directive (MiFID II) and the related Regulation on Markets in Financial Instruments (MIFIR) entered into effect on 3 January 2018.

The Basel III reforms were finally adopted in December 2017. One key topic is the agreed 72.5% output floor for internal models which restricts the calculation of risk-weighted assets using internal models and bases these more strongly on the standard approach. The output floor will be implemented in stages in the period from 2022 until 2027. Although no significant increase in capital requirements is expected overall for the global banking sector, the Basel III regulations will result in higher capital requirements for individual financial institutions. These institutions must gradually strengthen their capital base by 2027.

Furthermore, the German Federal Financial Supervisory Authority (BaFin) published the fifth amendment to the Minimum Requirements for Risk Management (MaRisk) on 27 October 2017, thus finalising the consultation procedure underway since February 2016. Among other things, the fifth MaRisk amendment includes improvements to risk data aggregation and risk reporting, and incorporates the Basel Committee's BCBS 239 standard into the MaRisk in this way. Furthermore, regulations on the risk culture, IT systems and outsourcing were specified and supplemented.

Development of HVB Group

On account of the persistently high level of uncertainty entailed in the macropolitical environment in Europe and the resulting high structural volatility of financial and capital markets, forward-looking statements on performance are unreliable. Based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we assume that, in a still challenging environment for the financial industry, we will again be able to generate a good profit before tax in the 2018 financial year which, however, is likely to be moderately lower than the already good result of the reporting period.

We are budgeting for operating income to fall only slightly short of the figure in the 2017 financial year, which benefited from a non-recurring effect in net interest, in a persistently difficult market environment. Through the consistent implementation of our measures under the Transform 2019 programme and by continuing our strict cost management, which has already been in place for many years, it should be possible to once again achieve a considerable reduction in operating costs compared with 2017. This should result in the cost-income ratio in the 2018 financial year remaining at the level achieved in 2017. In terms of net write-downs of loans and provisions for guarantees and commitments, for which we reported a very low level in the reporting period, we expect these to normalise somewhat and to rise compared with 2017, but still remain at a moderate level.

We project all the business segments to contribute a profit before tax to the results of HVB Group in the 2018 financial year. In this context, the profit before tax in the Commercial Banking business segment is likely to increase noticeably. We expect the CIB business segment to not quite achieve the previous year's profit before tax on the basis of a satisfactory development in the operating income. It should be taken into account in this connection that the result in the reporting period contained a substantial amount of net income from investments and no such income is planned for 2018. In the Other/consolidation business segment, we will be considerably lower than the relatively high contribution to profit generated in the 2017 financial year, which benefited from non-recurring effects.

For the 2018 financial year, we assume that we will continue to enjoy an excellent capital base. The Common Equity Tier 1 ratio will fall moderately below the level of the reporting year as we expect a substantial increase in risk-weighted assets, particularly as a result of the planned expansion in the credit and transaction volume and increase in market risk.

Opportunities in terms of future business policy and corporate strategy, performance and other opportunities

The opportunities described below are offset by risks that are set against the exploitation of those opportunities and plans. The risks arising from the business policy and corporate strategy are described in the Risk Report.

HVB Group is an important part of one of the largest, best-positioned banking groups in Europe, UniCredit. It is one of the largest private financial institutions in Germany and has core competence for all UniCredit customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of UniCredit as a whole. HVB Group operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Moreover, Germany is one of the few countries in the world that continues to enjoy a financial rating of AAA. All in all, HVB Group can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers.

Financial Review (Continued)

With a business policy geared to sustainability, an excellent capital base and the measures planned to boost efficiency and earnings in the Transform 2019 programme, HVB Group stands for innovation, reliability, stability and security. This results in the opportunities described below.

The Commercial Banking business segment is notable for its universal bank offerings guaranteed to meet customers' needs to a high standard, particularly through the close cooperation between the business units in Commercial Banking and with the product specialists in Corporate & Investment Banking. The focus is placed on customers prepared to pay an appropriate price for premium services. Specifically, we see the following growth opportunities for each business unit:

Within the Commercial Banking business segment, the Unternehmer Bank business unit is seeking profitable growth in its corporate customer business through its positioning as a principal or core bank. At the same time, the Unternehmer Bank acts as a strategic business partner and premium provider that is heavily involved in the entrepreneurial activities of its customers. This means that the Unternehmer Bank responds to customers' demands and develops tailored solutions for them. The most important strategic challenges of customers include, among other things, foreign trade, internationalisation, digitalisation and corporate succession. The entrepreneur's private sphere is also a focal point of our comprehensive advisory services in the Wealth Management segment. For this reason, the growth initiatives of the Unternehmer Bank cover precisely these needs.

In the Private Clients Bank business unit, we were the first bank in Germany to have initiated a root-and-branch modernisation of our retail banking business. The path successfully taken to do so is being continued apace with systematic digitalisation and positioning as a quality provider. We are proactively focusing on discriminating customers seeking professional advice. Here we aim to actively increase our market share to improve the profitability of our retail banking operations. Among other things, this will be achieved by creating clear lines of demarcation between us and the competition, providing first-class individualised advisory expertise, offering a modern multi-channel business model, loyalty pricing and accentuating our premium market presence which includes modern branches and a network of specialists. Private Banking is pursuing a clear growth strategy. The consistent use of the 360-degree comprehensive advisory approach illustrates our advisory and product expertise in the market which aims to sustainably increase the prosperity of our customers and thus maintain long-term, trusting customer relationships. Offerings on all aspects of private assets, a business model that has received external awards as well as innovative and customised products and services underscores our commitment to the quality that we provide to support our customers.

The strategic emphasis in the CIB business segment is on consistent risk-adequate pricing and enhancements in strategic customer transactions and investment banking solutions for a sustainable and long-term business relationship. An integrated value chain comprising network and product specialists enables us to provide top-drawer advice complete with solution-oriented approaches and wide-ranging financing and capital-procurement opportunities. We see further business potential in the expansion and improved use of our strong international network. To increase the efficiency of our customer-bank relations and thus enhance our cross-selling potential, we are expanding our processing and access platforms. We also wish to better exploit the opportunities afforded by digitalisation.

As a universal bank, HVB Group has a high level of cross-selling potential not only due to the close cooperation between the Private Clients Bank and the Unternehmer Bank as well as CIB but particularly due to the joint venture between the CIB business segment and the Unternehmer Bank business unit. As a result of the fully integrated CIB, Mittelstand customers in the Unternehmer Bank benefit from HVB's investment banking solutions. Furthermore, the Unternehmer Bank supports the internationalisation activities of its customers by assisting them in their outbound activities in the home countries of UniCredit Group. Besides Eastern and Western

Europe, the Unternehmer Bank serves its customers in all regions of strategic importance. Extensive opportunities for new business also arise by providing support in subsequent situations. HVB Group can respond quickly and flexibly to expansion opportunities arising on the market. On account of its excellent capital base, it is already well equipped for any tightening of regulatory requirements and will be able to actively operate on the market even in that kind of scenario.

The recipe for success at HVB Group entails setting strict limits for risk and managing the Bank with an awareness of risk. This approach is set to continue going forward. The HVB portfolio is in very good shape in terms of risk content and can be considered less risky than most.

For years, HVB Group has been evolving into a bank with strong and consistent cost management. HVB Group is seeking to constantly enhance its operating costs over the coming years as well, partly by exploiting synergies released by the rationalisation of overlapping functions particularly in the context of its Transform 2019 programme. In this regard, we are making use of the opportunities to cooperate within UniCredit across country and company lines and applying best practices wherever they can be found. We aim to reinforce the end-to-end process view and improve the interaction between our internal processes by optimising our handling processes.

Digitalisation has greatly altered the finance industry and the expectations of customers with regard to their bank and will continue to do so going forward. Already today, HVB Group is pressing ahead with digital transformation in individual business areas and has applied diverse models in several areas of the Bank in terms of digitalisation/fintech.

As an attractive employer, HVB Group has opportunities to recruit highly qualified employees and managers. Both the size of UniCredit and the strategic positioning of HVB Group have a beneficial impact on the recruitment of employees and managers. Supporting female managers at junior level is an explicit part of the business strategy.

We see further potential for opportunities in our long-term orientation to customers and other stakeholders.

We are part of a successful, pan-European commercial bank, with a simple business model and a fully plugged in Corporate & Investment Banking, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

Everything we do is based on our Five Fundamentals:

Our top priority, every minute of the day, is to serve our customers the very best we can (Customers First). To do this, we rely on the quality and commitment of our people (People Development), and on our ability to cooperate and generate synergies as “One Bank, One UniCredit” (Cooperation & Synergies). We take the right kind of risk (Risk Management) whilst being very disciplined in executing our strategy (Execution & Discipline).

We would expressly like to thank our employees at this point. Their willingness to embrace change and at the same time to help secure our commercial success forms the basis for our good performance. We also wish to thank the employee representatives for their constructive cooperation in spite of the very difficult issues. This gives all of us the confidence we need to master the challenges of the future.

Risk Report

HVB Group as a risk-taking entity

By their very nature, the business activities of HVB Group are subject to risk. HVB Group defines risk as the danger of suffering losses on account of internal or external factors. In the course of our business activities, risks are identified, quantified, assessed, monitored and actively managed. We therefore regard it as one of our core objectives to apply these considerations in order to integrate risk-management, risk-controlling and risk-monitoring processes in all business segments and functions of our Group. These activities are the precondition for providing adequate capital backing and maintaining an adequate liquidity base.

The Risk Report deals with the risks at HVB Group. The opportunities are presented separately in the section of the Financial Review in the present Management's Discussion and Analysis entitled "Opportunities in terms of future business policy and corporate strategy, performance and other opportunities".

All HVB Group companies that are included in the consolidated financial statements of HVB Group prepared in accordance with International Financial Reporting Standards (IFRS) are incorporated in the risk management programme of HVB Group. As part of the Internal Capital Adequacy Assessment Process (ICAAP), these Group companies are classified into the categories "large", "medium", "small plus" and "small" by applying various criteria such as market position, scope of business activities and complexity of the risk profile or portfolio structure. With the exception of the Group companies classified as "small", which are subject to a simplified approach to risk measurement, the economic capital is measured differently for the individual risk types.

Risk types

Credit risk is defined as the risk that a change in the credit rating of a contracting party (borrower, counterparty, issuer or country) induces a change in the value of the corresponding receivables. This change in value may be due to the default of the contracting party, meaning it is no longer in a position to meet its contractual obligations.

We define **market risk** as the potential loss of on- and off-balance-sheet positions in the trading and banking books that can arise in response to adverse changes in market prices (interest rates, equities, credit spreads, foreign exchange and commodities), other price-influencing parameters (volatilities, correlations) or trading-related events in the form of default or change in credit ratings of securities (specific price risk for interest net positions).

Liquidity risk is understood to be the danger that the Bank is not able to meet its payment obligations on time or in full. However, it is also defined as the risk of not being able to obtain sufficient liquidity when required or that liquidity will only be available at higher interest rates, and the risk that the Bank will only be able to liquidate assets on the market at a discount.

In accordance with the Capital Requirements Regulation (CRR), HVB Group defines **operational risk** as the risk of losses resulting from flawed internal processes, systems, human error or external events. This definition includes legal risk but not strategic risk or reputational risk. Legal risk includes, but is not limited to, fines, penalties and damages resulting from supervisory actions, and settlements paid to private individuals.

These risk types are described in detail in the section entitled "Risk types in detail". All other risk types of HVB Group are summarised in "Other risks", which are presented in an abridged form.

The following risk types are summarised as **other risks:**
- **Real estate risk** covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies, the subsidiaries (group of companies included in consolidation according to IFRS) and special purpose vehicles (SPVs). No land or properties are included that are held as collateral in lending transactions.
- We define **business risk** as losses from unexpected negative changes in the business volume and/or margins that are not attributed to other risk types. It can lead to long-term losses in earnings, thereby diminishing the fair value of the company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour, changes in the cost structure, and changes in the underlying legal conditions.
- **Pension risk** can impact both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as by an increase in the obligations on the liabilities side, due for instance to a reduction in the discount rate. Furthermore, actuarial risks such as longevity risk (changes to the mortality tables) may arise on the obligation side. In this context, pension risk is the risk that the pension provider will have to provide additional capital to service the vested pension commitments.
- **Financial investment risk** covers potential losses arising from fluctuations in the measurement of HVB Group's equity interests. HVB Group's financial investment risk stems from the equity held in companies that are not included in the consolidated financial statements according to IFRS principles or are not included in market risk.
- **Strategic risk** results from management either not recognising early enough or not correctly assessing significant developments or trends in the Bank's environment. As a consequence fundamental management decisions could, in retrospect, prove to be disadvantageous in terms of the bank's long-term goals. In addition, some decisions may be difficult to reverse or cannot be reversed at all. In the worst case, this can negatively impact the profitability and risk profile of HVB Group.
- **Reputational risk** is defined as the risk of negative effects on the income statement caused by adverse reactions by stakeholders due to a changed perception of the Bank. This altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk, strategic risk or other primary risks.

Integrated overall bank management

Risk management

HVB Group's risk management programme is built around the business strategy adopted by the Management Board, the Bank's risk appetite and the corresponding risk strategy.

The risk-taking capacity upon achievement of the set targets is assessed on the basis of the risk strategy and the business and risk plans, using the available financial resources. At the same time, limits are defined in the planning process to ensure that the risk-taking capacity is guaranteed.

Risk Report (Continued)

Pursuant to the Minimum Requirements for Risk Management (MaRisk), multiyear budgeting is performed for the internal capital. This involves analysing the relevant risk types over a time horizon of at least three years and taking into account a deteriorating macroeconomic environment. Two adverse scenarios are separately examined to permit an assessment of the impact of a deteriorating macroeconomic business environment. Whereas the first scenario assumes a setback in growth in major economies of the European Monetary Union (EMU), the second scenario assumes a conventional recession in Germany on account of falling demand for exports. Since the available financial resources are considered with the same scenarios, it is possible to make a statement about how the risk-taking capacity will evolve overall over three years, taking into account the macroeconomic scenarios.

Implementation of the risk strategy is a task for the Bank as a whole, with key support from the Chief Risk Officer (CRO) organisation. The business segments are responsible for performing risk management, working closely with the CRO within the framework of competencies defined by the Management Board of HVB.

New releases and updates to instructions, policies and the risk strategy are communicated through the Bank's internal information system.

Functional separation
In addition to Bank-wide risk management, integrated overall bank management is accompanied by comprehensive risk controlling and monitoring in accordance with the MaRisk rules, which is functionally and organisationally independent.

Risk controlling
Risk controlling is defined as the operational implementation of the risk strategy. The Senior Risk Management CIB & Large Commercial Bank – Credits unit and the Credit RR & NRR Germany (KRI) unit are responsible for the operational management of credit risk for the Commercial Banking and Corporate & Investment Banking (CIB) business segments. The senior risk managers and the credit specialists take lending decisions in the defined "risk-relevant business". Thus they make it possible for the front office units to take on risk positions in a deliberate and controlled manner within the framework of the risk strategies and evaluate whether it is profitable to do so from the overall perspective of the customer relationship and on the basis of risk-return considerations. In the "non-risk-relevant business", the front office units are authorised to take their own lending decisions under conditions set by the CRO organisation. The Trading Risk Management unit is responsible for controlling market risk and the Finance unit within the Chief Financial Officer (CFO) organisation for controlling liquidity risk. The senior management is responsible for controlling operational risk and reputational risk with the support of the relevant operational risk managers.

Business risk is defined as losses arising from unexpected, negative changes in the volume of business and/or margins that cannot be attributed to other risk types. This means that controlling consists mainly of the planning of earnings and costs by the individual business segments, which the CFO organisation is responsible for coordinating. The relevant business segments are responsible for controlling the financial investments. The real estate risk arising from Group-owned property is controlled centrally by the Chief Operating Office (COO; until the end of July 2017 Global Banking Services – GBS) unit. Within HVB Group, this is performed by the Real Estate unit, HVB Immobilien AG and the UniCredit Business Integrated Solutions S.C.p.A. (UBIS), which was engaged by HVB Immobilien AG by way of an SLA. HVB Group has undertaken to provide a range of different pension plans, which are largely financed by various investment vehicles, some of which are external. Under the capital investment process, there are separate rules covering the specific risk controlling of the different pension plans in each case. Some of these are subject to supervision by the German Federal Financial Supervisory Authority (BaFin), specifically by its insurers and pension funds supervision, and therefore need to comply with external rules and regulations. Controlling of strategic risk is the shared responsibility of HVB's Management Board.

Risk monitoring

The central risk monitoring function within the CRO organisation is responsible for identifying, measuring and evaluating the risks at HVB Group. It is subdivided in accordance with risk types. The Market and Operational Risk unit performs the risk monitoring functions for the following risk types: market risk, liquidity risk (for the liquidity risk, however, exclusively the risk monitoring functions of stress tests, calculation and monitoring of early warning indicators, calculation of the short-term concentration risk, evaluation of the funding plan), operational risk and reputational risk. In addition, the Market and Operational Risk unit also monitors the market risk components of pension risk at regular intervals using a separately developed model (aggregated view of the plan assets and liabilities). As part of the asset management of the plan assets, the options for risk positioning are limited by both external and internal regulations. Ongoing monitoring of the respective rules is performed in accordance with the specific policies of the various pension plans. With regard to the monitoring of liquidity risk, some tasks are performed by the Market and Operational Risk unit while further risk monitoring functions for this risk type are the responsibility of the Finance unit within the CFO organisation (constant monitoring of the liquidity risk situation and compliance with limits). The Credit Risk Control unit monitors the credit risk, the business risk and the real estate risk and merges these types of risk with the market risk and operational risk in order to determine the aggregate economic capital. For determining the internal capital requirement, the pension risk and the financial investment risk, including the risk for small legal entities, is added with 100% capital backing. The financial investment risk is monitored in the Credit Risk Control unit. The monitoring of strategic risk is the shared responsibility of HVB's Management Board.

The following are quantifiable risk types: credit risk, market risk, operational risk, business risk, financial investment risk, real estate risk and pension risk. Parallel to these activities, the available financial resources are defined, quantified and compared with the risk capital for the analysis of the risk-taking capacity.

Liquidity risk is also a quantifiable risk but does not flow into the calculation of the risk-taking capacity.

A qualitative approach is used to monitor strategic risk and reputational risk.

Divisions and committees

Chief Risk Officer

The controlling and cross-business segment management of risk at HVB Group fall within the competence of the Chief Risk Officer (CRO). This is where all the key functions involved in the identification, analysis, assessment and reporting of risk are performed together with the ongoing tracking, handling, monitoring and controlling of risk. These activities are supported and complemented by various CFO units, notably with regard to liquidity risk.

The CRO organisation is divided into units that deal with lending business in the back office. The main functions of these units include:

– operational functions in the credit-decision and credit-monitoring processes for the risk-relevant lending business, complete with monitoring of the issuer and counterparty limits
– data management for the restructuring and workout portfolio
– restructuring activities with a view to minimising losses for the Bank

At the same time, there are units that cover operational and strategic aspects of risk monitoring. Their main functions include:

– the development, enhancement, parameterisation and calibration of the rating models used to determine the probability of our customers defaulting
– validation of Pillar I and II systems for risk measurement that contain the following components: models, associated processes, IT systems and data
– the development of concepts used to identify and control credit risk and concentrations, including country risk
– responsibility for the measurement methods and the refinement of the measurement methods and systems, and for the management and measurement of market risk, liquidity risk and operational risk
– responsibility for reputational risk and its management
– the determination of the internal capital and the economic capital base, and the performance of stress tests
– ensuring ICAAP compliance and compliance with the MaRisk rules as part of the responsibility for credit risk and economic capital
– ensuring compliance with regulatory rules regarding internal and external reports
– risk reporting

Risk Report (Continued)

Chief Financial Officer
The Finance and Regional Planning & Controlling units from the Chief Financial Officer (CFO) organisation play a major role in risk monitoring. The Finance unit notably covers the management of short- and long-term liquidity at HVB Group (Asset Liability Management) acting in concert with the front office units and asset/liability management. Regional Planning & Controlling has also been tasked with central business management, cost controlling and equity capital management. This unit is also responsible for the creation and validation of the segment report in accordance with IFRS; it similarly has responsibility for the processes involved in preparing the income budgets and for the income projections. Furthermore, the segment-related controlling departments for all the segments apart from CIB come under this unit. Controlling of the CIB business segment is the responsibility of CIB Planning and Control. This department cooperates with Accounting to reconcile the net trading income.

Asset Liability Management
The Finance unit controls Asset Liability Management by managing short-term and long-term liquidity within HVB Group. Its main objectives are to ensure that HVB Group has adequate liquidity at all times and to optimise funding costs. Asset Liability Management monitors trends and happenings on the money and capital markets, and liquidity and manages funding requirements. As part of liquidity risk management, the Finance unit performs ongoing monitoring of the liquidity risk situation, in addition to the activities on the part of CRO, and manages funding activities together with the front office units. Within the framework of a liquidity cost allocation mechanism for all significant business activities, the internal transfer prices for the lending and deposit-taking activities are continually reviewed for appropriateness and regularly adjusted to reflect the market situation, for instance. The measures implemented in connection with these functions serve to support HVB Group's return targets.

Internal Audit
A number of important tasks regarding the implementation of an efficient risk management system have been entrusted to the Internal Audit department as described in the section entitled "Monitoring the effectiveness of the ICS".

Risk Committee
The Management Board has entrusted the following tasks to the Risk Committee (RC), subject to its management competence and its ultimate decision-making authority at any time:
– development and implementation of suitable policies and methods, especially for credit risk and credit portfolio management together with other risk topics
– discussion of and decision on strategic risk policy issues
A submission is always made to the Management Board when required for legal reasons (such as to comply with the MaRisk rules).

The RC generally meets once a month. Each meeting of the RC has a different main topic – either risk management or risk governance.

RC meetings focusing on risk management concentrate on the analysis of the business performance and risk development, and the ensuing measures. Method and process issues are also discussed during risk-governance meetings alongside the risk strategy and the internal rules and instructions.

Asset Liability Committee
The Asset Liability Committee (ALCO) makes decisions at its monthly meetings on the asset/liability management of HVB. The committee pursues the following key goals:
– establishment of uniform asset/liability management methods for HVB Group
– optimum utilisation of liquidity and capital resources
– coordination between the requirements of the business segments for financial resources and the business strategy

Stress Test Council
The Management Board, as the body responsible for bank management, delegated the topic of stress tests to the RC and the Stress Test Council (STC) as a specialist committee. The tasks of the STC include:
– coordination of all stress-testing activities within HVB Group, including the refinement of the stress-testing methodology
– definition and coordination of cross-risk-type stress scenarios, including the validation of the underlying parameters
– analysis and presentation of stress-testing results and their use to prepare recommendations for management

Reputational Risk Council

The task of the Reputational Risk Council (RRC) is to manage HVB's reputational risks. It is the decision-making body for all business transactions and other activities that give rise to a potential reputational risk to HVB. Such activities include those relating to:
– projects and outsourcing activities
– the development of new products and the exploitation of new markets
– special purpose vehicles

Loan Loss Provision Committee

The Loan Loss Provision Committee (LLPC) is kept informed about developments in HVB's watchlist and restructuring/workout portfolio and takes decisions within HVB regarding:
– the submitted risk provision requests, where these lead to allowances in excess of €5 million resulting from the initial assessment or follow-up assessments entailing a material change in the risk assessment
– debt forgiveness in excess of a risk provision/forgiveness competence of €5 million
– internal impairments at HVB in excess of a competence value I of €250 million or greater than 5% of HVB's regulatory equity capital

Implementation of overall bank management

Strategy

The business strategy and the risk strategy define the key pillars of business and risk policy for HVB Group. The subsidiaries, outsourcing and information and communications technology (ICT) are incorporated in both the risk strategy and the business strategy. The HVB Group business strategy describes the strategic starting point and organisational structure, the key pillars of the business strategy at overall bank level and the sub-strategies of the individual business segments.

The HVB Group risk strategy is derived consistently from the business strategy, supplementing it with the relevant aspects of risk management. In this context, the HVB Group risk strategy encompasses the risk types of credit risk and market risk together with their controlling using the economic capital and risk-type-specific limits, as well as operational risk, financial investment risk, real estate risk and business risk, which are controlled using only the economic capital. In addition, the strategic objectives for reputational risk, strategic risk, liquidity risk, pension risk and outsourcing are presented in terms of quality. The risk strategy is supplemented by the Industry Credit Risk Strategy, which presents the risk appetite within the various industries.

The strategies approved by the Management Board are reviewed on both an ad hoc and a regular basis and, where necessary, modified.

Overall bank management

The metrics defined for the overall bank management of HVB Group are reviewed in the annual budgeting process; they are used to assess the success of the business strategy and the risk strategy. Earnings targets, risk targets, liquidity targets and capital targets are defined in the budgeting process together with the targeted risk-taking capacity at overall Bank level. The limits for the internal capital are defined and monitored in order to ensure the risk-taking capacity. For the purposes of business segment management, the economic capital limits are distributed for each risk type (credit risk and market risk) to ensure that the planned economic risk remains within the framework defined by the Management Board.

Key performance indicators (KPIs) generally applicable across all business segments have been defined for the management of HVB Group. These KPIs serve to entrench the aspects of returns/profitability, growth, restrictions/limits and sustainability.

The value-oriented management of HVB Group focuses on the measurement of the business activities in accordance with return and risk considerations, with a risk-return target set for each of the business units of HVB Group. The economic yield expectations are calculated using the allocated capital principle that is applied group-wide by UniCredit. Within the scope of the principle of dual control, both regulatory capital, in the sense of used core capital, and internal capital are allocated to the business segments. Both resources are expected to yield an appropriate return, the amount of which is derived from the returns expected by the capital market.

Risk Report (Continued)

In line with the parameters defined in the business and risk strategies, the defined targets are broken down to business segment level and then translated into operational metrics for sales management. The defined targets are monitored using a standardised report to the Management Board of HVB. The Management Board of HVB initiates counter-measures in response to deviations from the targets defined in the budgeting process.

Regulatory capital adequacy

Used core capital

For the purposes of planning and monitoring risk-weighted assets, the business segments are required to have core capital backing of equivalent risk-weighted assets arising from credit, market and operational risks equal to an average of 12%. The expected return on investment is derived from the average used core capital.

Management of regulatory capital adequacy requirements

To plan our regulatory capital taking account of regulatory requirements, we apply the three capital ratios listed below, which are managed within HVB Group's risk appetite framework using internal target, trigger and limit levels:
– common equity Tier 1 capital ratio (ratio of common equity Tier 1 capital to the sum of risk-weighted assets arising from credit risk positions and the equivalent risk-weighted assets from market and operational risk positions)
– Tier 1 capital ratio (ratio of Tier 1 capital to the sum of risk-weighted assets arising from credit risks and the risk-weighted asset equivalents from market and operational risk positions)
– equity funds ratio (ratio of equity funds to the sum of risk-weighted assets arising from credit risk positions and the equivalent risk-weighted assets arising from market and operational risk positions)

Essentially, the following processes have been defined to safeguard an appropriate capital base over the long term:
– carrying out of a rolling eight-quarter projection on a monthly basis to provide an ongoing forecast of the capital ratios of HVB Group
– carrying out of quarterly stress tests of the regulatory capital ratios under various scenarios (details on the stress tests can be found in the section entitled "Stress tests", see also the section entitled "Consistent liquidation approach/going concern approach")

More details on how these ratios have developed are presented in the section entitled "Risk-weighted assets, key capital ratios, liquidity and leverage ratio of HVB Group" in the Financial Review of the Management's Discussion and Analysis of HVB Group.

All in all, HVB Group satisfies both the regulatory requirements arising from the statutory provisions and the minimum capital ratio specified by the European Central Bank (ECB) under the Supervisory Review and Evaluation Process (SREP).

HVB and UniCredit S.p.A. agreed with the relevant regulators that HVB and HVB Group would not fall below an equity funds ratio of 13%. This agreement will remain in force until further notice. The equity funds ratio of HVB Group was 22.0% at the end of December 2017 (31 December 2016: 21.1%).

Economic capital adequacy

HVB Group determines its internal capital on a monthly basis. The internal capital is the sum of the aggregated economic capital for all quantified risk types (with the exception of liquidity risk), a premium for pension risk and financial investment risk and the economic capital for small legal entities. The economic capital measures the potential for unexpected loss over a time horizon of one year with a confidence level of 99.90%.

When the aggregated economic capital is determined, risk-reducing diversification effects are taken into account between the individual risk types. Since December 2016, HVB Group has been using UniCredit's group-wide model for risk aggregation that uses parameters that are uniform throughout the group for determining interdependencies between the risk types. In terms of methodology, the new model is based on a copula approach where the parameters are estimated using the statistical Bayesian method. On account of the low risk content, the economic capital for small legal entities of HVB Group is approximated with no differentiation by risk type. Additional risks that are not included in the regular calculation of economic capital are quantified on a quarterly basis within the scope of a monitoring run and compared with the available financial resources.

An all-round overview of the risk situation of HVB Group is obtained by regularly assessing the Bank's risk-taking capacity, as shown in the table "Internal capital after portfolio effects".

Internal capital after portfolio effects (confidence level 99.90%)

	2017		2016	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Credit risk	2,734	34.8	2,820	34.9
Market risk	2,023	25.7	2,145	26.6
Operational risk	1,318	16.8	1,373	17.0
Real estate risk	386	4.9	385	4.8
Business risk	280	3.6	287	3.6
Aggregated economic capital	**6,741**	**85.8**	**7,010**	**86.9**
Pension risk	924	11.7	815	10.1
Financial investment risk	163	2.1	149	1.8
Economic capital of small legal entities	34	0.4	98	1.2
Internal capital of HVB Group	**7,862**	**100.0**	**8,072**	**100.0**
Available financial resources of HVB Group	**17,475**		**16,355**	
Risk-taking capacity of HVB Group, in %	**222.3**		**202.6**	

Internal capital has fallen by a total of €210 million. One of the main reasons for this development is a refinement of certain aspects of the method used for calculating the economic capital for market risk.

In addition, Bankhaus Neelmeyer AG ceased to be a member of HVB Group in April 2017, which led to decreases specifically in credit risk and operational risk (internal capital of less than €20 million in total).

Since 30 June 2017, the assumption is no longer made that there are diversification effects between the types of risk with regard to financial investment risk. Instead the economic capital is added to the aggregated economic capital. However, this effect relating to aggregation only has a minor effect on the overall internal capital.

More details on the individual changes within the types of risk can be found in the respective sections on the respective types of risk.

Risk Report (Continued)

Internal capital (without pension risk) broken down by business segment (confidence level 99.90%)

	2017		2016	
Broken down by business segment	€ millions	in %	€ millions	in %
Commercial Banking	1,634	23.6	1,591	21.9
Corporate & Investment Banking	4,698	67.7	4,935	68.0
Other/consolidation	606	8.7	731	10.1
Internal capital (without pension risk) of HVB Group	**6,938**	**100.0**	**7,257**	**100.0**

Risk appetite
HVB Group's risk appetite is defined as part of the annual strategy and planning process. The risk appetite metrics comprise specifications for risk responsibility and positioning, regulatory requirements, profitability and risk, and controlling of specific risks. Triggers and limits are defined for these metrics that allow excessive risk to be identified and counter-measures to be initiated at an early stage. The matter is escalated to the appropriate committees and the Management Board, should the defined limits be exceeded.

Consistent liquidation approach/going concern approach
HVB Group normally controls its risk-taking capacity under a consistent liquidation approach (gone-concern approach). In other words, the risk-taking capacity spotlights HVB Group's ability to settle its senior liabilities. At the same time, appropriate figures are also defined for the regulatory core capital backing alongside targets, triggers and limits for the risk-taking capacity.

The going-concern approach (the assumption that operations will continue) is additionally allowed for by critically evaluating and incorporating as appropriate the results of the regular Bank-wide stress tests when defining targets, triggers and limits for both the risk-taking capacity and the regulatory capital backing.

Recovery plan
The preparation of recovery plans (RPs) is intended to facilitate the restructuring of systemically important financial institutions. UniCredit S.p.A. and HVB have been identified as systemically important at a global level and at a national level, respectively. Supervision of HVB passed to the ECB when the Single Supervisory Mechanism (SSM) came into effect in November 2014. According to a decision of the Joint Supervisory Team (JST), HVB, as part of UniCredit, has not been required to prepare a HVB Group recovery plan since 2015. For this reason, HVB works closely together with UniCredit S.p.A. each year to prepare a joint UniCredit Group Recovery Plan. This Recovery Plan was officially submitted to the ECB on 30 September 2017 and has been in effect since then.

Risk-taking capacity
In a monthly analysis of our risk-taking capacity, we measure our internal capital against the available financial resources. Furthermore, the risk-taking capacity is analysed across the defined multiyear period as part of our planning process.

HVB Group uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach. Under this approach, the risk-taking capacity is defined by comparing unexpected losses at the confidence level (internal capital) with the ability to absorb losses using the available equity funds (available financial resources). When determining the available financial resources, the available capital is viewed from an economic standpoint. In other words, the calculation is made in accordance with a value-oriented approach, under which shareholders' equity shown in the balance sheet is adjusted for fair value adjustments. Furthermore, intangible assets, deferred tax assets and effects of own credit rating are deducted and minority interests are only taken into account to the extent of the risk-bearing portion. At the same time, subordinated liabilities recognised as regulatory capital are included. The available financial resources at HVB Group totalled €17,475 million at 31 December 2017 (31 December 2016: €16,355 million).

With internal capital of €7,862 million, the risk-taking capacity for HVB Group is 222.3% (31 December 2016: 202.6%). This figure is much higher than the target HVB Group has set itself. The rise of 19.7 percentage points in comparison with 31 December 2016 for HVB Group is attributable to the increase in the available financial resources of €1,120 million or 6.8% and the simultaneous slight decrease in the internal capital of €210 million or 2.6% in 2017. The increase in the available financial resources is the result of changes to several components but primarily of the positive development of the reserves recognised in the balance sheet and of regulatory recognition of the additional subordinated capital and of the increase in the undisclosed reserves in real estate.

Limit concept

The risk limit system is a key component of the ICAAP at HVB Group. Its purpose is to ensure the Bank's risk-taking capacity at all times by means of an integrated controlling process. A wide-ranging, consistent limit system that includes the specification of limits for internal capital and economic capital, risk-type-specific limits and limits for risk concentrations has been implemented to ensure this. It covers all the risks that need to be backed with capital. Consequently, unexpected losses for credit, market, operational, business and real estate risk are currently recorded. In addition, pension risk and financial investment risk are included in the internal capital by means of a premium and the economic capital for small legal entities.

This system of limits reflects the business and risk strategies, taking into account the risk appetite and the available financial resources of HVB Group, and ensures compliance with the risk-taking capacity. The risk limits are approved by the Management Board of HVB each year during the strategy process.

The internal capital limits are allocated at the level of HVB Group broken down by risk type, as an aggregate amount for the small legal entities and for the internal capital as a whole. Based on the aggregate limit set for internal capital, the risk-taking capacity of HVB Group is ensured at all times. The correlation effects included in the internal capital cannot be influenced by the business segments and relevant subsidiaries. Consequently, economic capital limits adjusted for these effects and the risk-type-specific limits are used for controlling purposes in the business segments and relevant subsidiaries.

In order to identify at an early stage any overshooting, HVB Group has specified triggers in the form of early warning indicators as well as the defined limits. The utilisation of, and hence compliance with, the limits is monitored regularly and presented in the Bank's reports on a monthly basis. After six months of the year, the limits are additionally checked to ensure their adequacy and, if necessary, adjusted.

Stress tests

The MaRisk rules call for stress tests to be carried out regularly using various scenarios.

Various macroeconomic downturn scenarios and a historical scenario were calculated for the cross-risk-type stress tests in 2017:
– Contagion scenario – focusing on political tensions in the EU
– Recession scenario – recession in Germany due to a massive decline in global demand
– Historical scenario – based on the 2009 financial crisis
  A second, stricter variant of the scenario additionally reflects the default of the financial intermediary with the highest stressed counterparty risk exposures.
– Protectionism, China slowdown and Turkey shock ("Protectionism scenario") – introduction of a policy of protectionism in the USA that throttles growth in China in conjunction with a growth shock in Turkey
– Interest Rate Shock scenario – rising interest rates in the eurozone

Taking account of macroeconomic developments over 2017, the aforementioned downturn scenarios and the underlying baseline scenario were reviewed and the corresponding macroeconomic parameters and market parameters were adjusted.

The stress tests across risk types are presented and analysed within the structure of the STC on a quarterly basis and any measures required are presented to the RC and the Management Board. Both the risk-taking capacity and the minimum requirements for regulatory capital ratios of HVB Group would currently be met and complied with even after occurrence of the stress test scenarios listed. The risk-taking capacity within the scope of the stress test was established with a confidence level of 99.90%.

Risk Report (Continued)

Furthermore, inverse and ad hoc stress tests are carried out.

The inverse stress tests involve analysing what events could endanger the continued existence of the Bank as a going concern. The continued existence as a going concern is considered at risk when the original business model proves to be no longer feasible or viable. The hypothetical events analysed included fraud by a trader, rating downgrades, a bank run and default on the part of customers and industries.

Ad hoc stress tests are carried out in response to internal and external events that might have a considerable impact on HVB Group.

Concentrations of risk and earnings
Concentrations are accumulations of risk positions that react similarly to specific developments or events. Concentrations may have an impact within a risk type or equally across risk types. They indicate increased potential losses resulting from an imbalance of risk positions held in customers and products or specific industries and countries.

Concentrations are analysed, monitored, managed and reported on a regular basis with regard to the relevant risk drivers for credit, market, liquidity and operational risk. In particular, appropriate instruments and processes ensure the prompt identification of concentrations. Simple monitoring, the suitability of which is reviewed at regular intervals, is used as the steering approach for the risk types of financial investment risk, real estate risk and pension risk.

The risk management processes for concentrations have been optimised with regard to the connection of risk drivers across the risk types, such that concentration risk is integrated into the assessment and controlling functions.

The concentration of earnings at individual customers, business segments, products, industries or regions represents a business-related strategy risk for the Bank. Risks arising from concentrations of earnings are monitored regularly, as their avoidance is an important indicator of sustainable diversification and hence the viability of the business model in crisis situations.

Risk inventory
The scheduled comprehensive yearly risk inventory at HVB Group was started in February 2017. The existing and potential new risks were analysed and scrutinized by means of structured interviews with numerous decision-makers within HVB Group and by means of questionnaires, among other things. The outcome of the 2017 risk inventory was presented to the RC and HVB's Management Board in September 2017 and included in the calculation and planning of the risk-taking capacity following approval. The risk inventory serves to review the overall risk profile of HVB Group. Various topics are identified, some of which are included in the stress test, the validation of the measurement methods used for the material risk types and other ICAAP components.

Internal reporting system
The internal reporting system supports risk monitoring at portfolio level in particular. This involves providing information about the overall risk to the Management Board and to the RC of the Supervisory Board on a monthly basis, to the full Supervisory Board at least on a quarterly basis and also on an ad hoc basis. In addition, further monthly risk reports are created focusing on specific business segments, countries or industries, to be communicated to the RC and the units involved in risk management, among others.

Risk types in detail

Where the measurement methods for individual risk types have been refined, details are presented under the risk type concerned.

1 Credit risk

Definition
Credit risk is defined as the risk that a change in the credit rating of a contracting party (borrower, counterparty, issuer or country) induces a change in the value of the corresponding receivables. This change in value may be due to the default of the contracting party, meaning it is no longer in a position to meet its contractual obligations. Credit risk comprises the following categories:
– Credit default risk (including counterparty risk and issuer risk)
– Country risk

Categories

Credit default risk

Credit default risk is considered to occur with regard to a specific contracting party when one or both of the following criteria are satisfied:
– The Bank assumes the contracting party is probably not in a position to meet its entire contractual obligation towards HVB Group as whole, without having to take recourse to measures like the sale of collateral (where present).
– The contracting party is more than 90 days in arrears in terms of a material receivable of HVB Group.

The credit default risk also encompasses counterparty risk and issuer risk.

Counterparty risk

Counterparty risk arises from the possible loss of value due to the default of the counterparty in trading activities (such as derivatives involving interest rates, foreign exchange, equities/indices, or other-futures or derivative contracts). It is divided into the following components:
– Settlement risk: Settlement risk is defined as the risk that the counterparty fails to meet its delivery or performance obligation on the due date while the Bank has already paid the consideration.
– Pre-settlement risk: Pre-settlement risk arises from the risk that the Bank has to replace a transaction on the market under less favourable conditions following a default by the counterparty.
– Money market risk (cash risk): Money market risk consists in the risk that the counterparty does not repay loans (taken out in cash).

Issuer risk

Issuer risk is defined as credit default risk in the securities holding resulting from the downgraded credit rating or default of an issuer that can lead to a loss of value through to total loss. Issuer risk arises from the purchase of securities in proprietary trading, securities issuance activities, credit derivatives and the placement of securities.

Country risk

Country risk is the risk of losses caused by events attributable to actions by the government of a given country. This includes the repayment of capital in a specific country being prevented by government intervention, which gives rise to various risks (such as transfer risk, expropriation risk, legal risk, tax risk, security risk). It also includes the risk of repayment of capital being prevented by a deterioration in the economic and/or political environment (such as through recession, a currency and/or banking crisis, natural disasters, war, civil war, social unrest). Country risk encompasses:
– Sovereign risk (sovereign as counterparty): Sovereign risk is the risk of the central government or central bank (or any agency backed by the government) defaulting, irrespective of the currency in which the debt is issued.
– Transfer and conversion risk: Transfer and conversion risk is the risk that the government takes measures due to the inability or unwillingness to pay with the objective of limiting the transfer of capital and/or convertibility of the currency, which leads to losses. War and civil war can similarly lead to a lack of solvency. Transactions contain transfer risk when they represent cross-border business (from the standpoint of the office disbursing the loan) and are denominated in a foreign currency (from the borrower's standpoint). The borrower's credit risk is not classified as transfer risk; the transfer risk is measured separately.
  Delivery risk is included in transfer risk. Delivery risk is the risk of default on account of non-delivery caused by state intervention in the delivery contract or state-imposed delivery restrictions (in the case of project loans or commodity financing, for instance).

Strategy

A risk strategy has been approved for HVB Group that operationalises the strategic controlling of credit risk. This is done by setting targets and limits for different metrics as needed. Controlling using economic capital, together with volume and risk metrics, is particularly important in this regard. The planning of the targets and limits is embedded in HVB Group's annual plan, similarly taking into account ceilings arising from the requirements regarding the capital base. The limits are intended to leave some leeway for implementing the business plan while they also set ceilings, notably with regard to the economic capital.

Risk Report (Continued)

Systematic controlling and setting of limits for credit risk are essential for sustaining HVB Group's strategic orientation. The risk strategy is intended to make it possible for both the sales controlling and risk management functions to back transactions with concrete, measurable and hence applicable criteria in order to optimise the risk profile of the credit portfolio. To achieve this, the expected and unexpected losses of a given borrower are determined. These form the basis for drawing up limits and in some cases target portfolios for the different risk types, exposures and risk metrics.

HVB Group's successful strategy implemented in recent years of strictly limiting risk and managing the Bank in a risk-conscious manner was continued again in 2017. By selectively writing new business, employing active portfolio management and making effective use of professional restructuring and workout capacity, HVB Group has evolved into a bank that has a lower than average risk profile for the industry. The goal for 2017 was to continue applying this strategy and maintaining the overall portfolio at a sustainable level.

Industry-specific controlling of credit risk had a positive effect. The details of industry-specific controlling are specified in the Industry Credit Risk Strategy. This strategy includes an assessment of the opportunities and risks for every industry, from which controlling signals and quantitative ceilings for new business are derived.

Active management of the exposure in the countries badly affected by the financial crisis also contributed to the positive development described. The strategy of HVB Group in its role as a universal bank was to concentrate on strong regional core markets like Switzerland, the UK, Belgium and France alongside the domestic market of Germany. The Spanish, Dutch and Scandinavian markets are primarily served by other UniCredit banks, with the exception of multinational core customers, who continue to be served by HVB Group. At the same time, the Markets unit in the CIB business segment will enter into credit risk and market risk subject to clearly defined standards in UniCredit's core countries as a result of the corporate function as UniCredit's investment bank.

Limit system

The credit risk strategy defines limits for risk metrics and risk types for individual portfolios. These are allocated at the following levels:
- HVB Group
- HVB and subsidiaries, or groups of subsidiaries of HVB Group
- business segments of HVB Group and HVB
- products and special portfolios (such as Leverage and Project Finance)

The following criteria are analysed with regard to the performing portfolio: exposure, expected loss and risk density. An overshooting of the limits is generally not permitted.

In order to avoid concentrations of risk in credit default risk, the following concentration limits and, where appropriate, target portfolios are used for controlling purposes:
- single-name concentrations
  The references unit for setting limits on single-name concentrations are economic or legal borrower groups with an unsecured exposure of €50 million or more.
- industry concentrations
  The limits are set in the same way as for industry controlling as part of the risk management programme at HVB Group.
- concentration limits for countries and regions
  Exposures outside Germany are subject to the risk of a sovereign default and hence possibly related problems in the financial system. The concentration limit restricts the credit risk of all borrowers in a given country. Every country and region has been assigned a limit that reflects the risk appetite and the strategic orientation (overweight, underweight or neutral) of HVB Group.
  In addition, a limit is set for cross-border country risk exposure.

The utilisation of the individual limits is classified using a traffic light system:
- Green: limit utilisation is not above a defined trigger
- Yellow: limit utilisation is not above the limit but above the defined trigger
- Red: limit utilisation is above the limit

If a limit or a trigger is exceeded, an escalation process is initiated to eliminate the overshooting or prevent an overshooting of the limit in the event that a trigger is exceeded. The corresponding responsibilities are defined in the escalation process to ensure the permanent controlling effect of the limits.

Credit risk reduction

In new lending, HVB pursues the strategy of applying all types of loan collateral that would present an economic benefit to the Bank in the event of default.

For the reduction of credit risk, only such collateral is used as meets the requirements of the Advanced Internal Ratings Based (A-IRB) approach in accordance with Basel III. An essential point in the formulation of collateral agreements and internal processes is ensuring that the collateral is legally enforceable.

Methods have been implemented to value collateral that meet the requirements of Basel III. Empirically determined ratios for realisation proceeds and costs are employed in the valuation together with realisation periods. The land charges are calculated using a statistical model to update the current and forecast fair values at the time of realisation. The fair values are adjusted on an annual basis to reflect the market developments actually observed, and the forecast is reviewed and, where necessary, adjusted. Special simulation methods for valuing collateral have been devised for collateral types with a low default history. In the case of securities, HVB resorts to its own haircut calculations based on historical data. In addition, collateral is taken into account using a substitution approach if permissible under the CRR.

The most significant collateral types in terms of value in the lending business are land charges, guarantees and pledges of financial collateral, which together account for approximately 90% of all valued collateral.

In trading activities, over-the-counter (OTC) derivatives, security financing transactions (SFTs) and exchange-traded derivatives (ETDs) are hedged on the basis of the respective contractual provisions with the counterparties. In the case of OTCs, these are the International Swaps and Derivatives Association (ISDA), the German Master Agreement for Derivatives (Deutscher Rahmenvertrag für Finanztermingeschäfte – DRV) and the Credit Support Annex (CSA, appended to an ISDA master agreement) or BRV (appended to a DRV master agreement). In the case of SFTs, these are the Global Master Repurchase Agreement (GMRA) or the Global Master Securities Lending Agreement (GMSLA). For credit risk reduction, only collateral recognised as eligible under the CRR is permitted for regulatory purposes. Internally, the collateral policy defines conditions for accepting collateral in trading activities. The back office has a consultation and veto right in this regard. Collaterals from the trading business are measured on the basis of current market prices. The counterparty risk exposure is forecast using a refined internal model for predicting the amount of collateral needed and the value of the collateral provided (simulation method).

Measurement

We use the following risk measurement methods and metrics to assess our credit risk.

Probability of default (PD)

The internal customer-segment-specific rating and scoring methods of HVB Group that are available for all significant credit portfolios form the basis for the measurement of credit default risk. The reliable determination of our customers' PDs is critical for credit decisions, pricing and core capital backing under Basel III (A-IRB model) as well as for the internal credit risk model. Consequently, we place particular emphasis on the further development and refinement of our internal rating analysis instruments.

Risk Report (Continued)

The PDs determined on the basis of the rating and scoring methods lead to allocation to a rating class on a ten-point scale. The rating classes 1 to 7 are set aside for performing loans and the rating classes 8 to 10 for non-performing loans, with the rating classes 8–, 9 and 10 representing default classes.

HVB master scale with PD bandwidths

HVB RATING CLASS	AVERAGE PD	LOWER PD BANDWIDTH	UPPER PD BANDWIDTH
1	0.03%	0.001%	0.048%
2	0.08%	0.048%	0.121%
3	0.19%	0.121%	0.306%
4	0.49%	0.306%	0.775%
5	1.23%	0.775%	1.961%
6	3.12%	1.961%	4.965%
7	7.90%	4.965%	12.570%
8	20.00%	12.570%	99.999%
8–/9/10	100%	100%	

In contrast to ratings at customer level for which the customer represents the risk for the Bank, in the case of a transaction rating the risk relates to the transaction. In this instance, the customer is not considered the risk-bearing entity; the individual transaction is rated with its clearly specified risk instead. Structured loans and securitisations are typical examples of transaction ratings.

Loss given default (LGD)

The LGD indicates what proportion of the underlying portfolio of receivables would almost certainly be lost in the event of a default. The expected proceeds from the collateral used to reduce credit default risk have a major influence on the amount of the LGD. At the same time, the amount of the LGD is determined by borrower-related criteria. The reliable determination of our customers' LGD is critical for credit decisions, pricing, core capital backing under Basel III (A-IRB model) and our internal credit risk model. Consequently, the refinement and annual validation of our LGD estimation methodology is a high priority for us.

Exposure at default (EaD)

The EaD is the expected amount of the receivable at the time of default. It covers current arrears together with the probable future utilisation by the borrower. These probable future utilisations are determined on the basis of historical data and validated on an annual basis. Off-balance-sheet exposures such as unused, externally committed credit lines are also employed as the reference point for the EaD parameters. The EaD parameters are also incorporated in the credit decision, pricing, core capital backing under Basel III (A-IRB model) and the internal credit risk model.

The credit-risk-oriented calculation of exposures and limits is also carried out for issuer risk. This involves calculating a fair-value-oriented exposure for the individual positions in the trading book, which shows and limits the maximum potential fair value loss without taking account of residual values. A credit-risk-oriented, nominal-value-based exposure is used to limit the banking book and asset-backed security (ABS) positions. Netting effects are taken into account when the limits are set.

In terms of counterparty risk, a simulation method is used to determine future exposure figures for the pre-settlement risk within the scope of an internal model. The default conditional metric used in the internal model to determine the future exposures makes it possible among other things to incorporate the correlation effects between market risk and credit risk, and notably the specific wrong-way risk. The simulation is carried out for up to 50 future dates on the basis of 3,000 market data scenarios for each calculation date.

Expected loss (EL) (standard risk costs)
The expected loss shows the credit default losses to be expected from the credit portfolio over the next 12 months, taking into account the current ratings and collateral on hand. Among other things, it is used for risk identification, as both an absolute and a relative value, in pricing, for profitability calculations and for limitation purposes.

Risk density
The risk density is another risk metric alongside the EaD and expected loss that is used to manage the individual HVB Group sub-portfolios. HVB Group calculates the risk density as the ratio of expected loss to performing exposure in basis points (bps). It indicates the development of risk in a given portfolio.

Unexpected loss (economic capital, EC)
The economic capital measures the amount of capital required to cover the unexpected loss beyond the expected loss, which, with a probability of 99.90%, will not be exceeded over the next 12 months. This risk metric makes the risk content of the various sub-portfolios comparable, taking into account the concentration risks in the portfolio. It is also used in pricing and the Bank's risk-adjusted profitability calculations.

Internal credit risk model
HVB Group has been using the credit portfolio model used throughout the UniCredit Group to measure the economic capital of credit risk. The group model follows the structural Merton approach under which correlations between the borrowers are mapped using a multi-factor model, taking into account fluctuations in value arising from rating changes (migration risk) for certain sub-portfolios as well as the pure credit default risk.

The credit portfolio model covers all banking book positions and counterparty risks arising from derivatives portfolios that are relevant pursuant to the definition of credit risk. Issuer risk from the trading book continues to be recorded using the incremental risk charge (IRC) model, which forms part of the market risk in the presentation of the ICAAP.

Country risk is integrated using appropriate PD add-ons. Risk-reducing factors are included by applying reductions to the LGDs and PDs.

Risk-based and market-oriented pricing
Pricing methods and tools are used to manage risk and profitability in the lending business that take into account all cost components – in particular the expected standard risk costs and the cost of capital – and that are each adjusted to reflect the current parameters and bank management. Lending decisions are made under risk/return considerations that are determined in the obligatory pre-calculation prior to a transaction being concluded.

Monitoring and controlling
Risk monitoring takes place at the level of individual exposures. In addition, various instruments are used at portfolio level.

Individual exposures are monitored in both lending and trading operations with the aid of classical monitoring systems, such as rating analysis and early warning systems. Individual exposure limits are also defined in line with the probability of default to limit the risks entered into. Monitoring and reporting of any limit overshootings takes place on a monthly basis.

Risk Report (Continued)

Special features of counterparty risk and issuer risk

We employ limit systems as a key element of the management and controlling of counterparty risk as well as issuer risk to prevent an increase in our risk position that does not comply with the strategy. These systems are available online at all key HVB Group facilities engaged in trading activities. Each new trade is entered and applied to the corresponding limit without delay (the same day). The pre-settlement risk is established on the basis of an internal model method (IMM) and is recognised by the banking supervisory authorities for calculating capital requirements. To reduce counterparty risk relating to financial institutions, HVB Group is making greater use of derivative exchanges in its function as a central counterparty.

Quantification and specification

The economic capital for credit risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €3,058 million, which is €197 million lower than the total reported value as at 31 December 2016 (€3,255 million).

Credit default risk

The following tables and charts for credit default risk show the aggregate exposure values (total of non-performing and performing exposure) of HVB Group including issuer risk from the trading book. Issuer risk arising from the trading book is, moreover, included in the regulatory market risk analysis by way of the incremental risk charge. The comments in this regard can be found in the section covering market risk.

The aggregate exposure to credit default risk is referred to as credit default risk exposure, or simply exposure, in the following. Account balances on the entry date are included in the calculation of exposure.

The remaining exposures assigned to the former Real Estate Restructuring business segment are excluded from the analysis because the portfolio does not include any further new business and is earmarked for elimination. The portfolio has been reduced consistently in recent years and now stands at a mere €127 million (31 December 2016: €248 million).

Development of metrics by business segment

	EXPECTED LOSS[1] € millions		RISK DENSITY in BPS[2]		ECONOMIC CAPITAL[3] € millions	
Broken down by business segment	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Commercial Banking	150	159	16	17	808	858
Corporate & Investment Banking	155	165	11	14	2,240	2,384
Other/consolidation	2	4	69	30	10	13
HVB Group	**307**	**328**	**13**	**15**	**3,058**	**3,255**

1 expected loss of the performing exposure excluding issuer risk in the trading book
2 risk density as a ratio of expected loss to performing exposure without issuer risk in the trading book in bps; 100bps = 1%
3 without taking account of diversification effects

In 2017, the expected loss of HVB Group fell by €21 million and risk density by 2bps. This development can be attributed mainly to an improvement in the portfolio structure in the CIB and Commercial Banking business segments.

In the CIB business segment, the expected loss fell by €10 million and the risk density by 3bps, mainly due to the significant increase in the liquidity reserves in rating class 1.

The reduction in the expected loss in the Commercial Banking business segment of €9 million is primarily attributable to an improvement in the portfolio structure in the Real Estate industry group but also to deconsolidation of Bankhaus Neelmeyer AG.

The decline in the economic capital by business segment in 2017 essentially reflects the updating of the model parameters. A change in exposure to individual counterparties constitutes another reason for the decline in economic capital in 2017.

Breakdown of credit default risk exposure by business segment and risk category (€ millions)

	CREDIT DEFAULT RISK EXPOSURE		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		OF WHICH ISSUER RISK IN TRADING BOOK	
Broken down by business segment	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Commercial Banking	96,340	95,035	2,660	3,371	—	126	—	—
Corporate & Investment Banking	145,121	129,659	16,011	19,691	38,557	46,066	4,836	5,429
Other/consolidation	366	1,366	209	131	10	35	—	—
HVB Group	**241,827**	**226,060**	**18,880**	**23,193**	**38,567**	**46,227**	**4,836**	**5,429**

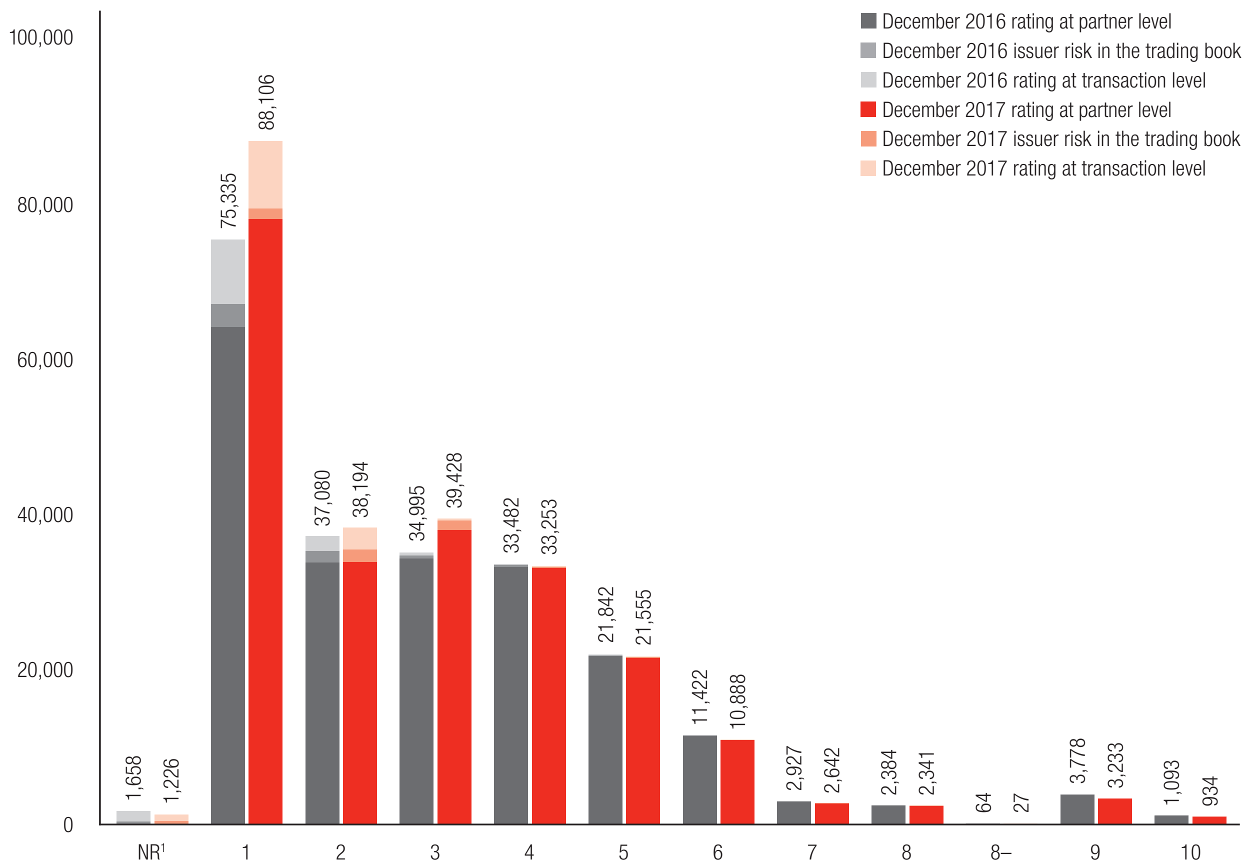
HVB Group's credit default risk exposure rose by €15,767 million in 2017.

In the CIB business segment in particular, the exposure rose by €15,462 million due to the increased investment of liquidity reserves in the financial institutions (including foreign sovereigns) industry group.

In the Commercial Banking business segment deconsolidation of Bankhaus Neelmeyer AG caused an exposure decrease of €904 million. This was more than compensated for by a general growth in business, particularly in the real estate industry and in the retail customer business. All in all, exposure in the Commercial Banking business segment increased by €1,305 million.

Risk Report (Continued)

Breakdown of credit default risk exposure by rating class (€ millions)



1 not rated

The rating structure of HVB Group changed over the course of 2017 mainly on account of the business development in the financial institutions (including foreign sovereigns) industry group. In rating class 1 exposure increased by €12,771 million. This was caused primarily by the rise in HVB Group's liquidity investments.

Growth in business was also achieved in rating classes 2 and 3, specifically in the financial institutions (including foreign sovereigns), special products, and food, beverages, agriculture industry groups. The exposure to poorer rating classes saw a slight decline.

Development of metrics by industry group

	CREDIT DEFAULT RISK EXPOSURE € millions		OF WHICH ISSUER RISK IN TRADING BOOK € millions		EXPECTED LOSS[1] € millions		RISK DENSITY in BPS[2]	
Industry group	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial institutions								
(including foreign sovereigns)	70,813	50,039	3,178	4,187	29	26	4	6
Real estate	26,446	25,918	61	53	24	31	9	12
Public sector (including German sovereign)	25,261	31,404	411	205	2	2	1	1
Special products	12,891	12,312	0	2	7	9	5	8
Energy	12,720	13,692	218	205	35	39	29	29
Chemicals, pharma, healthcare	10,337	10,275	102	114	18	19	18	19
Food, beverages, agriculture	10,008	8,925	83	39	16	15	17	16
Automotive	7,485	7,270	118	86	7	9	10	13
Consumer goods, textile industry	6,387	6,161	58	39	13	15	21	26
Services	5,855	5,575	78	40	20	16	36	30
Metals	5,435	5,048	108	72	16	14	31	31
Machinery	4,964	4,879	18	17	14	10	28	22
Construction, building materials	4,939	4,824	33	45	10	10	20	22
Transport, travel	4,589	5,176	98	70	8	10	20	22
Telecommunication, IT	4,470	4,327	180	132	9	9	21	23
Shipping	3,527	4,770	5	1	43	55	177	173
Media, paper	2,089	2,075	22	20	4	4	19	18
Tourism	2,081	1,917	32	9	4	4	21	21
Electronics	2,059	1,950	29	86	3	2	14	14
Private customers	19,347	19,432	—	—	26	26	13	14
Others	124	91	6	7	2	3	200	334
HVB Group	**241,827**	**226,060**	**4,836**	**5,429**	**307**	**328**	**13**	**15**

1 EL of the performing exposure excluding issuer risk in the trading book
2 risk density as a ratio of EL to performing exposure excluding issuer risk in the trading book in bps; 100bps = 1%

The portfolio has a balanced structure and is diversified across the various industries.

The greatest changes over the course of 2017 were seen in the following industry groups:

The exposure in the financial institutions (including foreign sovereigns) industry group increased by €20,774 million as at 31 December 2017. This development is exclusively due to the increase in liquidity investments held at Deutsche Bundesbank. Part of this figure was reallocated from the public sector (including German sovereign) industry group. The exposure to other customers in this industry group was subject to the usual business-related fluctuations over the course of the year and remained virtually unchanged. The increase of €3 million in the expected loss primarily stems from the adjustment to the method underlying the rating process for banks that now calculates significantly higher probabilities of default. The risk density decreased from 6bps to 4bps.

Risk Report (Continued)

In the public sector (including German sovereign) industry group, the exposure decreased by €6,143 million in 2017. This is essentially attributable to the aforementioned reallocation of maturing liquidity investments to the financial institutions (including foreign sovereigns) industry group as described above. The expected loss and the risk density have remained constant in this respect.

Furthermore, the exposure to the food, beverages, agriculture industry group increased by €1,083 million and the expected loss rose by €1 million. Both developments mainly stem from the new business with individual key accounts. The risk density increased slightly from 16bps to 17bps.

Details on individual selected industries relating to HVB Group are provided below.

Financial institutions (including foreign sovereigns)

Rising costs from regulatory requirements and in connection with compliance (fines and investments), together with falling earnings due to modified business models and less demand for credit led to continued strong downward pressure on margins throughout the industry group. The earnings of European banks in particular remained below those of major US banks. The provision of liquidity to banks is unproblematic in most cases. ECB policies may lead to negative interest rates for deposits in solitary cases. The banks have a stable capital base, but ten years down the line from the global financial crisis, it is still not possible to talk of a true recovery in the sector.

Some new geopolitical risks as well as existing ones that are intensifying are causing turbulence and volatility on the credit markets on a regular basis.

HVB Group has deployed a monitoring tool known as the "radar screen for financial institutions/banks" in order to be in a position to promptly identify and counter negative developments in the banking sector. A change in the exposure strategy will be adopted should bank downgrades be noted.

Part of the exposure in the financial institutions (including foreign sovereigns) industry group resulted from credit default risk exposure to UniCredit S.p.A. and other entities affiliated to UniCredit (upstream and downstream exposure) on account of the strategic positioning of HVB Group as the group-wide centre of competence for the markets and investment banking business of UniCredit and other business activities (such as export finance and guarantees).

Real estate

The German real estate market saw a continuation of its boom phase once again in 2017. This development still has its origins in the historically extremely low long-term interest rates, the robust labour market and the persistently strong demand for residential properties and, in the meantime, also for commercial properties – especially in conurbations. The change in investment patterns seen during the most recent financial crisis in 2008 led to large shifts of assets into real estate. Purchase prices often outstrip growth in rents. Counteracting effects can be identified in some regional sub-markets, due to demographic developments, among other factors. Market observers, including Deutsche Bundesbank, warn of potentially overinflating prices and overheating markets.

Unresolved international conflicts and uncertainty as to developments in the situation surrounding Europe could lead to worsening economic prospects in coming periods, which would have an impact on the commercial real estate market in particular. At the same time, the residential property market is showing indications of cooling and a normalisation of sales patterns in the core markets (including Berlin, Hamburg and Munich), especially in the case of high-price properties.

Partly as a result of the conservative, forward-looking credit risk strategy for the real estate industry group that has been applied for years, the portfolio of existing properties remained robust and relatively low risk in 2017. In terms of risk density, there was an improvement on the previous year. In a multi-year comparison, a very good risk result (measured against the actual loss) was achieved in the real estate industry group in 2017.

All in all, the real estate portfolio is expected to continue to grow in line with expected economic growth, taking into account the proven financing parameters. The financing business focuses on Germany.

Public sector (including German sovereign)
The public sector (including German sovereign) industry group contains private enterprises with public-sector owners as well as state entities. As the German states and the development banks enjoying the formers' full liability represent important counterparties for internal liquidity management, the vast majority of the exposure is due to our own liquidity investments. The exposure is fluctuating within the industry limits defined for this industry.

Special products
Special products transactions include ABS/CDO bond investments, customer-related securitisations, securitisations of UniCredit's own assets, structured credit products such as bilaterally negotiated CDOs, structured fund financing, structured leasing transactions and other structured financial transactions (not including project financing, acquisition financing and leveraged finance).

A strategy of growth within clearly defined parameters involving conservative credit standards (for instance, asset classes, rating quality) was defined for sub-segments of the special products portfolio under the 2017 risk strategy. Although it was not possible to realise this growth in one portfolio segment in 2017 on account of the difficult market environment (the competitive situation, pressure on margins, among other factors), the overall volume of the special product portfolio increased by €597 million in comparison with December 2016. The expected loss and the risk density were successfully reduced once again in 2017. We are nevertheless upholding the existing growth strategy for 2018. Non-strategic sub-portfolios continue to be reduced in a controlled manner.

Energy
In line with the defined risk strategy, we are focusing on large multinationals in the energy sector (including oil and gas). The exposure to companies that do not meet our financing conditions is being actively reduced or the risk mitigated by means of structural financing elements. In the case of project loans on the renewable energy side, we are concentrating on projects in countries with a stable regulatory environment and ensuring compliance with our lending standards.

Shipping
The industry situation improved overall in 2017, but is still not satisfactory in substantial areas.

The freight and time charter rates for bulk carriers stabilised at a higher level, following the historical lows in 2016. Container shipping also saw a slight recovery in time charter rates. However, these rates still do not cover the cost of capital. As a consequence of the increasing concentration of shipping lines, freight rates also increased compared with the equivalent period last year. Demand in the offshore industry suffered from the ongoing low price of oil. Accordingly, the demand for equipment for offshore oil exploration and extraction remained low.

Tankers for oil products and crude oil tankers alike recorded significant declines in freight rates in comparison with the previous year.

After the prices on the market for new ships and on the secondary market for ships stabilised at a low level at the beginning of 2017, prices have recently demonstrated different trends tracking the development of freight rates. While bulk carriers saw price increases, the vessel values for tankers were in decline in 2017. Container ships similarly experienced a slight recovery, but prices persist at a low level.

Risk Report (Continued)

HVB Group continues to apply a conservative strategy in its ship financing activities. The focus remains on managing the risk in the existing portfolio. After the significant portfolio reduction in the shipping industry in recent years, the reduction in the existing portfolio was continued in 2017 as planned, with the appreciation in the euro exchange rate against the US dollar recently providing support to this development. At the same time, however, new business was written very selectively where this helped to enhance the quality of the portfolio.

Global acquisition finance in the core markets of HVB Group

Acquisition finance is included in the credit default risk exposure of the individual industry groups. The specific financing structures are controlled separately in line with the HVB Group risk strategy.

HVB Group's acquisition financing portfolio decreased in 2017 in comparison with year-end 2016. New transactions were not able to fully make up for the decrease in the existing portfolio (downward pressure not only came from scheduled repayments but also instances of premature refinancing on the capital market). The portfolio quality (measured in terms of expected loss and risk density) remains at an acceptable level and comfortably within the defined limits.

In new acquisition finance business, HVB Group continues to concentrate on consortium-leader mandates. The aim is to reinforce the leading market position in Germany. The plans are to increase market shares in the UK, France, Benelux and Scandinavia.

Special focus facilities

HVB Group's portfolio includes the project financing for the BARD Offshore 1 (BO1) wind farm completed in August 2013 (Ocean Breeze Energy GmbH & Co. KG is the owner and operator). It is located approximately 100 km off the German North Sea coast, to the north of the island of Borkum.

Of Germany's open-sea wind farms, BO1 is currently the one with the greatest output. Eighty wind turbines of the 5-megawatt class achieve a nominal output of up to 400 MW.

There have been significant increases in production since the Bank's acquisition of the wind farm in 2014. Calculated from the date in December 2010 on which power was fed in for the first time up to and including December 2017, more than 5 billion kWh of energy has been produced. An output of 1.49 billion kWh (included in the total figure) was achieved in 2017 alone – a new production record. This is equivalent to the annual energy needs of around 1.5 million people. This makes BO1 wind farm Germany's most productive offshore wind farm at the moment. The wind farm is designed for 25 years of feed-in operation.

All known issues relating to damage are included in the operator's current business and multiple-year planning. On this basis and with regard to the wind park's performance parameters, it may continue to be assumed that the cash flow that can be generated in regular operation will be adequate to ensure that the debt level will be repaid over a period that is customary for the industry. The exposure has already reached the repayment stage. Annual repayments of amounts in the three-digit millions are intended to be made from forecast cash flow over the coming years.

Based on Section 17e of the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG), the operator has already received reimbursements from the grid operator TenneT for some of the lost revenues incurred mainly in 2014. A further tranche of the claims for damages asserted by the operator has been subject to court proceedings for clarification since spring 2016.

Exposure development of countries/regions

The following tables show the comprehensive concentration risk at country level. The exposure figures are shown with regard to the risk country of the customer.

Development of credit default risk exposure of eurozone countries (€ millions)

Country	CREDIT DEFAULT RISK EXPOSURE 2017	CREDIT DEFAULT RISK EXPOSURE 2016	OF WHICH ISSUER RISK IN TRADING BOOK 2017	OF WHICH ISSUER RISK IN TRADING BOOK 2016
Germany	156,316	135,535	1,092	744
Italy	9,413	8,044	1,567	1,048
Spain	6,911	7,331	126	93
France	6,181	7,123	257	317
Ireland	6,046	4,724	46	70
Luxembourg	5,605	4,769	98	74
Netherlands	4,138	4,820	171	193
Austria	1,854	3,258	304	1,457
Finland	330	231	21	28
Belgium	319	987	94	63
Greece	237	275	—	1
Cyprus	157	220	1	6
Portugal	48	93	3	37
Slovenia	45	88	22	17
Malta	17	34	—	—
Lithuania	16	13	16	12
Slovakia	7	27	2	24
Estonia	2	0	2	—
Latvia	2	15	—	—
Supranational organisations and multilateral banks[1]	2,057	3,535	—	249
HVB Group	**199,701**	**181,122**	**3,822**	**4,433**

1 In 2017, separate limits were set for the exposure to supranational organisations and multilateral banks which is disclosed in the category of supranational organisations and multilateral banks. The figures as at 31 December 2016 were calculated back correspondingly.

The exposure developed within the framework set by the risk strategy for 2017. This was specifically true in light of the stabilisation seen to date in the eurozone economy. The greater uncertainty engendered by Brexit could, however, have a negative impact on this. HVB Group will keep a close eye on this development and, if necessary, take suitable measures.

Italy

The size of the portfolio results from HVB Group's role as group-wide centre of competence for the markets and investment banking business of UniCredit. This portfolio is actively managed in accordance with market standards (such as collateralized derivative transactions). The exposure to Italy also includes the exposure with UniCredit S.p.A., for which a separate strategy was defined. Italy's economic growth continued to strengthen in 2017. Driven by consumer spending, which gathered pace partly due to positive developments on the labour market thanks to past reforms, real GDP growth should amount to 1.6% for 2017 seen as a whole. Similar dynamics are expected for 2018, which, in conjunction with the ongoing budgetary caution, should also lead to a slight decrease in the high level of sovereign debt measured in percent of GDP. The parliamentary elections scheduled for spring 2018 are not expected to cause any long-term disruption to the generally positive economic development as the Movimento 5 Stelle (Five Star Movement) protest party is unlikely to participate in any new government despite its relatively strong poll results.

Risk Report (Continued)

Luxembourg
The absolute amount of the exposure is attributable mainly to the subsidiary in Luxembourg, where some German corporate banking transactions are also booked, together with exposure to multinational organisations.

Development of the weaker eurozone countries
The strict austerity measures and reforms imposed by some eurozone countries have been successful, also leading to a generally better assessment by the capital markets. Spain in particular should be highlighted in this respect, in that it was able to record strong growth once again for 2017. In addition, Spain has achieved a significant decrease in the level of unemployment and a gradual but persistent reduction in the sovereign debt ratio since 2015. The political crisis in connection with the secessionist movement in Catalonia is a factor causing uncertainty but it has not yet had any major impact on the Spanish economy.

The portfolio in the weaker eurozone countries was again actively managed in 2017, albeit with different strategies.

The strategy of reduction continued to be applied for Greece in 2017.

Development of credit default risk exposure by country/region outside the eurozone (€ millions)

	CREDIT DEFAULT RISK EXPOSURE		OF WHICH ISSUER RISK IN TRADING BOOK	
Country/region	**2017**	**2016**	**2017**	**2016**
UK	9,194	11,615	249	160
USA	8,986	10,416	161	225
Switzerland	5,494	5,003	142	84
Asia/Oceania (without Japan, China, Hong Kong)	3,616	3,779	25	25
Turkey	2,441	2,498	5	22
Western Europe (without Switzerland, UK)	1,788	1,900	104	179
Near/Middle East[1]	1,686	1,577	0	0
North America (including offshore jurisdictions, without USA)	1,616	1,276	63	50
China (including Hong Kong)	1,593	1,791	0	0
Japan	1,481	855	0	9
Eastern Europe (without eurozone countries)	1,416	1,203	145	166
Africa[1]	1,149	1,348	10	24
CIS/Central Asia (without Turkey)[2]	1,007	1,082	86	22
Central/South America	644	595	23	30
Without country classification[3]	15	—	—	—
HVB Group	**42,126**	**44,938**	**1,013**	**996**

1 Until 31 December 2016, the North Africa region was included in the Near/Middle East/North Africa region. When the 2017 risk strategy came into effect, the North Africa and Southern Africa regions were merged into the new Africa region. The comparative data as at 31 December 2016 were adjusted accordingly.
2 When the risk strategy for the year 2017 came into effect, Russia became part of the CIS/Central Asia (without Turkey) region for presentation purposes. The figures as at 31 December 2016 were calculated back accordingly.
3 The item "without country classification" was introduced when the risk strategy for 2017 came into effect. These transactions were presented under Germany until 31 December 2016.

The total exposure to countries/regions outside the eurozone decreased by €2,812 million in 2017, with the UK and the USA, in particular, demonstrating decreasing exposure.

Brexit

HVB Group is taking account of the possible consequences of Brexit in terms of the future development of its exposure in the UK, among other things.

Geopolitical flashpoints

On account of the ongoing conflict in eastern Ukraine and the difficult economic situation throughout the country, unsecured transactions with Ukrainian banks remain on hold. Russia's acts of intervention in Ukraine have led to a continuation of the existing sanctions imposed by the EU and USA that impact the cross-border business with Russia. This is reflected in the decline in exposure, as new business is not written unless all the sanctions are observed and customer interests have been taken into account on a case-by-case basis.

In Syria and Iraq, the so-called Islamic State has to a great extent been defeated by military means. Nevertheless, both countries remain embroiled in severe internal conflicts.

The Turkish economy has come under pressure primarily from the domestic policy issues since the failed coup d'état in the summer of 2016. In particular, the foreign portfolio investments that financed the country's large current account deficit to date could significantly and permanently decrease in the medium term. This will apply especially in an environment of gradually rising US interest rates which is likely to make investments in emerging economies, such as Turkey, relatively less attractive.

The Near/Middle East region is additionally suffering from the growing tensions between Saudi Arabia and Iran and the fall in the oil price to a significantly lower level since mid-2014. This is forcing Saudi Arabia and the Gulf States to make downward adjustments to public spending in the medium term despite their considerable fiscal reserves, an action that might give rise to discontent in their respective populations. Furthermore, political risks arise from the confrontation between several Gulf States including Saudi Arabia and Qatar.

In the Asia/Oceania region, the confrontation between the North Korean leadership and the USA is a growing cause for concern. The actual triggering of armed conflict would be catastrophic for the region but this remains unlikely for the time being.

Financial derivatives

Alongside the goal of generating returns, derivatives are employed to manage market risks (in particular, risks arising from interest-rate fluctuations and currency fluctuations) resulting from trading activities, and also serve to provide cover for on- and off-balance-sheet items within asset/liability management. Besides market risk, derivatives bear counterparty risk or, in the case of credit derivatives, which additionally serve to manage credit risk, also issuer risk.

The positive fair values are relevant for purposes of credit default risk as replacement values for the OTC derivatives, which represent the potential costs that HVB Group would incur to replace all of the original contracts with equivalent transactions in case of simultaneous default by all counterparties.

On the basis of these replacement values and not taking into account any risk-reducing effects, the maximum counterparty risk for HVB Group as at 31 December 2017 totalled €59.0 billion (31 December 2016: €76.1 billion).

In accordance with the regulatory provisions under Basel III and CRR as well as taking account of the internal model method (IMM) that has been approved by the regulatory authorities for use by HVB to determine counterparty risks, HVB Group's derivative business results in risk-weighted assets arising from counterparty risk of €4.7 billion as at 31 December 2017 (31 December 2016: €5.3 billion).

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

Risk Report (Continued)

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2017	2016	2017	2016	2017	2016
Interest rate derivatives	**634,093**	**849,055**	**783,970**	**2,267,118**	**2,065,742**	**48,233**	**60,989**	**44,105**	**57,836**
OTC products									
Forward rate agreements	42,402	—	—	42,402	67,869	2	5	2	2
Interest rate swaps	492,199	764,294	684,137	1,940,630	1,704,756	44,078	57,257	39,207	49,975
Interest rate options									
– purchased	7,212	36,319	52,845	96,376	106,788	3,467	3,508	382	195
– written	10,369	38,845	46,988	96,202	99,811	435	153	4,251	5,731
Other interest rate derivatives	22	29	—	51	307	—	65	1	68
Exchange-traded products									
Interest rate futures	33,299	9,568	—	42,867	47,641	—	—	—	1,865
Interest rate options	48,590	—	—	48,590	38,570	251	1	262	—
Foreign exchange derivatives	**266,041**	**34,208**	**6,215**	**306,464**	**323,455**	**3,508**	**5,342**	**3,776**	**6,000**
OTC products									
Foreign exchange forwards	220,770	22,635	1,003	244,408	260,117	3,024	4,585	3,156	5,200
Foreign exchange options									
– purchased	22,206	5,823	2,678	30,707	31,780	343	597	175	161
– written	22,801	5,750	2,534	31,085	31,554	132	160	445	639
Other foreign exchange derivatives	262	—	—	262	—	9	—	—	—
Exchange-traded products									
Foreign exchange futures	2	—	—	2	4	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**43,662**	**93,149**	**44,867**	**181,678**	**191,544**	**4,405**	**6,544**	**3,943**	**6,795**
Equity/index derivatives	**43,458**	**33,272**	**10,655**	**87,385**	**78,942**	**2,111**	**2,252**	**2,913**	**3,184**
OTC products									
Equity/index swaps	6,154	5,920	636	12,710	9,994	160	204	163	302
Equity/index options									
– purchased	3,399	1,778	838	6,015	5,338	251	378	190	152
– written	13,716	7,934	4,458	26,108	26,930	70	58	593	641
Other equity/index derivatives	440	259	505	1,204	194	34	17	1	—
Exchange-traded products									
Equity/index futures	6,079	1,242	273	7,594	5,667	9	5	9	5
Equity/index options	13,670	16,139	3,945	33,754	30,819	1,587	1,590	1,957	2,084
Credit derivatives[1]	**11,438**	**27,687**	**1,606**	**40,731**	**56,205**	**385**	**671**	**443**	**556**
Other transactions	**8,215**	**3,898**	**422**	**12,535**	**13,386**	**375**	**438**	**529**	**622**
HVB Group	**1,006,907**	**1,041,269**	**847,735**	**2,895,911**	**2,729,274**	**59,017**	**76,236**	**55,709**	**74,993**

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

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €557,876 million as at 31 December 2017 (thereof credit derivatives: €1,584 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2017	2016	2017	2016
Central governments and central banks	7,086	7,036	1,306	1,559
Banks	29,979	41,122	32,737	45,185
Financial institutions	19,701	24,590	19,719	25,988
Other companies and private individuals	2,251	3,488	1,947	2,261
HVB Group	**59,017**	**76,236**	**55,709**	**74,993**

Credit derivatives

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2017	2016	2017	2016	2017	2016
Banking book	**—**	**25**	**—**	**25**	**171**	**—**	**1**	**—**	**2**
Protection buyer									
Credit default swaps	—	25	—	25	171	—	1	—	2
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	—	—	—	—	—	—	—	—	—
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Trading book	**11,438**	**27,662**	**1,606**	**40,706**	**56,034**	**385**	**670**	**443**	**554**
Protection buyer									
Credit default swaps	5,621	12,276	691	18,588	25,736	14	144	356	347
Total return swaps	—	285	—	285	150	2	—	35	27
Credit-linked notes	391	1,938	165	2,494	1,738	6	16	29	18
Protection seller									
Credit default swaps	5,221	12,533	743	18,497	25,814	361	360	23	160
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	205	630	7	842	2,596	2	150	—	2
HVB Group	**11,438**	**27,687**	**1,606**	**40,731**	**56,205**	**385**	**671**	**443**	**556**

Credit derivatives by reference asset

(€ millions)

	NOMINAL VOLUME				
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	TOTAL 2017	TOTAL 2016
Public sector bonds	16,878	—	189	17,067	25,896
Corporate bonds	18,558	—	3,006	21,564	25,260
Equities	—	—	—	—	—
Other assets	1,674	285	141	2,100	5,049
HVB Group	**37,110**	**285**	**3,336**	**40,731**	**56,205**

Risk Report (Continued)

Single-name credit derivatives make up 49.7% of the total; multi-name credit derivatives, relating notably to baskets or indices, account for a share of 50.3%.

Stress tests

By carrying out stress tests in the credit portfolio, the credit risk managers obtain information on a quarterly basis about the possible consequences of a deterioration in the underlying economic conditions in addition to the monthly analysis of the real portfolio development. The focus here is on the risk metrics of risk-weighted assets, expected loss and economic capital, and the changes in the portfolio quality. Concentration stress tests, ad hoc stress tests and inverse stress tests are carried out alongside the stress tests based on macroeconomic scenarios (results of which are included in the cross-risk-type stress analysis, among other analyses).

Summary and outlook

The Bank has put a strong focus on growth with simultaneous risk control in its business strategy. The goal is still to retain a low-risk credit portfolio within the relevant peer group.

In light of the difficult and ever-worsening market situation and tough competition, it will be even more challenging to achieve the growth targeted for 2018 than it already was in 2017.

The numerous economic and geopolitical uncertainties continue to weigh down on the overall economic environment.

2 Market risk

Definition

We define market risk as the potential loss of on- and off-balance-sheet positions in the trading and banking books that can arise in response to adverse changes in market prices (interest rates, equities, credit spreads, foreign exchange and commodities), other price-influencing parameters (volatilities, correlations) or trading-related events in the form of default or changes in credit ratings of securities (specific price risk for interest net positions).

Categories

We define interest rate risk as the risk of values changing on account of fluctuations in interest rates.

Foreign currency risk arises from fluctuations in exchange rates.

Stock and commodity risk is defined as the risk arising from changing rates on the stock and/or commodity markets.

We define the credit spread as the premium on the interest rate compared with a risk-free investment. Fluctuations in the credit spread give rise to credit spread risk.

The risk that results from changes in volatilities is subsumed in option risk.

Strategy

Our market risk is essentially managed by the CIB business segment and to a lesser – and diminishing – extent by our subsidiaries. As was already the case in previous years, the focus in 2017 was again on customer transactions. This made it possible to avoid material losses arising from sudden, large market movements.

The trade in financial instruments was restructured in 2017 with a view to boosting its efficiency. The CEE (Central and Eastern Europe) trading department was dissolved. The individual units of this department were allocated to interest rate trading, credit trading, foreign exchange trading and treasury. The trading departments for equity derivatives and commodity products were merged. A new trading department, FIC (interest-bearing securities and currencies) was set up by merging interest trading, foreign exchange trading and credit trading. This created a clearer separation between strategic investments in the area of lending and trading. Within the new trading departments, teams were reorganised with a view to boosting efficiency.

Foreign exchange trading with Asian, Eastern European and Latin American currencies has been globally positioned. Currency options trading was strengthened. Currency trading on electronic platforms saw significant customer growth. Further expansion of these platforms is planned for the next few years. Similarly, there was significant growth in sales of shares through electronic platforms in Germany and Italy; some 160,000 different products are currently on offer in Germany.

Around one third of the market risk is in trading books while around two thirds – mainly invested in interest-bearing-securities – lie in strategic investments or in liquidity reserve portfolios. All positions exposed to market risk are subject to corresponding limits.

Limit system

All transactions exposed to market risk in the trading and banking books of HVB Group are aggregated every day to form value-at-risk (VaR) metrics and set against the risk limits. The Management Board of HVB approves and, if necessary, adjusts the risk limits every year. Limits are defined for trading books by using VaR limits, whereas limits are set for the combination of trading and banking books by total VaR limits. Both groups of limits are equally binding and compliance is equally enforceable.

The overall VaR limit of €90 million and the trading book limit of €37 million were confirmed without change at the beginning of 2017 when the risk strategy for HVB Group was adopted.

Monitoring of the regulatory metrics stressed value-at-risk and incremental risk charge to be used additionally for the internal market risk model is ensured by setting limits for the risk values that are reported on a weekly basis.

Alongside management using the VaR approach, the risk positions of key units are restricted by an additional bundle of granular limits. These limits relate to sensitivities, stress test results and nominal volumes in various risk classes.

Measurement

The VaR shows the maximum expected loss caused by market price fluctuations that with a certain probability (confidence level) will not be exceeded over a given period. We use a confidence level of 99.00% and a holding period of one day for internal risk reports, risk management and risk limits.

We use a historical simulation to calculate the VaR. This simple method makes it possible to calculate the VaR without having to make any fundamental assumptions regarding the statistical distribution of the movements in the portfolio value. It encompasses the generation of the hypothetical distribution of earnings (gains and losses) from a portfolio of financial instruments directly using the historical market price fluctuations over the last two years (observation period).

HVB Group has defined several further market risk metrics under the current CRR rules for risk management as well as the VaR:
– The stressed VaR is calculated in the same way as the VaR, although the 12-month observation period has been selected covering the most significant negative market changes for HVB's trading portfolio. The amount calculated for the regulatory report relates to a holding period of ten days and a confidence level of 99.00%.
– The incremental risk charge (IRC) for credit-risk-sensitive positions is the internal approach used to determine the specific risks (specific price risk for net interest positions). This includes credit default risk and migration risk, meaning that both the change in ratings (migration) and the potential default on a credit product are taken into account. The calculated amount for both regulatory and internal reporting relates to a holding period of one year and a confidence level of 99.90%.
– The specific risks for securitisations and nth-to-default credit derivatives are covered by the regulatory Standard Approach.
– Based on the CRR regulations, we calculate risks with regard to the credit valuation adjustment (CVA). The CVA risk shows the risk of fair value losses based on changes in the expected counterparty risk for all relevant OTC derivatives under CRR. We use our own internal model to calculate the vast majority of the CVA. For the regulatory report, the internal model calculates both the CVA VaR and the stressed CVA VaR on the basis of a 10-day holding period and a confidence level of 99.00%.

Risk Report (Continued)

Monitoring and controlling

The market risk positions in the trading and banking books are monitored using a hierarchical limit system that restricts the potential loss from market risk. This involves restricting the VaR totals from trading positions by setting trading book limits. At the same time, all positions, irrespective of the regulatory or IFRS classification, are limited by what are known as VaR warning levels.

The VaR figures are reported daily along with the limit utilisation and the earnings figures (P/L figures) to the Management Board and the responsible persons in the CIB business segment. Whenever trading-book and/or total VaR limits are exceeded, an escalation process is triggered immediately and the reduction of the positions in question monitored. In 2017, such reduction was, with a few exceptions, carried out within one day. If the specified limit was exceeded on the following day as well, the escalation process was again initiated immediately.

The Market Risk Management department has direct access to the front-office systems used in trading operations. The monitoring of trading activities comprises prompt allocation to credit risk limits and detailed checks of the P/L on the following day. In this context, both the daily turnover and the P/L generated on intraday transactions are calculated.

In addition to the daily reports, the management is informed on a weekly and monthly basis about the results of the risk analysis, including the results of back-testing and stress tests as well as sensitivity ratios.

To calculate and allocate the economic capital requirements for market risk, the hypothetical distribution used to determine the VaR has been expanded to an observation period of (at least) six years and combined with the results arising from the CVA risk. Unlike in internal risk controlling, any hedge effect of the model book for equity is not included in the economic capital. Furthermore, market risks are also included that arise from the Incremental Default Risk Charge (IDRC), which in contrast to the regulatory IRC approach only takes account of issuer default, the market risk Standard Approach, add-ons for ABS risks and for gap option risks. All risks, with the exception of the add-ons, are scaled accordingly to obtain a holding period of one year and a confidence level of 99.90%. In the course of a hypothetical resolution, it is assumed that tradeable positions are sold or hedged within the one-year holding period.

The regulatory capital requirement for market risk encompasses the VaR and stressed VaR for, in each case, a 10-day holding period together with the IRC and the market risk Standard Approach. The CVA risk is also taken into account. When calculating the capital requirement, the individual risk metrics are aggregated by regulatory averages, maximum calculation and scaling.

Simulation of interest income

In addition, a simulation of net interest income in the banking book is carried out for HVB on a monthly basis. The focus of this analysis is the impact of changes of interest rates on net interest income. It shows the difference between income generated from interest-sensitive assets and the expense of interest-sensitive liabilities. An example of the management of the sensitivity of net interest income is a parallel interest rate shock of plus 100 basis points (bps). It provides an indication of the impact of such an interest rate shock on net interest income over the next 12 months if such a shock should occur. On the assumption of an unchanged balance sheet, i.e. assuming that balance sheet items remain constant during this period and that the expiring contracts are reinvested within this time horizon with the same product features, the net interest income would increase by €147 million (30 June 2017, plus 100bps HVB: €99 million) by taking into account elasticity assumptions for sight and savings deposits. A parallel interest rate shock of minus 30bps for transactions in euro and other foreign currencies combined with minus 100bps for other currencies in USD and GBP would reduce net interest income for the same period by minus €77 million (30 June 2017: minus 30/minus 100bps HVB: minus €67 million). Depending on the contractual agreement with the customer a floor of 0.0% could be employed for commercial banking products, meaning that the interest shock of minus 30/minus 100bps is not fully applied.

The resulting sensitivity analysis was carried out on the basis of the planned net interest income for the 2017 financial year. The change in results as of mid-year can be explained by the changed market conditions and the persistently low interest rates.

Furthermore additional stress test scenarios are performed on a regular basis to estimate the basis risk (resulting from the imperfect correlation in lending and borrowing interest rates for different instruments and products) and nonparallel shocks. Model assumptions are also incorporated into the analysis. This relates notably to products with unknown and/or undefined maturities and included options. The interest rate risk inherent in these product types in the banking book is measured on the basis of assumptions and analyses of customer behaviour in the lending and deposit-taking business.

The main target of the strategy in the interest rate risk in the banking book is the reduction of net interest income volatility in a multiyear horizon. The strategy does not imply any intended directional positioning or any scope of discretion for generating additional earnings, unless approved by relevant bodies and separately monitored. The only exception is for those functions authorised to carry interest rate positions within the approved limits. Management's strategy on the structural mismatch between non-interest bearing assets and non-interest bearing liabilities (free funds) aims to achieve a balance between a stable flow of earnings in a multiyear horizon and the opportunity cost of having a fixed interest rate. The interest rate management strategy takes into account the potential impact from prepayments, which is estimated on the basis of historical prepayment data as well as trend analyses. The risk of premature repayments in German mortgage banking is driven by the level of the interest rates and by the behaviour of the customers independently of the level of the interest rates. The interest-rate-sensitive prepayments are rather low at the current level of interest rates and are hedged using swaptions. The non-interest rate sensitive prepayments are hedged using swaps according to the interest rate risk strategy of the Bank.

Quantification and specification

Since June 2017, the economic capital for market risk has been calculated using a method that has been refined in certain points. The economic capital for market risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €2,340 million and has changed hardly at all in comparison with the figure as at 31 December 2016 (€2,488 million). The decrease is essentially due to the aforementioned refinement in the method used.

The following table shows the aggregated market risk for the trading positions at HVB Group over the course of the year.

Market risk from trading-book activities of HVB Group (VaR, 99.00% confidence level, one-day holding period) **(€ millions)**

	AVERAGES					PERIOD-END TOTALS	
	2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017	31/12/2017	31/12/2016
Credit spread risks	6	6	6	5	5	6	4
Interest rate positions	5	4	4	4	7	5	11
Foreign exchange positions	3	2	3	3	4	3	4
Equity/index positions[1]	3	3	2	3	3	3	2
HVB Group[2]	**7**	**7**	**7**	**8**	**7**	**7**	**9**

1 including commodity risk
2 Because of the diversification effects between the risk categories, the total risk is less than the sum of the individual risks.

Risk Report (Continued)

The regulatory capital requirements for the last year are described below, broken down by the relevant risk metrics.

Regulatory metrics of HVB Group (€ millions)

	31/12/2017	30/9/2017	30/6/2017	31/3/2017	31/12/2016
VaR	90	104	143	147	198
Stressed VaR	251	285	284	277	286
Incremental risk charge	319	249	268	219	168
Market risk Standard Approach	16	20	1	1	2
CVA VaR	29	31	37	46	48
Stressed CVA VaR	153	150	148	151	157
CVA Standard Approach	27	33	32	16	16

The stricter regulatory capital requirements in HVB Group's market risk Standard Approach reported since September 2017 resulted from the extension to include specific interest rate risks for undertakings for collective investment (UCI) and from foreign currency risks for HVB subsidiaries and UCIs.

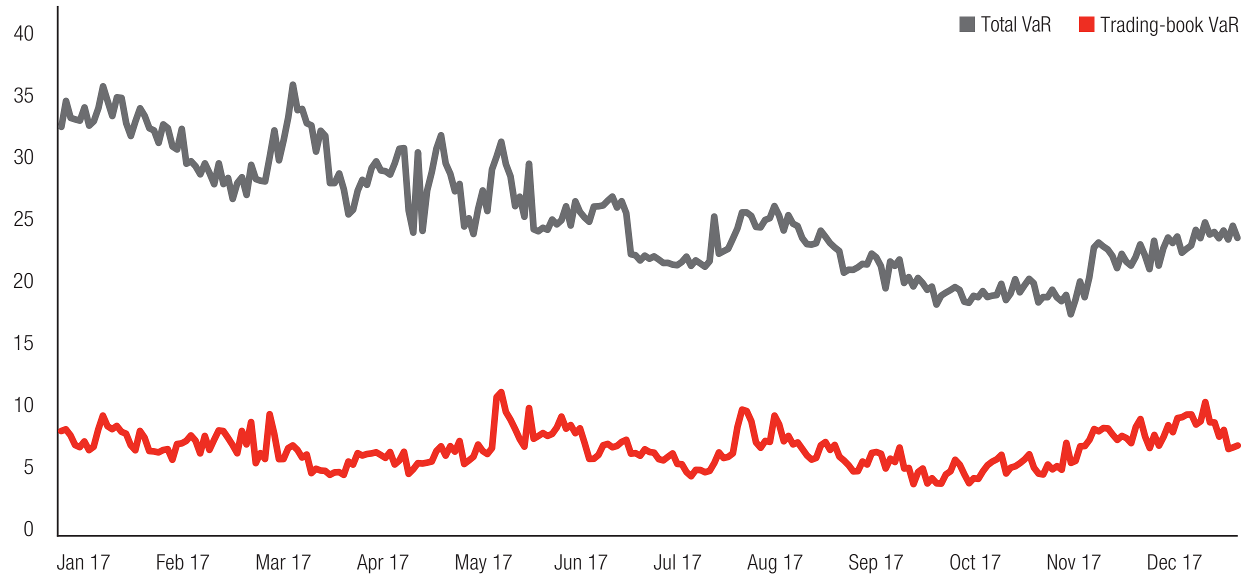
Alongside the market risk relevant for regulatory reporting, further market risk arises from positions in the banking book. All transactions exposed to market risk in the trading and banking books of HVB Group are consolidated for the purpose of risk controlling. Most of the market risk arises from positions of the CIB business segment at HVB Group.

Market risk from trading- and banking-book activities of HVB Group (VaR, 99.00% confidence level, one-day holding period) (€ millions)

	AVERAGES					PERIOD-END TOTALS	
	2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017	31/12/2017	31/12/2016
Credit spread risks	23	21	23	22	24	21	23
Interest rate positions	8	5	6	8	12	5	16
Foreign exchange positions	9	6	8	10	11	6	13
Equity/index positions[1]	3	3	2	3	3	3	3
HVB Group[2]	**25**	**21**	**22**	**27**	**31**	**24**	**34**

1 including commodity risk
2 Because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks.

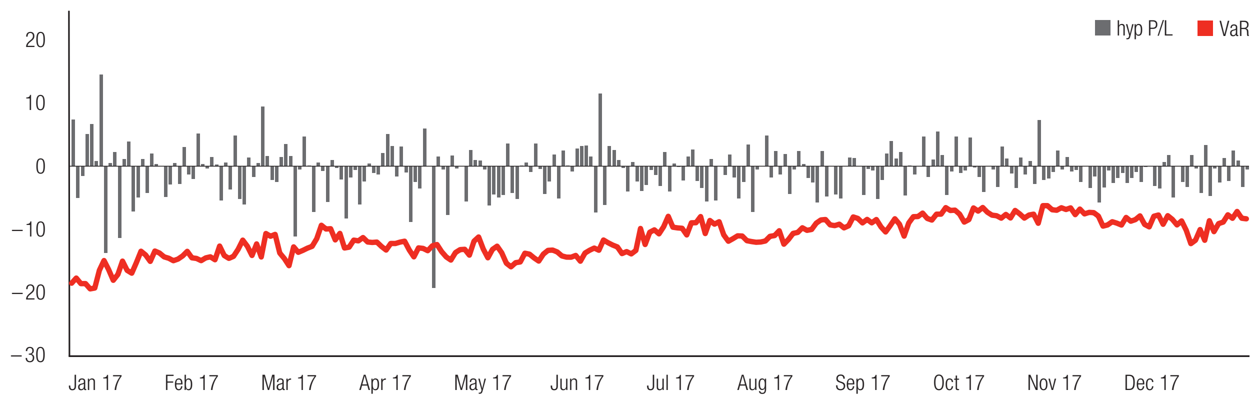
Development of trading-book and total value-at-risk at HVB Group (€ millions)



The total VaR at HVB Group shows the VaR curve for market price risk arising from trading- and banking-book positions. The trading-book VaR represents the development of the VaR in the trading book. Both the total VaR curve and the trading-book VaR curve show a relatively stable risk development in 2017.

Risk Report (Continued)

Regulatory back-testing of the internal model at HVB for 2017 (€ millions)



The forecasting quality of the VaR measurement method is checked by means of regular back-testing that compares the calculated regulatory VaR figures with the hypothetical fair value changes calculated from the positions. One reportable back-testing outlier was observed in 2017. The hypothetical loss was larger than the forecast VaR figure on this day (see the chart "Regulatory back-testing of the internal model at HVB for 2017"). This outlier stemmed mainly from significant movements in the euro/US dollar exchange rate, triggered by the outcome of the presidential election in France.

Alongside back-testing using the hypothetical change in value (hyp P/L), HVB also uses a back-testing method based on the economic P/L to validate the model. No limits were exceeded in 2017.

Besides back-testing, further methods are used at regular intervals to check the quality of the model. These involve analysing the suitability of both the modelling and the risk factors used and adjusting them as required. Risks that cannot be adequately modelled are monitored at regular intervals and limits set for them if they are material.

Market liquidity risk

Market liquidity risk relates to the risk that the Bank will suffer losses due to the disposal of assets that can only be liquidated on the market at a discount. In the extreme case, HVB Group may not be able to sell such an asset, as the market does not offer enough liquidity or the Bank holds a position that is too large to set against the market turnover.

Greater volatility on the financial markets could also make it more difficult for HVB Group to establish a value for some of its assets and exposures. Significant changes to the fair values of such assets and exposures that might prove to be much lower than the present or estimated fair values could be a further consequence. All of these factors could force HVB Group to recognise amortisation charges or impairment losses, which would have a negative effect on its financial position and operating result.

Stress tests

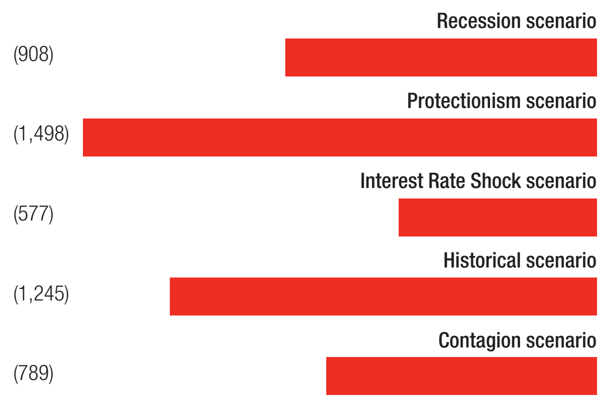
In addition to calculating the VaR and the other risk metrics, we regularly conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered for HVB Group, such as a widening of credit spreads. We also analyse macroeconomic stress test scenarios based on real market upheavals in the past (historical stress tests) or current threats (hypothetical stress tests).

To evaluate on a regular basis the effects of a financial crisis, we introduced the Historical scenario. This scenario reflects the trend in the financial crisis in 2009. To take account of the low market liquidity, the time horizon for this scenario was extended and covers a period of three months.

Further hypothetical scenarios are based on the potential market movements in the event of a worsening of the debt crisis in Europe (Contagion scenario) or a negative demand shock in Germany (Recession scenario). Until the end of 2016, the China Hard Landing scenario simulated the effects of a slowdown in Chinese economic growth. At the beginning of 2017, the China Hard Landing scenario was replaced by the Protectionism scenario reflecting the introduction of protectionism in the USA that dampens growth in China in conjunction with a growth shock in Turkey. The Interest Rate Shock scenario is used to analyse the impact of a rapid rise in interest rates in the eurozone.

At 31 December 2017, the most significant stress test results from this package of stress test scenarios and involves a potential loss of €1.5 billion in the new Protectionism scenario. The largest loss of €1.3 billion was recorded at 31 December 2016 in the China Hard Landing scenario. The Protectionism scenario is also used in the cross-risk-type stress tests, where it is analysed for risk-taking capacity.

HVB Group stress tests at 31 December 2017 (€ millions)



As described under the sub-header “Stress tests” in the section entitled “Implementation of overall bank management”, inverse stress tests were again performed in 2017. Risks resulting from market risk in the banking portfolio were also included in this analysis.

Another key component of the measurement of interest rate risk in the banking book is the economic value perspective. This shows the effects of fluctuations in the interest rate on the economic value of assets and liabilities. The economic value of the Bank can be viewed as the present value of the Bank’s expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities. A relevant risk measure from this perspective is the economic value sensitivity per time bucket for a 1bps interest rate shock. The result is reported to the relevant committees to assess the economic impact of various changes in the yield curve.

Risk Report (Continued)

In compliance with the regulatory rules published by BaFin on 9 November 2011, the change in the fair value of the banking book in the event of a sudden and unexpected interest rate shock of plus/minus 200bps is compared with the Bank's eligible equity funds on a monthly basis. This analysis is carried out both with and without the hedging effect from the equity capital model book. At 31 December 2017, the calculation of the present value from the managerial viewpoint taking into account the interest rate shocks gives rise to a capital requirement of 0% (31 December 2016: 0.9%). When calculated from the regulatory viewpoint, by contrast, a capital charge of 8.4% becomes apparent given an increase in interest rates of 200bps (31 December 2016: 8.3%). HVB Group is well below the 20% mark (in relation to the capital charge) specified, above which the banking supervisory authorities consider a bank to have increased interest rate risk. These figures include the positions of HVB as well as the positions of the material Group companies, customer margins are not included.

Furthermore, additional stress test scenarios are performed on a regular basis to estimate the impact on short term interest rate up/down movements and nonparallel shocks, such as steepening and flattening scenarios. The two latter mentioned scenarios constitute a standardised interest rate shock scenario according to the Basel requirements with pivot point 3.5 or six years (steepening: short rate down and long rate up/ flattening: short rate up and long rate down) while a short rate up/down scenario considers simply the short term rate changes.

Generally, the Treasury department hedges interest rate risk exposure from commercial banking transactions. The volume exposed to interest rate risk in the Treasury department is monitored through a set of limits and triggers.

HVB measures and monitors this risk within the framework of a banking book interest rate risk policy based on the corresponding Group policy that establishes consistent methodologies and models and limits or thresholds to focus on, with regard to the sensitivity of net interest income and the economic value.

Summary and outlook

As was already the case in 2017, efforts will again be made in 2018 to concentrate on low market risk customer business in our trading activities on the financial markets. The trading structure was streamlined to further boost its efficiency without restricting the scope of business. HVB Group will continue to invest in the development and implementation of electronic sales platforms.

3 Liquidity risk

Definition

Liquidity risk is understood to be the danger that the Bank is not able to meet its payment obligations on time or in full. However, it is also defined as the risk of not being able to obtain sufficient liquidity when required or that liquidity will only be available at higher interest rates, and the risk that the Bank will only be able to liquidate assets on the market at a discount. Liquidity risk comprises the following risk categories:
- short-term liquidity risk
- operational liquidity risk (part of short-term liquidity risk)
- funding risk
- market liquidity risk

Categories

Short-term liquidity risk

Short-term liquidity risk relates to the risk of a discrepancy in the amount and/or maturity of incoming and outgoing payments in the short run (one year or less).

Operational liquidity risk, which is part of the short-term liquidity risk
Operational liquidity risk arises when a financial institution cannot meet its intraday payment obligations (payment obligations within one trading day) from its current incoming and outgoing payments, hence becoming technically insolvent. This can be considered a special type of short-term liquidity risk. An intraday cushion is set up as part of the short-term liquidity cushion with a view to balancing the intraday liquidity requirement and covering unforeseen payment obligations.

Funding risk
The funding risk (structural liquidity risk) relates to the risk of the Bank not being able to fund its balance sheet in a sustainably stable, long-term manner (more than one year) or only being able to procure sufficient liquidity for funding at increased market interest rates and the future earnings of the company are impaired accordingly. Funding risk is a risk that requires observation, albeit not a significant one, and is assessed at regular intervals as part of the risk inventory.

Market liquidity risk
Market liquidity risk relates to the risk that the Bank would suffer losses due to the disposal of assets that can only be liquidated on the market at a discount. In the extreme case, HVB Group may not be able to sell such an asset, as the market does not offer enough liquidity, or the Bank holds a position that is too large to set against the market turnover. Market liquidity risk is managed by the CRO organisation, which carries out expanded market liquidity analyses.

Strategy
Liquidity management at HVB Group is divided into short-term liquidity management (one year or less) and long-term liquidity management (more than one year). Risk drivers that may be the cause of potential liquidity outflows have been identified for the various segments.

Furthermore, various dimensions of liquidity risk management have been defined to which appropriate instruments and controlling mechanisms have been assigned depending on the type of risk involved.

The risk appetite is defined with regard to liquidity risk on the basis of the business activities and taking into account risk sources and risk drivers. This forms the foundation for the management and limit mechanisms, such as liquidity reports, projections and plans, and the definition of liquidity cushions to be maintained for unexpected outflows of liquidity during the day. Furthermore, a limit system has been set up and triggers defined. The result is the specification of a minimum survival period that matches the risk appetite.

Limit system
For the management of short-term liquidity risk, we have put in place a cash-flow-oriented limit system that presents the relevant balances within HVB Group per working day and limits the positions appropriately.

The difference between the calculated potential liquidity requirement and the existing liquidity reserves is limited.

A limit was set for operational liquidity risk as part of short-term liquidity risk by implementing a minimum balance to be observed during the day, by means of which additional liquidity is maintained to cover unforeseeable outflows (intraday liquidity cushion).

Risk Report (Continued)

Funding risk or structural liquidity risk is restricted by defining a limit for the ratio of liabilities to assets.

The effects arising from the change in funding spreads are to a very large extent taken into account by limiting funding risk. In addition, the internal transfer prices for the lending and deposit-taking activities are continually reviewed for appropriateness and regularly adjusted to reflect the market situation.

Reduction

Among other ways of reducing liquidity risk, we specify processes, implement an early warning system complete with early warning indicators and a limit system, and manage the highly liquid assets made available as collateral.

Measurement

Short-term liquidity risk

To measure short-term liquidity risk, cash flow profiles are produced on a daily basis. The resulting balances are compared with the available liquidity reserves, which consist primarily of the available highly liquid securities eligible at all times as collateral for central bank borrowings. The cumulative balance of the above-named components is backed with limits for all maturity buckets of up to three months for the relevant units of HVB Group.

The aggregate amount for the three-month maturity bucket is published in the Risk Report for short-term liquidity risk as the relevant figure for managing the Bank's liquidity risk.

Furthermore, stress scenarios based on the liquidity profiles of the HVB Group units are simulated at regular intervals and the impact on liquidity is calculated. The corresponding stress scenarios take account of both company-specific influences (e.g. potential HVB Group-specific incidents) and external factors (e.g. disruptions in global financial markets), as well as a combination of company-specific and external factors (e.g. the scenario demanded under the MaRisk rules). A time horizon of up to two months is defined for the individual stress scenarios, during which the available liquidity reserves are expected to exceed the simulated outflows of liquidity. This ensures that counter-measures can be initiated promptly, if required. In addition, the defined early warning indicators and relevant concentration risks are determined and monitored at regular intervals.

Alongside this internal measurement methodology, HVB and its domestic subsidiaries engaged in banking activities are subject to the regulatory standards for short-term liquidity risk defined in the German Liquidity Regulation (Liquiditätsverordnung – LiqV).

Calculating the liquidity coverage ratio (LCR) is intended to ensure that an institution is able to meet its short-term payment obligations under the assumption of an acute stress scenario over a period of 30 calendar days. The requirement in place as at 31 December 2017 a minimum of 80% is significantly exceeded by HVB with a figure in excess of 100%.

Funding risk

To measure funding risk, the long-term funding needs based on the expected business development are reported and updated in a coordinated process. The long-term funding need, which is used to set the funding targets and is presented to the ALCO, takes into account the assets and liabilities falling due in the planning period. Limiting maturity mismatches between the long-term assets and liabilities ensures a balanced funding structure in defined maturity buckets with a view to maintaining an adequate structural liquidity ratio (SLR). The key assumptions underlying the risk measurement methods are reviewed on a regular basis to assess their appropriateness.

Monitoring and controlling

Short-term liquidity risk

The task of monitoring the short-term liquidity situation at HVB Group has been entrusted to the Finance unit in the CFO organisation. This essentially involves analysing and controlling the short-term liquidity profiles within the scope of the limits defined by the CRO unit and monitored on a daily basis. The monitoring and controlling of operational intraday liquidity risk are essentially performed on the basis of various minimum balances that must be observed during the day and at the beginning of the day. These are set against the current volumes in the relevant accounts on a continual basis and monitored. Responsibility for monitoring and controlling developments on the respective local markets rests with the local Treasury units, which report to the Finance unit as and when necessary.

For short-term liquidity risk, moreover, weekly stress analyses based on various scenarios enable us to make projections on the impact of sudden disruptions on the liquidity position, enabling us to take the necessary management measures as early as possible. Units in the CRO organisation are responsible for monitoring and analysing the stress scenarios, the early warning indicators and concentration risk, while the CFO organisation has been tasked with monitoring and analysing the holding of freely disposable securities eligible as collateral for central bank borrowings that can be used at short notice to cover unexpected liquidity outflows. Additional market liquidity analyses are carried out by the CRO organisation during the stress tests.

Funding risk

The task of monitoring the structural liquidity situation at HVB Group has similarly been entrusted to the Finance unit in the CFO organisation. This essentially involves analysing and controlling the long-term mismatches in the maturities of assets and liabilities within the scope of the defined limits and also specified funding targets. Compliance with the long-term funding ratios is monitored on a monthly basis. The funding risk of HVB Group is well balanced thanks to the diversification of our funding across products, markets and investor groups. The front-office units implement the volume and product parameters derived from the funding targets cost-efficiently upon consultation with the Finance unit. This activity is similarly supported by a liquidity cost allocation mechanism – known as Funds Transfer Pricing (FTP) – for all significant business activities, the principles of which are defined in the FTP policy.

The ALCO and the management are regularly informed about the current liquidity and funding situation. A contingency plan is in place to allow the impact of potential liquidity crises to be managed. This plan describes and regulates the distribution of responsibilities, internal reporting requirements, decision-making powers and potential measures.

The rules and regulations governing liquidity management are defined in a liquidity policy adopted by the Management Board of HVB. The key points contained in the policy relate to the ability to satisfy financial obligations at all times in line with the defined risk appetite. Its objectives include the following: optimising the projected cash flows, restricting the cumulative short-term and operational liquidity differences, performing stress tests at regular intervals and restricting the long-term maturity mismatches between the liabilities side and the assets side.

The liquidity policy and contingency plan together with supplementary remarks are updated at regular intervals by the CRO organisation with support from the CFO organisation. The liquidity policy is implemented by the operational business units and coordinated and monitored for the relevant units of HVB Group by the Market and Operational Risk unit in the CRO organisation.

Quantification and specification

Short-term liquidity risk

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €42.0 billion at HVB Group for the three-month maturity bucket at the end of December 2017 (31 December 2016: €35.0 billion). The holding of available securities eligible as collateral for central bank borrowings that can be employed on the next banking day to compensate for unexpected outflows of liquidity amounted to €15.1 billion at the end of 2017 (31 December 2016: €31.9 billion).

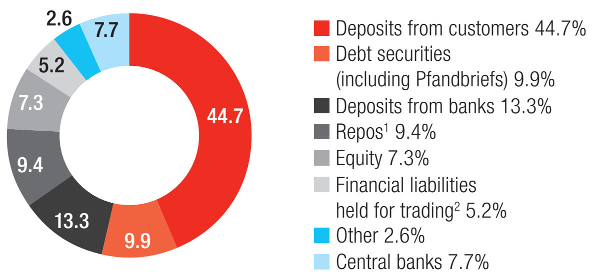
The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB Group during the reporting period. The funds available exceeded the callable payment obligations for the following month by an average of €39.2 billion for HVB Group in 2017 (in 2016: €21.2 billion) and €46.2 billion at 31 December 2017 (31 December 2016: €17.2 billion). This means that we are significantly above the internally defined trigger.

Risk Report (Continued)

Funding risk

The funding risk of HVB Group was again low in 2017 thanks to our broad funding base in terms of products, markets and investor groups. This ensured that we were able to obtain adequate funding at all times for our lending operations in terms of volume and maturity within the framework of our limit system. By the end of December 2017, HVB Group had obtained longer-term funding with a volume of €18.2 billion (31 December 2016: €13.5 billion), including €5.6 billion under the ECB's Targeted Longer-Term Refinancing Operations (TLTRO)-II programme. At the end of December 2017, 112.6% (31 December 2016: 102.3%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Breakdown of sources of funding of HVB Group (31 December 2017)



1 repos from the items "Financial liabilities held for trading", "Deposits from customers" and "Deposits from banks"
2 without the item "Negative fair values arising from derivative financial instruments"

Stress tests

Stress analyses are carried out at regular intervals, enabling us to make projections on the impact of sudden disruptions to our liquidity position on the basis of various scenarios so that we can initiate appropriate management measures as early as possible.

We include Bank-specific, market-wide and combined scenarios when conducting our stress tests. The calculations at the end of 2017 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded.

Summary and outlook

There continue to be uncertainties regarding security, monetary and economic policy worldwide, specifically in connection the ongoing geopolitical conflicts and ongoing tensions between the USA and North Korea.

Furthermore, it remains impossible to conclusively assess in its entirety the impact of the UK's impending exit from the European Union as announced.

To what extent and in what intensity the financial markets will react to all of these developments cannot be predicted.

HVB Group again put in a good performance in 2017 in this demanding market environment. Among other things, the contributory factors include our good liquidity situation, the sound financing structure and the liquidity management measures that have been taken.

In this context, we expect our liquidity situation to remain comfortable. Our forward-looking risk quantification and regular scenario analysis will remain important parameters in this regard going forward.

4 Operational risk

Definition

In accordance with the Capital Requirements Regulation (CRR), HVB Group defines operational risk as the risk of losses resulting from flawed internal processes or systems, human error or external events. This definition also includes legal risk but not strategic risk or reputational risk. Legal risk includes, but is not limited to, fines, penalties and damages resulting from supervisory actions, and settlements paid to private individuals.

Strategy
The risk strategy for operational risk is part of the HVB and HVB Group risk strategy, which is updated and adopted by the Management Board of HVB on an annual basis.

The risk strategy aims to reduce operational risk to a reasonable level from an economic standpoint (under cost/benefit considerations), taking into account the defined risk appetite. This approach is intended above all to reduce or prevent significant losses by applying suitable measures, which additionally helps to boost sustainable profitability.

In this context, operational risk that is potentially grave or could seriously damage the Bank must be subject to planning measures that go beyond mere profitability concerns.

To make the risk strategy more specific, Bank-wide and business segment-specific action areas are defined on the basis of influencing factors relevant to operational risk.

Limit system
Operational risk is part of the internal capital, with a limit set for HVB Group accordingly.

Reduction
HVB Group has a group-wide operational risk organisational structure. The individual business segments of HVB and each subsidiary of HVB Group are responsible for identifying, analysing and managing operational risk.

Loss events that have occurred and significant risks are reported to the Management Board and the Risk Committee at regular intervals. On a local level, operational risk managers report losses and relevant risks to their senior management on a quarterly basis.

Risks identified within HVB Group are concentrated mainly in selling risks and risks arising from settlement and process management.

Employees in Business Continuity Management, Outsourcing, Compliance and Legal perform a risk-management function in a special way in that they carry out risk-controlling and risk-monitoring tasks.

Information technology (IT)
HVB's IT services are mostly provided by UniCredit Business Integrated Solutions S.C.p.A. (UBIS). The Information and Communication Technology (ICT) management processes of HVB continue to require adjustments to be made to the internal control system (ICS) for IT to allow for all significant IT risks within the ICT management processes, among other things, to be monitored and managed appropriately. This also includes the processes in the field of the IT infrastructure in turn outsourced by UBIS to Value Transformation Services (V-TS, a joint venture of IBM and UBIS) as defined for the separate controls in HVB's ICS. Within the ICS, the enhancement of relevant metrics and control processes forms a key element of the activities planned for 2018. In addition, the control system will be adjusted as necessary in line with the potential improvements identified at regular intervals and findings from audits.

Business continuity management, IT service continuity management and crisis management
The business continuity, IT service continuity and crisis management function demonstrated its effectiveness and appropriateness by successfully mastering critical situations so as to minimise their impact on HVB. Several successfully completed contingency tests showed that the performance of the critical business processes also works in emergency situations. In addition, the emergency precautions are adapted constantly to accommodate new threats.

Legal risk and compliance risk
Legal risk as a subcategory of operational risk is defined as the possibility of losses, damage or costs caused by lack of knowledge of the current legal situation or by a delay in reacting to changes in the law, insufficient and/or inadequate application of the law or unfore-seeable changes to case law and/or the interpretation of the law by the authorities.

Risk Report (Continued)

The Legal, Corporate Affairs & Documentation department is responsible for managing legal risk and provides advice on legal matters to all units of HVB. Excluded from this are tax law, labour law (only legal disputes), data protection and the legal areas covered by compliance, which are overseen by the respective functional departments.

Compliance risk is defined as an existing or future risk to income or capital as a consequence of infringements of or non-compliance with laws, regulations, statutory provisions, agreements, mandatory practices or ethical standards. This may result in fines, compensation for damage and/or contracts being rendered null and void in addition to damaging a bank's reputation.

The management of compliance risk is normally a task of the Bank's Management Board. Pursuant to Section 25a of the German Banking Act (Kreditwesengesetz – KWG), it is required to ensure that a proper business organisation is in place, encompassing in particular appropriate and effective risk management, including an ICS. The Compliance function forms part of the ICS that helps the Management Board to manage compliance risk.

The Minimum Requirements for Compliance (MaComp) and MaRisk both require a compliance function to be put in place. Both also contain rules on how such compliance function should be structured. At HVB, both functions are combined in the Compliance unit in order to ensure a uniform approach. Money-laundering and fraud prevention as well as preventive measures against infringements of financial sanctions and embargos are also assigned to the Compliance unit. Comprehensive risk assessment is ensured by this approach. On account of its high degree of specialisation, tax compliance is managed within the CFO organisation exclusively by the Tax Affairs unit and is refined on an ongoing basis.

Legal risks

HVB and other companies belonging to HVB Group are involved in various legal proceedings. The following is a summary of cases against HVB or other companies belonging to HVB Group, which individually or collectively in the respective subject areas have a value in dispute exceeding €50 million or are of substantial significance for HVB for other reasons.

Non-compliance with the large number of legal and regulatory requirements may lead to litigation and administrative proceedings or investigations and subject HVB and/or other companies belonging to HVB Group to damage claims, regulatory fines or other penalties.

In many cases, particularly in criminal or administrative proceedings by the relevant authority and when asserting claims for an unspecific amount, there is considerable uncertainty about the outcome of the proceedings and the amount of possible damages. In all proceedings where it is possible to reliably estimate the amount of possible losses, and the loss is considered likely, appropriate provisions have been set up based on the circumstances and consistent with IFRS accounting principles applied by HVB Group.

VIP 4 Medienfonds Fund

Various investors in VIP Medienfonds 4 GmbH & Co. KG to whom the Bank issued loans to finance their participation, brought legal proceedings against HVB. In the context of the conclusion of the loan agreements the plaintiffs claim that an inadequate advice was provided by the Bank about the fund structure and the related tax consequences. A settlement was reached with the vast majority of the plaintiffs. An outstanding final decision with respect to the question of HVB's liability for the prospectus in the proceeding pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz), which is pending at Munich Higher Regional Court, will affect only a few cases still in dispute.

Closed-end funds

Investors filed lawsuits against HVB and claim insufficient advice was provided by the Bank within the scope of their investment in closed-end funds. In particular, the investors claim that HVB did not or did not fully disclose any refunds made to the Bank or that they were advised on the basis of an allegedly incorrect prospectus. The questions regarding correct and sufficient advice provided to a customer as well as questions regarding the limitation period and thus the prospects of success in proceedings depend on the individual circumstances of the particular case and are therefore usually difficult to predict. As far as these proceedings were disputed, the experience of the past has shown that the deciding courts have largely ruled in favour of HVB.

Legal proceedings are pending before Munich Higher Regional Court pursuant to the Capital Markets Test Case Act relating to one retail fund with thermal power plants as its investment target. The court has ordered several expert opinions to be obtained in order to assess the question of an alleged prospectus liability. As it can be expected that investors into this fund recover their invested capital mainly through fund payout, the consequences of a potentially negative decision of the Higher Regional Court are essentially limited to compensation for lost profit and interest relating to the judicial proceedings. In the meantime nearly all proceedings have come to a conclusion in settlement agreements.

Real-estate financing

A number of customers dispute their obligation to make repayments under their property loan agreements because they are of the opinion that the Bank gave insufficient advice about the intrinsic value of the acquired property and/or the expected rent. In the last few years only a few new lawsuits have filed. In the light of the experience gained, the Bank assumes that there are no significant risks expected in this context.

Derivative transactions

The number of complaints and lawsuits filed against the Bank by customers in connection with inadequate advice provided upon the conclusion of derivative transactions is declining. The main contention in the complaints filed and in the pending proceedings is that the Bank allegedly did not sufficiently inform the customer with respect to potential risks related to such transactions and especially did not inform the customer of the fact that the initial market value of the derivative product might be negative. Experience gained so far show that the characteristics of the individual product and the relevant circumstances of each case are decisive. In particular, the statute of limitations, the client's economic experience and risk tolerance, and the actual investment advice given play a crucial role.

Proceedings related to claims for withholding tax credits

On 31 July 2014, the Supervisory Board of HVB concluded its internal investigation into the so-called "cum-ex" transactions (the short selling of equities around dividend dates and claims for withholding tax credits on German share dividends) at HVB. The findings of the Supervisory Board's investigation indicated that the Bank sustained losses due to certain past acts/omissions of individuals. The Supervisory Board has submitted a claim for compensation against three individual former members of the Management Board, not seeing reasons to take any action against the current members. These proceedings are still pending.

In addition, preliminary proceedings have been instigated against current or former employees of HVB by the public prosecutors in Frankfurt/Main, Cologne and Munich with the aim of investigating alleged tax evasion offences on their part. HVB cooperated – and continues to cooperate – with the aforementioned public prosecutors who investigated offences that include possible tax evasion in connection with cum-ex transactions both for HVB's own book as well as for a former customer of HVB. Proceedings in Cologne against HVB and its former employees were concluded in November 2015 with, among other things, the payment by HVB of a fine of €9.8 million. The investigations by the Frankfurt/Main public prosecutor against HVB under section 30 of the Administrative Offences Act (Ordnungswidrigkeitengesetz) were concluded in February 2016 by the payment of a fine of €5 million. The investigations by the Munich public prosecutor against HVB were also concluded in April 2017 following the payment of a forfeiture of €5 million. At present, all criminal proceedings against HVB have been terminated.

The Munich tax authorities are currently performing a regular field audit of HVB for the years from 2009 to 2012 which includes, among other things, a review of other transactions in equities around the dividend record date. During these years the Bank performed, among other things, securities-lending transactions with different domestic counterparties which include share transactions around the dividend record date. It remains to be clarified whether, and under what circumstances, tax credits can be obtained or taxes refunded with regard to the transactions carried out around the dividend record date, and what the consequences for the Bank will be if the assumed tax treatment is not allowed. The same applies for the years from 2013 until 2015 following the regular tax audit currently being performed. It cannot be ruled out that HVB might be exposed to tax claims in this respect by the relevant tax offices or third party claims under civil law. HVB is in constant communication with relevant regulatory authorities and competent tax authorities regarding these matters. HVB has set up a reasonable level of provisions.

Risk Report (Continued)

Lawsuit for consequential damages

A customer filed an action against HVB with Frankfurt Regional Court for consequential damages of €195 million for the following reasons: In 2010, HVB was ordered by Frankfurt Higher Regional Court to pay to the plaintiff damages in the amount of €4.8 million due to the faulty handling of a bill of exchange and in addition to compensate further damage suffered by the plaintiff as a result of this case of damage. In 2011, the plaintiff filed an action against HVB before Frankfurt Regional Court for alleged consequential damages in the amount of €33.7 million based on lost profit. The plaintiff then extended the claim to the amount of €51.54 million and most recently to €195 million. In its ruling dated 31 August 2017, Frankfurt Regional Court dismissed the claim and followed HVB's opinion on the claim being unfounded and the allegations raised by the plaintiff being unreasonable. In the meantime the plaintiff has appealed against the court ruling to Frankfurt Higher Regional Court.

Proceedings in connection with financial sanctions

In the past, violations of US sanctions have resulted in certain financial institutions entering into settlements and paying substantial fines and penalties to various US authorities, including the US Treasury Department's Office of Foreign Assets Control (OFAC), the US Department of Justice (DOJ), the New York State District Attorney (NYDA), the US Federal Reserve (Fed) and the New York Department of Financial Services (DFS) depending on the individual circumstances of each case.

In March 2011, HVB received a subpoena from the NYDA relating to historic transactions involving certain Iranian entities, designated by OFAC, and parties related to them. In June 2012, the DOJ opened an investigation of OFAC-related compliance by HVB and its subsidiaries in general. In this context, HVB is conducting a voluntary investigation of its US dollar payments practices and its historical compliance with applicable US financial sanctions, in the course of which certain non-transparent practices have been identified. HVB Group is cooperating with various US authorities and is updating other relevant non-US authorities as appropriate. Although we cannot at this time determine the form, extent, scope or timing of any resolution with any relevant authorities, the costs of the internal investigation, remediation required and/or payment or other legal liability incurred can lead to liquidity outflows and could potentially have a material adverse effect on the net assets and operating results of HVB.

Measurement

The operational risk of HVB Group is calculated for HVB and its material subsidiaries – HVB Immobilien AG, UniCredit Luxembourg S.A. and UniCredit Leasing GmbH (together with subsidiaries) – using an internal model in accordance with the Advanced Measurement Approach (AMA model). The standard approach is applied for all other minor subsidiaries.

The AMA model is based mainly on internal and external loss data. The process involves computing loss distributions for each model risk category. A model risk category is determined by combining the Basel loss event category and the product category of the loss event. Scenario data are used to complete the data for rare yet extreme events. The individual data sources are aggregated by applying the Bayesian model to the loss distribution parameters for each model risk category.

The VaR is determined using a Monte Carlo simulation, taking account of correlations between the model risk categories as well as risk-reducing measures such as insurance policies. Finally, the VaR is modified to reflect internal control and business environment factors.

The economic capital for operational risk is determined as a whole for HVB Group using the internal AMA model and then allocated to HVB and its AMA subsidiaries using a risk-sensitive allocation mechanism.

The model was developed by UniCredit. HVB checks the plausibility of the calculation results on a regular basis and validates the model to ensure that it is appropriate.

Stress tests
The impact of macroeconomic scenarios on operational risk is analysed within the scope of the cross-risk-type stress tests.

Summary and outlook
The risk strategy specifies the specific action areas that have been identified for strengthening, on an ongoing basis, risk awareness with regard to operational risk in the Bank and expanding the management of operational risk.

5 Other risks

HVB Group groups together the following types of quantifiable risk as other risks: real estate risk, business risk, pension risk and financial investment risk as well as the strategic risk and reputational risk types, that are described exclusively in qualitative terms. The risk arising from outsourcing activities is not treated as a separate risk type at HVB Group, but is considered a cross-risk type and is consequently listed under other risks.

Real estate risk
Real estate risk covers potential losses resulting from fluctuations in the fair value of the real estate portfolio of HVB Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies, the subsidiaries (group of companies included in consolidation according to IFRS) and special purpose vehicles (SPVs). No land or properties are included that are held as collateral in lending transactions.

A fundamental distinction is made in real estate risk between (strategic) real estate required for operations and (non-strategic) real estate that is not used for operations. In 2017, the general focus for the existing real estate portfolio was placed on measures targeting fair value and cost optimisation. In principle, no acquisitions are planned except where they would serve the interests of HVB Group (in other words only in defined exceptional cases). The longer term orientation for strategic real estate corresponds with the Bank's strategy of preferring Bank-owned properties over rented properties for own use and making such properties available for the banking operations of HVB Group at market terms on a cost-optimised basis.

Facility concepts are drawn up for both the Bank-owned portfolio and the rented properties, under which the requirements of the business segments and also economic viability are the key factors for decisions, taking into account the assumptions listed.

In terms of the central locations, for 2017 this relates primarily to the next stages of the "HVB Tower" large-scale project. The first stage (renovation of the tower block with a view to turning it into a green building) was brought to a successful conclusion in March 2016 and the property was reoccupied. Another measure relating to the "HVB Tower" project relates to the renovation of a further section of the building ("Flachbau Nord"). As part of the further objective of consolidating areas at the Munich location, several projects were integrated into each other, packaged as the "Munich Campus Transformation" (MCT) project.

The main risks for the Bank-owned portfolio stem mainly from the development of the current fair value, which is always compared with the carrying amount. The risk drivers are the future usage by the Bank, property rents/Bank rents, market rents, rental contract periods, occupancy rate and required investment. The medium- to long-term goal for the non-strategic real estate portfolio, on the other hand, is to realise the best possible value upon disposal of the overall portfolio; in this regard, the impact on both the income statement and the Bank's other management instruments is crucial for the individual decisions. This tallies with the overarching strategy for dealing with real estate risk.

Risk Report (Continued)

Real estate risk is managed overall on the basis of an internal capital limit for HVB Group. In addition, economic capital limits adjusted for diversification effects were allocated to the business segments and the relevant subsidiaries for 2017 in the context of overall bank management. Based on these limits, early warning indicators have also been defined in the form of targets and triggers in order to identify in advance any overshooting. The limits are checked for adequacy mid-year and adjusted as necessary.

The Bank uses a variance-covariance model with a confidence level of 99.90% and a holding period of one year to quantify real estate risk. The Bank's proprietary real estate indices are employed as explanatory risk factors for the parametrisation of the model. These indices are broken down by property type (rented office areas, rented flats, owner-occupied homes (houses or flats), land for housing construction, agricultural properties, retailers with small floor areas, retailers with large floor areas, land for commercial construction, warehouse/logistics properties) and geographical location. In the case of foreign real estate, there is currently only one index that is derived from the present portfolio in terms of its composition due to the current strategic orientation of the portfolio. For German properties, time series are currently available for the most important municipalities.

The Credit Risk Control department determines the economic capital for real estate risk and reports this to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual values with the limits.

The economic capital for the real estate risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €599 million at 31 December 2017, which increased by €11 million (31 December 2016: €588 million). The fully diversified economic capital for the real estate risk at HVB Group stands at €386 million (31 December 2016: €385 million). The increase in economic capital is mainly attributable to a rise in the standard land values for real estate in Munich.

The risk figures relate to a portfolio valued at €3,732 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	2017	2016	2017	2016
Strategic real estate	2,073	1,740	55.6	45.1
Non-strategic real estate	1,659	2,114	44.4	54.9
HVB Group	**3,732**	**3,854**	**100.0**	**100.0**

From a geographical perspective, the focus is on the Munich region with 50.5% of the value of the portfolio located there.

The impact of macroeconomic scenarios on real estate risk is analysed within the scope of the cross-risk-type stress tests. These quarterly analyses deliver information on the estimated, scenario-related lower fair values for real estate that would ensue compared with the base scenario, should the scenario materialise.

For 2018, there are also plans to make further disposals from the portfolio of non-strategic real estate. The situation on the real estate markets will depend on economic developments once again in 2018. There is ongoing great demand from investors for properties in prime locations.

A group-wide model for quantifying the real estate risk is scheduled to replace the local real estate model in the course of 2018.

Business risk

We define business risk as losses from unexpected negative changes in the business volume and/or margins that are not attributed to other risk types. It can lead to long-term losses in earnings, thereby diminishing the fair value of a company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour, changes in the cost structure, and changes in the underlying legal conditions.

The strategy for business risk is based on the direction of business over the medium term and is reflected in the planning. As part of its general cost and income management, each business unit is responsible for the operational management of business risk. HVB Group has specified corresponding initiatives intended to counter the earnings risks.

In the CIB business segment, the strategic focus in 2017 remained on growth in virtually all areas and product factories. Support for this objective came from our SQUARED growth strategy, which was implemented in 2015 and has been refined and enhanced by Transform 2019. The original three pillars were combined into four strategic components:
– Confirm and improve market leadership
– Exploit synergies
– Ongoing cost discipline and simplification
– Constant risk culture awareness

We have designated the more detailed and expanded plan as "One Bank, One UniCredit" – Transform 2019, initially published in December 2016. By enhancing our strategy, we intended to further expand the central role of HVB Group and UniCredit with core CIB customers, exploit opportunities with Mittelstand customers (new joint venture between CIB and Unternehmer Bank – UBK) for Mergers & Acquisitions (Equity Capital Markets UBK, Debt Capital Markets UBK, Corporate Treasury Sales, Corporate Finance Advisory) and become Europe's powerhouse for trade finance. We intended to increase our international footprint by selling our international services to customers in our core countries, strategically expanding our presence in countries given special priority and standardising and refining our operating platform. At the same time, we expanded our presence along the developments of trade flows with a view to winning as customers the best international actors outside of our home markets. We intended to become the "go-to" bank for business customers by expanding the cross-selling opportunities as well as the underwriting and distribution capacities. We also strove to heighten the service commitment for banks.

The goal of the Commercial Banking business segment in 2017 was to further expand its market position, despite the challenging market environment. Among other things, strategic initiatives intended to counter earnings risks focused on risk-adjusted pricing, the central control of major transactions by higher-level bodies, reinforced value creation with the customer in order to generate earnings, greater customer orientation by enhancing quality in the core business and sustainable cost management achieved through high cost awareness and continuous cost controlling.

Business risk is managed overall on the basis of an internal capital limit for HVB Group. Based on this limit, HVB Group has additionally defined early warning indicators in the form of targets and triggers in order to identify in advance any overshooting. The limits are checked for adequacy mid-year and, if necessary, adjusted.

Since the end of 2016, HVB Group has been using a group-wide model to measure the economic capital used by business risks that is based on a time series model of the quarterly income. The economic capital requirement corresponds to the unexpected loss and is quantified using value-at-risk (VaR) metrics over a period of one year and a confidence level of 99.90%.

The economic capital for business risk is determined by Credit Risk Control and reported to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board. In the context of the risk strategy, the quarterly risk reporting includes in addition a comparison of the actual figures with the limits.

Risk Report (Continued)

The economic capital for HVB Group's business risk, without taking account of diversification effects between the risk types, fell by €15 million to €388 million in 2017 (31 December 2016: €403 million). The fully diversified economic capital for HVB Group's business risk totals €280 million as at 31 December 2017 (31 December 2016: €287 million).

The impact of macroeconomic scenarios on business risk is analysed within the scope of the cross-risk-type stress tests. This quarterly analysis provides information on the estimated, scenario-related lower earnings that would result should the scenario occur compared with the base scenario. This is used as the basis for determining the change in the VaR.

Pension risk

HVB Group has undertaken to provide a range of different pension plans to current and former employees, which are largely financed by various forms of investment, some of which are external. Pension risk may arise in connection with the pension plans on both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as by an increase in the obligations on the liabilities side, for instance due to a reduction in the discount rate. Furthermore, actuarial risks such as longevity risk (changes to the mortality tables) may arise on the obligation side. In this context, pension risk is the risk that the pension provider will have to provide additional capital to service the vested pension commitments.

The risks are calculated and monitored at regular intervals as part of our risk management using a model devised specifically for pension risk. A risk figure is determined periodically using calculations based on changes in key risk parameters for both the various capital investments and the cash flows on the obligations side. A figure of €924 million was determined as at 31 December 2017 for the total pension risk of HVB Group (31 December 2016: €815 million). The slightly higher interest level in comparison with the previous year for longer terms leads to potentially greater decreases in interest being considered in the calculation of risk resulting in a higher risk value as a consequence. The risk figure is incorporated in the calculation of the risk-taking capacity in the form of an additive component to the internal capital. In addition, the impact on pension risk is analysed at regular intervals as part of the cross-risk-type stress tests.

Low interest rates continue to be seen as the main negative factor for both the amount of the pension commitments disclosed and the amount of the income that can be generated from the plan assets with acceptable risk. In the current low interest rate environment, it is perfectly conceivable that the discount rate will return to its all-time lows seen in 2016 (as at 30 June 2017 and at year-end 2017, the discount rate stood at 2.15%, in each case), thus causing the pension obligations to rise. There are currently still no regulatory provisions for the measurement of pension risks that have been harmonised at a European level. This gives rise to uncertainty regarding the future development of the disclosed pension risk and, depending on how the provisions are ultimately structured, this might lead to an increase in the pension risk.

Financial investment risk

Financial investment risk covers potential losses arising from fluctuations in the measurement of HVB Group's equity interest. HVB Group's financial investment risk stems from the equity held in companies that are not included in the consolidated financial statements according to IFRS principles or are not included in market risk.

The financial investment portfolio mainly consists of listed and unlisted interests, private equity investments (co-investments and direct investments), equity derivatives and other fund shares (special cases, real estate funds). All the investments to be included in the financial investment risk are either considered strategic and allocated to a business segment or competence line, or deemed non-strategic and connected with the fundamental goal of reduction.

The financial investment risk is controlled at a higher level on the basis of a limit for internal capital for HVB Group. In addition, the business segments and the relevant subsidiaries have been allocated limits for economic capital for the year 2017 that were adjusted for diversification effects in the sense of overall bank management. On the basis of these limits, HVB has additionally defined early warning indicators in the form of target values and triggers in order to indicate in advance any overshooting. The limits are reviewed for adequacy mid-year and adjusted as necessary.

The risk from holdings in unlisted companies is covered by applying a cautious approach of 100% capital backing of the investment value that has been in place since June 2017 following modification of the model. In addition, risks from hedge funds, private equity funds (including issuer risks from the trading book) and FX risks from the investment portfolio are no longer included in financial investment risk but are included in the calculation of the market risk.

Credit Risk Control calculates the economic capital for financial investment risk, and reports it to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual values with the limits.

The economic capital for financial investment risk at HVB Group, without taking into account any diversification effects between the risk types, fell by €45 million and stands at €163 million as at 31 December 2017 (31 December 2016: €208 million). Applying the new model retroactively to the previous reporting date, the economic capital for the financial investment risk amounts to €145 million as at 31 December 2016. Eliminating the modification to the model used gives rise to a slight increase in the economic capital of €18 million in comparison with 31 December 2016. HVB Group's fully diversified economic capital amounts to €163 million as at 31 December 2017 (31 December 2016: €149 million).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	2017	2016	2017	2016
Private equity funds	—	119	—	46.7
Private equity investments	19	23	11.7	9.0
Other holdings[1]	144	113	88.3	44.3
HVB Group	**163**	**255**	**100.0**	**100.0**

1 listed and unlisted investments

The impact on financial investment risk is analysed as part of the cross-risk-type stress tests. Irrespective of the macroeconomic scenarios, a 100% capital charge is assumed for the stressed economic capital.

As was the case in 2017, HVB Group will continue to selectively dispose of non-strategic shareholdings in 2018. It will also set up new companies and look into making fresh investments in line with its business strategy and the current market environment, provided these complement our structure and our business priorities, and generate added value for HVB and HVB Group.

Strategic risk

Strategic risk results from management either not recognising early enough or not correctly assessing significant developments or trends in the Bank's environment. As a consequence fundamental management decisions could, in retrospect, prove to be disadvantageous in terms of the Bank's long-term goals. In addition, some decisions may be difficult to reverse or cannot be reversed at all. In the worst case, this can negatively impact the profitability and risk profile of HVB Group.

Risk Report (Continued)

Strategic risk is measured using qualitative methods and not included in the calculation of the risk-taking capacity. For this purpose, we continually monitor the national and international environment in which HVB Group operates (e.g. political, economic, regulatory or bank-specific market conditions) and review our own strategic positioning.

Strategic risk is monitored on an ongoing basis by the Management Board and its staff offices and, if necessary, analysed in depth on an ad hoc basis. At the same time, the Management Board discusses any changes to the strategic parameters, whereby alternative courses of action are derived and implemented accordingly. This is done during the Management Board meetings as well as the Management Board conclaves that are held at least once a year. A dialogue with external experts (such as management consultants and independent auditors) regarding strategic issues and options at Management Board level and below ensures the involvement of external experts' know-how.

Risk arising from the overall economic environment

Based on HVB Group's focus with its Commercial Banking and CIB business segments and a wide variety of products and its concentration on its home market of Germany and further core countries, the overall economic developments in Germany and within the eurozone as well as developments on the international financial and capital markets are of great importance for the assets, financial position and operating result of HVB Group. As a consequence, the regular economic analysis carried out by HVB Group covers macroeconomic developments in the eurozone, the monetary policy of central banks and the discussions surrounding the deleveraging of highly indebted countries.

As a sound universal bank with excellent customer relationships, HVB Group considers itself fundamentally in good shape to continue operating successfully in this challenging environment. Should, however, the measures taken to stabilise the eurozone fail to have the desired effect, for instance, or economic growth slow in Europe, or further turmoil roil the financial and capital markets, this could have a negative effect on the assets, financial position, and operating result of HVB Group.

Risks arising from the strategic orientation of HVB Group's business model

HVB Group as a universal bank focuses on the regional management of the German market and also acts as the centre of competence for the investment banking activities of UniCredit as a whole. As a consequence, the bank's business model is built upon several pillars. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise. Thus, the business segments are impacted by the persistent low interest rate environment each in their own way.

The modernisation of the retail banking activities coupled with the related transition to a multi-channel bank with comprehensive service, information and advisory offerings is intended to enable HVB Group to maintain a sustainable profitability of the retail banking business. The main strategic objectives are to implement a clearly differentiated service model aimed at upgrading the quality of the advice and service we give customers and to focus clearly on customers holding their main bank account with HVB Group.

The branch will continue to represent the core element of our multi-channel offer, featuring a standard, modernised and upscale appearance. However, it will act more as a point of contact for top-notch advice. It is possible that this strategic adjustment will result in the loss of a few customers, which may have a negative effect on the assets, financial position, and operating result of HVB Group.

The strategic orientation of the CIB business segment is to generate additional value for clients by offering specific advisory models and a wide variety of products geared to the clients' specific needs. Even though investment banking activities are client-driven, revenues are traditionally volatile as customer demand for CIB products is influenced by the market environment. Whilst in a normal market environment investment banking is very profitable, there are increased risks to the assets, liabilities, financial position, and profit or loss under difficult market conditions.

Risks arising from the consolidation of the banking market
Consolidation on the German and international banking and financial markets has been ongoing for many years. Further shifts in market shares might occur that could potentially also negatively impacts the assets, liabilities, financial position, and profit or loss of HVB Group.

Risks arising from changing competitive conditions in the German financial sector
The German financial services market, which is HVB Group's core market, is subject to tough competition due in part to its three-pillar structure (public-sector savings banks and Landesbanks, cooperative banks and private banks). Despite some mergers and takeovers, there are still overcapacities on the German market, especially in the retail banking sector. In addition, more and more European and international players as well as Fintech enterprises operating in the retail and corporate banking segment are seeking to enter the German market. The result is intense competition for customers and market share, in which HVB Group is facing fierce trade rivalry.

It cannot be excluded that a further intensification of competitive conditions in the financial sector could have a negative effect on the assets, financial position, and operating result of HVB Group.

Risks arising from changes to the regulatory and statutory environment
The activities of HVB Group are regulated and supervised by the central banks and regulatory authorities in the countries and regions where HVB Group does business. HVB Group comes under the supervision of the ECB as part of the Single Supervisory Mechanism (SSM).

The regulatory requirements in the individual countries/regions are subject to changes and may vary. This might impact the competitive situation and necessitate further measures on the part of HVB Group. Besides a higher cost of capital and additional expenses arising from the implementation of regulatory requirements, adjustments to the business model may become necessary.

The failure of HVB or one of its subsidiaries to fully satisfy the regulatory requirements of the supervisory authorities could lead to the responsible authority imposing sanctions. In the worst case, the business activities of HVB or its subsidiaries could be discontinued.

All in all, this could give rise to a negative impact on the assets, financial position, and operating result of HVB Group.

Risks arising from a change in HVB's rating
HVB has an investment grade rating from the external rating agencies Standard & Poor's (S&P), Moody's and Fitch. The implementation of new regulations (specifically the Bank Recovery and Resolution Directive (BRRD)) has led to numerous adjustments to the rating methods on the part of the rating agencies in recent years. In this context, the rating agencies have aligned the ratings of the individual financing instruments to the anticipated liability cascade. As consequence, adjustments were made to ratings at HVB.

A rating downgrade could make funding costs higher for HVB or have a negative impact on the business opportunities of HVB as a counterparty in the interbank market or with rating-sensitive customers. The possibility cannot be excluded that the risk-reward profile of business activities affected will alter so significantly that modifications are made to business units with potentially negative consequences for the assets, financial position, and operating result of HVB Group. The possible negative effects arising from this risk will depend notably on whether HVB's rating changes less than, the same as or more than that of its competitors.

Reputational risk
Reputational risk is defined as the risk of negative effects on the income statement caused by adverse reactions by stakeholders due to a changed perception of the Bank. This altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk, strategic risk or other primary risks.

Risk Report (Continued)

HVB and its most important subsidiaries apply a holistic approach to reputational risk management. This means that all significant new activities and transactions at the Bank are normally analysed with regard to potential reputational risk ("change-the-bank" approach) and individual units at the Bank are examined at regular intervals regarding latent reputational risk at the same time ("run-the-bank" approach).

Commercial transactions and new activities such as new product processes, outsourcing, projects and particular investments (such as SPVs) are included in the "change-the-bank" approach, as well as any other new activity as is appropriate. The employees responsible in each case are required to analyse the transactions/activities to identify any potential reputational risk, taking into account the existing guidelines. Once a potential reputational risk has been identified, the appropriate specialist departments are called in who will assess the reputational risk identified in terms of quality. The Reputational Risk Council (RRC) will obtain a decision on the basis of the risk analysis and the qualitative assessment.

Under the "run-the-bank" approach, the individual units of the Bank are examined at regular intervals with regard to existing and/or latent reputational risk. The process starts with what are known as risk self-assessments by important function owners (risk managers) together with the operational risk managers. A list of questions is used to carry out the risk self-assessments. Senior management is subsequently interviewed about reputational risk. The senior managers have the opportunity to review the reputational risk identified in their unit during the interview and add further material reputational risks. Where it is possible and makes sense to do so, counter-measures are defined for the individual risks.

The Bank has decided not to directly quantify reputational risk under the "run-the-bank" process on account of the fundamental difficulty of accurately assessing the possible effects of reactions from stakeholders. Instead, the risk is classified in accordance with a three-tier system (traffic light logic) as part of the "run-the-bank" approach. This involves determining the aggregate risk across two dimensions: impact on the income statement and probability of occurrence. Any reputational risk identified is documented in the Bank's own IT system (as necessary during the year).

The individual business segments and central units are responsible for reputational risk management. Overall responsibility for monitoring rests with the OpRisk Control unit (CRO organisation). OpRisk Control consolidates the results of the senior management interviews and prepares a RepRisk Report covering the largest reputational risks at HVB.

Risks arising from outsourcing activities

Outsourcing involves the transfer of activities and processes to external service providers. This involves the transfer of some of the liability for operational risk, while contractual risks arising from the outsourcing arrangement remain within HVB or a subsidiary of HVB Group. An outsourcing arrangement is deemed to exist when a different company is contracted to carry out activities and processes in connection with the performance of banking business, financial services or other typical banking services that would otherwise be performed by the outsourcing company itself. This includes outsourcing arrangements within UniCredit as well as the subcontracting of outsourced activities and functions to subcontractors.

Outsourcing risk is considered a cross-risk-type risk at HVB Group and is not treated as a separate risk type. Outsourcing activities affect the following risk types in particular: operational risk, reputational risk, strategic risk, business risk, credit risk, market risk and liquidity risk. Those risks that are identified and assessed in an in-depth risk analysis are managed as part of the respective risk type. Specific risks arising from outsourcing activities that cannot be assigned directly to a specific risk type are managed by the unit responsible for the outsourcing in question.

The respective project team and defined functional departments (including Operational Risk Management, Compliance, Legal, Corporate Affairs & Documentation, Data Protection and Business Continuity Management) use a standardised procedure to classify outsourcing arrangements as "not material", "material without significant impact" and "material with significant impact". In accordance with the group-wide regulations on outsourcing management, these arrangements are also subdivided into "not relevant" and "relevant" in line with the provisions of the Bank of Italy's Circular no. 263. An in-depth risk analysis covering the other risk types as well as operational risk is performed for the outsourcing arrangements classified as "material" or "relevant". A retained organisation (RTO) responsible for the arrangement is set up for each material outsourcing arrangement that manages the risks identified. The identified risks are incorporated in HVB Group's risk management in the processes defined for the risk types concerned. The operational risk managers help the project manager and the heads of the RTOs to prepare and/or update the related risk analyses.

No further material new outsourcing arrangements were set up by HVB in 2017. An instance of outsourcing to UniCredit S.p.A. relating to the professional management of a system for credit risk evaluation (address risk analysis management system, ARAMIS), that had previously been classified as material, was downgraded to non-material following re-evaluation. This did not result in any material change to the risk involved. In the context of the introduction of the Markets in Financial Instruments Directive (MiFID II), two material outsourcing arrangements relating to reporting pursuant to Section 34h of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG, ensuring post-trading transparency) in place with Deutsche Börse AG and Borsa Italiana S.p.A. were terminated and a new outsourcing arrangement relating to reporting services set up with Deutsche Börse AG as part of an approved publication arrangement (APA) and an approved reporting mechanism (ARM), effective as of 3 January 2018. This does not give rise to any material change to the risk.

Bankhaus Neelmeyer AG (BNM) left HVB Group as at 31 March 2017. This reduced the number of instances of outsourcing at HVB Group by the five material instances at BNM. On 17 July 2017, UniCredit Structured Lease GmbH was merged into UniCredit Leasing GmbH retroactively effective as of the beginning of the year. This merger reduces by four the number of instances of material outsourcing to HVB. On 30 June 2017, Structured Invest S.A. concluded an agreement with Caceis Bank S.A. on the central management including the fund value calculation of special funds; this agreement constitutes a material outsourcing arrangement under the law of Luxembourg. This transaction and the conclusion of these agreements has not led to any material changes to the risk situation.

Otherwise, there were no changes in the material instances of outsourcing in HVB Group.

ICS – Internal Control System

Internal control system with regard to the financial reporting process

Definitions and objectives

Section 315 (4) of the German Commercial Code (Handelsgesetzbuch – HGB) requires capital-market-oriented companies as defined in Section 264d HGB to describe the main features of the internal control system (ICS) and risk management system with regard to the financial reporting process.

The risk management system is formulated in broad terms and relates above all to strategic management, the identification, quantification, assessment, monitoring and active management of risk. The ensuing coordination of risk-management, risk-controlling and risk-monitoring processes in our corporate group is presented in the Risk Report in the present Management's Discussion and Analysis. The respective risk types are described in detail in the sections entitled "Risk types" and "Risk types in detail".

Risks with regard to the financial reporting process might, for example, involve human processing errors, system weaknesses or fraudulent conduct resulting in significant financial misrepresentations or delays in financial reporting, and these might not reflect the actual situation or not give an appropriate view of the assets, liabilities and financial position. These risks might possibly entail legal penalties and, in addition, the erosion of investors' confidence and damage to the Bank's reputation. The purpose of the ICS in relation to the financial reporting process is to implement controls that ensure with an adequate degree of certainty that the annual and consolidated financial statements together with the Management Report and Management's Discussion and Analysis are prepared in compliance with regulations despite the identified risks.

With regard to the financial reporting process, the ICS encompasses the policies, processes and measures needed to ensure the financial reporting process and compliance with the applicable legal provisions. It makes sure that internal and external financial reports are correct and reliable and that the assets, provisions, liabilities, and deferrals and accruals are classified, recognised and measured and changes in equity are correctly shown.

The method used for the design of the ICS and thus the introduction and risk assessment of processes is based on the international "Internal Control – Integrated Framework" standard issued by the Treadway Commission's Committee of Sponsoring Organizations (COSO) and creates a solid methodological framework. The main task in this context is to define specific objectives to facilitate a control system and to monitor the effectiveness of the control system on this basis. The following objectives are pursued:

- Completeness: All transactions have been recorded and all assets and liabilities, provisions and shareholders' equity are included in the financial statements.
- Measurement: The assets and liabilities, provisions and transactions are disclosed at their correct amounts in the financial reports.
- Presentation and disclosure: The financial reports are correctly classified and discussed with regard to recognition, structure and disclosures in the notes to the consolidated financial statements, comply with the legal requirements and are published on schedule.

Even the best possible structuring of the ICS can naturally only ensure that the objectives of the ICS are achieved with reasonable assurance but not with absolute certainty. The documented controls carried out within the framework of the ICS for the relevant processes or systems are therefore unable to completely eliminate mistakes or fraudulent actions. It must also be taken into account in this context that the work performed and spending on the ICS must be commensurate with the benefits achieved.

ICS organisation

The Management Board determines the extent and orientation of the ICS specifically geared to the Bank, taking measures to refine the systems and adapt them to changing conditions. At Board meetings, it regularly discusses the key topic of the Internal Control Business Committee (ICBC), in terms of the consolidation and monitoring of all ICS-related projects and measures.

Responsibility for the financial reporting process and, in particular, for the preparation of the annual and consolidated financial statements rests with the CFO organisation. The CFO receives significant support in this context from the CRO organisation by the CRO also assuming responsibility for the measurement of financial instruments (receivables, securities and derivatives), among other things.

The CFO organisation is also supported in the technical process of preparing the financial statements by the Human Resources department (recognition and measurement of payroll expenses), the Legal department (recognition and measurement of legal disputes and other legal risks) and external third parties. The latter essentially extends to various expert opinions of external service providers relating to such things as the measurement and accounting treatment of pension provisions.

Technical system support for the application systems used in the Accounting department and especially in connection with preparing the financial statements has been outsourced to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), the UniCredit subsidiary responsible for IT. UBIS (IT) is monitored and managed by the Retained Organisation (OSI) in the Chief Operating Office (COO).

Organisational structure and tasks of the CFO organisation

For purposes of the financial reporting processes, the Chief Financial Officer (CFO) organisation is essentially broken down into the following areas, from which the responsible Management Board member can draw on staff with the required skills and experience. Sets of values such as the Integrity Charter, the Code of Conduct and compliance rules have been implemented in all UniCredit countries for many years, and hence also in HVB Group. These values form the basis for responsible action on the part of all employees, including those involved in the financial reporting process.

HVB's financial reporting is conducted by the Accounting, Shareholdings, Regulatory Reporting (CFF) unit. This unit has functional responsibility for the financial reporting systems employed by HVB. At the same time, the CFF unit is responsible for fundamental accounting questions under IFRS and the German Commercial Code and for preparation of the consolidated financial statements. Furthermore, it prepares the financial reporting in the consolidated financial statements of HVB Group. The management and administration of shareholdings for financial reporting purposes is also positioned in this unit. In addition, it submits the regulatory reports for HVB Group to the banking supervisory authorities.

The central tax department (CFT/Tax Affairs) monitors compliance with all tax laws on the one hand and on the other hand, advises its customers (Management Board, business lines and competence lines) on all tax-related concerns of HVB, including its foreign branches.

Regional Planning & Controlling (CCP) is tasked with central business management, cost controlling and equity capital management at HVB. Furthermore, CCP prepares and validates the segment report in accordance with IFRS. This department also has process responsibility for the preparation of income budgets and income projections. Moreover, the business segment-related controlling departments for all the segments excluding CIB are assigned to CCP. Controlling for CIB is the responsibility of CPA. This department also carries out the reconciliation of trading income jointly with Accounting.

ICS – Internal Control System (Continued)

The Chief Data Office (GCD) is responsible for data and information governance in coordination with the Group Data Office. In addition, significant parts of the data produced are amalgamated in GCD for the CFO in order to achieve a continual improvement in data quality. This department also has responsibility for the implementation of various IT projects relating to financial reporting.

Controls in the ICS for risk minimisation

To minimise the risk of misrepresentation in financial reporting as described above, we carry out various preventive and investigative controls which are integrated in operating processes. This includes permanent controls to ensure compliance with instructions, functional separation and compliance with approval authority regulations. The controls comprise both automated system-based controls within the IT systems and manual controls.

As part of UniCredit, HVB Group is also obliged to comply with Law 262 ("the Savings Law" – Law 262/2005, passed in Italy in 2005 and amended by Legislative Decree 303/2006, based on the Sarbanes-Oxley Act in the United States). Alongside the internal CFO controls, there are also checking and control steps in the upstream processes and organisations.

Based on the requirements under Law 262 and the legal requirements under the German Commercial Code, a number of financial reporting processes complete with the risks and controls included therein were already documented in the course of implementing the ICS at HVB. The corresponding process descriptions include detailed presentations of both the individual process steps and the organisational units involved in the processes. At the same time, risk and control are defined, together with their assessment, and documented.

The focus of risk and monitoring analysis is on identifying and evaluating the risks relevant to financial reporting. Identified risk potential is sufficiently reduced through defined control steps. Periodic random sampling serves to document the implementation of these controls and provide adequate records. If the controls do not sufficiently reduce risk, or no controls are in place, appropriate measures are initiated to eliminate the identified deficiencies. The timely implementation of these measures is reviewed on a quarterly basis.

In a half-yearly certification process, the Management Board confirms to the departments in charge of processes that reporting to the CFO of HVB Group, and from the CFO to UniCredit, is correct.

The controls cover the aspects of the ICS described below:

Group posting and accounting rules defined in the UniCredit-wide Group Accounting Manual (GAM) serve to ensure consistent financial reporting about the Group's business activities. In addition, there are general accounting rules set out in the Bank-wide Operating Guidelines, the application of which is mandatory for all process participants.

HVB uses SAP's standard SAP Balance Analyzer and Business Warehouse software to prepare its annual financial statements. The SAP Balance Analyzer concept is based on the mainly automated uploading of individual transaction data from the upstream systems relevant to financial reporting (sub-ledger). The Accounting department collates the data relevant to the financial statements. It reconciles the positions delivered by the upstream systems and automatically checks the totals against the general ledger account balances, which serves as proof of the completeness of balance sheet items. At the same time, it also corrects errors and performs manual bookings of one-off transactions and closing entries. Adjustments and closing entries are entered by authorised persons in accordance with the principle of dual control. Furthermore, deviation analyses are conducted at item level to minimise the risk of error and incomplete data.

The ICS for securities, derivatives and other trading-related transactions also comprises the following components:

- The allocation of transactions to the holding categories compliant with IFRS and HGB is primarily governed by the orientation of the operating units. The determination of the holding category is determined individually for each trading book and the related trading strategy. The Accounting department is incorporated as an authorising body to ensure compliance with individual requirements relating to classification based on the respective accounting standard.
- Booking standards based on the respective holding category – initiated by transactions – are defined in the accounting systems.
- The trading income calculated for purposes of financial reporting is checked on a monthly basis by comparing it with the result of the economic income statement that serves as the basis for the daily information provided to the Management Board members. Following this, the results are analysed and comments made on the content of the deviation analysis.
- The Risk Control department, which reports to the CRO, performs several tasks in connection with ensuring the valuation and other information relevant for the financial statements (for example: level allocation) of the financial instruments mentioned above. Firstly, transactions are checked by the Risk Control department to ensure compliance with market pricing. Secondly, the Risk Control department reviews the valuation of financial instruments in the front office systems. Depending on the market parameters and asset classes, market data are supplied by both the trading departments and external sources such as Bloomberg, Reuters and MarktIT. Valuation adjustments and valuations based on estimates are agreed by the CRO and CFO units on an ongoing basis.
- In accordance with the separation of functions, the back office handles the processing of HVB trades. For derivatives, this is UniCredit Business Integrated Solutions S.C.p.A. (UBIS), which is supervised by the GBS unit. Furthermore, external service providers have been engaged to process securities transactions in Germany and for the Milan branch. It has thus been ensured that trades are processed independently of the Trading department.

A cross-departmental new product process is in place for developing and launching new products, as recorded in the Operating Guidelines. All the products relevant for a new product process are addressed in this process. Under the new product process, all concerned departments are involved to the extent that they have veto rights at the least and are authorised to enforce amendments up to and including the termination of the new product process.

The consolidated financial statements prepared in accordance with IFRS are based on the standalone financial statements of HVB, the subsidiaries included in the consolidated financial statements and special purpose entities on the basis of local accounting rules. These financial statements are converted by the reporting companies to HVB Group standards in accordance with the UniCredit Accounting Principles and transformed to comply with the corporate position classifications. The financial information reported within the framework of the consolidated financial statements is included in the process of auditing the consolidated financial statements. The figures for the consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system marketed by Tagetik Software S.R.L. This is used across the entire corporate group and networked across all Group companies. After the figures have been entered in or transferred to this system by the Group companies, the system is closed for further entries in line with the phases of the consolidation process. These data may only be changed in exceptional circumstances, as agreed with the subsidiary concerned. The consolidation process includes system-based validation checks at a diverse range of levels to minimise the risk of error. In addition, plausibility checks are carried out on a regular basis.

ICS – Internal Control System (Continued)

The figures presented in the balance sheet and income statement are validated using deviation analysis at historical comparative figures and budget figures and on the basis of non-recurring effects in an ongoing process that is carried out over the entire course of the year under review as part of the process of preparing the monthly and quarterly financial statements. In addition, the data are also verified by analysing the segment report.

With regard to the presentation and disclosure of financial-reporting-related data in financial reports, controls have been implemented to ensure compliance with disclosure duties particularly by such data conforming to checklists and being reviewed and approved particularly by management personnel within the CFO organisation.

UBIS carries out the back-up and archiving of data from financial-reporting-related application systems under the responsibility of the CFO in accordance with Section 257 HGB in conjunction with Sections 238 and 239 HGB and the German Generally Accepted Accounting Principles (GAAP) under the supervision of the Retained Organisation and the respective banking expert responsible. Furthermore, controls between the upstream systems (e.g. EuroSIG) and the general ledger, namely first level controls, have been outsourced to UBIS via additional service level agreements (SLAs). Another technical review takes place in the Accounting department within the framework of second level controls.

The required protection against unauthorised access, and compliance with the principles of functional separation when using the Bank's financial reporting application systems are ensured notably by requesting and periodically monitoring individual rights in the authorisation management systems. For SAP rights, special approval is provided across the board by the functional units responsible for the application. The use of individual rights automatically implies a time restriction of no more than one year.

To ensure the greatest possible efficiency in the process of preparing the annual, consolidated and interim financial statements, detailed timetables are drawn up on a regular basis showing precise dates for the individual process steps. These timetables serve to ensure and monitor the timely completion of financial reporting tasks and to identify the dependencies between the individual process steps and the units involved.

Furthermore, appropriate contingency plans are in place to ensure the availability of human and technical resources to handle processes regarding financial reporting. These contingency plans are constantly updated and refined.

Monitoring the effectiveness of the ICS

Internal Audit

The Internal Audit department is a process-neutral instrument of the Management Board, to which it reports directly. According to its internal regulations, the Management Board bears the overall responsibility for setting up the Internal Audit department and ensuring that it functions properly. In the financial year, operational responsibility for the audit function was assigned to the Board Spokesman (CEO).

The Internal Audit department is responsible for the risk-oriented, process-neutral auditing and assessment of all activities and processes, regardless of whether they are outsourced or not. The outsourced activities may be audited by the internal audit function of the service provider.

For this purpose, Internal Audit carries out a risk-based selection of individual operating and business processes in order to set scheduling priorities for audits. The Minimum Requirements for Risk Management (MaRisk) stipulate that all operating and business processes must be audited at least every three years – if deemed useful and appropriate. In the case of activities and processes deemed to be of lower priority in terms of risk, it is permissible to deviate from the three-year cycle. Operating and business processes subject to especially high levels of risk are audited at least once a year. If the need arises or it is instructed to do so, the Internal Audit department may also carry out tasks in subsidiaries, taking into account the findings of any audits performed by internal audit departments in those subsidiaries.

The Bank's Internal Audit department must audit and assess the following areas in particular:
– functionality, effectiveness, economic efficiency and appropriateness of the internal control system
– applications, functionality, effectiveness and appropriateness of the risk management and risk control systems, reporting, information systems, and finance and accounting
– compliance with legal and regulatory standards as well as other regulations
– observation of internal operational guidelines, ordinances and regulations
– correctness of operational and business processes
– regulations and measures to protect assets

While audit reports are submitted promptly to audited units and the responsible Management Board members, the Management Board as a whole receives an annual report which includes a comprehensive overview of audit findings as well as significant deficiencies, major deficiencies, severe deficiencies and particularly severe deficiencies as defined in the MaRisk rules, the measures taken and their current status.

The head of the Internal Audit department presents a report prepared by the Management Board and Internal Audit on a quarterly basis at meetings of the Audit Committee of the Supervisory Board to report on the main findings of the audits carried out by Internal Audit and other significant aspects of its work.

Supervisory Board
It is the task of the Supervisory Board to advise the Management Board on the running of the Bank and monitor it as it conducts its business. Particularly with respect to the monitoring of the financial reporting process and the effectiveness of the ICS, the Supervisory Board receives support from the Audit Committee pursuant to Section 107 (3) AktG and Section 25d (9) Nos. 1 and 2 KWG. In this context, the Audit Committee also addresses the ICS in connection with the financial reporting process. Furthermore, the Supervisory Board – and, in a preparatory role, the Audit Committee – is itself integrated into the financial reporting processes through its monitoring of the financial reporting performed by reviewing and approving the consolidated financial statements and the Management's Discussion and Analysis as well as the proposal for the appropriation of profits. In addition, the Audit Committee and the Supervisory Board discuss the interim financial information with the Management Board as such information becomes available throughout the year.

Refinement of the ICS
When changes are made to the legal provisions and regulations for financial reporting, they must be assessed to determine what consequences, if any, they have for the financial reporting processes. In the case of amendments or new regulations that would have a substantial impact on the accounting processes, a corresponding project is set up to cover all measures such as IT adaptations, working procedures and posting instructions and the effects on financial reporting across all departments and business segments.

In the course of the regular update of the ICS, moreover, new processes are subject to half-yearly reviews in terms of organisational changes or changes in content by the persons responsible for the process. If necessary, the documentation is modified and a new risk assessment performed. In addition, the completeness of the process documentation is checked on an ongoing basis and, if necessary, further relevant processes added and assessed, and integrated into routine ICS operations.

Financial Statements (2)

Consolidated Financial Statements

Consolidated Income Statement

Income/Expense	NOTES	1/1–31/12/2017 € millions	1/1–31/12/2016 € millions	CHANGE € millions	CHANGE in %
Interest income		3,681	4,083	(402)	(9.8)
Interest expense		(1,140)	(1,565)	+ 425	(27.2)
Net interest	33	2,541	2,518	+ 23	+ 0.9
Dividends and other income from equity investments	34	11	57	(46)	(80.7)
Net fees and commissions	35	1,103	1,066	+ 37	+ 3.5
Net trading income	36	928	903	+ 25	+ 2.8
Net other expenses/income	37	399	354	+ 45	+ 12.7
Payroll costs		(1,600)	(1,668)	+ 68	(4.1)
Other administrative expenses		(1,443)	(1,536)	+ 93	(6.1)
Amortisation, depreciation and impairment losses on intangible and tangible assets		(227)	(257)	+ 30	(11.7)
Operating costs	38	(3,270)	(3,461)	+ 191	(5.5)
Net write-downs of loans and provisions for guarantees and commitments	39	(195)	(341)	+ 146	(42.8)
Provisions for risks and charges	40	(25)	(193)	+ 168	(87.0)
Restructuring costs	41	(7)	(645)	+ 638	(98.9)
Net income from investments	42	112	39	+ 73	>+ 100.0
PROFIT BEFORE TAX		**1,597**	**297**	**+ 1,300**	**>+ 100.0**
Income tax for the period	43	(261)	(140)	(121)	+ 86.4
PROFIT AFTER TAX		**1,336**	**157**	**+ 1,179**	**>+ 100.0**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT		**1,336**	**157**	**+ 1,179**	**>+ 100.0**
attributable to the shareholder of UniCredit Bank AG		1,332	153	+ 1,179	>+ 100.0
attributable to minorities		4	4	—	—

Earnings per share

(in €)

	NOTES	2017	2016
Earnings per share (undiluted and diluted)	44	1.66	0.19

Consolidated statement of total comprehensive income

(€ millions)

	2017	2016
Consolidated profit recognised in the income statement	**1,336**	**157**
Income and expenses recognised in other comprehensive income		
Income and expenses not to be reclassified to the income statement in future periods		
Actuarial profit/(loss) on defined benefit plans (pension commitments)	218	(281)
Non-current assets held for sale	—	(2)
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	(68)	89
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	(8)	(7)
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	(19)	78
Unrealised gains/(losses)	89	93
Gains/(losses) reclassified to the income statement	(108)	(15)
Changes in valuation of financial instruments (hedge reserve)	(3)	—
Unrealised gains/(losses)	1	7
Gains/(losses) reclassified to the income statement	(4)	(7)
Other changes	—	34
Taxes on income and expenses to be reclassified to the income statement in future periods	(2)	(24)
Total income and expenses recognised in equity under other comprehensive income	**118**	**(113)**
Total comprehensive income	**1,454**	**44**
of which:		
attributable to the shareholder of UniCredit Bank AG	1,450	40
attributable to minorities	4	4

Consolidated Balance Sheet

Assets

	NOTES	31/12/2017 € millions	31/12/2016 € millions	CHANGE € millions	CHANGE in %
Cash and cash balances	45	36,414	9,770	+ 26,644	>+ 100.0
Financial assets held for trading	46	75,493	94,087	(18,594)	(19.8)
Financial assets at fair value through profit or loss	47	21,456	28,512	(7,056)	(24.7)
Available-for-sale financial assets	48	6,816	5,929	+ 887	+ 15.0
Investments in associates and joint ventures	49	34	44	(10)	(22.7)
Held-to-maturity investments	50	23	36	(13)	(36.1)
Loans and receivables with banks	51	30,330	33,043	(2,713)	(8.2)
Loans and receivables with customers	52	121,178	121,474	(296)	(0.2)
Hedging derivatives	55	390	384	+ 6	+ 1.6
Hedge adjustment of hedged items					
in the fair value hedge portfolio		72	51	+ 21	+ 41.2
Property, plant and equipment	56	2,599	2,869	(270)	(9.4)
Investment properties	57	808	1,028	(220)	(21.4)
Intangible assets	58	445	455	(10)	(2.2)
of which: goodwill		418	418	—	—
Tax assets		1,363	1,696	(333)	(19.6)
Current tax assets		113	333	(220)	(66.1)
Deferred tax assets		1,250	1,363	(113)	(8.3)
Non-current assets or disposal groups held for sale	59	511	1,077	(566)	(52.6)
Other assets	60	1,128	1,635	(507)	(31.0)
Total assets		**299,060**	**302,090**	**(3,030)**	**(1.0)**

Liabilities

	NOTES	31/12/2017 € millions	31/12/2016 € millions	CHANGE € millions	in %
Deposits from banks	62	67,354	57,584	+ 9,770	+ 17.0
Deposits from customers	63	124,284	117,204	+ 7,080	+ 6.0
Debt securities in issue	64	25,552	24,214	+ 1,338	+ 5.5
Financial liabilities held for trading	65	56,217	72,834	(16,617)	(22.8)
Hedging derivatives	66	469	997	(528)	(53.0)
Hedge adjustment of hedged items					
in the fair value hedge portfolio	67	1,215	1,785	(570)	(31.9)
Tax liabilities		693	723	(30)	(4.1)
Current tax liabilities		604	642	(38)	(5.9)
Deferred tax liabilities		89	81	+ 8	+ 9.9
Liabilities of disposal groups held for sale	68	102	1,162	(1,060)	(91.2)
Other liabilities	69	1,699	2,145	(446)	(20.8)
Provisions	70	2,601	3,022	(421)	(13.9)
Shareholders' equity	71	18,874	20,420	(1,546)	(7.6)
Shareholders' equity attributable to the shareholder					
of UniCredit Bank AG		18,867	20,414	(1,547)	(7.6)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		5,289	5,107	+ 182	+ 3.6
Changes in valuation of financial instruments		80	104	(24)	(23.1)
AfS reserve		52	74	(22)	(29.7)
Hedge reserve		28	30	(2)	(6.7)
Consolidated profit		1,300	3,005	(1,705)	(56.7)
Minority interest		7	6	+ 1	+ 16.7
Total shareholders' equity and liabilities		**299,060**	**302,090**	**(3,030)**	**(1.0)**

The 2017 profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (corresponding to the consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €1,300 million. We will propose to the Shareholders' Meeting to pass a resolution that a dividend of €1,300 million be paid to UniCredit S.p.A. (UniCredit), Milan, Italy. This represents a dividend of around €1.62 per share after around €3.75 in the 2016 financial year. The consolidated profit disclosed in the previous year amounting to €3,005 million (consisting of the net profit of €5 million and a withdrawal from other retained earnings of €3,000 million) was distributed to UniCredit pursuant to the resolution of the Shareholders' Meeting of 22 May 2017.

Statement of Changes in Consolidated Shareholders' Equity

			OTHER RESERVES	
	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2016	**2,407**	**9,791**	**8,125**	**(1,135)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[3]	**—**	**—**	**(176)**	**(194)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	(194)	(194)
Reserve arising from foreign currency translation	—	—	(7)	—
Other changes	—	—	25	—
Total other changes in equity	**—**	**—**	**(2,842)**	**13**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	(2,852)	—
Changes in group of consolidated companies	—	—	10	13
Capital decreases	—	—	—	—
Shareholders' equity at 31/12/2016	**2,407**	**9,791**	**5,107**	**(1,316)**
Shareholders' equity at 1/1/2017	**2,407**	**9,791**	**5,107**	**(1,316)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[3]	**—**	**—**	**142**	**150**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	150	150
Reserve arising from foreign currency translation	—	—	(8)	—
Other changes	—	—	—	—
Total other changes in equity	**—**	**—**	**40**	**5**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	32	—
Changes in group of consolidated companies	—	—	8	5
Capital decreases	—	—	—	—
Shareholders' equity at 31/12/2017	**2,407**	**9,791**	**5,289**	**(1,161)**

1 The Shareholders' Meeting of 10 May 2016 resolved to distribute the 2015 consolidated profit in the amount of €398 million as a dividend to our sole shareholder UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.50 per share. The Shareholders' Meeting of 22 May 2017 resolved to distribute the 2016 consolidated profit in the amount of €3,005 million as a dividend to our sole shareholder UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.75 per share.
2 UniCredit Bank AG (HVB)
3 see Consolidated statement of total comprehensive income

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS					
AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[1]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[2]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
11	**30**	**398**	**20,762**	**4**	**20,766**
—	**—**	**153**	**153**	**4**	**157**
63	**—**	**—**	**(113)**	**—**	**(113)**
76	5	—	81	—	81
(13)	(5)	—	(18)	—	(18)
—	—	—	(194)	—	(194)
—	—	—	(7)	—	(7)
—	—	—	25	—	25
—	**—**	**2,454**	**(388)**	**(2)**	**(390)**
—	—	(398)	(398)	(3)	(401)
—	—	2,852	—	—	—
—	—	—	10	1	11
—	—	—	—	—	—
74	**30**	**3,005**	**20,414**	**6**	**20,420**
74	**30**	**3,005**	**20,414**	**6**	**20,420**
—	**—**	**1,332**	**1,332**	**4**	**1,336**
(22)	**(2)**	**—**	**118**	**—**	**118**
62	1	—	63	—	63
(84)	(3)	—	(87)	—	(87)
—	—	—	150	—	150
—	—	—	(8)	—	(8)
—	—	—	—	—	—
—	**—**	**(3,037)**	**(2,997)**	**(3)**	**(3,000)**
—	—	(3,005)	(3,005)	(3)	(3,008)
—	—	(32)	—	—	—
—	—	—	8	—	8
—	—	—	—	—	—
52	**28**	**1,300**	**18,867**	**7**	**18,874**

Consolidated Cash Flow Statement

(€ millions)

	2017	2016
Consolidated profit	**1,336**	**157**
Write-downs, provisions for losses on, and write-ups of, loans and receivables and additions to		
provisions for losses on guarantees and indemnities	241	398
Write-downs and depreciation less write-ups on non-current assets	292	317
Change in other non-cash positions	(796)	(2,321)
Profit from the sale of investments, property, plant and equipment	(146)	(63)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(2,758)	(2,700)
Subtotal	**(1,831)**	**(4,212)**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	10,673	7,270
Loans and receivables with banks	2,634	(223)
Loans and receivables with customers	(211)	(8,491)
Other assets from operating activities	(1,218)	(1,609)
Deposits from banks	10,852	(858)
Deposits from customers	7,594	9,601
Debt securities in issue	1,636	(1,690)
Other liabilities from operating activities	(2,552)	950
Taxes on income	19	(151)
Interest received	3,705	4,156
Interest paid	(1,212)	(1,639)
Dividends received	268	318
Cash flows from operating activities	**30,357**	**3,422**
Proceeds from the sale of investments	2,120	925
Proceeds from the sale of property, plant and equipment	90	102
Payments for the acquisition of investments	(2,926)	(5,246)
Payments for the acquisition of property, plant and equipment	(193)	(246)
Effects of the change in the group of companies included in consolidation	68	30
Effect of the disposal of discontinued operations	—	—
Cash flows from investing activities	**(841)**	**(4,435)**

(€ millions)

	2017	2016
Change in additional paid-in capital	—	—
Dividend payments	(3,005)	(398)
Issue of subordinated liabilities and hybrid capital	—	2
Repayment/buy-back of subordinated liabilities and hybrid capital	(45)	(100)
Other financing activities (debt, fund for general banking risks) (+)	178	—
Other financing activities (debt, fund for general banking risks) (–)	—	(164)
Cash flows from financing activities	**(2,872)**	**(660)**
Cash and cash equivalents at end of previous period	**9,770**	**11,443**
Net cash provided/used by operating activities	**30,357**	**3,422**
Net cash provided/used by investing activities	**(841)**	**(4,435)**
Net cash provided/used by financing activities	**(2,872)**	**(660)**
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale	—	—
Cash and cash equivalents at end of period	**36,414**	**9,770**

Legal basis

UniCredit Bank AG (HVB) is a universal bank with its registered office and principal place of business in Arabellastrasse 12, Munich, Germany. It is filed under HRB 42148 in the B section of the Commercial Register maintained by Munich District Court. HVB is an affiliated company of UniCredit S.p.A., Milan, Italy (ultimate parent company) in whose consolidated financial statements HVB Group is included. These are published on the UniCredit corporate group's website at the following address: https://www.unicreditgroup.eu/en/investors/financial-reports.html.

As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, international companies and institutional customers. Further information on the Bank's products and services are provided in the Note "Method and components of segment reporting by business segment" in the notes to these consolidated financial statements.

As a globally active company, HVB prepares its financial statements in accordance with the requirements of the International Accounting Standards Board (IASB) in the version adopted by the EU. This provides a reliable and internationally comparable basis for evaluating the assets, liabilities, financial position and profit or loss of HVB Group. Our value-based management is similarly based on these accounting principles.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to EU Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 (IAS-VO) together with further regulations regarding the adoption of certain IFRS within the framework of the EU endorsement in conjunction with Section 315e (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS-VO Regulation. The present consolidated financial statements were prepared by the Management Board on 27 February 2018 and adopted by the Supervisory Board on 15 March 2018. Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the IFRS Interpretations Committee (IFRS IC) and its predecessor known as IFRICs and SICs. All the standards and interpretations subject to mandatory adoption in the EU for the 2017 financial year have been applied. Section 315e HGB also contains national regulations to be applied alongside the IFRS by capital-market-oriented companies.

Our listed subsidiary AGROB Immobilien AG has published the equivalent statement of compliance required by Section 161 AktG on its website.

Management's Discussion and Analysis meets the requirements of Section 315 (1, 2 and 4) HGB. Also incorporated is a risk report pursuant to Section 315 HGB.

Compliant with Section 264b HGB, the following partnerships are exempted from the obligation to prepare a management report and publish their annual financial statements:
- A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Grünwald
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Grünwald
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Grünwald
- BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
- Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
- H & B Immobilien GmbH & Co. Objekte KG, Munich
- HAWA Grundstücks GmbH & Co. oHG Hotelverwaltung, Munich
- HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung, Munich
- HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
- HVZ GmbH & Co. Objekt KG, Munich

– Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
– HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG, Munich
– Ocean Breeze Energy GmbH & Co. KG, Bremen
– Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Perlach KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
– Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. oHG Saarland, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
– Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
– TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich
– TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich
– Vermietungsgesellschaft mbH & Co. Objekt MOC KG, Munich

Compliant with Section 264 (3) HGB, the following corporations are exempted from the obligation to prepare a management report and publish their annual financial statements:
– Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH, Munich
– BV Grundstücksentwicklungs-GmbH, Munich
– CUMTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– Food & more GmbH, Munich
– HJS 12 Beteiligungsgesellschaft mbH, Munich
– HVB Capital Partners AG, Munich
– HVB Immobilien AG, Munich
– HVB Profil Gesellschaft für Personalmanagement mbH, Munich
– HVB Projekt GmbH, Munich
– HVB Secur GmbH, Munich
– HVB Tecta GmbH, Munich
– HVB Verwa 4 GmbH, Munich
– HVB Verwa 4.4 GmbH, Munich
– Interra Gesellschaft für Immobilienverwaltung mbH, Munich
– MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich
– MILLETERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– NF Objekt FFM GmbH, Munich
– NF Objekt München GmbH, Munich
– NF Objekte Berlin GmbH, Munich
– Orestos Immobilien-Verwaltungs GmbH, Munich
– RHOTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– Selfoss Beteiligungsgesellschaft mbH, Grünwald
– Spree Galerie Hotelbetriebsgesellschaft mbH, Munich
– Transterra Gesellschaft für Immobilienverwaltung mbH, Munich
– UniCredit Direct Services GmbH, Munich
– Verwaltungsgesellschaft Katharinenhof m.b.H., Munich

Accounting and Valuation

1 Reporting date/period

The amounts shown in the tables and texts below relate to the reporting date of 31 December for disclosures regarding balance sheet items and totals and the period from 1 January to 31 December of the respective year for disclosures regarding the income statement.

2 Uniform Group accounting policies

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

3 Consistency

In accordance with the IFRS Framework together with IAS 1 and IAS 8, we apply the accounting, valuation and disclosure principles consistently from one period to the next. Where significant accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted retroactively. Where retroactive adjustment is not possible in exceptional circumstances, the amounts involved are adjusted against retained earnings. Where we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively.

Within the scope of our participation in the targeted longer-term refinancing operations (TLTRO II) of the European Central Bank (ECB), the hedging of the planned borrowing at our subsidiary UniCredit Luxembourg S.A. was performed in advance using a forward interest rate swap in the form of a micro cash flow hedge in March 2017 applicable for future transactions. Upon receipt of the cash borrowed from the ECB at the end of March 2017 this hedge was terminated. The cash flow hedge reserve in existence at the time the hedge was terminated and the counteracting initial fair value of the interest rate swap of the same amount are reversed through the income statement in the matching periods over the term of the hedged borrowing to compensate. The borrowing taken out at the end of March 2017 and the hedging interest rate swap are included in the general portfolio fair value hedge of interest rate risk.

Changes in estimates have been recognised in net income for the period affected by the change in the estimation method. Provided 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.

The consolidated financial statements are prepared under the assumption of a going concern. Accounting and valuation in accordance with IFRS contains values that have been determined reliably using estimates and assumptions. The estimates and assumptions applied are based on past experience and other factors such as budgets, expectations and forecasts regarding future events which seem appropriate under the present circumstances. This mainly affects the determination of the fair value of certain financial assets and liabilities, net write-downs of loans and provisions for guarantees and commitments, deferred taxes, and the accounting and valuation of provisions. The actual values may differ from the assumptions and estimates made.

The following matters in particular are affected by estimates, assumptions and discretionary decisions:
– Measurement of goodwill: The Strategic Plan drawn up by the Bank forms the main basis for the impairment test for goodwill. The Strategic Plan contains forecasts of future trends in terms of both the Bank's respective business units and macroeconomic developments. This means that the impairment test for goodwill is also subject to estimates, assumptions and discretionary decisions.
– Determination of loan-loss allowances:
  Specific allowances: These represent the difference between the estimated, discounted expected future cash inflows and the carrying amount. This means that, to determine the loan-loss allowances, assumptions and forecasts must be made regarding the payments that may still be received from the borrower and/or proceeds from the realisation of the collateral.
  Portfolio allowances: Portfolio allowances are determined on the basis of the Bank's credit portfolio model described in the Risk Report. This internal model similarly draws on forecasts and assumptions which are thus relevant for the measurement of the portfolio allowance.
– Determination of fair value: The Bank employs internal models to determine the fair value of financial instruments for which no price is available on an active market. The application of these internal models presupposes assumptions and forecasts, among other things, the scope of which depends on the complexity of the financial instrument and the valuation parameters derived from market data.

– Provisions are recognised for present or future obligations to cover the payments required to settle these obligations. In this context, it is necessary to estimate the amount of these expenses or costs and also the date at which the liabilities are expected to be settled. This involves making assumptions regarding the actual amount of the costs occurring and, in the case of long-term provisions, also estimating possible cost increases up until the settlement date. If the settlement date is more than one year in the future, the forecast expenses and costs are discounted over the period until the liability is settled.
– Deferred tax assets and liabilities: Apart from a few exceptions defined 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 (liability method). Accounting and valuation are performed in accordance with IAS 12 on the basis of local tax regulations that are expected to apply to the period when an asset is realised or a liability is settled. The regulations and applicable local tax rates are assumed that are enacted or substantively enacted at the reporting date. Deferred tax assets are not recognised to the extent that it seems unlikely that sufficient taxable profit will be available in future periods.
  Furthermore, deferred tax assets are recognised for unused tax losses carried forward and unused tax credits to the extent that recoverability is demonstrated. This is done on the basis of a five-year plan for HVB Group, which is subject to segment-specific and macroeconomic assumptions and takes account of local tax regulations. Appropriate haircuts are applied in the Strategic Plan. Estimation uncertainties are inherent.
– Share-based compensation: Assumptions must similarly be made to determine the cost of share-based compensation programmes. The costs for the instruments to be transferred are amortised over the vesting period or the beneficiaries' claims expire if they leave UniCredit first. This makes it necessary to forecast what proportion of employees will leave UniCredit during the vesting period. At the same time, the shares granted must be measured at fair value at the grant date. The comments made above regarding the determination of fair value are applicable analogously.
– Property, plant and equipment: Depreciable items of property, plant and equipment are depreciated over their useful lives. Since the useful life is not independent of the usage of the actual asset in question, it must be estimated in light of the circumstances in each case.
– Intangible assets: With the exception of goodwill, intangible assets are amortised over their useful life. Here, too, suitable assumptions must be made to estimate the useful life.
– Investment properties: These assets are depreciated over the useful life of the property (excluding the land portion), meaning that a forecast is also required here.

Apart from this, the accounting, valuation and disclosure principles applied in the 2017 financial year are the same as those applied in the consolidated financial statements for 2016, with the exception of the new IFRS rules to be applied as described in the Note "Initial adoption of new IFRS accounting rules".

4 Initial adoption of new IFRS accounting rules

The changes to the following standards newly issued or revised by the IASB were subject to mandatory adoption in the EU in the 2017 financial year:
– Amendments to IAS 7 – "Disclosure Initiative"
– Amendments to IAS 12 – "Recognition of Deferred Tax Assets for Unrealised Losses"

The amendments to the standard IAS 7 ("Statement of Cash Flows") issued as part of the IASB's Disclosure Initiative supplement the cash flow statement with additional disclosures on an entity's financing activities. In this context, changes to liabilities arising from financing activities that are presented in the item "Cash flows from financing activities" in the cash flow statement must be disclosed. The disclosures were extended in line with these amendments.

The amendments to IAS 12 ("Income Taxes") clarify that deferred tax assets also have to be recognised on deductible temporary differences arising from unrealised losses relating to available-for-sale debt securities measured at fair value. The clarifications on IAS 12 were observed in the consolidated financial statements.

Accounting and Valuation (Continued)

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

As permitted, we have decided against the early voluntary adoption of the standards and interpretations adopted or revised by the IASB, which only become the subject of mandatory adoption for the 2018 financial year or thereafter. The Bank will apply these standards and interpretations in the financial year in which the new provisions in question become mandatorily applicable for EU-based enterprises for the first time.

The EU has adopted the following into European law:

– IFRS 9 "Financial Instruments (July 2014)". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– IFRS 15 "Revenue from Contracts with Customers including amendments to IFRS 15: Effective Date of IFRS 15". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– IFRS 16 "Leases". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2019.
– Amendments to IFRS 4 – "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– Clarifications on IFRS 15 "Revenue from Contracts with Customers". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.

The EU has not yet adopted the following into European law:

– IFRS 17 "Insurance Contracts". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2021.
– IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2019.
– Amendments to IFRS 2 – "Classification and Measurement of Share-based Payment Transactions". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– Amendments to IFRS 9 – "Prepayment Features with Negative Compensation". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2019.
– Amendments to IAS 28 – "Long-term interests in Associates and Joint Ventures". The provisions are subject to first-time mandatory adoption for reporting periods beginning on or after 1 January 2019.
– Amendments to IAS 40 – "Transfers of Investment Property". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– Annual Improvements to IFRS Standards 2015–2017 Cycle. The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2019.
– Annual Improvements to IFRS Standards 2014–2016 Cycle. The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018 (IAS 28).

The new IFRS standards to be applied in the future that are relevant for HVB Group are discussed below:

In July 2014, the IASB published the definitive version of IFRS 9 "Financial Instruments" to replace IAS 39, the current standard covering the recognition and measurement of financial instruments. IFRS 9 contains a complete revision of the main regulations regarding the classification and measurement of financial instruments, the recognition of impairments of financial assets and the recognition of hedges. IFRS 9, which was adopted into European law by the EU in November 2016, is subject to adoption for reporting periods beginning on or after 1 January 2018. First-time application should be retrospective.

For debt instruments, IFRS 9 has introduced restrictive conditions that have to be complied with in future in measurement at amortised cost. This relates firstly to the business model (hold to maturity) and secondly the specific terms of the debt instrument. Only those where the cash flows essentially consist of interest and repayment may be measured at amortised cost. In light of the fact that the Bank's business model puts a focus on customer care and customer relationships, the intention is generally to hold to maturity with regard to loans issued by the Bank. Correspondingly, sales from this portfolio allocated to the "hold to maturity" business model may be made only in exceptional cases where they are insignificant or infrequent, or are made on account of an increase in the risk of default. An analysis of the loan portfolio revealed that only in a few exceptional cases are the cash flow terms (cash flows represent exclusively interest on and repayments of the outstanding capital) not met. Furthermore, the Bank's loan portfolio generally does not contain any instruments that provide for the payment of compensation for premature payment by the Bank to the debtor in the event of the exercise of termination rights. As the Bank has decided to also manage at fair value financial instruments accounted for at fair value, such loans are allocated to the "Other" business model, so that they are to be measured in future at fair value with a corresponding impact on the income statement. The portfolio of assets held for trading is also maintained unchanged. With regard to the portfolio of securities, there are likewise no material changes planned with regard to the business model. The securities portfolios that are allocated to the fair value option under IAS 39, also continue to be managed at fair value so that these securities portfolios are allocated to the "Other" business model. Furthermore, one securities portfolio that was previously classified as available for sale is allocated to the "Held for sale" business model. The remaining securities that were classified as available for sale, loans and receivables or held to maturity are allocated to the "Hold to maturity" business model apart from a few exceptions that do not meet the cash flow terms and – in a similar way to the loans – are allocated to the "Other" business model. This means that the portfolio of debt instruments that are in future measured at fair value instead of amortised cost or vice versa is very small. This covers only those instruments that were previously measured at amortised cost and in future – due to non-compliance with the cash flow terms – are measured at fair value though profit or loss. No relevant remeasurement effects from debt instruments (e.g. on account of modifications) that continue to be measured at amortised cost can currently be identified.

In future, equity instruments are to be measured at fair value through profit or loss pursuant to IFRS 9.4.1.4. The option of recognising changes in the fair value in other comprehensive income is not exercised. This means that equity instruments that were previously classified as available for sale pursuant to IAS 39.46 (c) and are measured at cost are in future to be measured at fair value through profit or loss.

HVB intends to continue to exercise the option presented by IFRS 9 and the provisions of IAS 39 on Hedge Accounting. In this respect, no material changes to hedge accounting are to be expected as a result of the application of IFRS 9.

Within the scope of the first time application of IFRS 9, the effects resulting from the retrospective application of IFRS 9 are recorded in equity. The largest effect in this respect is the conversion of the method used to establish the portfolio-based impairment for performing debt instruments. For performing debt instruments measured at amortised cost, impairment is calculated in future on the basis of the loss expected within one year (Stage 1) or in the case of significant deterioration in creditworthiness since the loan was issued with the loss expected over the term of the debt instrument (Stage 2). This will give rise to an increase in the portfolio impairment for performing debt instruments.

For determining whether there is a significant deterioration in the creditworthiness, the expected probability of default upon loan issue is compared to that as of the reporting date. If a certain trigger is exceeded in regard to the deterioration in creditworthiness, it will be allocated to Stage 2. This means that a transition is made to measurement on the basis of the loss expected over the term of the debt instrument. To this end, UniCredit Group has developed a corresponding model. As part of determining the expected loss, not only reliable information on past events but also current conditions and prognoses for future economic conditions are considered. To the extent that the reasons for the significant deterioration in creditworthiness no longer apply, a transfer back to Stage 1 is made. The option that there is no significant increase in the credit risk if the financial instrument has a lower risk of default as of the reporting date (e.g. external Investment Grade Rating), is used for securities.

Accounting and Valuation (Continued)

Allocation to Stage 3 is made in the event of default of a borrower. A default is, as was the case to date, where a material liability of the borrower is overdue for more than 90 days or where HVB assumes that the debtor cannot meet its obligations to pay in full without recovery measures being made. In such cases, an impairment is recognised calculated from the difference of the present value of the future expected cash flows and the carrying amount. Due to taking account of various scenarios as required in this respect in future, there will be effects in relation to the amount of the net write-downs of loans and provisions for guarantees and commitments. This thus corresponds to the results of the scenarios included weighted by the probability of occurrence.

The cumulative effect from the first-time application of IFRS 9 in equity will amount to less than €0.1 billion. The main drivers in this connection are the conversion to the new Expected Loss model including the introduction by IFRS 9 of the three-stage model and the measurement of equity instruments at fair value without exception. None of the aspects listed above exceeds an amount of €0.1 billion, in most cases single-digit millions or low double-digit millions are involved.

In May 2014, the IASB published a new standard regarding revenue realisation, IFRS 15 “Revenue from Contracts with Customers”, which is subject to mandatory application as of 1 January 2018 and was adopted into European law by the EU in September 2016. IFRS 15 supersedes IAS 18. IFRS 15 defines a uniform principles-based model for determining how and when revenue is recognised. Income accruing in connection with financial instruments is not affected by this. Otherwise, fee and commission income and expenses customary for a bank are subject to the scope of IFRS 15. Here again, this does not give rise to any effects on the allocation of income to individual periods or items in the income statement, which means that we expect IFRS 15 to have only a minor effect on HVB Group.

In January 2016, the IASB published the new IFRS 16 “Leases”, which will replace the existing standard covering the accounting treatment of leases, IAS 17, and the interpretations IFRIC 4, SIC-15 and SIC-27 as of 1 January 2019. The main new rules relate to the accounting treatment by the lessor, who will be required to recognise all leases in the balance sheet in the future, including any operating leases, which the lessor was previously not required to disclose in the balance sheet. The impact of the new standard is being analysed.

We do not expect the remaining amended standards to be applied in the future to have any significant effects on the consolidated financial statements.

6 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 187 (previous year: 197) controlled companies, of which 42 (previous year: 44) are classified as structured entities within the meaning of IFRS 12.

	2017	2016
Total controlled companies	**321**	**335**
Consolidated companies	187	197
of which: structured entities according to IFRS 12	42	44
Non-consolidated companies	134	138
of which: structured entities according to IFRS 12	—	6
Joint ventures	**4**	**4**
of which: accounted for using the equity method	—	—
Associated companies	**7**	**10**
of which: accounted for using the equity method	5	6

At year-end 2017, we had a total of 140 (previous year: 146) controlled and associated companies, and joint ventures in HVB Group that were neither fully consolidated nor fully accounted for using the equity method as they are not of material importance to the Group.

The structured entities include four borrowers (previous year: 16) over which HVB gained control during the course of restructuring or resolution. The borrowers are classified as structured entities within the meaning of IFRS 12 as, on account of their financial difficulties, they are controlled by their credit relationship with HVB and no longer by voting rights. Not all of the borrowers are disclosed in the Note "List of holdings", for data protection reasons. Four (previous year: ten) of these borrowers have been consolidated; no (previous year: six) borrowers have not been consolidated for materiality reasons.

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 minor non-consolidated companies makes up 0.48% (previous year: 1.34%) of the consolidated profit of HVB Group, while such companies provide around 0.33% (previous year: 0.14%) of consolidated assets. Our interests in these companies are carried as available-for-sale financial assets and loans extended under loans and receivables with customers.

Controlled companies
The group of companies included in consolidation has been defined taking into account materiality criteria. In addition, smaller companies that are below the materiality thresholds have also been consolidated on account of the rules defined by the banking supervisory authorities that regulate UniCredit. The fully consolidated companies prepared their annual financial statements for the period ending 31 December 2017.

42 (previous year: 44) fully consolidated controlled entities are classified as structured entities pursuant to IFRS 12. Please refer to the Note "Disclosures regarding structured entities" for more information on structured entities.

There were significant restrictions on the ability of HVB Group to access assets of the controlled companies as follows:
– Subsidiaries classified as credit institutions or financial services institutions for supervisory purposes are subject to the provisions of the German Banking Act, the CRR and MaRisk/ICAAP regarding their capital base. The capital to be maintained under these provisions limits the ability of HVB Group to adopt resolutions regarding dividend distributions.
– Fully consolidated structured entities are not generally included in the consolidated financial statements on account of HVB Group's position as a shareholder. Accordingly, HVB Group has no ability to decide on dividend distributions and is bound by the contractual arrangements (such as lending agreements or derivative contracts).

The non-controlling interests at 31 December 2017 have no significant effects on the consolidated financial statements of HVB Group either individually or in aggregate. At 31 December 2017 third parties hold non-controlling interests in 58 (previous year: 61) fully consolidated companies. The non-controlling interests are shown separately in the consolidated balance sheet and generally participate in the profits and losses of the companies; their shareholders hold voting rights in the companies, but without breaking the controlling influence of HVB Group.

The following companies were newly added to the group of companies included in consolidation at HVB Group in 2017:
Elektra Purchase No. 32 S.A. – Compartment 2, Luxembourg
Elektra Purchase No. 44 DAC, Dublin
Elektra Purchase No. 54 DAC, Dublin
Elektra Purchase No. 55 DAC, Dublin
Elektra Purchase No. 57 DAC, Dublin
Elektra Purchase No. 58 DAC, Dublin
Elektra Purchase No. 718 DAC, Dublin
H.F.S. Leasingfonds GmbH, Ebersberg
WealthCap Immobilienfonds Deutschland 36 Komplementär GmbH, Grünwald
WealthCap Immobilienfonds Deutschland 38 Komplementär GmbH, Grünwald
WealthCap Objekt-Vorrat 21 GmbH & Co. KG, Munich

Accounting and Valuation (Continued)

The structured entities (Elektra Purchase No. 32 S.A. – Compartment 2, Luxembourg, Elektra Purchase No. 44 DAC, Dublin, Elektra Purchase No. 54 DAC, Dublin, Elektra Purchase No. 55 DAC, Dublin, Elektra Purchase No. 57 DAC, Dublin, Elektra Purchase No. 58 DAC, Dublin, Elektra Purchase No. 718 DAC, Dublin) are new entities that have entered into their assets (receivables) and liabilities (notes issued) at normal market terms and conditions. Thus, the carrying amounts correspond to the fair values upon addition or at the date of initial consolidation, meaning that it is not necessary to carry out a remeasurement in line with the application of IFRS 3.

The following companies left the group of companies included in consolidation of HVB Group in 2017 due to merger, sale, or imminent or completed liquidation:
- BaLea Soft GmbH & Co. KG, Hamburg
- BaLea Soft Verwaltungsgesellschaft mbH, Hamburg
- Bankhaus Neelmeyer AG, Bremen
- Bulkmax Holding Ltd., Valletta
- Elektra Purchase No. 17 S.A. – Compartment 2, Luxembourg
- Grand Central Funding Corporation, New York
- HVB Asset Management Holding GmbH, Munich
- HVB Life Science GmbH & Co. Beteiligungs-KG, Munich
- HVB Verwa 1 GmbH, Munich
- HypoVereinsFinance N.V., Amsterdam
- Newstone Mortgage Securities No. 1 Plc., London
- OSI Off-shore Service Invest GmbH, Hamburg
- OWS Natalia Bekker GmbH & Co. KG, Emden
- OWS Logistik GmbH, Emden
- OWS Ocean Zephyr GmbH & Co. KG, Emden
- OWS Off-shore Wind Solutions GmbH, Emden
- OWS Windlift 1 Charter GmbH & Co. KG, Emden
- Redstone Mortgages Limited, London
- Structured Lease GmbH, Hamburg
- Verba Verwaltungsgesellschaft mit beschränkter Haftung, Munich
- WealthCap Spezial-AIF 5 GmbH & Co. geschlossene Investment KG, Munich
- WMC Aircraft 27 Leasing Limited, Dublin

On account of the deconsolidation of the companies listed above, HVB Group realised a deconsolidation result in accordance with IFRS 10.25 of €8 million recognised in the item "Net other expenses/income" and minus €8 million in the item "Net income from investments" in the income statement.

Associated companies
No financial statements at 31 December 2017 were available for the associated companies listed below valued using the equity method when the consolidated financial statements were prepared. The following financial statements were used for valuation using the equity method:

– Adler Funding LLC, Dover	30 September 2017
– Comtrade Group B.V., Rotterdam	31 October 2017
– Nautilus Tankers Limited, Valletta	30 September 2017
– SwanCap Partners GmbH, Munich	30 September 2017

There were no significant events at these companies between the date when the above financial statements were prepared and 31 December 2017 that could have an impact on the assets, liabilities, financial position, and profit or loss.

The group of consolidated companies does not include any companies for which the proportionate consolidation method is applied.

7 Principles of consolidation

An enterprise (or economically separate entity) is fully consolidated when it is controlled by HVB Group. Control is deemed to exist when the following three criteria defined in IFRS 10 are met: HVB Group must have power over the relevant activities of the company and be exposed to variable income from the enterprise. In addition, HVB Group must be able to use its power to influence the variable earnings it obtains from the enterprise.

Control is independent of the type of financial relationship between parent company and subsidiary and does not require any participation in the enterprise's capital. Control may also be derived from contractual arrangements or legal provisions.

To assess whether an enterprise is controlled by HVB Group, a detailed analysis must be carried out of the business purpose, the relevant activities of the enterprise, the parties involved and the distribution of the variable income from the enterprise. The analysis includes an assessment of whether HVB Group is acting as the principal and has delegated power over the enterprise to a third party (agent). This may be the case when the decision-maker who has power over the enterprise does not pursue own economic interests out of the enterprise or these are insignificant and the decision-maker merely exercises delegated decision-making powers for HVB Group.

An enterprise is initially consolidated as soon as HVB Group gains control over the enterprise. During initial consolidation, the assets and liabilities of the enterprise measured are included at their fair values at the effective date. The uniform Group accounting and valuation policies are then applied. Expenses and income of the respective company are included in the consolidated income statement from the effective date of initial consolidation. Participating interests in a consolidated company held by third parties are carried under minority interests, provided the criteria for disclosure as shareholders' equity are met. Otherwise, they are recognised as debt.

Consolidation is performed by offsetting the purchase price of a subsidiary company against the value of the interest held in the completely remeasured shareholders' equity at the time of acquisition, provided the transactions involved are not internal to UniCredit. This amount represents the difference between the assets and liabilities of the acquired company measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the remeasured balance of assets and liabilities is recognised as goodwill under intangible assets in the balance sheet on a prorated basis. Goodwill on companies accounted for using the equity method is carried under shares in associates valued at equity and joint ventures valued at equity. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the business segments. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment at least once a year at cash-generating unit level. This involves comparing the carrying amount of the cash-generating unit with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell.

The most recent Strategic Plan approved by the Management Board normally covering a period of five years and created at segment level forms the basis for testing impairment. In this context, the earnings drivers are net trading income, net interest, fees and commissions, operating costs and the projected net write-downs of loans and provisions for guarantees and commitments. To allow the earnings components to be planned, the Strategic Plan includes an income budget as well as budgets for risk-weighted assets and loans and receivables with customers and deposits from customers. The budgets are based on forecasts by the UniCredit Economics department, with the forecasts for overall economic development (gross domestic product) and interest and inflation rates playing a crucial role. Furthermore, the Strategic Plan also reflects the experience gained by management from past events and an assessment of the underlying economic conditions.

Accounting and Valuation (Continued)

We have used the Strategic Plan as the basis for determining appropriate values in use for the CGUs to which goodwill is allocated. The values in use are determined using the discounted cash flow method. The figures for profit before tax from the segments' strategic plans are included as cash flows. The average cash flows in the Strategic Plan are assumed for the subsequent period. The segment-specific cost of capital rates used for discounting average 12.7% (previous year: 12.5%) for the Corporate & Investment Banking business segment and 12.4% (previous year: 12.2%) for the Commercial Banking business segment. No growth factor has been assumed for the perpetual annuity. These values in use are employed as recoverable amounts and exceed the carrying amount and goodwill of the CGU. It is not necessary to estimate the selling price unless the value in use is less than the carrying amount.

IFRS 3 is not applicable to combinations of businesses under common control (IFRS 3.2 (c)). IAS 8.10 requires an appropriate accounting and valuation method to be developed accordingly for such cases. Given that HVB Group is part of UniCredit, the carrying amounts of the parent company are retained for business combinations within UniCredit. Any difference between the purchase price paid and the net carrying amount of the company acquired is recognised in equity under reserves.

Compliant with IAS 28, shares in associates are accounted for using the equity method or the capital share method and disclosed in the balance sheet accordingly. HVB is able to exercise significant influence over associates without being able to control them. Significant influence is assumed when a company holds more than 20% but less than 50% of the voting rights in an associate. This assumption of association can be refuted where a qualitative analysis demonstrates that significant influence over the financial and strategic decisions of the associate is not possible. Shares in associates are recognised at cost upon initial inclusion in the consolidated financial statements. For the purposes of subsequent measurement, the carrying amount increases or decreases in accordance with the share of HVB in the profit or loss of the associate. This share of the associate's profit or loss attributable to HVB is measured on the basis of the fair values of the associate's assets, liabilities and contingent liabilities when the shares were acquired. The accounting and valuation principles of HVB Group are applied for subsequent measurement.

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

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

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

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

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

Financial assets and liabilities are initially recognised from the date on which the corporate group becomes a contractual party to the financial instrument in question. HVB Group normally recognises customary market purchases and sales of financial assets (known as regular way contracts) at the settlement date. Derivatives are recognised at the trading date.

The regulations set forth in IAS 39 regarding reclassifications have been observed. The reclassifications carried out in 2008 and 2009 are disclosed in the Note "Reclassification of financial instruments pursuant to IAS 39.50 et seq. and IFRS 7".

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

– Financial assets and liabilities held for trading

  Financial assets and liabilities classified as held for trading at the time of initial recognition are financial instruments acquired or incurred for the purpose of short-term profit-taking as a result of changes in market prices or of realising a profit margin. This category also includes all derivatives (apart from hedging derivatives) which qualify for hedge accounting. Financial assets and liabilities held for trading purposes are shown under financial assets and liabilities held for trading.

  In accordance with the provisions of IAS 32 (IAS 32.42 in conjunction with IAS 32.48), the positive and negative fair values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty (CCP).

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

  We only use the fair value option for certain financial assets designated as at fair value through profit or loss upon initial recognition. In this context, for most of the actual cases, we have exercised the designation option of the accounting mismatch by means of which valuation or profit-recognition inconsistencies are avoided or considerably reduced in economic hedges for which hedge accounting is not applied. Only for a specific, smaller portfolio is the designation based on fair value-based risk management or structured products that must be separated.

Financial assets and liabilities at fair value through profit or loss are disclosed upon initial recognition at their fair value without any transaction costs.

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

Accounting and Valuation (Continued)

Loans and receivables
The category "loans and receivables" includes non-derivative financial assets – both originated by us and acquired – with fixed or determinable payments that are not quoted in an active market unless they are classified as at fair value through profit or loss or available for sale. Loans and receivables are measured at amortised cost and capitalised under loans and receivables with banks and loans and receivables with customers. Premiums and discounts are taken to the income statement under net interest over the term of the underlying items. This is done using the effective interest method. Loans and receivables are disclosed upon initial recognition at their fair value including any transaction costs.

Held-to-maturity investments
Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss or available for sale. We take a very restrictive approach when assessing whether the intention to hold to maturity exists and premature resale can be excluded. This means that investments are only classified as held-to-maturity in exceptional cases. When classifying financial instruments as held-to-maturity investments, we ensure that it is possible to hold the instruments to maturity taking liquidity considerations into account. Held-to-maturity investments are disclosed upon initial recognition at their fair value including any transaction costs and thereafter measured at amortised cost, with premiums and discounts taken to the income statement under net interest over the term of the underlying items. This is done using the effective interest method.

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

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

– Equity instruments for which there is no quoted market price in an active market and whose fair value cannot be reliably determined are measured at cost. Besides shares in unlisted companies, this primarily concerns investments in private equity funds, which we measure at cost. It is not possible to reliably determine a fair value for these equity instruments since there is no active market in these instruments and, especially with regard to investments in private equity funds, the Bank as shareholder with a small holding does not have enough influence to obtain the necessary data promptly for a model-based determination of fair value. Consequently, they are not included in the AfS reserve.

With the exception of the effect on results arising from the translation of monetary available-for-sale financial assets denominated in foreign currency, gains or losses on available-for-sale financial assets are recognised in net income from investments in the income statement (see the Note "Net income from investments").

Determination of fair value
We can normally reliably determine the fair value of financial instruments measured at fair value. Certain equity instruments classified as available-for-sale represent an exception to this rule; these are measured at cost as described above. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (no forced liquidation or distress sale) between market participants at the measurement date. Thus, the fair value based on a notional transfer corresponds to a selling or, in the case of a liability, the transfer price (exit price).

The fair value is determined using the same three-level fair value hierarchy under IFRS 13 as is applicable for the disclosures regarding the fair value hierarchy (Note "Fair value hierarchy"):

- Level 1: Financial instruments measured using (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Assets or liabilities for which no price can be observed on an active market and whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) valuation parameters
- Level 3: Assets or liabilities for which the fair value cannot be measured exclusively on the basis of observable market data; but also on valuation parameters based on model assumptions (non-observable valuation parameters)

Suitable adjustments are applied to the fair value determined in this way in order to reflect further factors affecting the fair value (such as the liquidity of the financial instrument or model risks when the fair value is determined using a valuation model). When determining these valuation adjustments, we have exercised the option permitted by IFRS 13 under certain circumstances to determine fair value on a portfolio basis for certain OTC derivative portfolios.

The risk of a counterparty defaulting on derivatives is covered by credit valuation adjustments (CVAs). Funding valuation adjustments (FVAs) are also set up for derivatives that are not fully covered by relevant collateral.

The own credit spread is also included in the underlying valuation parameters for liabilities held for sale.

Further disclosures regarding fair values and the fair value hierarchy are given in the Note "Fair value hierarchy", and the Note "Fair values of financial instruments compliant with IFRS 7".

Financial guarantees

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

Viewed overall, the fair value of a financial guarantee is zero when the contract is concluded because the value of the premium received will normally match the value of the guarantee obligation in standard market contracts. The guarantee premium is recognised on a pro-rata basis. The existence of an impairment is checked during the subsequent measurement.

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

Embedded derivatives

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

Hedge accounting

Hedges between financial instruments are recognised almost exclusively in accordance with the forms of the fair value hedge described in IAS 39. In 2008 and 2009, HVB Group changed the previously applied macro cash flow hedge accounting to the fair value hedge similarly permitted by IAS 39 for interest rate risk at portfolio level in large areas of asset/liability interest rate risk management. This is described additionally below alongside the principles covering general fair value hedges. In the 2017 financial year, we set up a micro cash flow hedge for future transactions for a special hedge.

Accounting and Valuation (Continued)

A micro fair value hedge is generally 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% to 125%. In fair value hedge accounting, we use interest rate and credit derivatives to hedge changes in the fair value of recognised assets and liabilities. Under this method, the hedging instrument is measured at fair value through profit or loss. The carrying amounts of the hedged item are adjusted by the valuation results relating to the hedged risk in a way that affects the income statement.

At our Bank, we designated micro fair value hedges for interest rate risks. For purchases effected in the available-for-sale holdings of fixed-interest, European government bonds, the interest rate risk of which was hedged individually and completely with interest rate swaps, we set up a separate micro fair value hedge for each transaction.

We apply the fair value hedge accounting for a portfolio hedge of interest rate risk for the accounting treatment of interest rate risk in asset/liability interest rate risk management. Recognising a fair value hedge for a portfolio of interest-bearing financial assets and liabilities using interest rate derivatives makes it possible to largely reflect the standard bank risk management procedures for the hedging of fixed interest rate risks in the accounts.

Under this accounting treatment of hedges across several items, the changes in the value of the hedged amount of the hedged items attributable to the hedged risk are carried altogether as a separate asset or liability item and not as an adjustment to the carrying amount of individual items as is the case with micro hedges. The hedge adjustments have been recognised on a gross basis in the balance sheet in areas for which asset and liability holdings can be hedged separately. The hedged amount of the hedged items is determined as part of interest rate risk management and cannot be directly allocated to individual assets or liabilities. Where the hedge conditions are met, the offsetting changes in value of the hedged amount of the hedged items and the hedging instruments (interest derivatives) are recognised directly in profit and loss. Hedge inefficiencies arising within the necessary hedge efficiency thresholds of 80% to 125% are recognised as profit or loss in net hedging income.

Furthermore, for economic reasons cross-currency interest rate swaps (CCIRS) have been used in the refinancing of loans denominated in foreign currency. The CCIRS exchange longer dated fixed-interest positions denominated in euros for variable-yield positions denominated in foreign currency. This serves to hedge the hedged item against interest rate risk as part of the fair value hedge portfolio accordingly.

The cash flow hedge reserve existing at the changeover date and the offsetting clean fair values (fair values excluding the related accrued interest) of the existing cash flow hedge derivatives are amortised over the remaining term in net interest. This means that the amortisation of the cash flow hedge reserve existing at the changeover date will have no overall impact on profit or loss in the future until they are fully amortised. The changes in value of the same hedged items and hedging derivatives, together with all new contracts arising after the changeover date, are treated in accordance with the new fair value hedge portfolio model.

Generally, a cash flow hedge is employed to hedge the risk arising from volatile cash flows resulting from a recognised asset, recognised liability or planned transaction to be taken to the income statement. For example, derivatives are deployed in cash flow hedge accounting to hedge future streams of interest payments. In this context, payments arising from variable-interest assets and liabilities are swapped for fixed payments primarily using interest rate swaps. Hedging instruments are measured at fair value. The valuation result is divided into an effective and an ineffective portion. The effective portion of the hedging instruments is recognised in a separate item within shareholders' equity (hedge reserve) without affecting reported profit or loss. The ineffective portion of the hedging derivatives is recognised directly in profit and loss. The hedged item is recognised at amortised cost.

In March 2017, hedging the planned borrowing was reported in advance through a forward interest rate swap in the form of a micro cash flow hedge for future transactions at our subsidiary UniCredit Luxembourg S.A. within the framework of our participation in the TLTRO II of the European Central Bank (ECB). Upon receiving the borrowed funds from the ECB at the end of March 2017, this hedge was terminated. The cash flow hedge reserve existing on termination of the hedge and the offsetting equally high initial fair value of the interest rate swap are reversed periodically over the term of the hedged borrowing in the income statement. The borrowing effected at the end of March 2017 and the interest rate swap were included in the general portfolio fair value hedge for interest rate risks.

9 Financial assets held for trading

This item includes securities held for trading purposes and positive fair values of traded derivatives. All other derivatives not classified as hedging derivatives (which are shown separately in the balance sheet) are similarly considered held for trading. Provided they are held for trading purposes, promissory notes, registered bonds and treasury bills are carried as other financial assets held for trading.

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

With interest rate swaps, the two offsetting streams of interest payments are aggregated for each swap contract and reported in net terms as interest income or interest expense. In the case of pure derivatives trading portfolios, we report the netted interest payments under net trading income.

10 Financial assets at fair value through profit or loss

In most cases, HVB Group applies the fair value option for financial assets with economic hedges for which hedge accounting is not applied. The designation removes or significantly reduces valuation or profit-recognition incongruences resulting from an accounting mismatch. The portfolio mostly comprises interest-bearing securities not held for trading that are hedged against interest rate risks by means of interest rate swaps. In the case of promissory note receivables similarly included here, there is no material fair value change in terms of the credit risk on account of the top rating of the issuers. Changes in fair value of the hedged items and the associated derivatives are shown separately in net trading income; current interest income/expenses are recognised in net interest. Given a fundamental intention to hold to maturity, the new investments were made primarily with a view to being able to sell the holdings again quickly if necessary (liquidity reserve). Alongside an accounting mismatch as the main grounds for designation, the designation for a specific, smaller portfolio is based on fair value-based risk management or structured products that must be separated.

11 Available-for-sale financial assets

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

Interest-bearing securities are accrued in accordance with the effective interest method. Should the estimated cash inflows and outflows underlying the calculation of the effective interest change, the effects are recognised in the income statement as net interest compliant with IAS 39 AG 8.

Provided they are not significant, both shares in non-consolidated subsidiaries and joint ventures and associates accounted for using the equity method are subsumed in available-for-sale financial assets. Listed companies are always carried at fair value. Where the fair value cannot be determined reliably for non-listed companies, they are valued at cost.

12 Shares in associates accounted for using the equity method and joint ventures accounted for using the equity method

Investments in joint ventures and associated companies are accounted for using the equity method.

13 Held-to-maturity investments

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

14 Loans and receivables

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

Accounting and Valuation (Continued)

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

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

Objective evidence of impairment refers to events that normally lead to an actual impairment. In the case of debt instruments, these are events that could result in the borrower not being able to settle his obligations in full or at the agreed date. In the case of equity instruments, significant or prolonged lower fair values compared with the initial costs represent objective evidence of impairment. An equity instrument is considered impaired as soon as an impairment loss has been recognised.

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

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

In the case of loans and receivables, objective evidence of an impairment exists when a default has occurred in accordance with Article 178 of the Capital Requirement Regulation (CRR). This is the case when either a material liability of the borrower is at least 90 days overdue or HVB believes that the debtor is unable to meet the payment obligations in full without steps to realise collateral being undertaken. In this context, an event of default notably includes the period of 90 days in arrears, an application for or opening of insolvency proceedings, the expectation of liquidity problems as a result of the credit-monitoring process or the need for restructuring or collateral realisation steps such as terminating loans, putting loans on a non-accrual basis or enforcing realisation of collateral by HVB.

The assessment of the borrower’s creditworthiness using internal rating processes is applicable. This assessment is reviewed periodically and when negative events occur. When the borrower is 90 days in arrears this is considered objective evidence of an impairment, similarly leading promptly to a review of the borrower’s individual rating on account of the occurrence of a negative event with regard to the borrower. Based on internal procedures, the classification of the borrower is updated to “in default” or “not in default”. As a result, the borrower’s credit rating is always assessed with regard to his ability to meet outstanding liabilities.

The credit rating of the borrower and his ability to meet outstanding payment obligations is normally assessed irrespective of whether the borrower is already in arrears with payments or not.

Lending agreements can be modified to ease the burden on borrowers in poor financial situations and improve the probability of the loans being serviced (forbearance). It should be noted, however, that not every modification of a lending agreement is due to difficulties of the borrower and represents forbearance. Different strategies may be used to ease the burden on the borrower. Possible measures include deferrals and temporary moratoriums, longer periods allowed for repayment, reduced interest rates and rescheduling, and even debt forgiveness.

Exposures that are modified or refinanced to ease the burden on borrowers in financial difficulties (forbearance) are subject to the same risk-provisioning processes as other loans. A possible deferral agreement aimed at avoiding arrears does not automatically lead to the Bank not recognising impairments. Where repayments are deferred or terms adjusted (with longer periods allowed for repayment deferred or covenant clauses waived) as a result of a deterioration in credit quality, and there is objective evidence of an impairment with regard to the restructured payments, this is considered a separate impairment trigger for testing whether an impairment needs to be recognised. The simple deferral of payment obligations does not always have an influence on the borrower’s financial position and his ability to meet outstanding liabilities in full. Should a borrower not be in a position to meet all outstanding liabilities, a deferral of the liabilities does not alter the overall situation. A deferral neither reduces the amount of the payment obligations nor does it influence the amount of payments received by the borrower.

Where the Bank waives payments by the borrower (such as waived fees, reduction of contractual interest rates, etc.) as a result of a deterioration in credit quality, such a waiver represents objective evidence of the borrower defaulting. The write-off of such payments accruing to the Bank caused by an issued waiver is recognised in the income statement as an impairment, provided an allowance had not already been set up for this in the past or recognition was waived on account of the borrower defaulting (such as putting a loan on an internal non-accrual basis).

Please refer to the Note "Forbearance" for more information about the forbearance portfolio of the HVB Group.

An impairment is the difference between the carrying amount and the present value of the anticipated future cash flows. The future cash flows are determined taking into account past events (objective evidence). The anticipated future cash flows may comprise the repayments and/or interest payments still expected and the income from the realisation of collateral. A specific loan-loss provision is recognised for the impairment determined in this way.

If a receivable is considered uncollectible, the amount concerned is written down, which leads to the receivable being written off.

The same method is applied for held-to-maturity investments.

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

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

Specific loan-loss allowances are also determined on a collective basis for individual cases where the amounts involved are not significant. The classification as impaired is also based primarily on the individual rating of the borrower in these cases. These allowances are recognised and disclosed within specific loan-loss allowances at HVB Group. Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made individually to cover all identifiable default risks arising from lending operations (loans, receivables, financial guarantees and credit commitments), with the amount of the expense being estimated. Both changes in the anticipated future cash flows and the time effect arising from a shortening of the discounting period are taken into account in the subsequent measurement. Specific loan-loss allowances are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified as uncollectible and written off. Where a specific loan-loss allowance is reversed because the reason for its formation no longer exists, the borrower concerned is classified as recovered, meaning that the classification as "in default" is reversed. The amount is written off if the receivable in question is due, any available collateral has been realised and further attempts to collect the receivable have failed. Acute country-specific transfer risks are included in this process.

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

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

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

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

Accounting and Valuation (Continued)

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

In the case of equity instruments carried at fair value, an impairment exists if the current fair value is significantly below the initial cost or if the fair value has remained below the initial cost for a prolonged period of time. When impairment is first identified, the difference between the current fair value and initial cost is recognised as profit or loss in the income statement. Upon subsequent measurement, a further impairment loss is only taken to the income statement if the current fair value is below the initial cost less any impairment losses already recognised (amortised cost). If the fair value rises in the future, the difference between a higher fair value and the amortised cost is recognised in the AfS reserve under shareholders' equity.

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

16 Property, plant and equipment

Property, plant and equipment is valued at acquisition or production cost less depreciation – insofar as the assets are depreciable – using the straight-line method based on the assets' useful lives. For the wind farm, the residual carrying amount is distributed over the expected residual useful life based on the prorated consumption of value of the economic benefit potential. 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	25–60 years
Fixtures in buildings not owned	10–25 years
Plant and office equipment	3–25 years
Other property, plant and equipment	
Wind farm	28 years
Other property, plant and equipment	10–20 years

The estimated useful lives of property, plant and equipment are reviewed once a year and adjusted as appropriate should the expectations differ from earlier estimates.

Impairments are taken in accordance with IAS 36 on property, plant and equipment whose value is impaired. An asset is considered impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is normally determined on the basis of the value in use. 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.

Depreciation, impairments and write-ups on items of property, plant and equipment are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

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.

Government grants for items of property, plant and equipment (IAS 20.24) are deducted from the acquisition or production cost of the underlying assets on the assets side of the balance sheet.

17 Lease operations

Under IAS 17, a lease is an agreement under which the lessor transfers the right to use an asset to the lessee for an agreed period against payment.

Lease agreements are divided into finance leases and operating leases. A lease is classified as an operating lease if the lessor retains substantially all the risks and rewards incident to ownership of the asset. By contrast, a finance lease transfers substantially all the risks and rewards incident to ownership of the asset to the lessee. Title may or may not eventually be transferred.

HVB Group nevertheless treats agreements concluded without the legal form of a lease as leases provided compliance with the agreement depends on the use of a given asset and the agreement transfers a right to use the asset.

HVB Group leases both movable assets and real estate.

HVB Group as lessor

– Operating leases
  The assets leased to the lessee under an operating lease are considered held by the lessor, who should continue to account for them. The leased assets are carried under property, plant and equipment, investment properties or intangible assets in the consolidated balance sheet and valued in accordance with the relevant methods. The lease proceeds are recognised on a straight-line basis over the lease term and disclosed under other operating income.
– Finance leases
  Where assets are transferred under a finance lease, the lessor is required to derecognise the leased asset in its balance sheet and recognise a receivable from the lessee. The receivable is carried at the amount of the net investment in the lease when the lease agreement was concluded. The lease payments received are divided into a finance charge recognised in the income statement and a redemption payment. The interest income is recognised over the period of the lease in such a way that it essentially reflects a constant periodic return on the net investment in the lease; the redemption payment represents a repayment of the principal that reduces the amount of the receivable outstanding.

Accounting and Valuation (Continued)

HVB Group as lessee

– Operating leases
  The lease payments made by the lessee under operating leases are recognised as expense on a straight-line basis over the lease term and carried under other operating expenses or operating costs to the extent that they represent lease expenses. The lease term commences as soon as the lessee controls the physical use of the leased asset. The lessee does not capitalise the leased assets involved.
– Finance leases
  In the case of finance leases, the lessee recognises the leased assets under property, plant and equipment, investment properties or intangible assets in the balance sheet as well as a liability on the liabilities side. The asset and the corresponding liability are each initially recognised at the fair value of the leased asset at the inception of the lease or, if lower, the present value of the minimum lease payments. The internal rate of return underlying the lease is used to calculate the present value of the minimum lease payments. The lease payments under finance leases are divided into a finance charge and redemption payment. The redemption payment reduces the outstanding liability while the finance charge is treated as interest expense.

Conditional lease payments made under operating and finance leases are normally recognised as income by the lessor and expense by the lessee in the period in which they accrue. None of HVB Group's current lease agreements contain any conditional lease payments.

Please refer to the Note "Information regarding lease operations" for more information.

18 Investment properties

Compliant with IAS 40.30 in conjunction with IAS 40.56, land and buildings held by us as investments with a view to generating rental income and/or capital gains are carried at amortised cost and written down on a straight-line basis over a useful economic life of 25 to 60 years.

Where investment properties additionally suffer an impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Current expenses and rental income from investment properties are disclosed in net other expenses/income. Scheduled depreciation on such investments carried at amortised cost is included in operating costs, whereas impairments and write-ups are recognised in net income from investments.

In some cases, it may prove difficult to classify a property as an investment property rather than property, plant and equipment. Classification is especially difficult if part of the property is held by the Group as an investment while another part is used for the Bank's own purposes as an administration building, and the parts of the property cannot be sold separately or leased out under a finance lease, making it impossible to account for the two parts separately. In such cases, HVB Group classifies a mixed usage property in full as an investment property if more than 90% of the property is leased to an external third party and the part of the property used by the Bank is insignificant. The whole property is classified as property, plant and equipment if the part of the property leased externally totals 90% or less.

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

Goodwill has an indefinite useful life. Consequently, it is only tested for impairment compliant with IAS 36 and not amortised (impairment only approach). The value of goodwill is tested annually and where there is an indication of impairment. Impairments are taken where necessary. It is not permitted to write up in subsequent periods any impairment losses recognised on goodwill.

Software has a limited useful life and is valued at amortised cost. Amortisation is taken over an expected useful life of three to five years. Other intangible assets are also recognised at amortised acquisition or production cost less cumulative amortisation, as they have a limited useful life. Amortisation is taken on a straight-line basis over an expected useful life of up to ten years.

Where intangible assets additionally suffer impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Impairment losses on goodwill are shown in a separate item in the income statement.

Amortisation, impairments and write-ups on software and other intangible assets are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

20 Non-current assets or disposal groups held for sale
Under IFRS 5, non-current assets or disposal groups held for sale which are expected to be sold within one year are to be recognised as non-current assets or disposal groups held for sale. Upon reclassification, these are carried at the lower of the carrying amount or fair value less costs to sell at the reporting date. Upon subsequent measurement following reclassification, the non-current assets or disposal groups held for sale are, if necessary, written down to a lower fair value less costs to sell if this has fallen at subsequent reporting dates. Should the fair value increase, the total may be written up to an amount that is no more than the cumulative impairment loss.

21 Liabilities
Deposits from banks and customers, and debt securities in issue that are not hedged items of an effective micro fair value hedge are reported at amortised cost. Upon initial recognition, they are disclosed at their fair value including any transaction costs.

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

Financial liabilities held for trading are carried at fair value. Gains and lossess arising from the valuation and realisation of financial liabilities held for trading are taken to the income statement as net trading income. We act as market maker for the structured products we issue.

With interest rate swaps, the two offsetting streams of interest payments are aggregated for each swap contract and reported in net terms as interest income or interest expense. In the case of pure derivatives trading portfolios, we report the netted interest payments under net trading income.

Accounting and Valuation (Continued)

23 Hedge adjustment of hedged items in the fair value hedge portfolio
Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see the Note "Hedge adjustment of hedged items in the fair value hedge portfolio"). The hedge adjustments have been recognised separately in the balance sheet (for hedged lending and deposit-taking activities) in several areas in which asset and liability holdings can be hedged separately.

24 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 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.

25 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 onerous transactions, we use the best estimate compliant with IAS 37.36 et seq. Long-term provisions are discounted.

In accordance with IAS 19, provisions for pensions and similar obligations arising from defined benefit plans are recorded on the basis of external actuarial reports by applying the projected unit credit method, with each pension plan being valued separately. This accrued benefit method pro-rated on service takes into account dynamic considerations when determining the expected pension benefits upon retirement and distributes these over the beneficiaries' entire period of employment. This means that the measurement of the defined benefit obligation is based on an actuarially calculated present value of the future benefit entitlement for services already rendered (vested benefit entitlements), taking into account the expected compensation increases including career trends and forecast pension progression. The actuarial assumptions to be defined when measuring the benefit obligation vary in line with the economic and other underlying conditions in the country in which the plans exist.

The underlying valuation assumptions may differ from the actual developments as a result of changing market, economic and social conditions. The actuarial gains or losses resulting from the change to the valuation parameters may have a significant impact on the amount of the obligations for pensions and similar post-employment benefits.

The discount rate used to discount the defined benefit obligations (actuarial interest rate) is determined by reference to yields recorded on the market at the reporting date for high quality, fixed-rate corporate bonds and with maturities and currencies that match the obligations to be measured. A basket of AA-rated corporate bonds denominated in euros serves as the data basis for determining the discount rate for the obligations. These individual bond data are translated into a yield curve which forms the basis for determining the discount rate by using a numerical compensation technique.

Funded pension obligations differ from unfunded pension obligations in that plan assets are allocated to cover the entitlements of the beneficiaries. The beneficiaries include active employees, former employees with vested benefit entitlements, and pensioners and their surviving dependants. Both HVB and a number of subsidiaries have set up plan assets in external, restricted-access pension organisations to fund their pension obligations.

If the beneficiaries' benefit entitlements or the Group's benefit obligations are not funded by assets, HVB Group recognises a pension provision in the amount of the present value of the defined benefit obligation (DBO) in its consolidated balance sheet.

In the case of funded pension obligations, by contrast, the present value of the defined benefit obligation is set against the fair value of the plan assets to determine the net defined benefit liability or net defined benefit asset from the defined benefit plans. The net amount is recognised in the consolidated balance sheet as a pension provision in the event of an excess of liabilities over assets or under other assets in the event of an excess of assets over liabilities adjusted for any effects of the asset ceiling. In the event of excess allocations to the plan, the amount of the net defined benefit asset recognised in the balance sheet is limited to the present value of the economic benefits associated with the surplus plan assets.

In the case of defined benefit obligations, actuarial gains and losses are recognised immediately and in full in other comprehensive income (OCI) in the period in which they accrue. Consequently, the pension provision or other asset recognised in the consolidated balance sheet corresponds to the actual deficit or surplus for a given commitment.

Under the net interest approach, the net interest to be recognised in profit or loss for the period is calculated by multiplying the net defined benefit liability (asset) from defined benefit plans by the discount rate underlying the measurement of the defined benefit obligation. Since any plan assets are deduced from the net defined benefit liability (asset), this calculation method implicitly assumes the return on plan assets in the amount of the discount rate.

If the present value of a defined benefit obligation changes as a result of a plan amendment or plan curtailment, the Group recognises the ensuing effects in full as past service cost in the profit or loss for the period. The amount is normally recognised at the date when the plan amendment or plan curtailment occurs. The gains and losses when a plan is settled are also recognised directly in profit or loss when the settlement occurs.

Accounting and Valuation (Continued)

The net pension expense of defined benefit obligations consists of a service cost component, a net interest component and a remeasurement component. This is recognised in the consolidated income statement and consolidated statement of total comprehensive income as follows:

The service cost component consists of the current and past service cost including the gains and losses on plan settlements. The net interest component comprises the interest expense on the defined benefit obligation, the interest income on plan assets and, in the event of excess allocations to the plan, the interest on any effects arising from the adjustment of the asset surplus to reflect the asset ceiling. The service cost and net interest components are taken to the consolidated income statement in profit or loss for the period. HVB Group also recognises the net interest component under pension and other employee benefit costs in payroll costs alongside the service cost component.

The remeasurement component encompasses the actuarial gains and losses arising from the valuation of the defined benefit obligation, the difference between the typical return on plan assets assumed at the beginning of the period in the amount of the discount rate and the actual return realised on plan assets and, in the event of excess allocations to the plan, any adjustment of the asset surplus to reflect the asset ceiling, excluding the amounts already recognised in net interest. This component is recognised immediately in shareholders’ equity without affecting profit or loss. The remeasurements recognised in other comprehensive income in the consolidated statement of total comprehensive income may not be reclassified in later periods in profit or loss (no recycling).

The disclosure requirements for defined benefit plans contain a principles-based disclosure concept requiring companies to make judgements regarding the necessary level of detail or any emphases in the disclosures pertaining to defined benefit plans. The reporting is intended to meet the information needs of the users of the financial statements and give them a wide-ranging understanding of the risk structure and risk management of the pension plans (pension governance).

In contrast to defined benefit plans, no provisions for pensions and similar obligations are recognised for defined contribution plans. The amounts paid are recognised in the period of the payment taken to the income statement under payroll costs.

The provisions for pensions and similar obligations are described in detail in the Note “Provisions”.

In accordance with IAS 19, the provisions for partial retirement and similar benefits recognised under other provisions are measured on the basis of external actuarial reports.

The top-up amounts promised under partial-retirement agreements are accounted for as other long-term employee benefits and the associated expenses accrued over their vesting period. HVB Group applies the first-in first-out (FiFo) method for the straight-line accrual of top-up benefits. The benefits are discounted to determine their present value. Remeasurements are recognised in profit or loss in the period in which they arise.

The other long-term employee benefits also include the deferred employee compensation under the Group's bonus programmes, if not expected to be settled wholly before twelve months after the end of the reporting period. The Group has a net liability in the amount of the future benefits to which the employees are entitled in exchange for the work performed in the current period and earlier periods. HVB Group recognises a bonus provision in the amount of the present value of these benefits in its consolidated balance sheet, with allocations made to the promised bonus amounts over the respective vesting period on a pro rata basis. Remeasurements of the net liability are recognised directly in profit or loss for the period.

The employee compensation schemes are described in detail in the Note "Operating costs".

26 Foreign currency translation

The consolidated financial statements are prepared in euros, which is the reporting currency of the corporate group. Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for monetary items not denominated in the respective functional currency (generally the local currency in each case) and cash transactions not completed at the valuation date to be translated into euros at the reporting date using current market rates. In the case of monetary assets available for sale, the effect arising from foreign currency translation is recognised as net currency income in net trading income. In other words, the monetary assets available for sale are treated in the same way as if they were recognised at amortised cost in the foreign currency. Non-monetary items carried at fair value are similarly translated into euros using current market prices at the valuation date. Non-monetary items carried at cost are translated using the historic rate applicable at the time of acquisition.

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

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

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

27 Income tax for the period

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

Since the concept is based on the approach of future tax assets and liabilities under the liability method, the assets and liabilities are computed using the relevant local tax rates that are expected to apply when the differences are reversed. Deferred tax assets and liabilities are offset provided the offsetting requirements defined in IAS 12 are met.

Segment Reporting

28 Method and components of segment reporting by business segment

Method of segment reporting by business segment

In segment reporting, the activities of HVB Group are divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking (CIB)
– Other/consolidation

Segment reporting is based on the internal organisational and management structure together with internal financial reporting. In accordance with IFRS 8 "Operating Segments", segment reporting thus follows the Management Approach, which requires segment information to be presented externally in the same way as it is reported to the Management Board, as the responsible management body, and is used for the allocation of resources (such as risk-weighted assets compliant with Basel III) to the business segments and for assessing the profitability. In this context, the segment data are determined in accordance with International Financial Reporting Standards (IFRS).

In segment reporting, the business segments operate as autonomous companies with their own equity resources and responsibility for profits and losses. The business segments are delimited by responsibility for serving customers. For a description of the customer groups assigned to the individual business segments and the main components of the segments, please refer to the section entitled "Components of the business segments of HVB Group".

The income statement items of net fees and commissions, net trading profit and net other expenses/income shown in the segments are based almost exclusively on transactions involving external customers. Net interest is assigned to the business segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses. For this reason, a separate presentation broken down by external/internal revenues (operating income) has not been included.

The equity capital allocation used to calculate the return on investment on companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) is based on a uniform core capital allocation for each business segment. Pursuant to Basel III, this involves allocating 12.0% (previous year: 11.0%) of core capital from risk-weighted assets to the business segments. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest. The percentage used for the return on the equity capital allocated to the companies HVB and UniCredit Luxembourg S.A. equals the base rate plus a premium in the amount of the average spread curve for the medium and long-term lending business of HVB. This rate is set for one year in advance as part of each budgeting process. The percentage changed to 1.02% in 2017 after 1.45% in the previous financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

Operating costs, which contain payroll costs, other administrative expenses as well as amortisation, depreciation and impairment losses on tangible and other intangible assets (without goodwill), are allocated to the appropriate business segment according to causation. The Chief Operating Office and the Corporate Centre business units of the Other/consolidation business segment are treated as external service providers, charging the business segments for their services at a price which covers their costs. The method of calculating the costs of general banking services involves employing a weighted allocation key (costs, income, FTEs, base amount) in the budgeting process for each business segment to determine the assigned costs that cannot be allocated directly. The majority of the depreciation and impairment losses taken on property, plant and equipment are posted for the BARD Offshore 1 wind farm allocated to the Corporate & Investment Banking business segment and the real estate companies of HVB Group included in the Chief Operating Office business unit of the Other/consolidation business segment.

As part of a reorganisation, the first half of 2017 basically saw shifts in the net income between all business segments in the income statement, broken down by business segment. These shifts are mainly attributable to a recalculation of the return on investment. In the second half of the year, there were essentially only minor shifts in administrative expenses mainly due to a new allocation of units in the Corporate & Investment Banking and Other/consolidation business segments.

The previous-year figures affected by this reorganisation have been adjusted accordingly.

The profit of €1 million (previous year: loss of €1 million) from investments in associated companies relates to the following companies accounted for using the equity method: Adler Funding LLC, Dover, Comtrade Group B.V., Rotterdam, Nautilus Tankers Limited, Valetta, paydirekt Beteiligungsgesellschaft privater Banken mbH, Berlin and SwanCap Partners GmbH, Munich. All of these companies with the exception of paydirekt Beteiligungsgesellschaft privater Banken mbH are assigned to the CIB business segment. paydirekt Beteiligungsgesellschaft privater Banken mbH is assigned to the Commercial Banking business segment. The disclosure in profit and loss is made under dividends and other income from equity investments in the income statement. The carrying amount of the companies accounted for using the equity method is €34 million (previous year: €44 million).

Components of the segments of HVB Group

Commercial Banking business segment

The Commercial Banking business segment serves all customers in Germany with a need for standardised or personalised service and advice. In this context, its Private Clients Bank and Unternehmer Bank business units offer a wide range of banking services. Depending on the service approach, a needs-based distinction is made within Commercial Banking between retail customers, private banking clients, high net worth individuals/ultra high net worth individuals and family offices under Wealth Management, business and corporate customers, and commercial real estate customers. All in all, Commercial Banking serves around 2.5 million customers. In this context, the Commercial Banking business segment builds on a shared "HypoVereinsbank" brand and a largely identical sales network.

In line with the universal bank model, the range of products and services of Commercial Banking enables comprehensive customer support to be provided. This extends from payment services, consumer loans, mortgage loans, savings-and-loan and insurance products and banking services for retail customers through to business loans, foreign trade financing, and liquidity and financial risk management for corporate customers through to investment banking products for companies requiring capital-market access. For customers in the private banking and wealth management customer segments, we offer comprehensive financial and asset planning with needs-based advisory services provided by personal advisers and specialists. The wealth management approach includes not only customised portfolio concepts and financing solutions for high net worth private customers with an entrepreneurial background but also the brokerage of shareholdings.

The Private Clients Bank business unit serves retail customers in the Retail Banking business and the Private Banking business. In the retail banking business, we were the first bank in Germany to complete a root-and-branch modernisation of our retail banking activities. We will now continue along the successful path already taken towards modernising the retail customer business by consistently implementing digitalisation and positioning ourselves as a provider of quality services. Our aspiration is to be the best customer bank in Germany: in terms of quality, innovation and empathy. In this context, we set high standards for the quality of advice given and services provided involving a modern approach and an innovative multi-channel business model. Based on a 360-degree advisory approach, very high net worth clients are served by advisors and a network of highly qualified specialists.

The Unternehmer Bank business unit bundles the corporate banking business in Germany. In this respect, Unternehmer Bank is the second largest lender (of the major private banks) to the German Mittelstand and their first choice from among the banks (the "go-to" bank) for Mittelstand companies. The corporate banking business is the place where companies requiring complex advisory services on the Key Account relationship model find the right address for customised solutions, also in particular for large transaction volumes, capital market transactions and international issues.

Segment Reporting (Continued)

In the Mid & Small Cap relationship model for corporate and business customers, the product portfolio covers tailored financing offers, for example through the use of subsidies or leasing offers as well as solutions for the management of financial risks, in addition to the traditional bank services of payments and lending. Furthermore, the services provided for special target groups, such as insolvency administrators, healthcare professionals or public sector workers, are being continuously refined.

The distinguishing features of the Real Estate relationship model are individual solutions for commercial real estate customers, institutional investors, residential construction firms, property developers and building contractors. In this context, customers benefit particularly from specific financing expertise, for example in the Real Estate Structured Finance and Loan Syndication product areas.

The Commercial Banking business segment is run by two members of the Management Board who bear joint responsibility. The business management and support functions are performed by a staff unit assigned to each of the business units. Reciprocal cross-servicing ensures that the products required are maintained only once.

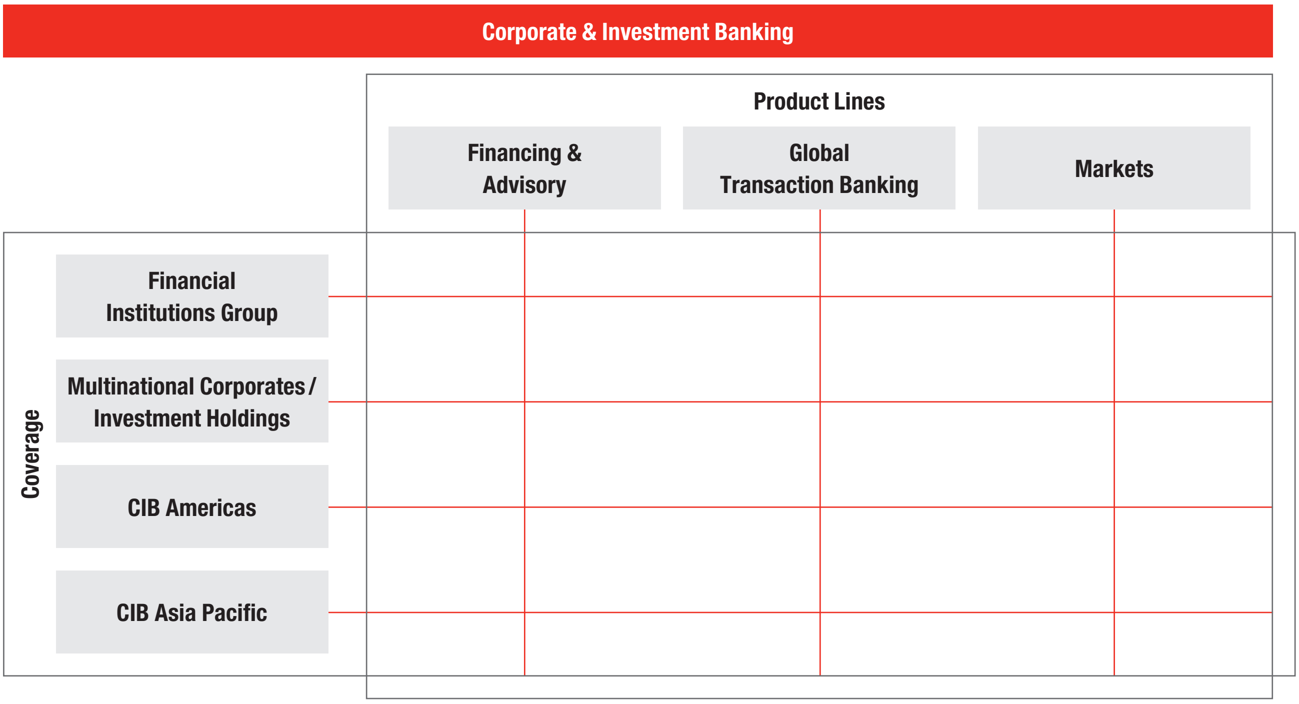
The market environment for Commercial Banking is characterised by persistently low interest rates, fragmented competition and rising regulatory costs. In parallel with persistently subdued demand from customers, increasing digitalisation is causing a lasting change in customer requirements. HVB Group is facing up to the challenges posed by this framework in Commercial Banking with a premium positioning and a diverse set of measures of growth and efficiency activities, which also include clearly defined digitalisation initiatives.

Corporate & Investment Banking business segment
CIB is a business segment of UniCredit Group with global operations. It has a matrix organisational structure and has business activities at the three most important group companies: UniCredit Bank AG, UniCredit Bank Austria AG and UniCredit S.p.A.

The success of CIB's business stems not only from the close cooperation and coordination between customer care and the product units but also from collaboration with other countries and business segments of UniCredit Group as well as the pertinent credit risk management units.

As CIB acts as a global business segment, all statements and definitions apply both to CIB within HVB Group and CIB at a global level. In the form of its CIB business segment, which acts as a centre of competence for international markets and investment banking operations, HVB Group takes a share in structuring the global strategy of CIB. The member of UniCredit Bank's Management Board responsible for CIB has decided to apply the global CIB strategy to UniCredit Bank AG's CIB business in order to ensure a uniform approach worldwide for our customers.

CIB offers its customers the following benefits:
– corporate banking and transaction services
– structured finance, capital markets and investment products
– access to Western, Central and Eastern Europe



Service is organised horizontally:
Financial Institutions Group (FIG), Multinational Corporates (MNC) and Investment Holdings (GFO), CIB Americas and CIB Asia Pacific.

Vertically, there are three product factories:
Financing & Advisory (F&A) provides customer support worldwide in the areas of Financial Sponsors Solutions (FSS), Infrastructure & Power Project Finance (IPPF), Natural Resources (NR), Commodity Trade Finance (CTF) and Structured Trade and Export Finance (STEF). Further global business lines include Global Syndicate & Capital Markets (GSCM) and Corporate Finance Advisory (CFA). The local business units Corporate Structured Finance (CSF) and Real Estate Structured Finance (RESF) cooperate closely with the Commercial Banking business segment. The local unit Global Shipping (GLOS) conducts transactions worldwide. Portfolio & Pricing Management (PPM) is responsible for the management of all LP (Leveraged and project finance, covered by the Financial Sponsor Solutions, Infrastructure & Power Project Finance and Natural Resources business lines) portfolio transactions within UniCredit Group. RESF and CSF portfolios are managed by PPM in cooperation with representatives of the sales channels at the level of UniCredit Bank AG. Furthermore, we provide services to the subsidiary Ocean Breeze Energy GmbH & Co KG.

Segment Reporting (Continued)

Global Transaction Banking (GTB) offers a broad array of innovative products in the areas of cash management and trade finance, thus meeting customer needs in connection with transactions in the areas of payment services, account information, cash flow optimisation, liquidity management and mainly short-term import and export financing services.

The main product areas in cash management include clearing and foreign currency products, client access through electronic channels of access, payment products with payment services and account information, liquidity management with cash pooling and other optimisation procedures, cash innovations with company customer cards and dealer solutions and the business with sight deposits.

Trade finance offers supply chain finance solutions and conventional international trade products such as guarantees, letters of credit, collection services, etc. along the customer's value chain.

Markets is a customer-oriented business that supports the corporate and institutional business of UniCredit Group as an integral part of the CIB value chain. This product area extends over all asset classes: interest, foreign exchange, commodities and equity derivatives. It offers institutional customers, business customers and private investors risk management solutions and investment products through the Group's own or external networks.

With a view to achieving its objectives, CIB developed and implemented several key strategic initiatives last year, the basic purpose of which is to provide support to the relationship managers in their customer care tasks:
– value chains, shifting from silo vision to an integrated value chain (increasing the marketing intensity through pitch matrix)
– shared goals, a structured objective-setting process between customer care and product lines
– senior bankers who serve selected key corporate and institutional customers as well as investment holdings/family offices
– capital structure advisory which enables the Bank to hold a focused and discerning strategic dialogue with customers

We are aiming to further expand our central role with core CIB customers, exploit opportunities with Mittelstand customers and become Europe's powerhouse for trade finance. We wish to increase our international footprint by selling our international services to customers in our core countries, strategically expand our presence in countries given special priority as well as standardising and refining our operating platform.

At the same time, we are planning to expand our presence along the future developments of trade flows and to win as customers the best international actors outside of our home markets. Furthermore, we would like to become the "go-to bank" for business customers by expanding the cross-selling opportunities as well as the underwriting and distribution capacities. We are also striving to heighten the service commitment for banks.

In addition, CIB maintains a close cooperation with Commercial Banking. With a view to promoting the realisation of synergies within the UniCredit corporate group and the "One Bank" approach, the UniCredit International Centres ("UIC") concept was extended from Commercial Banking to CIB. The Head of UIC Germany reports to the Management Board members responsible for CIB and Unternehmer Bank (UBK) in order to ensure an end-to-end and systematic approach to international business. The duties of the International Centre extend from serving inbound customers through to support for and coordination of outbound activities.

Special coverage units from the international network are located in Asia Pacific, Americas and UK (London). In addition, CIB has representative offices and branches with a product focus in further EMEA countries.

The CIB growth strategy concept is aimed at providing our Mittelstand customers with even greater access to our investment banking platform. In order to ensure more intense provision of services and support in Germany, a Joint Venture (JV) between CIB and UBK has been set up and incorporated into the CIB Division for organisational purposes. The organisational setup focuses on selected products from the areas of CTS, DCM, ECM and CFA (M&A). The corresponding product specialists assigned to the joint venture focus exclusively on the needs of UBK customers. The focus on the sales approach is intended to give a significant boost to cross-selling.

Other/consolidation business segment
The Other/consolidation business segment encompasses the Chief Operating Office and Group Corporate Centre business units as well as consolidation effects.

The **Chief Operating Office** business unit acts as a central internal service provider for customers and employees. Its activities extend to purchasing, organisation, corporate security, logistics and facility management, cost management and back-office functions for credit, accounts, foreign exchange, money market and derivatives as well as in-house consulting. Payments, securities settlement, IT application development and IT operations have been outsourced. Strategic real estate management at HVB is similarly the responsibility of the Chief Operating Office business unit and is carried out by the Real Estate unit (GRE), HVB Immobilien AG, Munich and UniCredit Business Integrated Solutions S.C.p.A., Milan, respectively, as engaged by HVB Immobilien AG, Munich by way of an operating contract.

The **Group Corporate Centre** business unit includes profit contributions that do not fall within the jurisdiction of the individual business segments. Among other items, this includes the CFO, CRO and the CEO business units as well as the profits and losses of consolidated subsidiaries and non-consolidated holdings, provided they are not assigned to the other business segments. Furthermore, this business unit incorporates the net income from securities holdings for which the Management Board is responsible. Also incorporated in this business unit are the amounts arising from decisions taken by management with regard to asset/liability management. This includes contributions to earnings from securities and money trading activities involving UniCredit S.p.A. and its subsidiaries. The Other/consolidation business unit also includes the Real Estate Restructuring (RER) customer portfolio.

Information on products and services at company level
The information required by IFRS 8.32 on income from external customers generated from the products and services of HVB Group are contained under the disclosures regarding the income statement in these notes to the consolidated financial statements.

Segment Reporting (Continued)

29 Income statement, broken down by business segment

Income statement, broken down by business segment for the period from 1 January to 31 December 2017 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,461	895	185	2,541
Dividends and other income from equity investments	2	6	3	11
Net fees and commissions	797	322	(16)	1,103
Net trading income	57	859	12	928
Net other expenses/income	41	193	165	399
OPERATING INCOME	**2,358**	**2,275**	**349**	**4,982**
Payroll costs	(649)	(440)	(511)	(1,600)
Other administrative expenses	(1,144)	(805)	506	(1,443)
Amortisation, depreciation and impairment				
losses on intangible and tangible assets	(10)	(114)	(103)	(227)
Operating costs	**(1,803)**	**(1,359)**	**(108)**	**(3,270)**
OPERATING PROFIT	**555**	**916**	**241**	**1,712**
Net write-downs of loans and provisions				
for guarantees and commitments	(164)	(73)	42	(195)
NET OPERATING PROFIT	**391**	**843**	**283**	**1,517**
Provisions for risks and charges	(28)	5	(2)	(25)
Restructuring costs	(4)	—	(3)	(7)
Net income from investments	(2)	58	56	112
PROFIT BEFORE TAX	**357**	**906**	**334**	**1,597**
Income tax for the period	(56)	(239)	34	(261)
PROFIT AFTER TAX	**301**	**667**	**368**	**1,336**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**301**	**667**	**368**	**1,336**
attributable to the shareholder of UniCredit Bank AG	299	667	366	1,332
attributable to minorities	2	—	2	4

Income statement, broken down by business segment for the period from 1 January to 31 December 2016 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,495	1,055	(32)	2,518
Dividends and other income from equity investments	24	8	25	57
Net fees and commissions	746	333	(13)	1,066
Net trading income	62	836	5	903
Net other expenses/income	18	164	172	354
OPERATING INCOME	**2,345**	**2,396**	**157**	**4,898**
Payroll costs	(656)	(468)	(544)	(1,668)
Other administrative expenses	(1,179)	(882)	525	(1,536)
Amortisation, depreciation and impairment				
losses on intangible and tangible assets	(10)	(125)	(122)	(257)
Operating costs	**(1,845)**	**(1,475)**	**(141)**	**(3,461)**
OPERATING PROFIT	**500**	**921**	**16**	**1,437**
Net write-downs of loans and provisions				
for guarantees and commitments	10	(377)	26	(341)
NET OPERATING PROFIT	**510**	**544**	**42**	**1,096**
Provisions for risks and charges	(74)	(116)	(3)	(193)
Restructuring costs	(160)	(91)	(394)	(645)
Net income from investments	10	6	23	39
PROFIT/(LOSS) BEFORE TAX	**286**	**343**	**(332)**	**297**
Income tax for the period	(89)	(115)	64	(140)
PROFIT/(LOSS) AFTER TAX	**197**	**228**	**(268)**	**157**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT/(LOSS)	**197**	**228**	**(268)**	**157**
attributable to the shareholder of UniCredit Bank AG	194	228	(269)	153
attributable to minorities	3	—	1	4

Segment Reporting (Continued)

Development of the Commercial Banking business segment (€ millions)

INCOME/EXPENSES	2017	2016
Net interest	1,461	1,495
Dividends and other income from equity investments	2	24
Net fees and commissions	797	746
Net trading income	57	62
Net other expenses/income	41	18
OPERATING INCOME	**2,358**	**2,345**
Payroll costs	(649)	(656)
Other administrative expenses	(1,144)	(1,179)
Amortisation, depreciation and impairment		
losses on intangible and tangible assets	(10)	(10)
Operating costs	**(1,803)**	**(1,845)**
OPERATING PROFIT	**555**	**500**
Net write-downs of loans and provisions for guarantees and commitments	(164)	10
NET OPERATING PROFIT	**391**	**510**
Provisions for risks and charges	(28)	(74)
Restructuring costs	(4)	(160)
Net income from investments	(2)	10
PROFIT BEFORE TAX	**357**	**286**
Income tax for the period	(56)	(89)
PROFIT AFTER TAX	**301**	**197**
Impairment on goodwill	—	—
CONSOLIDATED PROFIT	**301**	**197**
attributable to the shareholder of UniCredit Bank AG	299	194
attributable to minorities	2	3
Cost-income ratio in %[1]	76.5	78.7

1 ratio of operating costs to operating income

The Commercial Banking business segment increased its operating profit (before net write-downs of loans and provisions for guarantees and commitments) by 11.0%, or €55 million, to €555 million in the reporting period.

In comparison with the previous year, operating income rose slightly by €13 million, or 0.6%, to €2,358 million. On account of the extremely low interest rates, net interest of €1,461 million was generated, which had fallen by 2.3%. Deposit-taking operations continued to be weighed down by the persistently ultra-low interest rates. Despite a rise in real estate financing in the retail customer business with a slight fall in margins, a very good expansion in consumer lending activities (up 57.3%) and increased income from lending to corporate customers, it was not possible to compensate for the fall in profit in the deposit-taking business. Dividends and other income from equity investments of €2 million were generated in 2017, while an extraordinary dividend payout from our investment in EURO Kartensysteme GmbH was included in the previous year (€24 million). In the reporting period, net fees and commissions saw very satisfactory developments with a rise of €51 million, or 6.8%, to €797 million primarily on account of improvements in securities operations and repricing measures in the area of account fees. At €57 million, net trading income in the 2017 financial year mainly stemmed from the customer-driven foreign exchange business and to a certain extent from positive effects from CVA developments in the interest rate derivative business with corporate customers (previous year: €62 million). Net other expenses/income significantly improved by €23 million to €41 million.

Administrative expenses decreased once again in the 2017 financial year, falling by 2.3%, or €42 million, to €1,803 million. Payroll costs fell by 1.1%, or €7 million, to €649 million, particularly due to the lower headcount. Likewise, other administrative expenses were lowered by 3.0%, or €35 million, to €1,144 million.

The cost-income ratio improved from 78.7% in the previous year to 76.5% in the current reporting period, primarily due to cost reductions and, furthermore, also to a slight increase in operating income.

In the 2017 financial year, there was a net addition to net write-downs of loans and provisions for guarantees and commitments of €164 million, after a net reversal (€10 million) was recorded in the previous-year period. This resulted in net operating profit of €391 million after €510 million in the previous year.

The additions to provisions for risks and charges in the non-lending business mainly relate to legal transactions. At €28 million, this figure is lower than in the previous year (€74 million). Restructuring costs came to €4 million in the reporting period in contrast to the previous year which was weighed down by restructuring costs of €160 million. On the back of a €12 million decline in net income from investments, this business segment generated an overall profit before tax of €357 million in the 2017 financial year, which exceeded the previous-year figure by €71 million or 24.8%. After deducting income taxes of €56 million (previous year: €89 million), it succeeded in generating a consolidated profit of €301 million, which was €104 million, or 52.8%, up on the previous year's profit.

Development of the Corporate & Investment Banking business segment **(€ millions)**

INCOME/EXPENSES	2017	2016
Net interest	895	1,055
Dividends and other income from equity investments	6	8
Net fees and commissions	322	333
Net trading income	859	836
Net other expenses/income	193	164
OPERATING INCOME	**2,275**	**2,396**
Payroll costs	(440)	(468)
Other administrative expenses	(805)	(882)
Amortisation, depreciation and impairment		
losses on intangible and tangible assets	(114)	(125)
Operating costs	**(1,359)**	**(1,475)**
OPERATING PROFIT	**916**	**921**
Net write-downs of loans and provisions for guarantees and commitments	(73)	(377)
NET OPERATING PROFIT	**843**	**544**
Provisions for risks and charges	5	(116)
Restructuring costs	—	(91)
Net income from investments	58	6
PROFIT BEFORE TAX	**906**	**343**
Income tax for the period	(239)	(115)
PROFIT AFTER TAX	**667**	**228**
Impairment on goodwill	—	—
CONSOLIDATED PROFIT	**667**	**228**
attributable to the shareholder of UniCredit Bank AG	667	228
attributable to minorities	—	—
Cost-income ratio in %[1]	59.7	61.6

1 ratio of operating costs to operating income

In the 2017 financial year, the Corporate & Investment Banking business segment generated operating income of €2,275 million, a figure that is €121 million, or 5.1%, down on the previous year.

One key driver of this development is the €160 million, or 15.2%, decline to €895 million in net interest (2016: €1,055 million). As in the previous year, the interest-earning business again came under strong pressure from the ultra-low interest rate environment in the 2017 financial year. The decrease is mainly attributable to trading-induced interest. In addition, a lower level of interest income on account of margin contractions in lending operations contributed to this development. It should also be taken into account that the net interest seen in the previous year benefited from a gain in connection with the sale of a credit portfolio to finance commercial property. At €322 million, net fees and commissions did not quite manage to match the previous-year figure (€333 million) which is attributable, among other things, to a lower level of loan processing fees. The increase of €29 million to €193 million in net other expenses/income (previous year: €164 million) partly relates to the sale of receivables.

Segment Reporting (Continued)

Compared with the previous year, net trading income rose by €23 million, or 2.8%, to €859 million (2016: €836 million). This earnings improvement stems from the fixed-income products and the currencies business. In contrast, the earnings in the Treasury business and in the business with equity derivatives declined slightly. The contribution to earnings by valuation adjustments, which mainly include credit value adjustments and funding value adjustments as well as effects from a change in own credit spreads, also fell slightly compared with the previous year.

With a decrease of €116 million, or 7.9%, to €1,359 million, operating costs were reduced significantly compared with the previous year (2016: €1,475 million). Of this total, payroll costs fell by €28 million to €440 million and other administrative expenses by €77 million to €805 million, and amortisation, depreciation and impairment losses on intangible and tangible assets by €11 million to €114 million.

On account of the significant reduction in expenses, the cost-income ratio improved by 1.9 percentage points to 59.7%. At €916 million, the operating profit remained virtually unchanged compared with the previous year (2016: €921 million).

In the 2017 financial year, net write-downs of loans and provisions for guarantees and commitments amounted to €73 million which is a substantial €304 million lower than previous-year figure of €377 million. In this context, the net write-downs of loans and provisions for guarantees and commitments were still severely impacted by the deterioration in the shipping industry in the previous year. In the reporting period, provisions of €5 million on balance were reversed in the non-lending business, after €116 million on balance had been transferred to provisions in the previous year, which essentially relate to legal risks. The net income from investments of €58 million generated in the 2017 financial year (2016: €6 million) mainly stems from the gain on the disposal of an available-for-sale financial asset.

In the 2017 financial year, the business segment generated a profit before tax of €906 million, which very clearly exceeded the previous-year figure by €563 million (2016: €343 million). This development also benefited from the elimination of the restructuring costs of €91 million contained in the previous year. After deducting income taxes of €239 million (2016: €115 million), the business segment generated a consolidated profit of €667 million (2016: €228 million).

Development of the Other/consolidation business segment (€ millions)

INCOME/EXPENSES	2017	2016
Net interest	185	(32)
Dividends and other income from equity investments	3	25
Net fees and commissions	(16)	(13)
Net trading income	12	5
Net other expenses/income	165	172
OPERATING INCOME	**349**	**157**
Payroll costs	(511)	(544)
Other administrative expenses	506	525
Amortisation, depreciation and impairment		
losses on intangible and tangible assets	(103)	(122)
Operating costs	**(108)**	**(141)**
OPERATING PROFIT	**241**	**16**
Net write-downs of loans and provisions for guarantees and commitments	42	26
NET OPERATING PROFIT	**283**	**42**
Provisions for risks and charges	(2)	(3)
Restructuring costs	(3)	(394)
Net income from investments	56	23
PROFIT/(LOSS) BEFORE TAX	**334**	**(332)**
Income tax for the period	34	64
PROFIT/(LOSS) AFTER TAX	**368**	**(268)**
Impairment on goodwill	—	—
CONSOLIDATED PROFIT/(LOSS)	**368**	**(268)**
attributable to the shareholder of UniCredit Bank AG	366	(269)
attributable to minorities	2	1
Cost-income ratio in %[1]	30.9	89.8

1 ratio of operating costs to operating income

In the 2017 financial year, the operating income of the Other/consolidation business segment amounted to €349 million, a significant rise on the previous-year figure of €157 million. This increase of €192 million is attributable to the rise of €217 million to €185 million in net interest (2016: minus €32 million), which benefited in particular from a positive non-recurring effect from the reversal of provisions. In the reporting period, €3 million was received in dividends and similar income from equity investments, while €25 million was recognised in the previous year which is attributable to a single notable dividend yield from our shareholdings.

With a year-on-year decrease of €33 million to €108 million in operating costs, the operating profit amounted to €241 million after €16 million in the previous year.

There was a net reversal in net write-downs of loans and provisions for guarantees and commitments in both years: €42 million in 2017 and €26 million in 2016. This meant that the net operating profit in the reporting year amounted to €283 million after €42 million in the previous year.

At €56 million, the net income from investments generated in the reporting period was €33 million higher than in the previous year (2016: €23 million). Whereas the 2017 earnings mainly stem from gains on disposal of available-for-sale financial instruments, the 2016 earnings were mainly the result of the disposal of investment properties. At €334 million, the profit before tax, which was up by €666 million, is significantly higher than in the previous year (2016: loss of 332 million). Alongside the improvement in the operating profit, the elimination of the restructuring costs of €394 million contained in the previous year contributed to this development. After taking account of the positive income taxes of €34 million (2016: €64 million), the consolidated profit for the reporting period came to €368 million (2016: loss of €268 million).

30 Balance sheet figures, broken down by business segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables with customers				
31/12/2017	79,447	42,709	(978)	121,178
31/12/2016	78,435	43,863	(824)	121,474
Goodwill				
31/12/2017	130	288	—	418
31/12/2016	130	288	—	418
Deposits from customers				
31/12/2017	88,593	32,609	3,082	124,284
31/12/2016	81,962	30,519	4,723	117,204
Risk-weighted assets compliant with Basel III				
(including equivalents for market risk				
and operational risk)				
31/12/2017	29,196	43,559	5,956	78,711
31/12/2016	30,440	44,493	6,642	81,575

1 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in the Notes "Non-current assets or disposal groups held for sale" and "Liabilities of disposal groups held for sale"

Since the 2017 financial year, certain balance sheet items relating to segment assets (Loans and receivables with banks) and segment liabilities (Deposits from banks, Debt securities in issue) are no longer segmented because this information is no longer required on a regular basis for management purposes by the Management Board, as the responsible management body. Consequently, the balance sheet figures, broken down by business segment, are similarly no longer disclosed in the segment reporting for these items.

31 Employees, broken down by business segment[1]

	2017	2016
Commercial Banking	6,639	7,188
Corporate & Investment Banking	2,039	2,362
Other/consolidation	4,727	5,198
Total	**13,405**	**14,748**

1 in full-time equivalents (FTEs)

Segment Reporting (Continued)

32 Segment reporting by region

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)

	2017		2016	
	OPERATING INCOME	OPERATING PROFIT/(LOSS)	OPERATING INCOME	OPERATING PROFIT/(LOSS)
Germany	4,532	1,197	4,554	980
Italy	348	311	230	158
Luxembourg	121	88	139	102
United Kingdom	409	229	277	133
Rest of Europe	28	45	23	26
Americas	102	49	109	59
Asia	36	(13)	46	10
Consolidation	(594)	(194)	(480)	(31)
HVB Group	**4,982**	**1,712**	**4,898**	**1,437**

Total assets, broken down by region (€ millions)

	2017	2016
Germany	279,941	279,696
Italy	28,690	39,207
Luxembourg	22,962	25,134
United Kingdom	12,428	13,490
Rest of Europe	9,739	6,336
Americas	7,048	7,783
Asia	4,309	4,006
Consolidation	(66,057)	(73,562)
HVB Group	**299,060**	**302,090**

Property, plant and equipment, broken down by region (€ millions)

	2017	2016
Germany	2,561	2,826
Italy	—	—
Luxembourg	29	30
United Kingdom	5	7
Rest of Europe	1	1
Americas	2	3
Asia	1	2
Consolidation	—	—
HVB Group	**2,599**	**2,869**

Investment properties, broken down by region (€ millions)

	2017	2016
Germany	786	1,006
Italy	—	—
Luxembourg	22	22
United Kingdom	—	—
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
HVB Group	**808**	**1,028**

Intangible assets, broken down by region (€ millions)

	2017	2016
Germany[1]	444	453
Italy	—	—
Luxembourg	1	2
United Kingdom	—	—
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**445**	**455**

1 includes goodwill

Employees, broken down by region[1]

	2017	2016
Germany	12,165	13,367
Italy	222	241
Luxembourg	133	162
United Kingdom	419	482
Rest of Europe	194	228
Africa	3	3
Americas	127	124
Asia	142	141
HVB Group	**13,405**	**14,748**

1 in full-time equivalents (FTEs)

Notes to the Income Statement

33 Net interest

(€ millions)

	2017	2016
Interest income from	3,818	4,205
lending and money market transactions	2,873	3,010
other interest income	945	1,195
Negative interest on financial instruments on the assets side	(137)	(122)
Interest expense from	(1,401)	(1,737)
deposits	(369)	(353)
debt securities in issue and other interest expenses	(1,032)	(1,384)
Positive interest on financial instruments on the liabilities side	261	172
Total	**2,541**	**2,518**

In the reporting year, the Bank generated €45 million (equivalent period last year: €48 million) in interest income on impaired financial assets that are valued at cost.

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €2,924 million (equivalent period last year: €3,049 million) and €700 million (equivalent period last year: €1,042 million), respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

Interest that the Bank is required to pay on assets (such as interest payable on average reserves maintained with the ECB above the minimum required reserve and other deposits with the ECB) is carried as a negative item under interest income; where interest receivable accrues on the liabilities side, this is similarly recognised as a positive item under interest expense. This mainly relates to securities repurchase agreements, overnight deposits and forward transactions with banks and institutional investors.

Net interest attributable to related parties

The following table shows the net interest attributable to related parties:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	39	54
of which:		
UniCredit S.p.A.	6	13
Sister companies	32	40
Subsidiaries	1	—
Joint ventures	6	5
Associated companies	21	6
Other participating interests	15	12
Total	**81**	**77**

34 Dividends and other income from equity investments

(€ millions)

	2017	2016
Dividends and other similar income	10	58
Companies accounted for using the equity method	1	(1)
Total	**11**	**57**

35 Net fees and commissions

(€ millions)

	2017	2016
Fee and commission income	1,378	1,420
Fee and commission expense	(275)	(354)
Net fees and commissions	**1,103**	**1,066**
thereof:		
Management, brokerage and consultancy services	562	533
Collection and payment services	264	219
Lending operations	288	329
Other service operations	(11)	(15)

Fee and commission income of €113 million (equivalent period last year: €146 million) and fee and commission expense of €5 million (equivalent period last year: €4 million) relate to financial instruments not measured at fair value through profit or loss.

Fees and commissions charged for individual services are recognised as soon as the service has been performed. In contrast, deferred income is recognised for fees and commissions relating to a specific period (such as fees for financial guarantees).

Net fees and commissions from related parties

The following table shows the net fees and commissions attributable to related parties:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	70	45
of which:		
UniCredit S.p.A.	20	(58)
Sister companies	50	94
Subsidiaries	—	9
Joint ventures	1	1
Associated companies	2	20
Other participating interests	—	—
Total	**73**	**66**

36 Net trading income

(€ millions)

	2017	2016
Net gains on financial assets held for trading[1]	846	880
Effects arising from hedge accounting	77	1
Changes in fair value of hedged items	608	87
Changes in fair value of hedging derivatives	(531)	(86)
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	(4)	22
Other net trading income	9	—
Total	**928**	**903**

1 including dividends on financial assets held for trading
2 also including the valuation results of derivatives concluded to hedge financial assets at fair value through profit or loss (effect in the reporting period: plus €244 million; effect in the previous year: plus €41 million)

Notes to the Income Statement (Continued)

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

The net hedge accounting income of €77 million (equivalent period last year: income of €1 million) arises from the increase of €608 million (equivalent period last year: increase of €87 million) in fair value relating to the secured risk of the hedged items and the decrease of €531 million in the fair value of hedging derivatives (equivalent period last year: decrease of €86 million).

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

37 Net other expenses/income

(€ millions)

	2017	2016
Other income	654	595
Other expenses	(255)	(241)
Total	**399**	**354**

Other income includes rental income of €220 million (equivalent period last year: €169 million) from investment properties and mixed usage buildings. Current operating expenses (including repairs and maintenance) directly allocable to investment properties and current expenses from mixed usage buildings of €82 million (equivalent period last year: €56 million) are netted with the other income. Other expenses include expenses of €80 million for the European bank levy (equivalent period last year: €70 million). Net other expenses/income includes netted income of €203 million (equivalent period last year: €219 million) in connection with the BARD Offshore 1 wind farm.

At the same time, this item contains gains of €67 million (equivalent period last year: €26 million) on the sale of unimpaired receivables.

Net other expenses/income attributable to related parties

The following table shows the net other expenses/income attributable to related parties:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	87	87
of which:		
UniCredit S.p.A.	16	20
Sister companies	71	67
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**87**	**87**

38 Operating costs

(€ millions)

	2017	2016
Payroll costs	(1,600)	(1,668)
Wages and salaries	(1,303)	(1,360)
Social security costs	(177)	(207)
Pension and other employee benefit costs	(120)	(101)
Other administrative expenses	(1,443)	(1,536)
Amortisation, depreciation and impairment losses	(227)	(257)
on property, plant and equipment	(212)	(241)
on software and other intangible assets, excluding goodwill	(15)	(16)
Total	**(3,270)**	**(3,461)**

Wages and salaries includes payments of €4 million (equivalent period last year: €11 million) made upon the termination of employment contracts. The expenses for similar payments under restructuring measures are recognised under restructuring costs in the income statement and explained in the Note "Restructuring costs".

Operating costs of related parties

The following table shows the operating costs of related parties included in the total operating costs shown in the income statement:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	(703)	(712)
of which:		
UniCredit S.p.A.	(16)	(6)
Sister companies	(687)	(706)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(703)**	**(712)**

Share-based payment compliant with IFRS 2

Share-based payments were granted primarily under the Group Incentive System in the reporting period. In addition, UniCredit has three further schemes under which shares or stock options are granted that are also accounted for in accordance with IFRS 2: the Long-term Incentive Programme, the Long-term Incentive Plan (LTI 2017–2019) and the "Let's Share" employee share ownership plan.

Group Incentive System

The Group Incentive System has governed variable compensation payable to selected staff since the 2010 financial year. This system is built around the principle that the variable compensation is granted partially in shares and scheduled for disbursement over a number of years.

Employees whose duties have a significant impact on the Bank's overall risk are beneficiaries of the Group Incentive System. Under the Group Incentive System, the bonus granted for the respective reporting period is split into a cash component and a share component.

The cash component is disbursed in tranches over a period of up to five years. Accordingly, this group of employees receives 20% to 30% of the bonus for 2017 in cash with the commitment at the beginning of 2018, and a further 10% to 20% will be disbursed after financial year-end 2018 and financial year-end 2020/2022.

Notes to the Income Statement (Continued)

At the beginning of 2018, the beneficiaries receive for the remaining 50% of the total bonus a commitment for an allocation of shares in UniCredit S.p.A. as part of the bonus for 2017, to be transferred to the beneficiaries after financial year-end 2019 to financial year-end 2021 or 2022.

The deferred payment after year-end 2018, 2020 and 2022 and the transfer of shares after year-end 2019, 2020, 2021 and 2022 to the beneficiaries is subject to the provision that, as part of a malus arrangement, it is ensured that no loss has been recorded at the level of UniCredit Group or at the level of the individual beneficiary, or a significant reduction in the results achieved.

The fair value of the granted shares is calculated using the average stock market price of UniCredit S.p.A. shares in the month prior to the resolution by the Board of Directors in March 2018 regarding the granting, adjusted for a discount for expected dividends during the vesting period.

In the reporting period, 1.9 million UniCredit S.p.A. shares were granted as a component of the bonus granted for 2016, with a fair value of €23.5 million. In the eventuality that a corporate action is implemented after the grant date, the number of shares granted will be adjusted accordingly. The shares granted in 2017 as part of the bonus for 2016 will be transferred in 2019, 2020, 2021 and 2022. The following table shows the fair values per share at the time of granting:

	2017
Fair value of the shares to be transferred in 2019 (€ per share)	12.826
Fair value of the shares to be transferred in 2020 (€ per share)	12.495
Fair value of the shares to be transferred in 2021 (€ per share)	12.064
Fair value of the shares to be transferred in 2022 (€ per share)	11.636

The granted bonuses are recognised in the income statement on a pro rata basis over the respective vesting period.

Bonuses for the 2017 financial year falling due for disbursement in 2018 are recognised in full as an expense. Where cash payments are made at a later date, such payments are subject to the condition that the eligible employees remain employed by UniCredit Group or partly subject to further performance targets. Accordingly, the vesting period for the promised bonus consists of several financial years (target achievement plus waiting period) and is to be deferred over this period compliant with IAS 19.153 in conjunction with IAS 19.68. Thus, deferred cash payments under the bonus promised for 2017 are recognised as expense in the respective period (starting with the 2017 financial year to the end of the financial year in which the waiting period for the respective tranche ends) on a pro rata basis.

UniCredit S.p.A. delivers shares to the employees for commitments made by HVB Group once the conditions for granting shares have been met. HVB Group reimburses to UniCredit S.p.A. the expenses accruing in this regard. The expense for the shares transferred corresponds to the fair value of the shares at the grant date.

Long-term Incentive Plan (LTI 2017–2019)
The Long-term Incentive Plan 2017–2019, introduced in the reporting period constitutes a further component of the remuneration system in place at UniCredit Group for top management (Executive Vice Presidents and above) and key players at UniCredit Bank AG. This introduces a situation where a portion of the variable compensation of top management is not specified until after an assessment period of several years. The plan consists of a performance period of three years followed by a three-year retention period with an additional obligatory holding period. The grant is wholly based on UniCredit shares. The respective tranches are subject to malus terms and a claw back arrangement which makes it possible to reclaim each individual share tranche up to 4 years after vesting.

Altogether, 1.3 million UniCredit S.p.A. shares with a fair value of €16.9 million were conditionally granted in the reporting period as a component of the LTI 2017–2019. If a capital measure is carried out after the date of grant, the number of shares granted will be adjusted accordingly.

The fair value of the conditionally granted shares is calculated using the average stockmarket price of UniCredit S.p.A. shares in the month prior to the resolution by the Board of Directors in January 2017 regarding the granting, adjusted for a discount for expected dividends during the vesting period.

The decision on the scope to which these shares are actually granted is made at the end of the performance period, i.e. after the end of the 2019 financial year. UniCredit Bank AG bears the costs of implementation of the Long-term Incentive Plan within HVB.

	2017
Fair value of the shares to be transferred in 2020 (€ per share)	13.253
Fair value of the shares to be transferred in 2021 (€ per share)	12.821
Fair value of the shares to be transferred in 2022 (€ per share)	12.391
Fair value of the shares to be transferred in 2023 (€ per share)	11.963

UniCredit S.p.A. delivers shares to the employees for commitments made by HVB Group once the conditions for granting shares have been met. HVB Group reimburses the expenses accruing in this regard to UniCredit S.p.A. The expense for the shares transferred corresponds to the fair value of the shares at the grant date.

Analysis of outstanding shares (Group Incentive System: LTI 2017–2019):

	2017		2016	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**20,745,754**	**October 2018**	**17,296,557**	**June 2017**
after corporate action[1]	4,138,428	October 2018		
Additions				
Newly granted shares	1,876,447	March 2020	10,536,220	March 2019
From corporate transfers	16,544	March 2019	441,058	August 2017
Conditionally granted shares	1,333,703	August 2021		
Releases				
Forfeited shares	71,682	September 2018	171,558	September 2018
Transferred shares	728,213	May 2017	7,185,845	May 2016
From corporate transfers	18,882	January 2019	170,678	February 2019
Expired shares	—	—	—	—
Total at end of period	**6,546,345**	**December 2019**	**20,745,754**	**October 2018**

1 As a consequence of the corporate actions implemented by UniCredit S.p.A. at the beginning of 2017, the outstanding shares were converted into new shares at the beginning of the period applying the official conversion factor.

In the 2017 financial year, prorated expenses of €33 million (previous year: €19 million) accrued for the share component arising from the bonuses promised for 2012 to 2016 in the form of share-based payments compliant with IFRS 2. These expenses are recognised under payroll costs. The provision set up totalled €109 million (previous year: €77 million).

Long-term Incentive Programme

A long-term incentive programme including share-based remuneration transactions featuring compensation in UniCredit shares, has been set up for executives and junior managers of all UniCredit Group companies selected using defined criteria. Within this umbrella programme, several individual schemes were set up in the years up to 2012, the key elements of which included the granting of stock options starting in 2011 in the form of performance stock options.

UniCredit S.p.A. undertakes the commitment to employees of HVB; in return, HVB reimburses to UniCredit S.p.A. the expenses for shares options actually transferred to the beneficiaries after the vesting period has expired and the conditions attached to the commitment have been checked. The fair value of the instrument at the time of granting is recognised as the expense for the stock options transferred.

Notes to the Income Statement (Continued)

The following statements relate to all eligible HVB Group employees covered by the long-term incentive programme. The information provided in the Note "Information on relationships with related parties" in this regard merely relates to the stock options granted to members of the Management Board.

The performance stock options grant entitlement to purchase a UniCredit S.p.A. share at a price which was fixed before the option was issued. In the case of stock options issued during or after 2011, beneficiaries are only entitled to exercise their options in a range between 0% and 150% (depending on the level of target achievement) of the underlying total originally granted if the respective targets have been met after around three to four years. The options may only be exercised during a fixed period which starts after the vesting period expires. If the beneficiary has already left UniCredit by that date, the stock options are normally forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis or in full in certain exceptional circumstances, such as disability, retirement or the employer leaving UniCredit Group.

The fair values of the stock options at the grant date are determined using Hull & White's trinomial model. The following parameters have been taken into account in this context:
– The probability of the option expiring due to the beneficiary leaving the company prematurely after the lock-up period has expired.
– Definition of an exercise barrier. This means that the options are only exercised before the end of the exercise period if the current price of the UniCredit share exceeds the exercise price by the exercise barrier multiplier (usually a factor of 1.5).
– Dividend yield of the UniCredit share.
– Average historical daily volatility over a period equivalent to the vesting period.

All stock options granted in earlier years are already exercisable. No new stock options have been granted since 2012.

Analysis of outstanding stock options

	2017			2016		
	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY
Outstanding at start of period	**12,003,612**	**4.67**	**August 2018**	**13,182,652**	**4.62**	**December 2018**
Additions						
Newly granted options	—	—	—	—	—	—
From corporate transfers	—	—	—	—	—	—
Releases						
Forfeited stock options	112,424	6.47	January 2018	50,791	5.94	March 2018
Exercised stock options	—	—	—	—	—	—
Expired stock options	1,020,257	7.09	July 2017	1,128,249	4.01	December 2022
Total at end of period	**10,870,931**	**4.42**	**September 2018**	**12,003,612**	**4.67**	**August 2018**
Exercisable options at end of period	10,870,931	4.42	September 2018	12,003,612	4.67	August 2018

1 The average strike price is only of limited information value on account of the non-inclusion of completed capital increases and stock consolidations (in 2012 and 2017: in each case stock consolidation at a ratio of 10:1 and subsequent capital increase) in line with the conditions for granting the stock options.

The fair value of the options granted is recorded as an expense pro rata temporis over the vesting period on the basis of the expected number of options transferred.

In the reporting period, no further prorated expenses arose nor did any income from forfeited instruments, as was the case in the previous year. No provisions were set up in 2017 and 2016 for stock options in HVB Group for which a firm commitment exists.

Employee share ownership plan (Let's Share)
An employee share ownership plan (Let's Share) has been set up enabling UniCredit Group employees to purchase UniCredit shares at discounted prices.

Between July 2017 and December 2017, employees participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). However, the plan offers the following advantage compared with buying the shares directly on the market:

Participating employees first receive the right to obtain free shares with a value of one-third of the amount they have invested under the plan. At the end of a one-year vesting period, the participants receive at the beginning of August 2018 regular UniCredit shares in exchange for their rights, over which they have an immediate right of disposal. The rights to the free shares generally expire when employees sell the investment shares or their employment with a UniCredit Group company is terminated before the vesting period ends.

Thus, employees can enjoy an advantage of around one third of the investment made as a result of the granting of free shares. Added to this is a tax break that exists in Germany for such employee share ownership plans.

UniCredit S.p.A. also undertakes the commitment to the employees under the employee share ownership plan. The Bank reimburses to UniCredit S.p.A. the expenses actually incurred for this when the free shares are transferred. The expense corresponds to the fair value of the free shares at the grant date. The fair value of the outstanding free shares is determined on the basis of the share price at the date when the employees bought the investment shares, taking into account a discount for expected dividend payments over the vesting period.

It is generally intended to operate the plan on an annual basis. Similar programmes had already been set up in previous years. The employee share ownership plan is of minor significance for the consolidated financial statements of HVB Group overall.

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

(€ millions)

	2017	2016
Additions	(1,103)	(1,265)
Allowances for losses on loans and receivables	(904)	(1,097)
Allowances for losses on guarantees and indemnities	(199)	(168)
Releases	862	867
Allowances for losses on loans and receivables	668	730
Allowances for losses on guarantees and indemnities	194	137
Recoveries from write-offs of loans and receivables	46	57
Gains/(losses) on the disposal of impaired loans and receivables	—	—
Total	**(195)**	**(341)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €67 million in the reporting period (equivalent period last year: €26 million). The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €123 million (equivalent period last year: net expense of €284 million).

Net write-downs of loans and provisions for guarantees and commitments to related parties
The following table shows the net write-downs of loans and provisions for guarantees and commitments attributable to related parties:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	—	(1)
of which:		
UniCredit S.p.A.	—	—
Sister companies	—	(1)
Joint ventures	—	(2)
Associated companies	(7)	(5)
Other participating interests	—	1
Total	**(7)**	**(7)**

Notes to the Income Statement (Continued)

40 Provisions for risks and charges

In the reporting year, there were on balance expenses of €25 million for provisions for risks and charges after €193 million in the previous year. These are primarily provisions for legal risks in both years. The legal risks are described in greater detail in the section entitled "Operational risk" in the Risk Report of this Financial Review.

41 Restructuring costs

Restructuring costs of €7 million were incurred in the 2017 financial year, stemming in the main from restructuring provisions at subsidiaries. The restructuring costs of €645 million recognised for the previous year were largely attributable to the measures planned in the course of the "Transform 2019" strategy programme.

42 Net income from investments

Net income from investments (€ millions)

	2017	2016
Available-for-sale financial assets	129	20
Shares in affiliated companies	(8)	(1)
Companies accounted for using the equity method	(4)	(4)
Held-to-maturity investments	—	—
Land and buildings	4	—
Investment properties[1]	(9)	27
Other	—	(3)
Total	**112**	**39**

1 gains on disposal, impairments and write-ups

Net income from investments breaks down as follows: (€ millions)

	2017	2016
Gains on the disposal of	140	52
available-for-sale financial assets	141	23
shares in affiliated companies	(8)	(1)
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
land and buildings	4	—
investment properties	3	33
other	—	(3)
Write-downs, value adjustments and write-ups on	(28)	(13)
available-for-sale financial assets	(12)	(3)
shares in affiliated companies	—	—
companies accounted for using the equity method	(4)	(4)
held-to-maturity investments	—	—
investment properties	(12)	(6)
other	—	—
Total	**112**	**39**

In the reporting period, the net income from investments amounted to €112 million. This figure amounted to €140 million and was generated almost exclusively with gains on disposal of available-for-sale financial assets (€141 million). These essentially relate to two disposals from our shareholdings. In contrast, net write-downs and impairment charges totalling €28 million were incurred relating to available-for-sale financial assets (€12 million), investment properties (€12 million) and companies accounted for using the equity method (€4 million).

The previous year's net income from investments (€39 million) contains gains on sale of €52 million generated largely from gains of €23 million on the disposal of available-for-sale financial assets and €33 million on the sale of investment properties. By contrast, net write-downs and value adjustments totalling €13 million were taken on the available-for-sale financial assets, companies accounted for using the equity method and investment properties.

43 Income tax for the period

(€ millions)

	2017	2016
Current taxes	(205)	(166)
Deferred taxes	(56)	26
Total	**(261)**	**(140)**

The current tax expense for 2017 includes tax income of €140 million for previous years (equivalent period last year: €43 million) due, among other things, to the reversal of provisions.

The deferred tax expense in the reporting period contains income totalling €139 million arising from value adjustments on deferred tax assets on tax losses carried forward and temporary differences. The counteracting deferred tax expense totalling €195 million resulted overall from the origination and reversal of temporary differences and the utilisation of tax losses. This includes a tax expense of €11 million as a consequence of the lowering of US tax rates. The deferred tax income in the previous year stemmed from a value adjustment and from the origination and reversal of temporary differences and the utilisation of tax losses.

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

(€ millions)

	2017	2016
Profit before tax	1,597	297
Applicable tax rate	31.4%	31.4%
Computed income taxes	(501)	(93)
Tax effects		
arising from previous years and changes in tax rates	111	(21)
arising from foreign income	31	1
arising from non-taxable income	70	93
arising from different tax laws	(56)	(23)
arising from non-deductible expenses	(51)	(65)
arising from value adjustments and the non-recognition of deferred taxes	136	(32)
arising from other differences	(1)	—
Recognised income taxes	**(261)**	**(140)**

Notes to the Income Statement (Continued)

As in 2016, an applicable tax rate of 31.4% has been assumed in the tax reconciliation. This comprises the current rate of corporate income tax in Germany of 15.0%, the solidarity surcharge of 5.5% and an average trade tax rate of 15.6%. This reflects the fact that the consolidated profit is dominated by profits generated in Germany, meaning that it is subject to German corporate income tax and trade tax.

The effects arising from tax on foreign income are in particular a result of different tax rates applicable in other countries.

Non-taxable income includes disposal gains from investments (see Note "Net income from investments").

The item tax effects from different tax law comprises the municipal trade tax modifications applicable to domestic companies and other local peculiarities.

The deferred tax assets and liabilities are broken down as follows: (€ millions)

	2017	2016
Deferred tax assets		
Financial assets/liabilities held for trading	230	257
Investments	2	2
Property, plant and equipment/intangible assets	123	118
Provisions	625	703
Other assets/other liabilities/hedging derivatives	284	465
Loans and receivables with banks and customers,		
including provisions for losses on loans and receivables	92	166
Losses carried forward/tax credits	392	374
Other	2	—
Total deferred tax assets	**1,750**	**2,085**
Effect of offsetting	(500)	(722)
Recognised deferred tax assets	**1,250**	**1,363**
Deferred tax liabilities		
Loans and receivables with banks and customers,		
including provisions for losses on loans and receivables	32	95
Financial assets/liabilities held for trading	1	1
Investments	112	169
Property, plant and equipment/intangible assets	40	67
Other assets/other liabilities/hedging derivatives	363	449
Deposits from banks/customers	2	3
Other	39	19
Total deferred tax liabilities	**589**	**803**
Effect of offsetting	(500)	(722)
Recognised deferred tax liabilities	**89**	**81**

Deferred taxes are normally measured using the local tax rates of the respective tax jurisdiction. German corporations use the uniform corporate income tax rate that is not dependent on any dividend distribution of 15.8%, including the solidarity surcharge, and the municipal trade tax rate dependent on the applicable municipal trade tax multiplier. As last year, this resulted in an overall valuation rate for deferred taxes of 31.4% for HVB in Germany. The applicable local tax rates are applied analogously for other domestic and foreign units. Changes in tax rates have been taken into account, provided they had already been enacted or substantially enacted by the end of the reporting period.

Deferred tax liabilities of €19 million were debited to the AfS reserve of HVB Group (equivalent period last year: €15 million) and deferred tax liabilities of €12 million (equivalent period last year: €13 million) were offset against the hedge reserve. The deferred taxes are mainly included in the items "Investments" and "Other assets/other liabilities/hedging derivatives" mentioned above. Deferred tax assets of €532 million (equivalent period last year: €602 million) were recognised outside profit or loss in connection with the accounting for pension commitments in accordance with IAS 19. In each case, the deferred tax items offset directly against reserves or other comprehensive income are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for unused tax losses of HVB Group of €2,604 million (equivalent period last year: €3,182 million), most of which do not expire, and deductible temporary differences of €1,847 million (equivalent period last year: €1,750 million).

The deferred tax assets were calculated using plans of the individual business segments, which are based on segment-specific and general macroeconomic assumptions. The amounts were measured taking into account appropriate valuation discounts. The planning horizon remained unchanged at five years. Measurement was carried out taking into account possible restrictions of local regulations regarding timing and any rules on minimum taxation for tax losses carried forward. Estimation uncertainties are inherent in the assumptions used in any strategic plan. Where changes are made to the Strategic Plan, this may have an impact on the valuation of the volume of deferred tax assets already capitalised or to be capitalised.

44 Earnings per share

	2017	2016
Consolidated profit attributable to the shareholder (€ millions)	1,332	153
Average number of shares	802,383,672	802,383,672
Earnings per share (€) (undiluted and diluted)	1.66	0.19

Notes to the Balance Sheet

45 Cash and cash balances

(€ millions)

	2017	2016
Cash on hand	6,024	4,518
Balances with central banks	30,390	5,252
Total	**36,414**	**9,770**

46 Financial assets held for trading

(€ millions)

	2017	2016
Balance-sheet assets	32,082	35,691
Fixed-income securities	10,415	10,928
Equity instruments	12,636	11,315
Other financial assets held for trading	9,031	13,448
Positive fair value from derivative financial instruments	43,411	58,396
Total	**75,493**	**94,087**

The financial assets held for trading include, but are not limited to, securities held for trading purposes and positive fair values of derivatives other than hedging derivatives that are disclosed in hedge accounting (shown separately in the balance sheet). Provided they are held for trading purposes, other financial instruments such as receivables from repurchase transactions, promissory notes and registered bonds are additionally carried as other financial assets held for trading.

The financial assets held for trading include €178 million (31 December 2016: €170 million) in subordinated assets.

Financial assets held for trading of related parties

The following table shows the breakdown of financial assets held for trading involving related parties:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	11,570	15,116
of which:		
UniCredit S.p.A.	7,940	9,937
Sister companies[1]	3,630	5,179
Joint ventures	10	20
Associated companies	931	703
Other participating interests	5	9
Total	**12,516**	**15,848**

1 mostly derivative transactions involving UniCredit Bank Austria AG

47 Financial assets at fair value through profit or loss

(€ millions)

	2017	2016
Fixed-income securities	20,346	27,423
Equity instruments	—	—
Investment certificates	—	—
Promissory notes	1,110	1,089
Other financial assets at fair value through profit or loss	—	—
Total	**21,456**	**28,512**

75% (previous year: 76%) of the promissory notes was issued by the federal states and regional authorities in the Federal Republic of Germany. The portfolio also includes two promissory notes issued by the Republic of Austria.

On account of the prime ratings of the promissory notes, the fair value fluctuations contain only minor effects from changes in credit ratings.

The financial assets at fair value through profit or loss (fair value option) include €7 million (previous year: €6 million) in subordinated assets.

48 Available-for-sale financial assets

(€ millions)

	2017	2016
Fixed-income securities	6,560	5,627
Equity instruments	117	99
Other available-for-sale financial assets	75	56
Impaired assets	64	147
Total	**6,816**	**5,929**

Available-for-sale financial assets as at 31 December 2017 include financial instruments of €147 million (previous year: €231 million) valued at cost.

Within this total, equity instruments with a carrying amount of €93 million (previous year: €3 million) were sold during the reporting period, yielding a gain of €65 million (previous year: €2 million).

Available-for-sale financial assets as at 31 December 2017 contain a total of €64 million (previous year: €147 million) in impaired assets. Impairments of €9 million (previous year: €4 million) were taken to the income statement during the reporting period.

None of the non-impaired debt instruments are financial instruments past due, as was the case in the previous year.

As at 31 December 2017, the available-for-sale financial assets include no subordinated assets, as was the case in the previous year.

49 Shares in associated companies accounted for using the equity method and joint ventures accounted for using the equity method

(€ millions)

	2017	2016
Associated companies accounted for using the equity method	34	44
of which: goodwill	8	11
Joint ventures accounted for using the equity method	—	—
Total	**34**	**44**

Four joint ventures and three associated companies were not accounted for in the consolidated financial statements using the equity method for materiality reasons.

Notes to the Balance Sheet (Continued)

Change in portfolio of shares in associated companies accounted for using the equity method (€ millions)

	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD	
	2017	2016
Carrying amounts at 1 January	**44**	**56**
Additions	—	5
Purchases[1]	—	1
Write-ups	—	—
Changes from currency translation	—	—
Other additions[2]	—	4
Disposals	(10)	(17)
Sales	(2)	—
Impairments	(4)	(4)
Changes from currency translation	(2)	—
Non-current assets or disposal groups held for sale	—	—
Other disposals[2]	(2)	(13)
Carrying amounts at 31 December	**34**	**44**

1 also including capital increases
2 also including changes in the group of companies included in consolidation

None of the companies included in the consolidated financial statements using the equity method is individually significant for the consolidated financial statements of HVB Group. The following table shows in aggregate form the main items in the income statements of the companies accounted for using the equity method: (€ millions)

	2017	2016
Net interest	(4)	(6)
Net other expenses/income	86	117
Operating costs	(84)	(98)
Profit/(Loss) before tax	**(2)**	**13**
Income tax	—	(4)
Consolidated profit/loss	**(2)**	**9**
Other comprehensive income	**—**	**—**
Total comprehensive income	**(2)**	**9**

There were no changes in volume arising from other comprehensive income and other equity items at companies accounted for using the equity method. There was no prorated loss during the reporting period or the previous year from companies accounted for using the equity method. Furthermore, there were no prorated cumulative losses in the reporting period or the previous year from companies accounted for using the equity method.

There are no material commitments arising from contingent liabilities of associated companies.

50 Held-to-maturity investments

(€ millions)

	2017	2016
Fixed-income securities	23	36
Impaired assets	—	—
Total	**23**	**36**

The held-to-maturity investments at 31 December 2017 include no subordinated assets, as was also the case in the previous year.

The held-to-maturity investments at 31 December 2017 include no impaired or past due assets, as was also the case at 31 December 2016.

Development of held-to-maturity investments

(€ millions)

	2017	2016
Balance at 1 January	**36**	**63**
Additions		
Purchases	—	—
Write-ups	—	—
Other additions	—	2
Disposals		
Sales	—	—
Redemptions at maturity	(8)	(29)
Write-downs	—	—
Other disposals	(5)	—
Balance at 31 December	**23**	**36**

51 Loans and receivables with banks

(€ millions)

	2017	2016
Current accounts	1,526	1,059
Cash collateral and pledged credit balances	7,306	9,567
Reverse repos	14,127	13,169
Reclassified securities	198	450
Other loans to banks	7,173	8,798
Total	**30,330**	**33,043**

Notes to the Balance Sheet (Continued)

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative fair values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

The other loans to banks consist mostly of term deposits and bonds.

The loans and receivables with banks include €0 million (previous year: €5 million) in subordinated assets at 31 December 2017.

Loans and receivables with related parties

The following table shows the breakdown of loans and receivables with banks involving related parties: (€ millions)

	2017	2016
Non-consolidated affiliated companies	4,667	3,874
of which:		
UniCredit S.p.A.	3,434	1,897
Sister companies[1]	1,233	1,977
Joint ventures	337	295
Associated companies	41	12
Other participating interests	60	79
Total	**5,105**	**4,260**

1 mainly UniCredit Bank Austria AG

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

	2017	2016
Properly serviced loans and receivables – carrying amount	**30,245**	**32,899**
Carrying amount before allowances	30,262	32,916
Portfolio allowances	17	17
Properly serviced loans and receivables past due – carrying amount	**85**	**142**
Carrying amount before allowances	85	142
Portfolio allowances	—	—
Non-performing loans and receivables (rating classes 8–, 9 and 10) – carrying amount	**—**	**2**
Carrying amount before allowances	38	45
Specific allowances	38	43

Properly serviced loans and receivables with banks and value of collateral, broken down by period past due (€ millions)

	2017	2016
Properly serviced loans and receivables past due – carrying amount		
1–30 days	85	142
31–60 days	—	—
61–90 days	—	—
Value of collateral		
1–30 days	—	48
31–60 days	—	—
61–90 days	—	—

Loans and receivables with banks and value of collateral, broken down by rating class (€ millions)

	2017	2016
Loans and receivables		
Not rated	287	1,072
Rating class 1–4	28,634	29,915
Rating class 5–8	1,409	2,054
Rating class 9–10	—	2
Collateral		
Not rated	—	—
Rating class 1–4	889	850
Rating class 5–8	158	272
Rating class 9–10	—	2

52 Loans and receivables with customers

(€ millions)

	2017	2016
Current accounts	6,548	7,315
Cash collateral and pledged cash balances	2,540	2,529
Reverse repos	1,422	1,632
Mortgage loans	44,667	44,009
Finance leases	1,689	2,026
Reclassified securities	879	1,271
Non-performing loans and receivables	1,756	2,511
Other loans and receivables	61,677	60,181
Total	**121,178**	**121,474**

Notes to the Balance Sheet (Continued)

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative fair values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Other loans and receivables largely comprise miscellaneous other loans, installment loans, term deposits and refinanced special credit facilities.

Loans and receivables with customers include an amount of €5,665 million (previous year: €3,515 million) funded under the fully consolidated Arabella conduit programme. This essentially involves buying short-term accounts payable and medium-term receivables under lease agreements from customers and funding them by issuing commercial paper on the capital market. The securitised loans and receivables essentially reflect loans and receivables of European borrowers, with the majority of the loans and receivables relating to German borrowers.

The loans and receivables with customers at 31 December 2017 include €451 million (previous year: €467 million) in subordinated assets.

Loans and receivables with related parties

The following table shows the breakdown of loans and receivables with customers involving related parties: (€ millions)

	2017	2016
Non-consolidated affiliated companies	6	54
of which:		
Sister companies	5	2
Subsidiaries	1	52
Joint ventures	20	24
Associated companies	16	37
Other participating interests	420	437
Total	**462**	**552**

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

	2017	2016
Properly serviced loans and receivables – carrying amount	**118,733**	**117,892**
Carrying amount before allowances	119,020	118,240
Portfolio allowances	287	348
Properly serviced loans and receivables past due – carrying amount	**689**	**1,071**
Carrying amount before allowances	693	1,076
Portfolio allowances	4	5
Non-performing loans and receivables (rating classes 8–, 9 and 10) – carrying amount	**1,756**	**2,511**
Carrying amount before allowances	3,614	4,661
Specific allowances	1,858	2,150

Properly serviced loans and receivables with customers past due and the related value of collateral, broken down by period past due (€ millions)

	2017	2016
Properly serviced loans and receivables past due – carrying amount		
1–30 days	660	993
31–60 days	22	59
61–90 days	7	19
Value of collateral		
1–30 days	194	340
31–60 days	9	46
61–90 days	1	16

Loans and receivables, and related collateral, broken down by rating class (€ millions)

	2017	2016
Loans and receivables		
Not rated	13,046	12,174
Rating class 1–4	77,354	76,453
Rating class 5–8	29,023	30,336
Rating class 9–10	1,755	2,511
Collateral		
Not rated	290	317
Rating class 1–4	37,616	37,543
Rating class 5–8	17,386	17,602
Rating class 9–10	893	977

Amounts receivable from customers under lease agreements (receivables under finance leases)
The amounts receivable from customers under finance lease agreements are described in more detail in the Note "Information regarding lease operations".

53 Forbearance

The European Banking Authority (EBA) defines forborne exposures as debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments that the lender would not have been prepared to grant under other circumstances. Possible measures range from deferrals and temporary moratoriums, longer periods allowed for repayment, reduced interest rates and rescheduling, and even debt forgiveness. It should be noted, however, that not every modification of a lending agreement is due to financial difficulties on the part of the borrower and represents forbearance.

Forborne exposures may be classified as performing or non-performing under the EBA definition. The non-performing portfolio encompasses exposures for which the counterparty is listed in a default or impaired portfolio and exposures that do not yet satisfy the EBA's strict criteria for returning to the performing portfolio. The following table shows the breakdown of the forborne exposure portfolio at the reporting date: (€ millions)

	2017			2016		
	CARRYING AMOUNT BEFORE ALLOWANCES	ALLOWANCES	CARRYING AMOUNT	CARRYING AMOUNT BEFORE ALLOWANCES	ALLOWANCES	CARRYING AMOUNT
Performing exposures	737	(14)	723	896	(16)	880
Non-performing exposures	2,845	(1,178)	1,667	3,502	(1,494)	2,008
Total	**3,582**	**(1,192)**	**2,390**	**4,398**	**(1,510)**	**2,888**

Notes to the Balance Sheet (Continued)

Of the total forborne exposures, €2,390 million are carried under loans and receivables with customers (previous year: €2,888 million). No securities with forbearance measures were held at the reporting date, as was the case in the previous year.

If allowances have not already been set up for forborne exposures, the loans involved are exposed to increased default risk as they have already become conspicuous. There is a risk that contractual servicing will fail despite the modification of the terms. Such exposures are closely tracked by the restructuring units or subject to strict monitoring by the back-office units. The accounting and valuation policies applicable to the creation of allowances for forborne exposures are explained in the Note "Impairment of financial assets".

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

Analysis of loans and receivables:

(€ millions)

	SPECIFIC ALLOWANCES		PORTFOLIO ALLOWANCES		TOTAL	
	2017	2016	2017	2016	2017	2016
Balance at 1 January	**2,193**	**2,252**	**370**	**436**	**2,563**	**2,688**
Changes affecting income						
Gross additions[1]	880	1,076	24	21	904	1,097
Releases	(584)	(644)	(84)	(86)	(668)	(730)
Changes not affecting income						
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	(13)	(6)	(1)	(2)	(14)	(8)
Use of existing loan-loss allowances	(520)	(463)	—	—	(520)	(463)
Effects of currency translation and other changes not affecting income	(59)	(22)	(1)	1	(60)	(21)
Non-current assets or disposal groups held for sale	—	—	—	—	—	—
Balance at 31 December	**1.897**	**2.193**	**308**	**370**	**2.205**	**2.563**

1 the gross additions include the losses on the disposal of impaired loans and receivables

55 Hedging derivatives

(€ millions)

	2017	2016
Micro fair value hedge	14	2
Fair value hedge portfolio[1]	376	382
Total	**390**	**384**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

56 Property, plant and equipment

(€ millions)

	2017	2016
Land and buildings	922	931
Plant and office equipment	364	524
Other property, plant and equipment	1,313	1,414
Total[1]	**2,599**	**2,869**

1 including leased assets of €449 million (previous year: €576 million). More information about leases is contained in the Note "Information regarding lease operations".

Other property, plant and equipment mainly contains the BARD Offshore 1 wind farm which belongs to the Ocean Breeze Energy GmbH & Co. KG subsidiary.

No subsequent production costs were capitalised for the wind farm over the reporting period (previous year: €5 million). The measures that have been implemented served to increase the economic benefit of the wind farm, meaning that the recognition requirements defined in IAS 16.10 in conjunction with IAS 16.7 are satisfied.

This item also includes the grants of €53 million provided by the European Union in previous years that are classified as government grants in accordance with IAS 20. Compliant with IAS 20.24, these grants have been deducted from the initial cost of the other property, plant and equipment on the assets side of the balance sheet. The cash funds were granted on condition that specific expenses could be demonstrated by Ocean Breeze Energy GmbH & Co. KG. The company has provided the necessary evidence.

Notes to the Balance Sheet (Continued)

Development of property, plant and equipment: (€ millions)

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2016	**2,116**	**1,513**	**3,629**	**1,698**	**5,327**
Write-downs and write-ups from previous years	(1,186)	(737)	(1,923)	(174)	(2,097)
Carrying amounts at 1 January 2016	**930**	**776**	**1,706**	**1,524**	**3,230**
Additions					
Acquisition/production costs	47	154	201	15	216
Write-ups	1	—	1	—	1
Changes from currency translation	—	8	8	—	8
Other additions[2]	2	11	13	—	13
Disposals					
Sales	(4)	(77)	(81)	(5)	(86)
Amortisation and write-downs	(35)	(102)	(137)	(111)	(248)
Impairments	(4)	—	(4)	(9)	(13)
Changes from currency translation	—	—	—	—	—
Non-current assets or disposal groups held for sale	(4)	(244)	(248)	—	(248)
Other disposals[2]	(2)	(2)	(4)	—	(4)
Carrying amounts at 31 December 2016	**931**	**524**	**1,455**	**1,414**	**2,869**
Write-downs and write-ups from previous years plus					
year under review	1,185	654	1,839	293	2,132
Acquisition costs at 31 December 2016	**2,116**	**1,178**	**3,294**	**1,707**	**5,001**
Acquisition costs at 1 January 2017	**2,116**	**1,178**	**3,294**	**1,707**	**5,001**
Write-downs and write-ups from previous years	1,185	654	1,839	293	2,132
Carrying amounts at 1 January 2017	**931**	**524**	**1,455**	**1,414**	**2,869**
Additions					
Acquisition/production costs	20	138	158	15	173
Write-ups	11	—	11	—	11
Changes from currency translation	—	—	—	—	—
Other additions[2]	—	15	15	—	15
Disposals					
Sales	(4)	(69)	(73)	(6)	(79)
Amortisation and write-downs	(33)	(95)	(128)	(110)	(238)
Impairments	(2)	—	(2)	—	(2)
Changes from currency translation	—	(1)	(1)	—	(1)
Non-current assets or disposal groups held for sale	(1)	(148)	(149)	—	(149)
Other disposals[2]	—	—	—	—	—
Carrying amounts at 31 December 2017	**922**	**364**	**1,286**	**1,313**	**2,599**
Write-downs and write-ups from previous years plus					
year under review	1,204	627	1,831	386	2,217
Acquisition costs at 31 December 2017	**2,126**	**991**	**3,117**	**1,699**	**4,816**

1 including leased assets. More information about leases is contained in Note Information regarding lease operations.
2 including changes in the group of companies included in consolidation

57 Investment properties

The fair value of investment properties at HVB Group, which are measured at amortised cost, totalled €1,141 million. The fair value of the comparative period came to €1,336 million and was corrected. 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 values determined in this way are classified as Level 3 (please refer to the Note “Fair value hierarchy” for the definition of the level hierarchy) due to the fact that each property is essentially unique and the fair value is determined using appraisals that reflect the special features of the real estate being valued. In the case of developed land, current market rents, operating costs and property yields are applied in the gross-rental method. Where necessary, property-specific considerations are also taken into account when determining the value. These property-specific factors include vacancy rates, deviations between current contractual rents and current market rents, the condition of the buildings’ technical systems and so on. In the case of undeveloped land, figures for sales of nearby land that have been completed are normally taken as the basis; where these are not available, the standard land value is employed as a benchmark, with adjustments made for the individual location, size and layout of the land, among other factors.

The net carrying amount of the leased assets arising from finance leases included in investment properties amounted to €11 million (31 December 2016: €11 million) for land and buildings at the reporting date.

Development of investment properties: **(€ millions)**

	INVESTMENT PROPERTIES MEASURED AT COST	
	2017	2016
Acquisition costs at 1 January	**1,844**	**1,909**
Write-downs and write-ups from previous years	(816)	(746)
Carrying amounts at 1 January	**1,028**	**1,163**
Additions		
Acquisition/production costs	2	4
Write-ups	10	14
Changes from currency translation	—	—
Other additions[1]	—	2
Disposals		
Sales	(25)	(88)
Amortisation and write-downs	(27)	(29)
Impairments	(23)	(19)
Changes from currency translation	—	—
Non-current assets or disposal groups held for sale	(157)	(18)
Other disposals[1]	—	(1)
Carrying amounts at 31 December	**808**	**1,028**
Write-downs and write-ups from previous years plus year under review	822	816
Acquisition costs at 31 December	**1,630**	**1,844**

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

Notes to the Balance Sheet (Continued)

58 Intangible assets

(€ millions)

	2017	2016
Goodwill	418	418
Other intangible assets	27	37
Internally generated intangible assets	17	22
Other intangible assets	10	15
Total	**445**	**455**

Development of intangible assets:

(€ millions)

	GOODWILL FROM AFFILIATED COMPANIES		INTERNALLY GENERATED INTANGIBLE ASSETS		OTHER INTANGIBLE ASSETS	
	2017	2016	2017	2016	2017	2016
Acquisition costs at 1 January	**1,042**	**1,042**	**384**	**386**	**188**	**260**
Write-downs and write-ups from previous years	(624)	(624)	(362)	(360)	(173)	(242)
Carrying amounts at 1 January	**418**	**418**	**22**	**26**	**15**	**18**
Additions						
Acquisition/production costs	—	—	2	4	3	5
Write-ups	—	—	—	—	—	—
Changes from currency translation	—	—	—	—	—	—
Other additions	—	—	—	—	—	—
Disposals						
Sales	—	—	—	—	—	—
Amortisation and write-downs	—	—	(7)	(8)	(7)	(8)
Impairments	—	—	—	—	—	—
Changes from currency translation	—	—	—	—	—	—
Non-current assets or disposal groups held for sale	—	—	—	—	(1)	—
Other disposals[1]	—	—	—	—	—	—
Carrying amounts at 31 December	**418**	**418**	**17**	**22**	**10**	**15**
Write-downs and write-ups from previous years plus year under review	624	624	369	362	173	173
Acquisition costs at 31 December	**1,042**	**1,042**	**386**	**384**	**183**	**188**

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

HVB no longer generates any software internally. Software is provided to HVB by the UniCredit-wide service provider UBIS.

59 Non-current assets or disposal groups held for sale

(€ millions)

	2017	2016
Cash	—	93
Available-for-sale financial assets	—	143
Loans and receivables with banks	—	116
Loans and receivables with customers	201	546
Property, plant and equipment	149	152
Investment properties	156	22
Tax assets	—	2
Other assets	5	3
Total	**511**	**1,077**

The investment properties designated as held for sale essentially relate to the disposal of non-strategic real estate. Also shown are assets relating to the planned sale of one subsidiary. This item no longer contains the assets of Bankhaus Neelmeyer AG, Bremen, contained in the previous year as the subsidiary left the group of companies included in consolidation at the close of 31 March 2017.

No valuation effects were recorded in the reporting period in connection with the non-current assets classified as for sale (previous year: minus €13 million). The valuation effects of the previous year were recognised in net other expenses/income.

60 Other assets

Other assets include prepaid expenses of €106 million (previous year: €93 million).

61 Own securitisation

The Bank has securitised its own loan receivables for the purpose of obtaining cheap funding on the capital market and generating securities for use as collateral in repurchase agreements.

This involves structuring the cash flows of the underlying loan portfolio, meaning that at least two hierarchical positions (tranches) are formed when dividing up the risks and cash flows. In the case of traditional securitisation (true sale), receivables are sold to a special purpose entity which in turn issues securities.

In the case of the true sale transaction Geldilux TS 2013, the senior tranche was placed on the capital market while the junior tranche was retained by HVB.

In the case of the true sale transactions Rosenkavalier 2008 (€3.1 billion), Rosenkavalier 2015 (€2.5 billion) and Geldilux 2015 (€2 billion) HVB retained all of the tranches issued by the special purpose entity. The senior positions (or senior tranches) of securities generated in this way can, if required, be used as collateral for repurchase agreements with the European Central Bank (ECB). The underlying receivables continue to be recognised by HVB and the special purpose entities set up for this purpose are fully consolidated in accordance with IFRS 10. The risk-weighted assets have not been reduced.

Notes to the Balance Sheet (Continued)

62 Deposits from banks

(€ millions)

	2017	2016
Deposits from central banks	19,857	15,946
Deposits from banks	47,497	41,638
Current accounts	2,590	2,417
Cash collateral and pledged credit balances	9,559	11,132
Repos	13,026	12,362
Term deposits	9,517	4,720
Other liabilities	12,805	11,007
Total	**67,354**	**57,584**

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative fair values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Amounts owed to related parties

The following table shows the breakdown of deposits from banks involving related parties:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	10,536	4,407
of which:		
UniCredit S.p.A.	6,900	1,139
Sister companies[1]	3,636	3,268
Joint ventures	35	33
Associated companies	38	78
Other participating interests	22	22
Total	**10,631**	**4,540**

1 the largest single item relates to UniCredit Bank Austria AG

63 Deposits from customers

(€ millions)

	2017	2016
Current accounts	71,011	69,341
Cash collateral and pledged credit balances	3,874	4,076
Savings deposits	13,905	13,780
Repos	8,607	8,798
Term deposits	21,887	16,028
Promissory notes	3,361	3,565
Other liabilities	1,639	1,616
Total	**124,284**	**117,204**

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative fair values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Amounts owed to related parties

The following table shows the breakdown of deposits from customers involving related parties:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	272	333
of which:		
Sister companies	242	326
Subsidiaries	30	7
Joint ventures	3	6
Associated companies	4	4
Other participating interests	282	370
Total	**561**	**713**

64 Debt securities in issue

(€ millions)

	2017	2016
Bonds	23,062	21,834
of which:		
Registered mortgage Pfandbriefs	5,020	5,498
Registered public-sector Pfandbriefs	3,700	3,027
Mortgage Pfandbriefs	7,883	7,351
Public-sector Pfandbriefs	136	262
Registered bonds	2,869	2,740
Other securities	2,490	2,380
Total	**25,552**	**24,214**

Debt securities in issue, payable to related parties

The following table shows the breakdown of debt securities in issue involving related parties:

(€ millions)

	2017	2016
Non-consolidated affiliated companies	—	217
of which:		
UniCredit S.p.A.	—	—
Sister companies	—	217
Joint ventures	6	16
Associated companies	125	146
Other participating interests	—	—
Total	**131**	**379**

Notes to the Balance Sheet (Continued)

65 Financial liabilities held for trading

(€ millions)

	2017	2016
Negative fair values arising from derivative financial instruments	40,024	54,806
Other financial liabilities held for trading	16,193	18,028
Total	**56,217**	**72,834**

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

66 Hedging derivatives

(€ millions)

	2017	2016
Micro fair value hedge	118	113
Fair value hedge portfolio[1]	351	884
Total	**469**	**997**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

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

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €1,215 million (previous year: €1,785 million). The fair value of the netted fair value hedge portfolio derivatives represents an economic comparable amount. The hedge adjustments are recognised separately in the balance sheet (for hedged lending and deposit-taking activities) for some subsidiaries for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €72 million (previous year: €51 million).

68 Liabilities of disposal groups held for sale

(€ millions)

	2017	2016
Deposits from banks	78	33
Deposits from customers	—	1,096
Tax liabilities	3	—
Other liabilities	21	7
Provisions	—	26
Total	**102**	**1,162**

The liabilities disclosed in 2017 relate to the planned disposal of a subsidiary. The liabilities of Bankhaus Neelmeyer AG, Bremen disclosed under this item in the previous year are no longer included as the subsidiary left the group of consolidated companies at the time of its disposal at the close of 31 March 2017.

69 Other liabilities

This item totalling €1,699 million (previous year: €2,145 million) essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

70 Provisions

(€ millions)

	2017	2016
Provisions for pensions and similar obligations	734	898
Allowances for losses on guarantees and commitments and irrevocable credit commitments	180	230
Restructuring provisions	410	631
Other provisions	1,277	1,263
Payroll provisions	367	272
Provisions related to tax disputes (without income taxes)	48	60
Provisions for rental guarantees and dismantling obligations	134	133
Other provisions	728	798
Total	**2,601**	**3,022**

The effects arising from changes in the discount rate and compounding led to an increase of €9 million (previous year: €9 million) in provisions recognised in the income statement in the reporting period. The effect arising from changes in the discount rate used for pension provisions is recognised in other comprehensive income.

Provisions for pensions and similar obligations

HVB Group grants its employees post-employment benefits that are structured as defined benefit plans or defined contribution plans.

In the case of defined benefit plans, the Bank undertakes to pay a defined future pension. The financial resources required to do so in the future can be accrued within the company (internal financing) or by payment of specific amounts to external pension funds (external financing).

In the case of defined contribution plans, the Bank undertakes to pay defined contributions to external pension funds which will later make the pension payments. Apart from paying the periodic contributions, the company has de facto no further obligations.

Defined benefit plans

Characteristics of the plans

The provisions for pensions and similar obligations include the direct commitments to HVB Group employees under company pension plans. These defined benefit plans are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. Fund-linked plans with a guaranteed minimum rate of interest of 2.75% have been granted in Germany since 2003.

Notes to the Balance Sheet (Continued)

The obligations financed by Pensionskasse der HypoVereinsbank VVaG (HVB Pensionskasse) are included in the disclosures regarding pension obligations (the total includes the obligations of HVB Unterstützungskasse e.V. reinsured by HVB Pensionskasse). The standard HVB Group valuation parameters are used when calculating these obligations. Any plan surplus is subject to the rules governing the asset ceiling, as the assets belong to the members of HVB Pensionskasse.

HVB Group set up plan assets in the form of contractual trust arrangements (CTA). This involved transferring the assets required to fund its pension obligations to legally independent trustees, including HVB Trust e.V., which manage the assets in line with the applicable trustee contracts.

There are no legal or regulatory minimum funding requirements in Germany.

HVB Group reorganised its company plans for pensioners (direct commitments) in 2009. HVB Trust Pensionsfonds AG (pension fund) was set up in this process. Both the pension obligations to pensioners who in October 2009 had already received pension benefits from the Bank and the assets required to cover these obligations were transferred to the pension fund. In December 2016, pension commitments and obligations of the Bank were again transferred to the pension fund for further beneficiaries who in October 2016 had already received pension benefits and the corresponding plan assets to cover the beneficiaries' claims. The pensioners' pension claims are not affected by the transfer; HVB continues to guarantee the pension. The pension fund is a legally independent institution regulated by the German Federal Financial Supervisory Authority (BaFin).

HVB Group is exposed to various risks in connection with its defined benefit plans. Potential pension risks exist with regard to both the benefit obligations (liabilities side) and the plan assets allocated to cover the beneficiaries' claims (assets side). The defined benefit obligations are exposed to actuarial risks such as interest rate risk, longevity risk, salary- and pension-adjustment risk and inflation risk. In the case of fund-linked pension obligations, there is the risk that it will prove impossible in the long run to generate the guaranteed interest rate of 2.75% from the funds allocated to the pension commitments, given persistently low interest rates. With regard to the capital investment, the assets are primarily exposed to market risk such as price risks in securities holdings or changes in the value of real estate investments.

The major pension risk is thus expressed as a deterioration in the funded status as a result of unfavourable developments of defined benefit obligations and/or plan assets, since the sponsoring companies are required to act to service the beneficiaries' claims in the event of any plan deficits. No unusual, company-specific or plan-specific risks or material risk concentrations that could affect the Group's pension plans are currently identifiable.

Reconciliations

The amounts arising from defined benefit plans for post-employment benefits recognised in the consolidated balance sheet can be derived as follows:

(€ millions)

	2017	2016
Present value of funded pension obligations	4,809	4,975
Fair value of plan assets	(4,090)	(4,091)
Funded status	**719**	**884**
Present value of unfunded pension obligations	15	14
Net liability (net asset) of defined benefit plans	**734**	**898**
Asset ceiling	—	—
Capitalised excess cover of plan assets	—	—
Recognised pension provisions	**734**	**898**

The following tables show the development of the present value of the total (funded and unfunded) pension obligations, the fair value of the plan assets and the net defined benefit liability (asset) from defined benefit plans resulting from the offsetting of these totals. The tables also show the changes in the effects of the asset ceiling during the reporting period and the reconciliations from the opening to the closing balance of the plan asset surplus capitalised as an asset and the recognised provisions for pensions and similar obligations:

(€ millions)

	PRESENT VALUE OF PENSION COMMITMENTS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2016	**4,697**	**(4,079)**	**618**	**—**	**—**	**618**
Service cost component						
Current service cost	69	—	69	—	—	69
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	110	(96)	14	—	—	14
Service costs and net interest						
of defined benefit plans recognised in						
profit or loss for the period	**179**	**(96)**	**83**	**—**	**—**	**83**
Remeasurement component						
Gains/(losses) on plan assets excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	(22)	(22)	—	—	(22)
Actuarial gains/(losses) –						
demographic assumptions	—	—	—	—	—	—
Actuarial gains/(losses) –						
financial assumptions	316	—	316	—	—	316
Actuarial gains/(losses) –						
experience adjustments	(11)	—	(11)	—	—	(11)
Changes due to asset ceiling excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	—	—	—	—	—
Remeasurements component of defined						
benefit plans recognised in OCI	**305**	**(22)**	**283**	**—**	**—**	**283**
Other changes						
Excess cover of plan assets	—	—	—	—	—	—
Exchange differences	(15)	21	6	—	—	6
Contributions to the plan:						
Employer	—	(73)	(73)	—	—	(73)
Plan participants	7	—	7	—	—	7
Pension payments	(144)	143	(1)	—	—	(1)
Business combinations, disposals and other	(40)	15	(25)	—	—	(25)
Balance at 31 December 2016	**4,989**	**(4,091)**	**898**	**—**	**—**	**898**

Notes to the Balance Sheet (Continued)

(€ millions)

	PRESENT VALUE OF PENSION COMMITMENTS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2017	**4,989**	**(4,091)**	**898**	**—**	**—**	**898**
Service cost component						
Current service cost	73	—	73	—	—	73
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	94	(78)	16	—	—	16
Service costs and net interest						
of defined benefit plans recognised in						
profit or loss for the period	**167**	**(78)**	**89**	**—**	**—**	**89**
Remeasurement component						
Gains/(losses) on plan assets excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	(27)	(27)	—	—	(27)
Actuarial gains/(losses) –						
demographic assumptions	—	—	—	—	—	—
Actuarial gains/(losses) –						
financial assumptions	(160)	—	(160)	—	—	(160)
Actuarial gains/(losses) –						
experience adjustments	(31)	—	(31)	—	—	(31)
Changes due to asset ceiling excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	—	—	—	—	—
Remeasurements component of defined						
benefit plans recognised in OCI	**(191)**	**(27)**	**(218)**	**—**	**—**	**(218)**
Other changes						
Excess cover of plan assets	—	—	—	—	—	—
Exchange differences	(5)	5	—	—	—	—
Contributions to the plan:						
Employer	—	(44)	(44)	—	—	(44)
Plan participants	8	—	8	—	—	8
Pension payments	(146)	145	(1)	—	—	(1)
Business combinations, disposals and other	2	—	2	—	—	2
Balance at 31 December 2017	**4,824**	**(4,090)**	**734**	**—**	**—**	**734**

At the end of the reporting period, 34% (previous year: 33%) of the present value of the defined benefit obligations of €4,824 million (previous year: €4,989 million) was attributable to active employees, 22% (previous year: 23%) to former employees with vested benefit entitlements and 44% (previous year: 44%) to pensioners and surviving dependants.

Actuarial assumptions
The significant actuarial assumptions used to determine the present value of the defined benefit obligation are listed below. The summarised disclosure for several plans takes the form of weighted average factors:

(in %)

	2017	2016
Actuarial interest rate	2.15	1.90
Rate of increase in pension commitments	1.60	1.50
Rate of increase in future compensation and over career	2.00	2.00

The mortality rate underlying the actuarial calculation of the present value of the defined benefit obligation is based on the modified Heubeck 2005 G tables (generation tables) that allow for the probability of mortality to fall to 90% (previous year: 90%) for women and 75% (previous year: 75%) for men.

HVB Group similarly reduces the probability of disability based on these guidance tables to 80% (previous year: 80%) for women and men equally. Since any changes in the actuarial assumptions regarding disability fundamentally only have a minor impact on the present value of the defined benefit obligation, HVB Group does not calculate any sensitivities for this valuation parameter.

In addition, the present value of the defined benefit obligation is influenced by assumptions regarding future inflation rates. Inflation effects are normally taken into account in the assumptions listed above.

Sensitivity analyses
The sensitivity analyses discussed below are intended to show how the present value of the defined benefit obligation would change given a change to an actuarial assumption in isolation with the other assumptions remaining unchanged compared with the original calculation. Possible correlation effects between the individual assumptions are not taken into account accordingly. The sensitivity analyses are based on the changes to the actuarial assumptions expected by HVB Group at the reporting date for the subsequent reporting period.

An increase or decrease in the significant actuarial assumptions in the amount of the percentage points shown in the table would have had the following impact on the present value of the defined benefit obligation at the reporting date:

	CHANGES OF THE ACTUARIAL ASSUMPTIONS	IMPACT ON THE PRESENT VALUE OF PENSION COMMITMENTS		
		PRESENT VALUE OF LIABILITY	ABSOLUTE CHANGES	RELATIVE CHANGES
		€ millions	€ millions	in %
Sensitivities at 31 December 2017				
	Basic value of the calculation of sensitivity	4,824		
Actuarial interest rate	Increase of 25 basis points	4,619	(205)	(4.2)
	Decrease of 25 basis points	5,040	216	4.5
Rate of increase in pension commitments	Increase of 25 basis points	4,966	142	2.9
	Decrease of 25 basis points	4,686	(138)	(2.9)
Rate of increase in future compensation/career trend	Increase of 25 basis points	4,827	3	0.1
	Decrease of 25 basis points	4,818	(6)	(0.1)
Sensitivities at 31 December 2016				
	Basic value of the calculation of sensitivity	4,989		
Actuarial interest rate	Increase of 25 basis points	4,772	(217)	(4.3)
	Decrease of 25 basis points	5,224	235	4.7
Rate of increase in pension commitments	Increase of 25 basis points	5,141	152	3.0
	Decrease of 25 basis points	4,846	(143)	(2.9)
Rate of increase in future compensation/career trend	Increase of 25 basis points	4,996	7	0.1
	Decrease of 25 basis points	4,985	(4)	(0.1)

Notes to the Balance Sheet (Continued)

The observable decline in mortality rates is associated with an increase in life expectancy depending on the individual age of each beneficiary. In order to determine the sensitivity of the mortality or longevity, the lifetime for all beneficiaries was increased by one year. The present value of the defined benefit obligation at 31 December 2017 would rise by €149 million (3.1%) to €4,973 million (or by €158 million (3.2%) at 31 December 2016 to €5,147 million) as a result of this change. HVB Group considers an opposite trend, that is an increase in mortality or a decrease in life expectancy, to be unlikely and has therefore not calculated a sensitivity for this case in the reporting period (and in the previous year).

When determining the sensitivities of the defined benefit obligation for the significant actuarial assumptions, the same method has been applied (projected unit credit method) as has been used to calculate the pension provisions recognised in the consolidated balance sheet. Increases and decreases in the various valuation assumptions do not entail the same absolute amount in their impact when the defined benefit obligation is calculated, due mainly to the compound interest effect when determining the present value of the future benefit. If more than one of the assumptions are changed simultaneously, the combined effect does not necessarily correspond to the sum total of the individual effects. Furthermore, the sensitivities only reflect a change in the present value of the defined benefit obligation for the actual extent of the change in the assumptions (such as 0.25%). If the assumptions change to a different extent, this does not necessarily have a straight-line impact on the present value of the defined benefit obligation. Since the sensitivity analyses are based on the average duration of the expected pension obligation, and consequently the expected disbursement dates are not taken into account, they only result in indicative information or trends.

Asset liability management
The plan assets are managed by a trustee with a view to ensuring that the present and future pension obligations are settled by applying an adequate investment strategy, thus minimising the risk of the trustors or sponsoring companies having to provide additional capital.

Under the CTA, the capital investment decisions are taken by an institutionalised body, the Investment Committee, which defines the investment strategy and policies for the plan assets. The concept calls for the assets to be invested in line with the structure of the pension obligations in particular and an appropriate return to be generated taking into account the associated risks. In order to optimise the risk/return ratio, the Investment Committee sets strategic allocation ranges and investment limits for the asset classes in the plan assets, which can be exploited flexibly within the agreed risk budget. The bodies and processes required by law have been set up as appropriate for HVB Pensionskasse and the pension fund.

In order to allow for an integral view on plan assets and defined benefit obligations (asset liability management), the pension risks are monitored regularly with the aid of a specially developed risk model and included in the Bank's risk calculation. Since HVB Group employs various methods involving legally independent entities to implement the company pension plans, risk management concepts including stress tests and analysis of risk-taking capacity are also applied in specific instances.

Alongside the actuarial risks mentioned above, the risks associated with the defined benefit obligations relate primarily to financial risks in connection with the plan assets. The capital investment risk in the funding of the pension obligations encompasses notably potential liquidity, credit, concentration, market and real estate risks.

Liquidity risk can result from non-existent or limited marketability of the capital investments, which may cause losses to be realised when the assets are sold to settle payment obligations. HVB is not currently exposed to this risk as the expected incoming payments are sufficient to meet the payment obligations. In addition, an appropriate proportion of the capital investments is invested in assets classified as liquid (cash and cash equivalents/term deposits). Liquidity projections are prepared at regular intervals with a view to continue avoiding this risk.

Credit risk stems from anything from a deterioration in the solvency of individual debtors through to insolvency. This risk is mitigated by deliberately spreading the capital investments and complying with specific investment policies regarding the creditworthiness of issuers. The relevant ratings are monitored constantly.

Concentration risk arises from excessive investment in an individual asset class, individual industry, individual security or individual property. This risk is countered by means of broad diversification in line with investment policies, ongoing review of the capital investment policy and specific parameters for the asset managers. Among other things, targeted investment in mixed investment funds is used to reduce concentration risk by diversifying the composition of the fund assets.

Market risk has its roots in the risk of declining fair values caused by negative changes in market prices, equity prices and changes in interest rates. Here, too, compliance with the parameters specified for the composition and diversity of the capital investments is ensured and risk-limiting investment policies are defined for the asset managers.

Real estate risk exists with both directly held real estate and special-purpose real estate funds. It results from factors like possible unpaid rents, loss of property value, high maintenance costs and declining location attractiveness. To minimise these risks, the proportion that may be invested in real estate is constrained by a limit and the greatest possible diversification is targeted. In addition, no short-term rent contracts are concluded for directly owned real estate.

Disaggregation of plan assets

The following table shows a disaggregation of the plan assets used to fund the defined benefit obligations by asset class: (€ millions)

	2017	2016
Participating interests	56	54
Debt securities	130	134
Properties	186	174
Mixed investment funds	3,136	3,182
Property funds	390	331
Cash and cash equivalents/term deposits	50	68
Other assets	142	148
Total	**4,090**	**4,091**

Quoted market prices in an active market were observed for most of the fixed-income securities held directly and almost all the types of asset held in the mixed investment fund. As a general rule, the fixed-income securities have an investment grade rating.

In terms of amount, the investment in mixed investment funds represents the lion's share of the asset allocation for the plan assets. The deliberate investment in various asset classes and the general restriction to traditional investment instruments serve to ensure a risk-mitigating minimum diversification and also reflect a conservative underlying strategy. The high proportion of bonds with a medium- to long-term benchmark (such as government and corporate bonds, and Pfandbriefs) held in the fund implies low volatility with the intention of balancing the development in the value of the long-term pension commitments that follows general interest rates.

The following table shows a detailed breakdown of the mixed investment fund: (in %)

	2017	2016
Equities	12.2	6.5
German equities	2.1	1.1
European equities	6.5	4.6
Other equities	3.6	0.8
Government bonds	29.8	32.2
Pfandbriefs	14.6	13.4
Corporate bonds	28.0	29.3
German corporate bonds	5.1	5.8
European corporate bonds	15.1	16.7
Other corporate bonds	7.8	6.8
Fund certificates	4.6	3.1
Cash and cash equivalents/term deposits	10.8	15.5
Total	**100.0**	**100.0**

Notes to the Balance Sheet (Continued)

The plan assets comprised own financial instruments of the Group, property occupied by and other assets used by HVB Group companies at the reporting date:

(€ millions)

	2017	2016
Participating interests	—	—
Debt securities	15	15
Properties	—	—
Mixed investment funds	225	332
Property funds	—	—
Cash and cash equivalents/term deposits	50	68
Other assets	—	—
Total	**290**	**415**

Future cash flows
There are financing agreements at HVB Group that contain measures to fund defined benefit plans. The minimum funding requirements included in the agreements may have an impact on future contribution payments. In the case of HVB Trust Pensionsfonds AG, HVB Group is liable for calls for additional capital should the assets fall below the minimum cover provision. For HVB Pensionskasse, the Bank is required to make an additional contribution if the permanent financing of the obligations is no longer ensured. No such requirement for calls for additional capital exists for the CTA.

HVB Group intends to make contributions of €28 million (previous year: €28 million) to defined benefit plans in the 2018 financial year.

The weighted average duration of HVB Group's defined benefit obligations at the reporting date amounted to 17.5 years (previous year: 18.1 years).

Multi-employer plans
HVB Group is a member of Versorgungskasse des Bankgewerbes e.V. (BVV), which also includes other financial institutions in Germany in its membership. BVV provides company pension benefits for eligible employees of the sponsoring companies. The BVV tariffs allow for fixed pension payments with profit participation. On account of the employer's statutory subsidiary liability applicable in Germany (Section 1 (1) 3 of the German Occupational Pensions Act (Betriebsrentengesetz – BetrAVG)), HVB Group classifies the BVV plan as a multi-employer defined benefit plan.

Since the available information is not sufficient to allow this plan to be accounted for as a defined benefit plan by allocating to the individual member companies the assets and the pension obligations relating to active and former employees, HVB Group accounts for the plan as if it were a defined contribution plan.

In the event of a plan deficit, the Group may be exposed to investment risk and actuarial risk. In addition, a need for adjustment might arise from compensating the beneficiaries for inflation. HVB Group does not currently expect that the statutory subsidiary liability will be used.

HVB Group expects to book employer contributions of €24 million for this pension plan in the 2018 financial year (previous year: €25 million). Due to the current interest rate environment, BVV reduced the payment for the future pension rights in 2016. To exempt the Bank's employees from this reduction in payment, the Bank, as the employer, pays an additional contribution so that employees do not suffer any disadvantage in their future pension rights. This additional contribution amounts to €7 million in the 2018 financial year (previous year: €8 million).

Defined contribution plans

HVB Group companies pay fixed amounts for each period to independent pension organisations for the defined contribution pension commitments. The contributions for the defined contribution plans and Pensions-Sicherungs-Verein VVaG (PSVaG) recognised as current expense under payroll costs totalled €27 million during the reporting period (previous year: €22 million).

The employer contributions to the statutory pension scheme and the alternative professional pension schemes, which qualify as defined contribution state plans, are similarly included in payroll costs. Such contributions amounted to €86 million in the reporting period (previous year: €92 million).

Allowances for losses on financial guarantees and irrevocable credit commitments, restructuring provisions and other provisions

(€ millions)

	ALLOWANCES FOR LOSSES ON FINANCIAL GUARANTEES AND COMMITMENTS AND IRREVOCABLE CREDIT COMMITMENTS		RESTRUCTURING PROVISIONS1[1]		OTHER PROVISIONS	
	2017	2016	2017	2016	2017	2016
Balance at 1 January	**230**	**197**	**631**	**213**	**1,263**	**1,204**
Changes in consolidated group	—	—	—	—	—	—
Changes arising from foreign currency translation	(1)	1	—	—	(4)	11
Transfers to provisions	151	179	5	494	179	375
Reversals	(200)	(146)	(9)	(6)	(69)	(110)
Reclassifications	—	—	(193)	(50)	55	21
Amounts used	—	—	(26)	(20)	(147)	(234)
Non-current assets or disposal groups held for sale	—	(1)	—	—	—	(4)
Other changes	—	—	2	—	—	—
Balance at 31 December	**180**	**230**	**410**	**631**	**1,277**	**1,263**

1 the transfers and reversals are included in the income statement under restructuring costs together with other restructuring costs accruing during the reporting period

Restructuring provisions

The allocations to restructuring provisions reported in the 2017 financial year essentially relate to the restructuring measures at subsidiaries.

The allocations to restructuring provisions in the previous year are mainly due to the measures planned in connection with the "Transform 2019" strategy programme.

Notes to the Balance Sheet (Continued)

Other provisions
The payroll provisions carried under other provisions encompass long-term obligations to employees such as service anniversary awards, early retirement or partial retirement. In addition, payroll provisions cover the parts of the bonus that are disbursed on a deferred basis, or transferred in cases where the bonus is granted in the form of shares, with the waiting period exceeding one year. The disbursement of these bonuses is additionally dependent upon the achievement of pre-defined targets. The bonus commitments for the 2013, 2014, 2015, 2016 and 2017 financial years to be disbursed as of 2018 are included here accordingly. The bonus provisions included here have been taken to the income statement in both the reporting period and the previous financial years. It is considered highly probable that the bonus will be disbursed. For details of the bonus plan, please refer to the Note "Operating costs".

The other provisions of €728 million (previous year: €798 million) include provisions of €623 million (previous year: €678 million) for legal risks, litigation fees and damage payments.

The amount of the respective provisions reflects the best estimate of the amount required to settle the obligation at the reporting date. Nevertheless, the amounts involved are subject to uncertainties in the estimates made. Besides the assumptions regarding periods, the cost estimates are validated regularly for rental guarantees in particular.

With the exception of the provisions for rental guarantees and pre-emptive rights, most of the other provisions are normally expected to be utilised during the following financial year.

71 Shareholders' equity
The shareholders' equity of HVB Group at 31 December 2017 consisted of the following:

Subscribed capital
At 31 December 2017, the subscribed capital of HVB totalled €2,407 million (previous year: €2,407 million) and consisted of 802,383,672 no par shares of common bearer stock (previous year: 802,383,672 no par shares).

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share. The shares are fully paid in.

Additional paid-in capital
The additional paid-in capital results from premiums generated on the issuance of shares; the total at 31 December 2017 amounted to €9,791 million (previous year: €9,791 million).

Other reserves
Other reserves of €5,289 million (previous year: €5,107 million) predominantly contain retained earnings. The year-on-year increase of €182 million in other reserves essentially reflects actuarial gains on defined benefit plans, which amounted to €150 million.

Change in valuation of financial instruments
The reserves arising from changes in valuation of financial instruments recognised in equity totalled €80 million at 31 December 2017 (previous year: €104 million). This year-on-year decrease of €24 million can be primarily attributed to the AfS reserve, which fell by €22 million to €52 million, essentially as a result of gains on the disposal of financial assets reclassified to the income statement.

72 Subordinated capital

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

(€ millions)

	2017	2016
Subordinated liabilities	523	543
Hybrid capital instruments	51	56
Total	**574**	**599**

In this context, subordinated liabilities and hybrid capital instruments have been classified as Tier 2 capital for banking supervisory purposes in accordance with the provisions set forth in Articles 62, para. 1a, 63 to 65, 66 para. 1a and 67 CRR. The hybrid capital instruments are allocated to Tier 2 capital in accordance with Articles 87 and 88 CRR in conjunction with Article 480 CRR.

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

(€ millions)

	2017	2016
Deposits from customers	—	10
Deposits from banks	313	96
Debt securities in issue	261	493
Total	**574**	**599**

We have incurred interest expenses of €17 million (previous year: €18 million) in connection with this subordinated capital. Subordinated capital includes proportionate interest of €4 million (previous year: €4 million).

Subordinated liabilities

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

There were subordinated liabilities of €313 million payable to related parties in the reporting period (previous year: €313 million).

Hybrid capital instruments

Hybrid capital instruments may include, in part, issues placed by specially created subsidiaries in the form of capital contributions from silent partners.

Our hybrid capital instruments satisfy the requirements for classification as Tier 2 capital as defined in Article 63 CRR. At 31 December 2017, HVB Group had hybrid capital of €10 million (previous year: €22 million) bolstering its capital base for banking supervisory purposes.

Notes to the Cash Flow Statement

73 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities and financing activities for the reporting period. 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 and cash balances" item in the balance sheet, comprising both cash on hand and deposits with central banks repayable on demand.

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

All proceeds and payments from transactions relating to equity and subordinated capital are allocated to cash flow from financing activities. The portfolios of subordinated and hybrid capital included in the cash flow from financing activities as financing liabilities have on balance decreased by €45 million in the reporting period (previous year: €92 million).

Gains of €68 million were generated on the disposal of shares in fully consolidated companies in the 2017 financial year, of which €68 million was in cash. The gains on disposal generated in cash relate to the sale of the shareholding in Bankhaus Neelmeyer.

The following table shows the assets and liabilities of the fully consolidated companies sold: (€ millions)

	2017		2016	
	ACQUIRED	SOLD	ACQUIRED	SOLD
Assets				
Cash and cash balances	—	—	—	—
Financial assets held for trading	—	—	—	—
Financial assets at fair value through profit or loss	—	—	—	—
Available-for-sale financial assets	—	—	—	—
Shares in associated companies accounted for using the equity method and joint ventures accounted for using the equity method	—	—	—	—
Held-to-maturity investments	—	—	—	—
Loans and receivables with banks	—	—	—	28
Loans and receivables with customers	—	—	—	—
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Property, plant and equipment	—	—	—	1
Investment properties	—	—	—	—
Intangible assets	—	—	—	1
of which: goodwill	—	—	—	—
Tax assets	—	—	—	14
Non-current assets or disposal groups held for sale	—	1,300	—	—
Other assets	—	—	—	5
Liabilities				
Deposits from banks	—	—	—	—
Deposits from customers	—	—	—	—
Debt securities in issue	—	—	—	—
Financial liabilities held for trading	—	—	—	—
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Tax liabilities	—	—	—	—
Liabilities of disposal groups held for sale	—	1,233	—	—
Other liabilities	—	—	—	13
Provisions	—	—	—	21

There were no significant acquisitions of subsidiaries or associated companies in the 2016 and 2017 financial years.

Other Information

74 Events after the reporting period

At its meeting on 16 February 2018, the Supervisory Board appointed Jan Kupfer and Dr Emanuele Buttà as members of the Management Board with effect from 1 March 2018. Mr Kupfer will be in charge of the Corporate & Investment Banking business segment and succeeds Dr Michael Diederich, who was appointed Board Spokesman of UniCredit Bank AG as per 1 January 2018. Dr Emanuele Buttà is taking over the Private Clients Bank business unit from Peter Buschbeck which together with the Unternehmer Bank business unit constitutes the Commercial Banking business segment of the Bank.

75 Information regarding lease operations

HVB Group as lessor

Operating leases

HVB Group acts as a lessor under operating leases. The relevant lease agreements notably encompass real estate (land and buildings) and movable assets such as plant and office equipment, aircraft, motor vehicles and industrial machinery in the reporting period. The lease agreements for real estate are based on customary market terms and contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have generally not been agreed. The lease agreements for movable assets have generally been concluded with lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the breakdown of the minimum lease payments to be received on non-cancellable operating leases: (€ millions)

	2017	2016
up to 1 year	65	114
from 1 year to 5 years	218	368
from 5 years and over	122	106
Total	**405**	**588**

The year-on-year decline in the amount of the minimum lease payments to be received in future is primarily due to the fact that the operating leases of a subsidiary held for sale (for more information on disclosure pursuant to IFRS 5 refer to the Note "Non-current assets or disposal groups held for sale") and a subsidiary deconsolidated in the reporting period are no longer included in the figures disclosed at the end of the financial year.

Finance leases

HVB Group leases mobile assets as a lessor under finance leases. This notably includes plant and office equipment, aircraft, motor vehicles and industrial machinery. As a general rule, the lease agreements stipulate lease periods of between four and ten years and possibly a pre-emptive right in favour of the lessor; they do not contain any extension or price adjustment clauses.

The following table shows the reconciliation from the future minimum lease payments to the gross and net investment in the lease and to the present value of the future minimum lease payments at the reporting date. The amounts receivable from lease operations (finance leases) consist of the following: (€ millions)

	2017	2016
Future minimum lease payment	1,798	2,159
+ Unguaranteed residual value	—	—
= Gross investment	**1,798**	**2,159**
– Unrealised finance income	(88)	(110)
= Net investment	**1,710**	**2,049**
– Present value of unguaranteed residual value	—	—
= Present value of future minimum lease payments	**1,710**	**2,049**

The year-on-year decline in the balance of amounts receivable from lease operations is chiefly attributable to the fact that the finance leases of a subsidiary held for sale (for more information on the disclosure pursuant to IFRS 5 refer to the note "Non-current assets or disposal groups held for sale") are no longer included in the present value of the future minimum lease payments disclosed at the reporting date.

The future minimum lease payments reflect the total lease payments to be made by the lessee under the lease agreement plus the guaranteed residual value.

Other Information (Continued)

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.

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.

Unrealised finance income is the difference between the lessor's gross investment in the lease and its present value (net investment). It corresponds to the return implicit in the lease between the reporting date and the end of the lease.

The present value of the minimum lease payments is calculated as the net investment in the lease less the present value of the unguaranteed residual value.

The following table shows the remaining maturity of the gross investment in the leases and the present value of the minimum lease payments:

(€ millions)

	GROSS INVESTMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2017	2016	2017	2016
up to 1 year	669	772	635	732
from 1 year to 5 years	998	1,247	950	1,184
from 5 years and over	131	140	125	133
Total	**1,798**	**2,159**	**1,710**	**2,049**

The cumulative write-downs on uncollectible outstanding minimum lease payments in amounts receivable from customers under finance leases amounted to €12 million at the end of the reporting period (previous year: €18 million).

The amounts receivable under finance leases included in loans and receivables with customers are shown net of allowances for losses on loans and receivables in each case (see the Note "Loans and receivables with customers"). These break down as follows:

(€ millions)

	2017	2016
Properly serviced loans and receivables – carrying amount	**1,630**	**2,017**
Carrying amount before allowances	1,636	2,022
Portfolio allowances	6	5
Properly serviced loans and receivables past due – carrying amount	**59**	**9**
Carrying amount before allowances	59	9
Portfolio allowances	—	—
Non-performing loans and receivables – carrying amount	**21**	**23**
Carrying amount before allowances	39	47
Specific allowances	18	24

Properly serviced loans and receivables past due and associated collateral, broken down by period past due

(€ millions)

	2017	2016
Properly serviced loans and receivables past due – carrying amount		
1–30 days	57	7
31–60 days	2	2
61–90 days	—	—
Value of collateral		
1–30 days	12	7
31–60 days	1	1
61–90 days	—	—

Loans and receivables, and collateral, broken down by rating class (€ millions)

	2017	2016
Loans and receivables		
Not rated	—	192
Rating class 1–4	1,480	1,512
Rating class 5–8	209	322
Rating class 9–10	21	23
Value of collateral		
Not rated	—	—
Rating class 1–4	853	1,159
Rating class 5–8	117	190
Rating class 9–10	18	19

HVB Group as lessee

Operating leases

HVB Group acts as lessee under operating leases. The current obligations in the reporting period relate primarily to rental and lease agreements for real estate (land and buildings) and movable assets, mainly comprising plant, office equipment and motor vehicles. The lease agreements for real estate generally contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have been agreed in some cases. The lease agreements for movable assets have been concluded at customary market terms for lease periods of between three and nine years.

In the reporting period, the commitments arising from operating leases under lease and sublease agreements resulted in minimum lease payments of €89 million (previous year: €103 million) being recognised as expense in the income statement.

The following table shows the cumulative minimum lease payments arising from non-cancellable operating leases to be expected in future financial years: (€ millions)

	2017	2016
up to 1 year	95	98
from 1 year to 5 years	109	139
from 5 years and over	29	37
Total	**233**	**274**

The agreements regarding the outsourcing of information and communications technology processes to the UniCredit-wide service provider UBIS include the charged transfer of rights to use assets in the form of operating leases. The full service contracts concluded annually in this regard consist for the most part of rent payments for the provision of hardware and software that are included in the minimum lease payments of €28 million for the reporting period and €34 million for the following financial year mentioned above.

HVB Group has concluded sublease agreements for real estate at customary market terms, some of which include rent adjustment clauses and extension options. Payments of €9 million (previous year: €9 million) received from subleases were recognised as income in the income statement during the reporting period.

The aggregate future minimum lease payments arising from non-cancellable subleases expected to be received in the subsequent financial years amount to €20 million (previous year: €27 million).

Other Information (Continued)

Finance leases

The finance leases entered into by HVB Group as lessee relate to real estate (land and buildings). The lease agreements generally contain an option to purchase and price adjustment clauses.

The following table shows the reconciliation from the aggregate future minimum lease payments at the reporting date to their present value. This gives rise to the amounts payable to customers from lease operations (finance leases):

(€ millions)

	2017	2016
Future minimum lease payments	201	213
– Finance charge (interest included in minimum lease payments)	(19)	(20)
= Present value of future minimum lease payments	**182**	**193**

The difference between the future minimum lease payments and their present value represents unamortised interest expense.

The following table shows the remaining maturity of the future minimum lease payments and their present value at the reporting date:

(€ millions)

	FUTURE MINIMUM LEASE PAYMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2017	2016	2017	2016
up to 1 year	13	13	13	12
from 1 year to 5 years	55	52	50	48
from 5 years and over	133	148	119	133
Total	**201**	**213**	**182**	**193**

The aggregate future minimum lease payments arising from non-cancellable subleases that are expected to be received in the subsequent financial years amount to €30 million (previous year: €22 million).

76 Reclassification of financial instruments in accordance with IAS 39.50 et seq. and IFRS 7

HVB reclassified certain financial assets to loans and receivables in 2008 and 2009 in accordance with the amendment to IAS 39 and IFRS 7 implemented by the International Accounting Standards Board (IASB) and Commission Regulation (EC) No 1004/2008. The intention to trade no longer exists for these reclassified holdings since the markets in these financial instruments had become illiquid as a result of the extraordinary circumstances created by the financial crisis (2008/09) through to the time of reclassification. Given the high quality of the assets concerned, HVB intends to retain the assets for a longer period. HVB has not reclassified any assets from the available-for-sale portfolio. No further reclassifications have been carried out since 2010.

The asset-backed securities and other debt securities reclassified in 2008 were disclosed at 31 December 2008 with a carrying amount of €13.7 billion and the holdings reclassified in 2009 were disclosed at 31 December 2009 with a carrying amount of €7.3 billion.

Analysis of the reclassified holdings for the current and previous reporting periods

(€ billions)

RECLASSIFIED ASSET-BACKED SECURITIES AND OTHER DEBT SECURITIES	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1]	FAIR VALUE OF ALL RECLASSIFIED ASSETS	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS
Reclassified in 2008			
Balance at 31/12/2016	0.9	0.9	1.0
Balance at 31/12/2017	0.6	0.6	0.7
Reclassified in 2009			
Balance at 31/12/2016	0.9	1.0	0.9
Balance at 31/12/2017	0.6	0.8	0.6
Balance of reclassified assets at 31/12/2017[2]	**1.2**	**1.3**	**1.3**

1 before accrued interest
2 differences caused by rounding

The fair value at the date when the reclassification takes effect represents the new acquisition cost, which in some cases is considerably less than the nominal value. Accordingly, this difference (discount) is to be amortised over the remaining term of the reclassified financial assets. This together with the reclassified securities that had been matured or partially repaid gives rise to an effect of €9 million in the 2017 financial year (2016 financial year: €13 million), which is recognised in net interest. The effective interest rates for the reclassified securities are in a range from 0.16% to 1.72%.

A gain of €5 million (previous year: €19 million) on reclassified securities that had been sold was recognised in the income statement in the 2017 financial year.

In the reporting period, we reversed write-downs of €3 million that had previously been taken on reclassified assets (previous year: reversal of €51 million).

If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (inclusive of realised disposals) would have given rise to a net loss of €20 million (previous year: €25 million) in net trading income in the reporting period. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification. Accordingly, the inclusion of these effects on the income statement resulted in a profit before tax that was €37 million higher in the reporting period (previous year: €108 million). Between the date when the reclassifications took effect in 2008 and the reporting date, the cumulative net effect on the income statement from the reclassifications already carried out totalled minus €67 million before tax (31 December 2016: minus €104 million).

77 Notes to selected structured products

Additional information regarding selected structured products is given below in order to provide greater transparency. Holdings of asset-backed securities (ABS) transactions issued by third parties are shown below alongside tranches retained by HVB Group.

ABS portfolio

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

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:
– residential mortgage-backed securities (RMBS) relating to mortgage loans in the private sector (residential mortgage loans)
– commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans)
– collateralised loan obligations (CLO) relating to commercial bank loans
– collateralised bond obligations (CBO) relating to securities portfolios

Besides this, consumer loans, credit card receivables and receivables under finance leases are also securitised.

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by rating class (€ millions)

		31/12/2017				31/12/2016
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**5,981**	**262**	**—**	**6,243**	**6,788**
Residential mortgage-backed securities (RMBS)		1,946	132	—	2,078	2,888
Commercial mortgage-backed securities (CMBS)		66	44	—	110	122
Collateralised debt obligations (CDO)		45	6	—	51	61
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		2,814	53	—	2,867	2,161
Consumer loans		1,082	21	—	1,103	1,417
Credit cards		—	—	—	—	77
Receivables under finance leases		5	2	—	7	26
Others		23	4	—	27	36
Total	**31/12/2017**	**5,981**	**262**	**—**	**6,243**	
	31/12/2016	**6,278**	**510**	**—**	**6,788**	**6,788**

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

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by region (€ millions)

		31/12/2017				
CARRYING AMOUNTS		EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**5,020**	**1,198**	**—**	**25**	**6,243**
Residential mortgage-backed securities (RMBS)		2,072	1	—	5	2,078
Commercial mortgage-backed securities (CMBS)		105	5	—	—	110
Collateralised debt obligations (CDO)		—	31	—	20	51
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		1,709	1,158	—	—	2,867
Consumer loans		1,100	3	—	—	1,103
Credit cards		—	—	—	—	—
Receivables under finance leases		7	—	—	—	7
Others		27	—	—	—	27
Total	**31/12/2017**	**5,020**	**1,198**	**—**	**25**	**6,243**
	31/12/2016	**5,800**	**957**	**—**	**31**	**6,788**

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by remaining maturity (€ millions)

CARRYING AMOUNTS		31/12/2017 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**1,591**	**3,565**	**1,087**	**6,243**
Residential mortgage-backed securities (RMBS)		205	1,498	375	2,078
Commercial mortgage-backed securities (CMBS)		26	9	75	110
Collateralised debt obligations (CDO)		—	20	31	51
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		1,165	1,119	583	2,867
Consumer loans		188	915	—	1,103
Credit cards		—	—	—	—
Receivables under finance leases		7	—	—	7
Others		—	4	23	27
Total	**31/12/2017**	**1,591**	**3,565**	**1,087**	**6,243**
	31/12/2016	**822**	**4,356**	**1,610**	**6,788**

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by class as per IAS 39 (€ millions)

CARRYING AMOUNTS		31/12/2017 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**89**	**12**	**6,113**	**23**	**6**	**6,243**
Residential mortgage-backed securities (RMBS)		31	6	2,040	—	1	2,078
Commercial mortgage-backed securities (CMBS)		—	—	105	—	5	110
Collateralised debt obligations (CDO)		—	6	25	20	—	51
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		11	—	2,856	—	—	2,867
Consumer loans		43	—	1,057	3	—	1,103
Credit cards		—	—	—	—	—	—
Receivables under finance leases		4	—	3	—	—	7
Others		—	—	27	—	—	27
Total	**31/12/2017**	**89**	**12**	**6,113**	**23**	**6**	**6,243**
	31/12/2016	**156**	**14**	**6,517**	**36**	**65**	**6,788**

Other Information (Continued)

78 Fair value hierarchy

The development of financial instruments measured at fair value and recognised at fair value in the balance sheet is described below notably with regard to the fair value hierarchy.

This fair value hierarchy is divided into the following levels:

Level 1 contains financial instruments measured using prices of identical assets or liabilities listed on an active market. These prices are incorporated unchanged. We have assigned mostly listed equity instruments, bonds and exchange-traded derivatives to this category.

Assets and liabilities whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) input data (valuation parameters) are shown in Level 2. No price can be observed on an active market for the assets and liabilities concerned themselves. As a result of this, we notably show the fair values of interest rate and credit derivatives in this level together with the fair values of ABS bonds, provided a liquid market exists for the asset class in question.

Financial assets or liabilities of €622 million (31 December 2016: €1,168 million) have been transferred between Level 1 and Level 2. At the same time, financial assets or liabilities of €1,679 million (31 December 2016: €1,393 million) were transferred between Level 2 and Level 1. Most of the transfers relate to securities, resulting from an increase or decrease in the actual trading taking place in the securities concerned and the associated change in the bid-offer spreads.

The following table shows transfers between Level 1 and Level 2 for financial instruments where fair value is determined on a recurring basis:

(€ millions)

		TO LEVEL 1	TO LEVEL 2
Financial assets held for trading			
	Transfer from Level 1	—	26
	Transfer from Level 2	335	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	595
	Transfer from Level 2	1,306	—
Available-for-sale financial assets			
	Transfer from Level 1	—	—
	Transfer from Level 2	10	—
Financial liabilities held for trading			
	Transfer from Level 1	—	1
	Transfer from Level 2	28	—

1 January is considered the transfer date for instruments transferred between the levels in the reporting period (1 January to 31 December).

Level 3 relates to assets or liabilities for which the fair value cannot be calculated exclusively on the basis of observable market data (non-observable input data). The amounts involved are stated in Level 2 if the impact of the non-observable input data on the determination of fair value is insignificant. Thus, the respective fair values also incorporate valuation parameters based on model assumptions. This includes derivatives and structured products that contain at least one “exotic” component, such as foreign currency or interest rate derivatives on illiquid currencies, derivatives without standard market terms, structured products with an illiquid underlying as the reference and ABS bonds of an asset class for which no liquid market exists.

If the value of a financial instrument is based on non-observable valuation parameters, the value of these parameters may be selected from a range of possible appropriate alternatives at the reporting date. Appropriate values are determined for these non-observable parameters and applied for valuation purposes, when the annual financial statements are prepared, reflecting the prevailing market conditions. In addition, individual parameters that cannot be incorporated separately as standalone valuation parameters are taken into account by applying a model reserve.

The following measurement methods are applied for each product type, broken down by the individual classes of financial instrument.
The valuations for financial instruments in fair value Level 3 depend upon the following significant parameters that cannot be observed on the market:

PRODUCT TYPE	MEASUREMENT METHOD	SIGNIFICANT NON-OBSERVABLE PARAMETERS	RANGE
Fixed-income securities and other debt instruments	Market approach	Price	0%–193%
Equities	Market approach	Price	0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	13bps–800bps
		Residual value	20%–80%
		Default rate	0.25%–8%
		Prepayment rate	0.5%–30%
Commodity/equity derivatives	Option price model	Commodity price volatility/equity volatility	5%–80%
		Correlation between commodity/equities	(95)%–95%
	DCF method	Dividend yields	0%–7.5%
Interest rate derivatives	DCF method	Swap interest rate	(40)bps–1,000bps
		Inflation swap interest rate	0bps–230bps
	Option price model	Inflation volatility	1%–10%
		Interest rate volatility	1%–100%
		Correlation between interest rates	0%–100%
Credit derivatives	Hazard rate model	Credit spread curves	0%–8%
		Credit correlation	n.a.
		Residual value	10%–72%
	Option price model	Credit volatility	n.a.
Currency derivatives	DCF method	Yield curves	(200)%–30%
	Option price model	FX volatility	1%–40%

Other Information (Continued)

The impact of changing possible appropriate alternative parameter values on the fair value (after adjustments) is shown in the sensitivity analysis presented below. For portfolios at fair value through profit or loss, the positive change would be €103 million (31 December 2016: €125 million), and the negative change €45 million (31 December 2016: minus €61 million).

The following table shows the significant sensitivity effects, broken down by the individual classes of financial instrument for the various product types:

(€ millions)

	2017		2016	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	1	(1)	1	(1)
Equities	—	—	10	(10)
Asset-backed securities	—	—	1	—
Commodity/equity derivatives	72	(21)	82	(25)
Interest rate derivatives	4	(1)	2	(1)
Credit derivatives	26	(22)	26	(21)
Currency derivatives	—	—	3	(3)
Total	**103**	**(45)**	**125**	**(61)**

For fixed-income securities and other debt instruments and asset-backed securities, the credit spread curves were varied as part of the sensitivity analyses in line with the ratings. For shares, the spot price is varied using a relative value.

The following non-observable parameters were varied (stress test) for the sensitivity analysis for equity derivatives included in Level 3: spot prices for hedge funds, implicit volatility, dividends, implicit correlations and the assumptions regarding the interpolation between individual parameters observable on the market, such as volatilities. For interest rate products, interest rates, interest rate correlations and implicit volatilities were varied as part of the sensitivity analysis. For credit derivatives, rating-dependent shifts in the risk premium curves for credit risk were assumed together with changes in implicit correlations and increases in default rates. Foreign currency derivatives were varied in terms of interest rates and the implicit volatility.

Where trades are executed for which the transaction price deviates from the fair value at the trade date and non-observable parameters are employed to a considerable extent in valuation models, the financial instrument concerned is recognised at the trade price. This difference between the transaction price and the fair value of the valuation model is defined as the trade date gain/loss. Corresponding gains and losses determined at the trade date are deferred and recognised in the income statement over the term of the transaction. As soon as a reference price can be determined for the transaction on an active market, or the significant input parameters on observable market data, the deferred trade date gain is taken directly to the income statement in net trading income.

The following table shows a year-on-year comparison of changes in trade date gains and losses that were deferred on account of the application of significant non-observable parameters for financial instruments recognised at fair value:

(€ millions)

	2017	2016
Balance at 1/1	**9**	**—**
New transactions during the period	12	13
Write-downs	3	1
Expired transactions	—	—
Retroactive change in observability	3	3
Exchange rate changes	—	—
Balance at 31/12	**15**	**9**

The following table shows the assignment of the financial assets and financial liabilities shown in the balance sheet to the respective levels of the fair value hierarchy:

(€ millions)

	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)		FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)		FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3)	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial assets recognised						
in the balance sheet at fair value						
Financial assets held for trading	24,928	23,431	49,464	69,620	1,101	1,036
thereof: derivatives	1,709	1,718	40,993	55,964	709	714
Financial assets at fair value through profit or loss	6,541	10,069	14,902	18,429	13	14
Available-for-sale financial assets[1]	5,582	4,846	1,065	846	22	6
Hedging derivatives	—	—	390	384	—	—
Financial liabilities recognised						
in the balance sheet at fair value						
Financial liabilities held for trading	7,510	7,661	46,985	63,842	1,722	1,331
thereof: derivatives	1,987	2,158	37,292	51,875	745	773
Hedging derivatives	—	—	469	997	—	—

1 as at 31 December 2017, available-for-sale financial assets include financial instruments of €147 million (31 December 2016: €231 million) valued at historical cost that are not included in these totals

The following tables show the development of the financial assets and financial liabilities that are assigned to Level 3 as part of the fair value hierarchy:

(€ millions)

	FINANCIAL ASSETS HELD FOR TRADING		FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		AVAILABLE-FOR-SALE FINANCIAL ASSETS		HEDGING DERIVATIVES	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance at 1/1	**1,036**	**1,047**	**14**	**130**	**6**	**31**	**—**	**—**
Additions								
Acquisitions	494	721	—	—	28	2	—	—
Realised gains[1]	1	73	—	1	—	11	—	—
Transfer from other levels	268	41	—	—	—	—	—	—
Other additions[2]	7	20	1	—	21	—	—	—
Reductions								
Sale	(532)	(543)	(2)	(1)	—	(21)	—	—
Repayment	—	(18)	—	—	(29)	—	—	—
Realised losses[1]	(40)	(62)	—	—	(1)	—	—	—
Transfer to other levels	(110)	(227)	—	(116)	—	(7)	—	—
Other reductions	(23)	(16)	—	—	(3)	(10)	—	—
Balance at 31/12	**1,101**	**1,036**	**13**	**14**	**22**	**6**	**—**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

In the case of derivative products, the transfers from and to other levels are attributable to the changed observability of the valuation parameters for interest rate derivatives as well as interest rate/currency derivatives in certain currencies. The majority of the other transfers to and from other levels relate to securities and results from an increase or decrease in the actual trading of the securities concerned and an associated change in the bid-offer spreads.

Other Information (Continued)

(€ millions)

	FINANCIAL LIABILITIES HELD FOR TRADING		HEDGING DERIVATIVES	
	2017	2016	2017	2016
Balance at 1/1	**1,331**	**1,623**	**—**	**—**
Additions				
Sale	405	445	—	—
Issues	457	345	—	—
Realised losses[1]	58	147	—	—
Transfer from other levels	462	78	—	—
Other additions[2]	1	20	—	—
Reductions				
Buy-back	(698)	(607)	—	—
Repayment	(42)	(117)	—	—
Realised gains[1]	(46)	(97)	—	—
Transfer to other levels	(198)	(482)	—	—
Other reductions	(8)	(24)	—	—
Balance at 31/12	**1,722**	**1,331**	**—**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

The transfers from other levels relating to financial liabilities held for trading are attributable to the reduced observability of the valuation parameters for interest rate derivatives in certain currencies and the reduced liquidity of the underlyings of certain structured issues.

79 Fair values of financial instruments compliant with IFRS 7

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is assumed in this context that the transaction takes place on the principal market for the instrument or the most advantageous market to which the Bank has access.

The fair value of loans is calculated as the sum total of the discounted, risk-adjusted anticipated cash flows discounted on the basis of the swap curve (based on Libor). In this context, the anticipated, risk-adjusted cash flows are based on the survival probability and the loss given default. The survival probability is determined on the basis of the risk-neutral probability of default, while the proceeds upon realisation are determined on the basis of the internal loss given default parameters. In turn, the risk-neutral probability of default is determined on the basis of the internally calculated one-year default rate (real-world probability of default), the market risk premium and the correlation between the respective loan and the general market risk. The market risk premium represents a factor used to cover the difference between the real-world probability of default and the market's return expectations for the risk assumed. The loan portfolio is divided into four sectors (sovereign loans, loans to banks, corporate loans and retail loans) in order to take account of the specific features of each sector. For each of these sectors with exception of retail loans, first of all the market risk premium is determined on the basis of a portfolio of specific, liquid CDS prices for the respective sector. Only for retail loans is the market risk premium derived from the market risk premiums for the other sectors due to the lack of a CDS market.

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate. Such instruments are transferred at regular intervals at the amount repayable (such as the repayment of a deposit repayable on demand at the nominal amount), meaning that listed prices for identical and similar instruments are available on inactive markets. These instruments are allocated to Level 2 accordingly.

The fair value calculation for other loans and receivables for which the fair value is not roughly equivalent to the carrying amount is built around the risk-neutral credit spread, which takes account of all relevant factors on the market. Further parameters besides the risk-neutral credit spread and the risk-free return on investment are not included. Provided the markets are liquid and no relevant market disruptions are evident, as is currently the case, the arbitrage between the markets on which credit risks are traded leads to a narrowing of the credit spreads. Accordingly, the CDS market is defined as the relevant exit market for loans and receivables.

Since the parameters used to determine the real-world probability of default (PD) and loss given default (LGD) are not immaterial when determining the fair value, and these are determined on the basis of internal procedures meaning they cannot be observed on the market, the other loans and receivables are allocated to Level 3.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value. Where the fair value of non-listed equity instruments cannot be reliably determined, such assets are recognised at cost.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. These instruments are allocated to Level 1. The fair value of the remaining securities is calculated as the net present value of anticipated future cash flows. The methods used to determine the fair value levels as described in the note covering the fair value hierarchy are employed for this purpose.

The fair values of single-currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments. The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally accepted models used to calculate the price of options. The common Black & Scholes model and the Bachelier model are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters. The methods used to determine the fair value levels described in the note covering the fair value hierarchy are employed for this purpose.

Please refer to the note covering the fair value hierarchy for a description of the methods used to determine the fair value levels for non-listed derivatives.

The anticipated future cash flows of the liabilities (deposits from banks and customers, and debt securities in issue, provided these are not listed) are discounted to the present value using current interest rates taking into account internally determined funding premiums. The funding premiums correspond to the parameters that the Bank uses when setting the prices for its own issues. These funding premiums represent internally determined parameters that are essential for the determination of the fair value; the other liabilities are allocated to Level 3 accordingly.

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

(€ billions)

	CARRYING AMOUNT		FAIR VALUE	
ASSETS	2017	2016	2017	2016
Cash and cash balances	36.4	9.8	36.4	9.8
Financial assets held for trading	75.5	94.1	75.5	94.1
Financial assets at fair value through profit or loss	21.5	28.5	21.5	28.5
Available-for-sale financial assets				
thereof measured:				
at cost	0.1	0.2	0.1	0.2
at fair value	6.7	5.7	6.7	5.7
Held-to-maturity investments	—	—	—	—
Loans and receivables with banks	30.3	33.0	30.5	33.5
Loans and receivables with customers	121.2	121.5	123.5	125.0
thereof: finance leases	1.7	2.0	1.7	2.0
Hedging derivatives	0.4	0.4	0.4	0.4
Total	**292.1**	**293.2**	**294.6**	**297.2**

Other Information (Continued)

(€ billions)

ASSETS	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 2017	2016	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 2017	2016	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 2017	2016
Financial assets not carried at fair value						
in the balance sheet						
Cash and cash balances	—	—	36.4	9.8	—	—
Held-to-maturity investments	—	—	—	—	—	—
Loans and receivables with banks	0.5	0.5	25.5	25.6	4.5	7.4
Loans and receivables with customers	1.1	1.1	17.2	17.7	105.2	106.2
thereof: finance leases	—	—	—	—	1.7	2.0

(€ billions)

LIABILITIES	CARRYING AMOUNT 2017	2016	FAIR VALUE 2017	2016
Deposits from banks	67.4	57.6	67.2	57.5
Deposits from customers	124.3	117.2	124.5	117.8
Debt securities in issue	25.6	24.2	27.6	27.2
Financial liabilities held for trading	56.2	72.8	56.2	72.8
Hedging derivatives	0.5	1.0	0.5	1.0
Total	**274.0**	**272.8**	**276.0**	**276.3**

(€ billions)

LIABILITIES	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 2017	2016	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 2017	2016	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 2017	2016
Financial liabilities not carried at fair value						
in the balance sheet						
Deposits from banks	—	—	47.8	25.7	19.4	31.8
Deposits from customers	—	—	99.8	82.2	24.7	35.6
Debt securities in issue	5.9	5.7	5.9	6.0	15.8	15.5

The difference in HVB Group between the fair values and carrying amounts totals €2.5 billion (31 December 2016: €4.0 billion) for assets and €2.0 billion (31 December 2016: €3.5 billion) for liabilities. The balance of these amounts is €0.5 billion (31 December 2016: €0.5 billion). When comparing carrying amounts and fair values for the hedged items, it should be noted that part of the undisclosed reserves/charges has already been included in the hedge adjustment amount.

80 Disclosures regarding the offsetting of financial assets and liabilities

The following two tables separately show the recognised financial assets and financial liabilities that have already been netted in the balance sheet in accordance with IAS 32.42 together with the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement but that do not satisfy the criteria for offsetting in the balance sheet.

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2017
Derivatives[1]	60,630	(16,829)	43,801	(25,845)	(599)	(8,269)	9,088
Reverse repos[2]	24,626	(4,866)	19,760	—	(19,532)	—	228
Loans and receivables[3]	87,805	(1,035)	86,770	—	—	—	86,770
Total at 31/12/2017	**173,061**	**(22,730)**	**150,331**	**(25,845)**	**(20,131)**	**(8,269)**	**96,086**

1 derivatives are included in financial assets held for trading and hedging derivatives
2 reverse repos are covered in the notes regarding loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €4,211 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables (including cumulative variation margins), as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Financial liabilities that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2017
Derivatives[1]	56,395	(15,902)	40,493	(25,845)	(503)	(8,660)	5,485
Repos[2]	29,858	(4,866)	24,992	—	(24,803)	—	189
Liabilities[3]	103,440	(1,962)	101,478	—	—	—	101,478
Total at 31/12/2017	**189,693**	**(22,730)**	**166,963**	**(25,845)**	**(25,306)**	**(8,660)**	**107,152**

1 derivatives are included in financial liabilities held for trading and hedging derivatives
2 repos are covered in the notes covering deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €2,746 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities (including cumulative variation margins), as covered in the notes covering deposits from banks and deposits from customers

Other Information (Continued)

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2016
Derivatives[1]	77,853	(19,073)	58,780	(37,520)	(1,379)	(9,697)	10,184
Reverse repos[2]	29,142	(3,770)	25,372	—	(25,211)	—	161
Loans and receivables[3]	90,728	(1,279)	89,449	—	—	—	89,449
Total at 31/12/2016	**197,723**	**(24,122)**	**173,601**	**(37,520)**	**(26,590)**	**(9,697)**	**99,794**

1 derivatives are included in financial assets held for trading and hedging derivatives
2 reverse repos are covered in the notes regarding loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €10,571 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables (including cumulative variation margins), as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Financial liabilities that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2016
Derivatives[1]	73,559	(17,756)	55,803	(37,520)	(1,114)	(10,280)	6,889
Repos[2]	29,908	(3,770)	26,138	—	(25,982)	—	156
Liabilities[3]	102,185	(2,596)	99,589	—	—	—	99,589
Total at 31/12/2016	**205,652**	**(24,122)**	**181,530**	**(37,520)**	**(27,096)**	**(10,280)**	**106,634**

1 derivatives are included in financial liabilities held for trading and hedging derivatives
2 repos are covered in the notes covering deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €4,978 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities (including cumulative variation margins), as covered in the notes covering deposits from banks and deposits from customers

Compliant with IAS 32.42, financial assets and liabilities with the same counterparty are to be offset and recognised in the balance sheet at the net amount if such offsetting of the amounts recognised at the present date is legally enforceable and the intention is to settle on a net basis during the normal course of business or to realise the asset and settle the liability simultaneously. The tables show a reconciliation from the gross amounts prior to netting and the set-off amounts to the net amounts after offsetting for these set-offs in the balance sheet. At HVB Group, the set-offs in the balance sheet relate to transactions with central counterparties (CCPs), being OTC derivatives (set-off of the balancing positive and negative fair values at currency level) and the receivables and liabilities arising from reverse repos and repos concluded with the same central counterparty. At the same time, nettable receivables and liabilities repayable on demand with the same counterparty in the banking business are also offset in the balance sheet. In addition, cumulative changes in the fair value of listed future-styled derivatives are netted with the cumulative variation margin payments.

The column “Effects of master netting arrangements” shows the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement, but which are not netted in the balance sheet as they do not satisfy the IAS 32.42 offsetting requirements as described above. At HVB Group, this includes OTC derivatives and repo transactions with individual counterparties with which legally enforceable master netting arrangements have been concluded allowing netting in the event of default.

In addition, the tables contain the financial instruments received or pledged as collateral in this context and cash collateral. With regard to the presentation of reverse repos or repos, as the case may be, collateral in the form of financial instruments was recorded in a Group unit for the first time in the reporting year. The previous-year disclosures were correspondingly corrected. As the securities lending transactions without cash collateral not recognised in the balance sheet are not contained in the above netting tables either, we refer to the Note “Assets assigned or pledged as security for own liabilities” and the Note “Collateral received that HVB Group may pledge or sell on” for the securities received or pledged as collateral in this regard.

81 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39. These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the respective maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €47,124 million (previous year: €49,111 million). This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as the complete utilisation of all open credit commitments and financial guarantees on the next day cannot be expected. The same holds true for the presentation of the fair values of trading derivatives.

Other Information (Continued)

Breakdown of financial assets by maturity bucket

(€ millions)

	2017						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	382	2,399	1,793	1,996	5,304	5,021	16,612
Derivatives on financial assets held for trading	43,411	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	710	1,732	5,386	10,460	3,441	—
Available-for-sale financial assets	66	1,189	29	885	3,507	2,255	102
Held-to-maturity investments	—	—	—	—	2	30	—
Loans and receivables with banks	9,796	5,006	4,949	8,366	2,959	143	700
Loans and receivables with customers	11,200	8,664	5,946	13,530	43,417	52,067	262
thereof: finance leases	24	58	163	660	1,732	283	100
Hedging derivatives	—	201	402	1,807	3,369	1,505	—

(€ millions)

	2016						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	399	6,771	1,725	3,652	4,135	6,067	13,334
Derivatives on financial assets held for trading	58,396	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	243	1,840	7,073	15,821	3,733	—
Available-for-sale financial assets	64	73	8	431	5,218	1,714	912
Held-to-maturity investments	—	—	—	1	10	34	—
Loans and receivables with banks	11,242	6,304	4,000	7,464	4,073	485	747
Loans and receivables with customers	12,058	8,627	6,219	10,158	42,436	53,917	3,173
thereof: finance leases	28	93	157	650	1,817	260	95
Hedging derivatives	—	179	358	1,609	3,945	1,484	—

Breakdown of non-derivative and derivative financial liabilities by maturity bucket

(€ millions)

	2017						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	12,253	17,997	6,371	5,798	20,030	5,571	21
Deposits from customers	76,232	12,758	18,681	10,206	5,208	1,705	—
Debt securities in issue	1,055	1,798	1,498	2,846	9,627	13,135	—
Financial liabilities held for trading	132	2,375	694	1,153	4,079	4,601	3,581
Derivatives on financial liabilities held for trading	40,024	—	—	—	—	—	—
Hedging derivatives	—	192	384	1,729	2,750	689	—
Credit commitments and financial guarantees	68,403	—	—	—	—	—	—

(€ millions)

	2016						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	13,801	9,122	18,006	5,411	7,047	4,956	13
Deposits from customers	74,502	11,495	17,806	9,420	2,763	1,754	—
Debt securities in issue	58	209	2,372	3,554	8,747	14,842	—
Financial liabilities held for trading	264	4,654	365	1,180	3,889	4,311	3,571
Derivatives on financial liabilities held for trading	54,806	—	—	—	—	—	—
Hedging derivatives	—	120	241	1,084	819	453	—
Credit commitments and financial guarantees	71,197	—	—	—	—	—	—

82 Regulatory disclosure requirements (Disclosure Report)

HVB has been classified as a significant subsidiary of UniCredit within the meaning of Article 13 (1) of the Capital Requirements Regulation (CRR), making it subject to the scope of the CRR (Article 13 (1) and Part 8 CRR) and certain extended regulatory disclosure requirements in accordance with Section 26a KWG (disclosure under Pillar III).

HVB discloses this information on a standalone basis in the form of a separate disclosure report. This report is produced on an annual basis at 31 December and at each quarter-end during the year and published on the Bank's website under About us > Investor Relations > Reports. The publication for the reporting date 31 December should appear soon after the publication of the Annual Report. The reports during the year should be published soon after the regulatory COREP report is submitted to the supervisory authorities responsible.

The disclosure of the remuneration policy and practices for those categories of staff whose professional activities have a material impact on the Bank's risk profile (known as "risk takers") required by Article 450 CRR in conjunction with Section 16 (1) of the German Regulation on the Requirements for the Remuneration Systems of Institutions under Regulatory Law (Institutsvergütungsverordnung – InstitutsVergV) takes the form of a separate report for HVB. This is prepared once a year at 31 December and published on the Bank's website under About us > Investor Relations > Corporate Governance in the second quarter of the following year.

83 Key capital ratios (based on IFRS)

HVB Group manages its economic and supervisory capital as part of its overall bank management strategy. The yield expectations are calculated in accordance with the allocated capital principle that UniCredit employs across its entire organisation. Under the principle of dual control, both regulatory capital in the sense of used core capital and internal capital are allocated to the business segments. Both resources are expected to yield an appropriate return, which is derived from the expectations of the capital market. Please refer to the section of the Risk Report entitled "Implementation of overall bank management" for further details on the management of regulatory capital adequacy requirements and economic capital adequacy.

The supervisory ratios are discussed below.

The legal basis is provided by the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (CRR), which came into force on 1 January 2014. The supervisory total capital ratio prescribed in the CRR represents the capital ratio determined in accordance with Part Two CRR to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted asset equivalent of these risk positions). Under Article 92 CRR, the Tier 1 capital ratio calculated as the ratio of Tier 1 capital to total risk-weighted assets determined as described above must be at least 6.0%.

The eligible own funds underlying the calculation of the total capital ratio in accordance with CRR consists of Tier 1 and Tier 2 capital. HVB Group uses internal models in particular to measure market risk positions.

Other Information (Continued)

The following table shows own funds based on the approved consolidated financial statements and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2017:

Own funds[1]

(€ millions)

	2017	2016
Tier 1 – Total core capital for solvency purposes	**16,639**	**16,611**
Shares of common stock	2,407	2,407
Additional paid-in capital, retained earnings, minority interest, own shares	15,910	15,939
Hybrid capital instruments (silent partnership certificates) without prorated interest	—	—
Other	(816)	(872)
Capital deductions	(862)	(863)
Tier 2 – Total supplementary capital for solvency purposes	**698**	**562**
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	—	—
Cumulative shares of preferred stock	—	—
Participating certificates outstanding	—	—
Subordinated liabilities	420	278
Value adjustment excess for A-IRB positions	278	284
Other	—	—
Capital deductions	—	—
Total equity funds	**17,337**	**17,173**

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

The own funds of HVB Group in accordance with Part Two CRR amounted to €17,337 million at 31 December 2017 (previous year: €17,173 million). As in the previous year, we have not included in Tier 2 capital any unrealised reserves in accordance with Section 10 (2b) 1 No. 6 and 7 KWG in the version applicable until 31 December 2013.

The own funds are determined on the basis of IFRS figures determined in accordance with CRR/CRD IV using the consolidated accounting method.

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

(€ millions)

	COMMON EQUITY TIER 1 CAPITAL	ADDITIONAL TIER 1 CAPITAL	TIER 2 CAPITAL	TOTAL OWN FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	18,874	—	—	18,874
Reconciliation to the equity funds compliant with the Capital Requirements Regulation				
Cumulative shares of preferred stock	—	—	—	—
Ineligible profit components	(1,300)	—	—	(1,300)
Ineligible minority interests under banking supervisory regulations	(7)	—	—	(7)
Diverging consolidation perimeters	(65)	—	—	(65)
Deduction of intangible assets	(453)	—	—	(453)
Hybrid capital recognised under banking supervisory regulations	—	—	10	10
Eligible portion of subordinated liabilities	—	—	410	410
Value adjustment excess (+) or shortfall (–) for A-IRB positions	—	—	278	278
Adjustments to CET1 due to prudential filters	(147)	—	—	(147)
Deductible deferred tax assets	(297)	—	—	(297)
Capital deductions which can alternatively be subject to a 1,250% risk weight	(28)	—	—	(28)
Transitional adjustments	154	(91)	—	63
Other effects	(92)	91	—	(1)
Own funds compliant with the Capital Requirements Regulation (CRR)	**16,639**	**—**	**698**	**17,337**

(€ millions)

	2017 BASEL III	2016 BASEL III
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	41,151	43,517
off-balance-sheet counterparty risk positions	12,135	11,591
other counterparty risk positions[1]	695	427
derivative counterparty risk positions	4,939	5,419
Total credit risk-weighted assets	**58,920**	**60,954**
Risk-weighted asset equivalent for market risk positions	**11,068**	**10,938**
Risk-weighted asset equivalent for operational risk	**8,723**	**9,683**
Total risk-weighted assets	**78,711**	**81,575**

1 primarily including repos and securities lending transactions

At the respective reporting dates, the key capital ratios (based on the approved consolidated financial statements) were as follows:

(in %)

	2017 BASEL III	2016 BASEL III
Tier 1 capital ratio		
[Tier 1 capital/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	21.1	20.4
CET1 capital ratio		
[Common Equity Tier 1 capital/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	21.1	20.4
Total capital ratio		
[own funds/(credit risk-weighted assets +12.5x market risk positions + 12.5x operational risk)]	22.0	21.1

84 Contingent liabilities and other commitments

(€ millions)

	2017	2016
Contingent liabilities[1]	**21,099**	**21,856**
Guarantees and indemnities	21,099	21,856
Other commitments	**47,161**	**49,165**
Irrevocable credit commitments	47,124	49,111
Other commitments[2]	37	54
Total	**68,260**	**71,021**

1 Contingent liabilities are offset by contingent assets to the same amount.
2 Not included in other commitments are the future payment commitments arising from non-cancellable operating leases.

Financial guarantees and irrevocable credit commitments are shown at their nominal amount (maximum outflow) less provisions set up for this purpose. Neither contingent liabilities nor other commitments contain any significant items. The guarantees and indemnities listed here essentially reflect guarantees and indemnities that the Bank has granted on behalf of customers. Consequently, the Bank has a right of recourse against the customer (contracting party) should the guarantee or indemnity in question be used. An appropriate provision is set up where such a customer's creditworthiness is doubtful. This takes account of the loss suffered by the Bank, as the recourse claim against the contracting party is not considered fully realisable on account of the party's doubtful creditworthiness.

Other Information (Continued)

It is hard to anticipate the date at which the contingent liabilities and other commitments mentioned here will result in an outflow of funds. Credit commitments frequently serve as liquidity reserve for the beneficiary in particular, meaning that the amounts are not necessarily utilised at all and hence an outflow of funds is not certain. In terms of financial guarantees, it is important to note that these are conditional payment commitments, meaning that the condition must be met before utilisation becomes possible (such as default on the guaranteed credit in the case of a credit guarantee or non-compliant delivery in the case of a delivery guarantee). Here, too, it is hard to assess whether and when this will be the case, as financial guarantees in particular are only ever utilised in exceptional circumstances entailing an outflow of funds.

Securities lending transactions are not recognised, as economic ownership remains with the lender. The Bank only becomes the legal owner of the borrowed securities which are returned to the lender when the lending transaction falls due. Obligations of €11,294 million (previous year: €13,603 million) to return securities arising from securities lending transactions are thus offset by borrowed securities of the same amount, which are not carried as assets on the assets side of the balance sheet.

HVB has made use of the option to provide some of the annual contribution to the bank restructuring fund in the form of fully secured payment claims (irrevocable payment commitments) in accordance with Section 12 of the German Bank Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG). The cash collateral provided in this regard amounted to €48 million at 31 December 2017 (31 December 2016: €34 million).

HVB has made use of the option to provide up to 30% of the annual contribution to the deposit guarantee scheme of German banks (Entschädigungseinrichtung deutscher Banken) in the form of fully secured payment claims (irrevocable payment commitments) in accordance with Section 19 of the German Regulation on Financing the Deposit Guarantee Scheme (Entschädigungseinrichtungs-Finanzierungsverordnung – EntschFinV). The financial security provided in this regard amounted to €8 million at year-end 2017 (2016: €7 million).

Legal risks can give rise to losses for HVB Group, the occurrence of which is greater than improbable but less than probable, and for which no provisions have been set up. Such legal risks may result from negative developments in proceedings under civil law and the tendency for rulings to be made in favour of consumers or customers. The assessment of the risk of loss may prove to be too low or too high, depending on the outcome of the proceedings. We assume that it will not be necessary to utilise the vast majority of the contingent liabilities arising from legal risks, meaning that the amounts are not representative of actual future losses. For HVB such contingent liabilities arising from significant legal risks for which an estimate is possible amounted to €113 million at year-end 2017 after €162 million at year-end 2016.

As part of real estate financing and development operations, we have assumed rental obligations and pre-emptive obligations or issued rental guarantees to make fund constructions more marketable – in particular for lease funds and (closed-end) KG real estate funds. Identifiable risks arising from such guarantees have been incorporated by setting up provisions.

Commitments for uncalled payments on shares not fully paid up amounted to €33 million at year-end 2017 (previous year: €50 million), and similar obligations for shares in cooperatives totalled €1 thousand (previous year: €1 thousand). We were not liable for any defaults on such calls under Section 22 (3 and 24) of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG).

At the reporting date, we had unlimited personal liability arising from shares in 76 partnerships (2016: 72).

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

In the same way that HVB assumes liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Contingent liabilities payable to related parties (€ millions)

	2017	2016
Non-consolidated affiliated companies	1,229	1,403
of which:		
UniCredit S.p.A.	486	563
Sister companies	743	786
Subsidiaries	—	54
Joint ventures	23	46
Associated companies	—	—
Other participating interests	126	250
Total	**1,378**	**1,699**

85 Statement of Responsibility

HVB 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
UniCredit Luxembourg S.A., Luxembourg
2. Financial companies
UniCredit Leasing GmbH, Hamburg

HVB's commitment arising from the above Statement of Responsibility declines by the extent to which HVB's shareholding decreases in the future with regard to such commitments of the relevant company that did not arise until after HVB's shareholding decreased. Where HVB is no longer a shareholder in a company listed above, our commitment arising from the above Statement of Responsibility ends on the date on which our holding ceased with regard to such liabilities of the relevant company that did not arise until our shareholding ceased.

HVB no longer provides a Statement of Responsibility for companies for which a Statement of Responsibility had been provided in earlier annual reports but which no longer appear in the above list. Liabilities of these companies arising before the reduction or cessation of the shareholding are only covered by such Statements of Responsibility that were provided before the reduction or cessation of the shareholding in each case.

Other Information (Continued)

86 Disclosures regarding structured entities

A structured entity as defined in IFRS 12 is an enterprise (or an economically separate entity) that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are frequently characterised by restricted activities, a narrow, well-defined objective, insufficient equity or financing in tranches.

Structured entities may be consolidated or not consolidated, depending on whether HVB Group has control over the entity or not. Transactions involving structured entities can be divided into the following categories using the business model applied by HVB Group:
– ABS vehicles
– Repackaging vehicles
– Funding vehicles for customers
– Some investment funds
– Other structured entities

Financial instruments with unconsolidated structured entities

Financial instruments with unconsolidated structured entities encompass all contractual relationships from which HVB Group obtains variable earnings and exposure to loss from the structured entities, but without gaining control over the structured entity. These might be equity and debt instruments, derivatives, liquidity facilities or guarantees.

ABS vehicles

HVB Group invests in ABS vehicles and uses ABS vehicles for its own securitisations. These vehicles buy loans or receivables and refinance themselves by issuing securities on the money or capital market. The securities are backed by the assets purchased. HVB Group can also provide finance for these vehicles in the form of liquidity facilities.

ABS vehicles used for own securitisations are fully consolidated in the consolidated financial statements and are not included in the unconsolidated structured entities shown here. This means that only such ABS vehicles in which HVB Group solely has an interest as an investor are classified as unconsolidated structured entities.

	2017	2016
Number of unconsolidated ABS vehicles (investor positions only)	292	325

For more information on the exposure to unconsolidated ABS investor positions, please refer to the "Notes to selected structured products".

Repackaging vehicles

Repackaging vehicles are used to offer customers specific securities and derivatives solutions. These vehicles buy assets (such as securities, loans and receivables, and derivatives) and restructure the cash flows from these assets by incorporating other instruments or securities. The vehicles refinance themselves by issuing custom-packaged securities or derivatives that meet the customer's demands. The funding is normally secured by the acquired assets.

	2017	2016
Number of unconsolidated repackaging vehicles	2	6
Aggregate total assets of unconsolidated repackaging vehicles (€ millions)	22	109
Nominal value of the securities issued by unconsolidated repackaging vehicles (€ millions)	22	109

Funding vehicles for customers
Customers use these vehicles as a source of funding. These funding vehicles buy current receivables or leasing receivables from customers and refinance themselves mostly by issuing securities on the capital and money market (mostly commercial paper conduits). HVB Group can also provide financing for these vehicles in the form of liquidity facilities or other lending products.

The majority of the vehicles listed below were set up by the customer or by HVB Group on behalf of the customer. These vehicles are not consolidated as HVB Group is not exposed to a majority of the variable income from the vehicles and has no possibility of influencing them.

	2017	2016
Number of unconsolidated funding vehicles for customers	37	31
Aggregate total assets of unconsolidated funding vehicles for customers (€ millions)	6,322	4,020
Nominal value of the securities issued by unconsolidated funding vehicles		
for customers (€ millions)	6,322	4,020

Some investment funds
Investment funds are classified as structured entities if they are not controlled by means of voting or similar rights. Investment funds invest in a range of assets and can also finance themselves with debt within the framework of their investment policies alongside the moneys provided by investors. Investment funds serve to achieve specifically defined investment goals.

HVB Group offers its customers investment funds under own and third party management and also itself invests in investment funds. We are also mandated by customers to keep shares in investment funds in securities accounts for third party account. Furthermore, HVB Group holds shares in investment funds in its own portfolio. These are mostly held in the held-for-trading portfolio and to a much smaller extent also in the AfS portfolio. In addition, we offer typical banking services to investment funds, including derivative and financing solutions and deposit-taking operations.

The European-Office-Fonds investment fund controlled by HVB Group is fully consolidated in the consolidated financial statements and is not one of the unconsolidated structured entities shown here. The number and aggregated net asset value of investment funds show funds to which HVB Group has an exposure. Regarding the statement of the number of unconsolidated investment funds classified as structured entities, we have separately reported every special purpose entity to which HVB Group has an exposure while in the previous year we aggregated special purpose entities managed by the same investment company. The previous year's figures have been adjusted accordingly.

	2017	2016
Number of unconsolidated investment funds classified as structured entities	1,214	999
thereof: managed by HVB Group	26	35
Aggregate net asset value (including minority interests) of the investment funds classified as		
structured entities (€ millions)	846,200	680,181
thereof: managed by HVB Group	1,030	834

With regard to the aggregate net asset value, it should be noted that our risk is only calculated in terms of the participating interest held, loans extended or derivatives issued as a proportion of the aggregate fund volume. A risk analysis is provided in the table under "Risks in connection with unconsolidated structured entities" below.

Other Information (Continued)

Other structured entities

This category covers structured entities that cannot be assigned to any of the other categories. For the most part, HVB Group mainly performs lending activities under this category with structured entities set up by customers or by HVB Group on behalf of customers.

These entities are mostly leasing vehicles that have only insufficient equity and are controlled economically by the lessee. Some of the leasing vehicles were financed through syndicated loans.

	2017	2016
Number of other structured entities	26	43
Aggregate total assets (€ millions)	2,176	1,775

Risks in connection with unconsolidated structured entities

The following tables show the carrying amounts of the assets and liabilities together with the off-balance-sheet risk positions of HVB Group in connection with unconsolidated structured entities:

(€ millions)

	31/12/2017				
	ABS VEHICLES (INVESTOR POSITIONS)	REPACKAGING VEHICLES	FUNDING VEHICLES FOR CUSTOMERS	SOME INVESTMENT FUNDS	OTHER STRUCTURED ENTITIES
Assets	**7,047**	**2**	**6,183**	**3,961**	**203**
Financial assets held for trading	457	2	—	2,794	10
Financial assets at fair value through profit or loss	12	—	—	—	—
Available-for-sale financial instruments	6	—	41	85	—
Held-to-maturity investments	23	—	—	—	—
Loans and receivables with customers	6,549	—	6,142	1,082	193
Liabilities	**9**	**—**	**41**	**2,992**	**72**
Deposits from customers	—	—	40	2,497	54
Debt securities in issue	—	—	—	6	—
Financial liabilities held for trading	9	—	—	489	—
Other liabilities	—	—	—	—	—
Provisions	—	—	1	—	18
Off-balance-sheet positions	**38**	**—**	**1,311**	**93**	**100**
Irrevocable credit commitments and other commitments	38	—	1,311	86	54
Guarantees	—	—	—	7	46
Maximum exposure to loss	**7,085**	**2**	**7,494**	**4,054**	**303**

(€ millions)

	31/12/2016				
	ABS VEHICLES (INVESTOR POSITIONS)	REPACKAGING VEHICLES	FUNDING VEHICLES FOR CUSTOMERS	SOME INVESTMENT FUNDS	OTHER STRUCTURED ENTITIES
Assets	**7,363**	**14**	**3,839**	**3,543**	**548**
Financial assets held for trading	432	14	—	2,407	30
Financial assets at fair value through profit or loss	14	—	—	—	—
Available-for-sale financial instruments	64	—	—	177	—
Held-to-maturity investments	36	—	—	—	—
Loans and receivables with customers	6,817	—	3,839	959	518
Liabilities	**6**	**23**	**42**	**2,905**	**63**
Deposits from customers	3	—	38	2,397	44
Debt securities in issue	—	—	—	16	—
Financial liabilities held for trading	3	23	1	492	1
Other liabilities	—	—	—	—	—
Provisions	—	—	3	—	18
Off-balance-sheet positions	**319**	**—**	**1,162**	**131**	**209**
Irrevocable credit commitments and other commitments	319	—	1,143	131	55
Guarantees	—	—	19	—	154
Maximum exposure to loss	**7,682**	**14**	**5,001**	**3,674**	**757**

The maximum exposure to loss from unconsolidated structured entities arises from the assets and off-balance-sheet risk positions relating to structured entities. This view does not, however, reflect the economic risk, as security received and hedging instruments are not included.

No financial or other support ("implicit support") was provided to unconsolidated structured entities during the reporting period without having a contractual obligation to do so. Neither are there any concrete plans to provide support to unconsolidated structured entities in future.

Sponsored unconsolidated structured entities

Structured entities are classified as sponsored by HVB Group if HVB Group was materially involved in setting up the entities. HVB Group has sponsored structured entities without having a participating interest in these entities through financial instruments. Thus, HVB Group is not exposed to the economic risks arising from these structured entities.

We only generate income from structured entities without participating interests to a limited extent through financial instruments. Fee and commission income of €10 million (previous year: €9 million) from charges and management fees was generated during the reporting period on investment funds managed by the Bank, of which €5 million (previous year: €5 million) was passed on to third parties in trailer fees.

Consolidated structured entities

The biggest consolidated structured entity is the multi-seller conduit programme Arabella. Securities with a nominal value of €5,664 million (previous year: €3,515 million) were outstanding at 31 December 2017. The total assets of the multi-seller conduit Arabella Finance DAC at the reporting date amounted to €5,670 million (previous year: €3,517 million).

Other Information (Continued)

Contractual arrangements that oblige HVB Group to provide financial assistance to consolidated structured entities exist notably in the form of liquidity facilities. These may be drawn by the vehicles to bridge maturity mismatches between the assets acquired and the securities issued.

Financial or other support was provided to consolidated structured entities without a contractual obligation to do so ("implicit support"):

Where the market conditions prevented the securities issued by the consolidated multi-seller conduit Arabella Finance DAC being placed, HVB has acquired such issues. Without the purchases of the securities, HVB would have been required to provide liquidity facilities in the same amount to individual Elektra Purchase companies. At the reporting date, HVB held securities issued by Arabella Finance DAC with a nominal value of €3,175 million (previous year: €1,353 million) in its portfolio.

Future support arrangements are planned as follows: HVB will continue to decide on a case-by-case basis whether to buy temporarily non-placeable securities issued by the consolidated multi-seller conduit Arabella Finance DAC or utilise the liquidity lines. Accordingly, the volume of securities to be acquired depends on the funding required, the prevailing market conditions and the above decision in each case.

Both contractual financial and other support provided to consolidated structured entities without a contractual obligation to do so are not material for the consolidated financial statements, as these represent intra-group transactions.

87 Trust business

(€ millions)

	2017	2016
Trust assets	**2,788**	**2,713**
Loans and receivables with banks	—	—
Loans and receivables with customers	137	141
Equity securities and other variable-yield securities	—	—
Debt securities and other fixed-income securities	—	—
Participating interests	—	—
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	2,650	2,571
Remaining trust assets	1	1
Trust liabilities	**2,788**	**2,713**
Deposits from banks	137	141
Deposits from customers	2,650	2,571
Debt certificates including bonds	—	—
Other liabilities	1	1

88 Transfer of financial assets

Transferred financial assets are derecognised in accordance with the derecognition criteria set forth in IAS 39 when substantially all the risks and rewards incident to ownership of the asset are transferred.

HVB Group has no continuing involvement in transferred and derecognised financial assets for which substantially the risks and rewards are neither retained nor transferred.

Transferred, non-derecognised financial assets
However, HVB Group conducts business transactions under which it transfers previously recognised financial assets in accordance with IAS 39, but substantially retains all the risks and rewards associated with these assets, meaning that such assets are not derecognised. The recognised asset is simultaneously offset by an associated liability for the consideration received, which corresponds to recognition as a secured loan. HVB Group may not use these transferred, non-derecognised assets for other purposes.

Transactions of this type conducted by the Group relate primarily to securities repurchase agreements (repos) and securities lending transactions.

The securities (transferred) under repo transactions (cash sale) continue to be carried and measured in the consolidated balance sheet, as the Group as seller retains all the credit, share price, interest rate and currency risks associated with the assets and their results. The payment received by the buyer for whom the transferred security acts as security is recognised as a repo liability payable to banks or customers, depending on the counterparty. Upon delivery of the securities, the unrestricted power of disposal passes to the buyer.

Where the corporate group acts as a lender of securities in securities lending transactions, the securities lent to the counterparty continue to be carried in the balance sheet of the lender.

The transactions are conducted under the customary market terms for securities lending and repurchasing agreements, under which the counterparty holds a contractual or customary right to sell on or pledge on the securities received.

At the same time, these transaction types also encompass such examples as the true sale securitisation transactions Rosenkavalier 2008 and Rosenkavalier 2015 (see the Note "Own securitisation") carried out by HVB Group, under which non-derecognised securitised customer receivables indirectly serve as security for repurchase agreements with the ECB.

The following Note "Assets assigned or pledged as security for own liabilities", contains details of repo transactions, securities lending transactions and other transactions under which the financial assets transferred as security for own liabilities are not derecognised.

89 Assets assigned or pledged as security for own liabilities
Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €41.6 billion (previous year: €51.5 billion) or transferred them to a collateral pool with the European Central Bank or GC Pooling. It is not always necessary for liabilities to exist in the latter instance. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

Other Information (Continued)

The following table shows the breakdown of assets that we provide as collateral for own liabilities: (€ millions)

	2017	2016
Financial assets held for trading	17,832	20,265
Financial assets at fair value through profit or loss	7,818	16,559
Available-for-sale financial assets	3,000	3,640
Held-to-maturity investments	—	—
Loans and receivables with banks	—	24
Loans and receivables with customers	11,154	10,855
Property, plant and equipment	—	—
Non-recognised received securities pledged on:		
Pledged securities from non-capitalised securities lending transactions	9,167	11,645
Received collateral pledged	13,084	13,053
Total	**62,055**	**76,041**

The collateral pledged from loans and receivables with customers relates to special credit facilities provided by KfW and similar institutions.

The assets pledged by HVB Group as security relate to the following liabilities: (€ millions)

	2017	2016
Deposits from banks	36,025	44,131
Deposits from customers	8,880	11,779
Debt securities in issue	—	36
Financial liabilities held for trading	9,242	11,310
Contingent liabilities	—	—
Obligations to return non-expensed, borrowed securities	7,908	8,785
Total	**62,055**	**76,041**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition, figures are disclosed showing the extent to which the security provided may be pledged or sold on by the security-taker.

(€ millions)

	2017	2016
Aggregate carrying amount of assets pledged as security	62,055	76,041
of which: may be pledged/sold on	32,325	34,937

90 Collateral received that HVB Group may pledge or sell on

As part of repurchase agreements and collateral agreements for OTC derivatives, HVB Group has received security that it may pledge or sell on at any time without the security provider having to be in arrears. The fair value of this security is €27.2 billion (previous year: €29.6 billion).

HVB Group has actually pledged or sold on €13.1 billion (previous year: €13.1 billion) of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

The transactions that make it possible to use this collateral were conducted under the customary market terms for repurchase agreements and securities lending transactions.

91 Information on relationships with related parties

Besides the relationships with consolidated, affiliated companies, there are a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies as a result of the integration of HVB into the UniCredit group of companies. The quantitative information in this regard can be found in the notes to the balance sheet and the income statement.

HVB has been assigned the role of centre of competence for the markets and investment banking activities of the entire UniCredit corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via HVB. The section of the Risk Report in the Management Report entitled “Credit risk” under “Risk types in detail” contains further information regarding the exposure to UniCredit and its subsidiaries.

Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), Milan, a company that is affiliated with the Bank. The goal is to exploit synergies and enable the Bank to offer fast, high-quality IT services by means of a service level agreement. HVB incurred expenses of €532.4 million (previous year: €560.7 million) for these services over the 2017 financial year. This was counteracted by income of €23.3 million (previous year: €16.8 million) from services rendered and internal charges. Moreover, software products worth €1.2 million (previous year: €2.1 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS. In this context, UBIS provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €115.7 million (previous year: €100.5 million) for these services during the reporting period.

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

Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to the members of the Management Board is not shown on an individualised basis.

Emoluments paid to members of the Management Board and Supervisory Board (€ thousands)

	2017						
	SHORT-TERM COMPONENTS		LONG-TERM INCENTIVES				
	FIXED SALARY	SHORT-TERM PERFORMANCE-RELATED CASH REMUNERATION	LONG-TERM PERFORMANCE-RELATED CASH REMUNERATION	SHARE-BASED REMUNERATION	POST-EMPLOYMENT BENEFITS	TERMINATION BENEFITS	TOTAL
Members of the Management Board of UniCredit Bank AG	4,802	506	1,342	1,164	1,479	—	9,293
Members of the Supervisory Board of UniCredit Bank AG for Supervisory Board activities	790	—	—	—	—	—	790
Members of the Supervisory Board of UniCredit Bank AG for activities as employee representatives	386	31	—	—	30	—	447
Former members of the Management Board of UniCredit Bank AG and their surviving dependants	159	58	342	383	1,347	—	2,289

Other Information (Continued)

(€ thousands)

	2016						
	SHORT-TERM COMPONENTS		LONG-TERM INCENTIVES				
	FIXED SALARY	SHORT-TERM PERFORMANCE-RELATED CASH REMUNERATION	LONG-TERM PERFORMANCE-RELATED CASH REMUNERATION	SHARE-BASED REMUNERATION	POST-EMPLOYMENT BENEFITS	TERMINATION BENEFITS	TOTAL
Members of the Management Board of UniCredit Bank AG	5,910	916	998	1,600	1,597	—	11,021
Members of the Supervisory Board of UniCredit Bank AG for Supervisory Board activities	831	—	—	—	—	—	831
Members of the Supervisory Board of UniCredit Bank AG for activities as employee representatives	386	27	—	—	25	—	438
Former members of the Management Board of UniCredit Bank AG and their surviving dependants	337	136	307	537	1,382	—	2,699

It is the task of the Bank's full Supervisory Board to decide on the total remuneration paid to the individual members of the Management Board and to review the structure of the remuneration systems for the Management Board. The full Supervisory Board receives assistance in this regard from the Remuneration Control Committee, which submits appropriate proposals to the full Supervisory Board. Appropriateness and sustainability are key criteria for the form and structure of the remuneration paid to the members of the Management Board. The structure of remuneration is derived from the service agreements with the members of the Management Board. It has two components: a fixed salary and a variable element. The variable remuneration is normally granted in deferred tranches over several years in the form of cash and in shares, with disbursement dependent upon defined corporate targets being achieved in the subsequent years.

Pension commitments for eight members of the Management Board are shown in the table alongside the direct emoluments. Six members of the Management Board took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2017. The Bank will provide/has provided 35% of the fixed salary contributions in 2017 (2017: €1,237 thousand, previous year: €1,243 thousand).

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 remuneration shown.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit group companies is surrendered to HVB.

Provisions for pensions totalling €24 thousand were reversed in the 2017 financial year (previous year: allocation of €187) with regard to the commitments (for death benefits) made to the members of the Management Board.

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €140,119 thousand (previous year: €141,906 thousand).

The compensation paid to retired members of the Management Board and their surviving dependants amounted to €1,347 thousand in 2017 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (previous year: €1,382 thousand).

Share-based remuneration was granted to the members of the Management Board under the Group Incentive Scheme in the reporting period as follows:

SHARES GRANTED TO MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	2017	2016
Number of shares granted	248,064	372,176
Number of shares committed after capital measures in 2017	49,495	
Fair value per share on grant date (€)	14,030	3.462

For details of share-based compensation, please refer to the disclosures in the Note "Operating costs", where the underlying UniCredit programmes are described.

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: (€ thousands)

	2017			2016		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	2,401	10	8,156	1,416	—	7,896
Members of the Supervisory Board of UniCredit Bank AG	299	0	4,296	340	—	4,260
Members of the Executive Management Committee[1]	—	—	—	—	—	1,994

1 excluding members of the Management Board and Supervisory Board of UniCredit Bank AG

Members of the Supervisory Board and Management Board at HVB, and members of the Executive Management Committee of UniCredit S.p.A. and their respective immediate family members are considered related parties.

Loans and advances were granted to members of the Management Board and their immediate family members in the form of planned overdraft facilities with an interest rate of 6% with a term to maturity until 2021 and mortgage loans with interest rates of between 1.36% and 5.13% falling due in the period from 2022 to 2037.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of overdraft facilities with an interest rate of 10.63% with no fixed maturity, an overdraft with an interest rate of 10.63% and mortgage loans with an interest rate of 1.92% falling due in 2035.

All banking transactions involving the group of people listed were conducted at customary market terms with the usual collateral.

Other Information (Continued)

92 Fees paid to the independent auditors

The following table shows the breakdown of fees (excluding value-added tax) recorded as expense in the reporting period, as paid to the independent auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

(€ millions)

	2017	2016
Fee for	**11**	**12**
Auditing of the financial statements	8	9
Other auditing services	3	2
Tax consulting services	—	—
Other services	—	1

93 Employees

Average number of people employed by us:

	2017	2016
Employees (excluding apprentices)	15,265	16,322
Full-time	10,774	11,713
Part-time	4,491	4,609
Apprentices	352	455

The staff's length of service was as follows:

(in %)

	WOMEN	MEN	2017	2016
	(EXCLUDING APPRENTICES)		TOTAL	TOTAL
Staff's length of service				
31 years or more	14.1	14.4	14.2	12.5
from 21 years to less than 31 years	35.7	25.6	31.0	30.0
from 11 years to less than 21 years	27.3	25.5	26.5	26.3
less than 11 years	22.9	34.5	28.3	31.2

94 Offices

Offices, broken down by region

	1/1/2017	ADDITIONS	REDUCTIONS		CHANGE IN CONSOLIDATED GROUP	31/12/2017
		NEW OPENINGS	CLOSURES	CONSOLIDATIONS		
Germany						
Baden-Wuerttemberg	17	—	1	1	—	15
Bavaria	327	4	7	2	—	322
Berlin	10	—	1	—	—	9
Brandenburg	7	—	—	—	—	7
Bremen	7	—	3	—	—	4
Hamburg	20	—	4	—	—	16
Hesse	12	—	1	—	—	11
Lower Saxony	24	—	6	1	—	17
Mecklenburg-Western Pomerania	4	—	—	—	—	4
North Rhine-Westphalia	11	—	2	1	—	8
Rhineland-Palatinate	14	—	—	—	—	14
Saarland	4	—	—	—	—	4
Saxony	8	—	—	—	—	8
Saxony-Anhalt	9	—	—	—	—	9
Schleswig-Holstein	35	—	—	—	—	35
Thuringia	5	—	—	—	—	5
Subtotal	**514**	**4**	**25**	**5**	**—**	**488**
Other regions						
Africa	1	—	—	—	—	1
Americas	12	—	1	—	—	11
Asia	8	—	1	—	—	7
Europe	44	7	5	—	—	46
Subtotal	**65**	**7**	**7**	**—**	**—**	**65**
Total	**579**	**11**	**32**	**5**	**—**	**553**

Other Information (Continued)

95 List of holdings

The separate list of holdings drawn up in compliance with Section 313 (2) HGB, contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not, together with other holdings. The list also includes selected holdings pursuant to Section 271 (1) HGB and structured entities included in the consolidated financial statements, with and without an HVB shareholding.

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
1 Controlled companies						
1.1 Controlled by voting rights						
1.1.1 Consolidated subsidiaries						
1.1.1.1 Banks and financial institutions						
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	160,013	[2]
UniCredit Luxembourg S.A.[11]	Luxembourg	100.0		EUR	1,342,482	69,303
1.1.1.2 Other consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	33	4,905
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	34	(372)
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	41	563
AGROB Immobilien AG (share of voting rights: 75.0%)[4, 11]	Ismaning	52.7	52.7	EUR	25,218	1,913
Antus Immobilien- und Projektentwicklungs GmbH	Munich	90.0	90.0	EUR	(16,872)	
Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	793	[2]
ARRONDA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(40,601)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(37,312)	950
A&T-Projektentwicklungs GmbH & Co.						
Potsdamer Platz Berlin KG[3]	Munich	100.0	100.0	EUR	(37,240)	
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	
Bayerische Wohnungsgesellschaft für Handel und Industrie,						
Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	294	[2]
Bertram Projekt Unodecima Technikzentrum GmbH & Co. KG	Hanover	94.0	94.0	EUR	(2,291)	306
B.I. International Limited	George Town	100.0	100.0	EUR	(254)	531
BIL Leasing-Fonds GmbH & Co VELUM KG						
(share of voting rights: 66.7%, of which 33.3% held indirectly)	Grünwald	100.0		EUR	(2)	0
BIL Leasing-Fonds Verwaltungs-GmbH	Grünwald	100.0	100.0	EUR	31	(1)
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	[2]
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	611	(111)
CUMTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Alpha Management KG[3]	Munich	100.0	100.0	EUR	(22,880)	
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Beta Management KG[3]	Munich	100.0	100.0	EUR	(53,477)	
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Gamma Management KG[3]	Munich	100.0	100.0	EUR	(59,493)	
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	24	6
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(326)	(5)
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(81)	(20)
Food & more GmbH[3]	Munich	100.0		EUR	235	[1.1]
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Golf- und Country Club Seddiner See Immobilien GmbH	Munich	100.0	100.0	EUR	(15,507)	
Grundstücksaktiengesellschaft am Potsdamer Platz						
(Haus Vaterland)	Munich	98.2	98.2	EUR	4,495	[2]

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft[3]	Munich	100.0	100.0	EUR	52	1,289
H & B Immobilien GmbH & Co. Objekte KG[3]	Munich	100.0	100.0	EUR	5	(1)
HAWA Grundstücks GmbH & Co. oHG Hotelverwaltung[3]	Munich	100.0	100.0	EUR	276	1,140
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	496
H.F.S. Immobilienfonds GmbH	Ebersberg	100.0	100.0	EUR	26	[2]
H.F.S. Leasingfonds Deutschland 1 GmbH & Co. KG (Immobilienleasing)	Munich	99.4	99.4	EUR	19,756	3,297
H.F.S. Leasingfonds GmbH	Ebersberg	100.0	100.0	EUR	36	121
HJS 12 Beteiligungsgesellschaft mbH[3]	Munich	100.0		EUR	278	[1.2]
HVB Capital LLC	Wilmington	100.0		USD	1,128	87
HVB Capital LLC II	Wilmington	100.0		GBP	2	0
HVB Capital LLC III	Wilmington	100.0		USD	1,107	90
HVB Capital Partners AG[3]	Munich	100.0		EUR	12,671	[1.3]
HVB Export Leasing GmbH	Munich	100.0		EUR	39	0
HVB Funding Trust II	Wilmington	100.0		GBP	2	
HVB Gesellschaft für Gebäude Beteiligungs GmbH	Munich	100.0		EUR	29	0
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	26,676
HVB Hong Kong Limited	Hong Kong	100.0		USD	4,603	(15)
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1.4]
HVB Investments (UK) Limited	George Town	100.0		GBP	0	
HVB London Investments (AVON) Limited	London	100.0		GBP	0	
HVB Profil Gesellschaft für Personalmanagement mbH[3]	Munich	100.0		EUR	28	[1.5]
HVB Projekt GmbH[3]	Munich	100.0	94.0	EUR	72,151	[2]
HVB Secur GmbH[3]	Munich	100.0		EUR	126	[1.6]
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	[2]
HVB Verwa 4 GmbH[3]	Munich	100.0		EUR	10,132	[1.7]
HVB Verwa 4.4 GmbH[3]	Munich	100.0	100.0	EUR	10,025	[2]
HVBFF International Greece GmbH	Munich	100.0	100.0	EUR	280	0
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	7	0
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	33	(2)
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	4,525
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	17	2
Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	(2,832)
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG[3]	Munich	80.0	80.0	EUR	(850)	
Interra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	51	[2]
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	[2]
Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	24	[2]
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung[3]	Munich	100.0		EUR	16,692	[1.8]
MILLETERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	100.0	EUR	25	[2]
Mobility Concept GmbH[11]	Oberhaching	60.0	60.0	EUR	13,561	5,186
Movie Market Beteiligungs GmbH i. L.	Munich	100.0	100.0	EUR	15	0
NF Objekt FFM GmbH[3]	Munich	100.0	100.0	EUR	125	[2]
NF Objekt München GmbH[3]	Munich	100.0	100.0	EUR	75	[2]
NF Objekte Berlin GmbH[3]	Munich	100.0	100.0	EUR	15,725	[2]
Ocean Breeze Asset GmbH & Co. KG	Bremen	100.0	100.0	EUR	(22)	(12)
Ocean Breeze Energy GmbH & Co. KG[3]	Bremen	100.0	100.0	EUR	(39,072)	19,136
Ocean Breeze GmbH	Bremen	100.0	100.0	EUR	4	(9)

Other Information (Continued)

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG[3]	Munich	100.0	100.0	EUR	26	(1)
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG[3]	Munich	100.0	94.0	EUR	26	(106)
Omnia Grundstücks-GmbH & Co. Objekt Perlach KG[3]	Munich	100.0	100.0	EUR	4,014	449
Orestos Immobilien-Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	56,674	[2]
Othmarschen Park Hamburg GmbH & Co. Centerpark KG[3]	Munich	100.0	100.0	EUR	(18,942)	
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG[3]	Munich	100.0	100.0	EUR	(44,083)	
Perikles 20092 Vermögensverwaltung GmbH	Bremen	100.0	100.0	EUR	12	(9)
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	3,811
"Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	31	0
RHOTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR	48	5
Roncasa Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	(36,170)	950
Salvatorplatz-Grundstücksgesellschaft mbH & Co. oHG Saarland[3]	Munich	100.0	100.0	EUR	1,534	928
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	(5,449)
Salvatorplatz-Grundstücksgesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	711	[2]
Selfoss Beteiligungsgesellschaft mbH[3]	Grünwald	100.0	100.0	EUR	25	[2]
Simon Verwaltungs-Aktiengesellschaft i.L.[4]	Munich	<100,0		EUR	3,045	(24)
Sirius Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(143,835)	[2]
Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG[3]	Munich	100.0	100.0	EUR	(31,923)	950
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	Munich	100.0	100.0	EUR	249	[2]
Structured Invest Société Anonyme	Luxembourg	100.0		EUR	7,061	41
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(7,024)	(19)
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,494)	(11)
TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs-KG[3]	Munich	75.0	75.0	EUR	(268,579)	
Terronda Development B.V.	Amsterdam	100.0	100.0	EUR	(360)	2
TIVOLI Grundstücks-Aktiengesellschaft[4]	Munich	99.7	99.7	EUR	11,791	4,275
Transterra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG[3]	Munich	100.0	100.0	EUR	10,325	791
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	23,601	1,597
Trinitrade Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0		EUR	233	(583)
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,175	[1.9]
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	127,033	7,977
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	210	(1,067)
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	937	[1.10]
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	26,693	(395)
UniCredit Leasing GmbH[2, 11]	Hamburg	100.0		EUR	452,026	[1.11]
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	115,432	801
Vermietungsgesellschaft mbH & Co. Objekt MOC KG[3]	Munich	89.3	89.3	EUR	(98,514)	1,802
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	[1.12]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,548	[1.13]
WealthCap Aircraft 27 GmbH & Co. KG	Grünwald	100.0	100.0	USD	2	
WealthCap Aircraft 27 Komplementär GmbH	Grünwald	100.0	100.0	EUR	25	0
WealthCap Entity Service GmbH	Munich	100.0	100.0	EUR	570	70
WealthCap Equity GmbH	Munich	100.0	100.0	EUR	3,437	2,937

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap Equity Management GmbH	Munich	100.0	100.0	EUR	1,255	1,230
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	1,042	530
WealthCap Immobilien 1 GmbH & Co. KG	Munich	100.0	100.0	EUR	(371)	(373)
WealthCap Immobilien 2 GmbH & Co. KG	Munich	100.0	100.0	EUR	144	98
WealthCap Immobilienfonds Deutschland 36						
Komplementär GmbH	Grünwald	100.0	100.0	EUR	(309)	(340)
WealthCap Immobilienfonds Deutschland 38						
Komplementär GmbH	Grünwald	100.0	100.0	EUR	16	(72)
WealthCap Initiatoren GmbH	Munich	100.0	100.0	EUR	4,940	3,370
WealthCap Investment Services GmbH	Munich	100.0	90.0	EUR	5,101	2
WealthCap Investments, Inc.	Wilmington	100.0	100.0	USD	1,849	485
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	2
WealthCap Kapitalverwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR	7,099	2
WealthCap Leasing GmbH	Grünwald	100.0	100.0	EUR	(145)	(170)
WealthCap Los Gatos 131 Albright Way L.P.	Wilmington	100.0	100.0	USD	(1,693)	(677)
WealthCap Management Services GmbH	Grünwald	100.0	100.0	EUR	3,222	3,186
WealthCap Objekte Südwest GmbH & Co. KG	Munich	100.0	100.0	EUR	(1,180)	(385)
WealthCap Objekt-Vorrat 20 GmbH & Co. KG	Munich	100.0	100.0	EUR	772	760
WealthCap Objekt-Vorrat 21 GmbH & Co. KG	Munich	100.0	100.0	EUR	30	20
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	57	3
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	2,381	1,141
WealthCap Portland Park Square, L.P.	Wilmington	100.0	100.0	USD	(827)	(665)
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	2
WealthCap Stiftungstreuhand GmbH	Munich	100.0	100.0	EUR	43	2
WealthCap USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0	EUR	223	173
WealthCap Vorrats-2 GmbH	Grünwald	100.0	100.0	EUR	25	(8)
1.1.2 Non-consolidated subsidiaries[5]						
Acis Immobilien- und Projektentwicklungs GmbH	Grünwald	100.0	100.0	EUR	25	2
AGRUND Grundstücks-GmbH	Munich	90.0	90.0			
Alexandersson Real Estate I B.V.	Apeldoorn	100.0	100.0			
"Alte Schmelze" Projektentwicklungsgesellschaft mbH	Munich	100.0	100.0			
Altea Verwaltungsgesellschaft mbH & Co. Objekt I KG	Munich	100.0	100.0			
AMMS Ersatz-Komplementär GmbH	Ebersberg	100.0	100.0			
AMMS Komplementär GmbH i.L.	Ebersberg	98.8	98.8			
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.9			
Apir Verwaltungsgesellschaft mbH & Co.						
Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(33,657)	950
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	100.0	100.0			
BIL Aircraftleasing GmbH	Grünwald	100.0	100.0			
BIL Immobilien Fonds GmbH	Munich	100.0	100.0			
BIL Leasing GmbH & Co Hotel Rostock KG i.L.	Rostock	58.9	58.9			
Blue Capital Metro Amerika Inc.	Wilmington	100.0	100.0			
BV Grundstücksentwicklungs-GmbH & Co.						
Schloßberg-Projektentwicklungs-KG	Munich	100.0	100.0			
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.9	EUR	26	2
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	2
Großkugel Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(3,354)	2
H.F.S. Immobilienfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 4 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 6 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 8 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 9 Komplementär GmbH	Grünwald	100.0	100.0			

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
H.F.S. Immobilienfonds Deutschland 10 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 11 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 12 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 15 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 16 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 18 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 19 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 2 Beteiligungs GmbH	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Beteiligungs B.V.	The Hague	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds GmbH & Co. Europa 4 KG	Munich	100.0	100.0			
H.F.S. Leasingfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Value Management GmbH	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 2 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 3 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 4 GmbH & Co. KG	Munich	100.0	100.0			
Hofgarten Real Estate B.V. (share of voting rights: 50.5%)	Amsterdam	47.2	47.2	EUR	(49,346)	(25)
HVB Services South Africa (Proprietary) Limited	Johannesburg	100.0				
HVBFF Kapitalvermittlungs GmbH	Munich	100.0	100.0	EUR	19	[2]
HVBFF Leasing & Investition GmbH & Co Erste KG	Munich	100.0	100.0			
HVBFF Leasing Objekt GmbH	Grünwald	100.0	100.0			
HVBFF Leasing-Fonds Verwaltungs GmbH	Munich	100.0	100.0			
HVBFF Produktionshalle GmbH i.L.	Munich	100.0	100.0			
HVZ GmbH & Co. Objekt Unterföhring KG	Munich	100.0	100.0			
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH	Munich	100.0	100.0	EUR	128	[2]
Landos Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
Life Britannia GP Limited	Edgware	100.0	100.0			
Life Britannia Management GmbH	Grünwald	100.0	100.0			
Life Verwaltungs Erste GmbH	Munich	100.0	100.0			
Life Verwaltungs Zweite GmbH	Grünwald	100.0	100.0			
Motion Picture Production GmbH	Grünwald	51.2	51.2			
Omnia Grundstücks-GmbH	Munich	100.0	100.0	EUR	26	[2]
Omnia Grundstücks-GmbH & Co. Betriebs KG	Munich	100.0	94.0			
Othmarschen Park Hamburg Wohn- und Gewerbepark GmbH	Munich	100.0	100.0	EUR	102	[2]
Perterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Projekt-GbR Kronstadter Straße München	Munich	75.0	75.0			
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Redstone Mortgages Limited	London	100.0		GBP	52,580	665
Saphira Immobilien- und Projektentwicklungs GmbH & Co. Frankfurt City West Office Center und Wohnbau KG	Munich	100.0	100.0			
Schloßberg-Projektentwicklungs- GmbH & Co 683 KG	Munich	100.0	100.0			
TERRENO Grundstücksverwaltung GmbH	Munich	75.0	75.0			
TERRENO Grundstücksverwaltung GmbH & Co. Objektgesellschaft Grillparzerstraße KG	Munich	75.0		EUR	(3,002)	0
Tishman Speyer Berlin Friedrichstraße KG i.L. (share of voting rights: 96.6%, of which 7.1% held indirectly)	Munich	97.1	5.9			
UniCredit CAIB Securities UK Ltd.	London	100.0				
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(22,047)	950
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
WealthCap Canadian Management Inc.	Toronto	100.0	100.0			
WealthCap Dritte Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Erste Kanada Immobilien Verwaltung GmbH	Munich	100.0	100.0			

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WealthCap Europa Erste Immobilien –						
Objekt Niederlande – Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien Fünfte Objekte						
Österreich Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Europa Immobilien Siebte Objekte						
Österreich Komplementär GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Fondsportfolio Private Equity 21 GmbH & Co.						
geschlossene Investment KG	Grünwald	100.0	100.0			
WealthCap Fondsportfolio Private Equity 22 GmbH & Co.						
geschlossene Investment KG	Grünwald	100.0	100.0			
WealthCap Immobilien Deutschland 39 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien Deutschland 40 GmbH & Co.						
geschlossene Investment KG	Munich	100.0	100.0			
WealthCap Immobilien Deutschland 41 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilien Nordamerika 16 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien Nordamerika 17 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien Services GmbH	Munich	100.0	100.0			
WealthCap Immobilien und Verwaltung Sekundär GmbH	Munich	100.0	100.0			
WealthCap Immobilien 40 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien 41 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 37 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Los Gatos 121 Albright Way GP, Inc.	Wilmington	100.0	100.0			
WealthCap Los Gatos 131 Albright Way GP, Inc.	Wilmington	100.0	100.0	USD	(2,037)	(793)
WealthCap Management, Inc.	Wilmington	100.0	100.0			
WealthCap Mountain View GP, Inc.	Georgia	100.0	100.0			
WealthCap Objekt Bogenhausen GmbH & Co. KG	Grünwald	94.9	94.9	EUR	5,900	(2,894)
WealthCap Objekt-Vorrat 9 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 13 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 15 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 16 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 17 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 20 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 21 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Portfolio 3 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Portland Park Square GP Inc.	Atlanta	100.0	100.0			
WealthCap Private Equity GmbH	Munich	100.0	100.0			
WealthCap Private Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity 19 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Private Equity 20 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Private Equity 21 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Private Equity 22 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Real Estate GmbH	Munich	100.0	100.0			
WealthCap Real Estate Komplementär GmbH	Munich	100.0	100.0			
WealthCap Real Estate Sekundär GmbH	Munich	100.0	100.0			
WealthCap SachWerte Portfolio 2 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial 3 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial 4 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Spezial 5 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial 6 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial-AIF 1 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Spezial-AIF 4 GmbH & Co.						
geschlossene Investment KG	Munich	100.0	100.0			
WealthCap Spezial-AIF 6 GmbH & Co. KG	Munich	100.0	100.0			

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap Vorrats-1 GmbH	Grünwald	100.0	100.0			
WealthCap Zweite Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Zweite USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap ZweitmarktWerte Immobilien 4 Komplementär GmbH	Munich	100.0	100.0			
WealthCap ZweitmarktWerte 5 GP S.à r.l.	Senningerberg	100.0	100.0			
WealthCap 21/22 Equity GmbH & Co. KG						
(share of voting rights: 100%)	Grünwald	—	—			
WealthCap 39 Komplementär GmbH	Grünwald	100.0	100.0			

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
1.2 Fully consolidated structured entities				
with or without shareholding				
Altus Alpha Plc	Dublin	0	EUR	40
Arabella Finance DAC	Dublin	0	EUR	<1
BARD Engineering GmbH	Emden	0	EUR	100
BARD Holding GmbH	Emden	0	EUR	25
Buitengaats Holding B.V.	Eemshaven	0	EUR	18
Cuxhaven Steel Construction GmbH	Cuxhaven	0	EUR	25
Elektra Purchase No. 28 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 31 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 32 S.A.	Luxembourg	0	EUR	31
Elektra Purchase No. 32 S.A. – Compartment 2	Luxembourg	0	EUR	<1
Elektra Purchase No. 33 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 34 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 35 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 36 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 37 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 38 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 39 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 40 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 41 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 42 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 43 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 44 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 46 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 47 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 48 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 54 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 55 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 57 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 58 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 718 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 911 Ltd.	St. Helier	0	EUR	<1
European-Office-Fonds	Munich	0	EUR	0
GELDILUX-TS-2013 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2015 S.A.	Luxembourg	0	EUR	31
GEMMA Verwaltungsgesellschaft mbH & Co.				
Vermietungs KG (held indirectly)	Pullach	6.1	EUR	68,272
H.F.S. Leasingfonds Deutschland 7 GmbH & Co. KG				
(held indirectly)	Munich	<0.1	EUR	56,605
HVB Funding Trust	Wilmington	0	USD	0
HVB Funding Trust III	Wilmington	0	USD	0

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
MOC Verwaltungs GmbH & Co.				
Immobilien KG (held indirectly)[4, 6]	Munich	23.0	EUR	5,113
Ocean Breeze Finance S.A. – Compartment 1	Luxembourg	0	EUR	0
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Rosenkavalier 2015 UG	Frankfurt am Main	0	EUR	8

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2 Joint ventures						
Minor joint ventures[5]						
Heizkraftwerk Cottbus Verwaltungs GmbH i.L.	Cottbus	33.3		EUR	354	245
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.3		EUR	119	863
MoneyMap GmbH	Berlin	46.4		EUR	825	(1,380)
WealthCap Portfolio Finanzierungs-GmbH & Co. KG						
(share of voting rights: 50.0%)	Grünwald	—		EUR	71,453	2,238
3 Associated companies						
3.1 Associated companies valued at equity						
Adler Funding LLC[4]	Dover	32.8		USD	13,032	2,442
Comtrade Group B.V.[4, 11]	Rotterdam	21.1	21.1	EUR	48,679	12,808
Nautilus Tankers Limited[4]	Valletta	45.0	45.0	USD	35,943	7,547
paydirekt Beteiligungsgesellschaft privater Banken mbH	Berlin	24.0		EUR	6,112	3
SwanCap Partners GmbH (share of voting rights: 49.0%)[4]	Munich	75.3		EUR	6,041	153
3.2 Minor associated companies[5]						
BioM Venture Capital GmbH & Co. Fonds KG						
(share of voting rights: 20.4%)	Planegg	23.5				
MOC Verwaltungs GmbH	Munich	23.0	23.0			
4 Further Holdings according to						
Section 271 (1) HGB[5]						
4.1 Banks and financial institutions						
AKA Ausfuhrkredit-Gesellschaft mbH	Frankfurt am Main	15.4		EUR	231,752	22,885
BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH	Berlin	4.3		EUR	11,249	450
BGG Bayerische Garantiegesellschaft mbH						
für mittelständische Beteiligungen	Munich	10.5		EUR	48,737	2,360
Bürgschaftsbank Brandenburg GmbH	Potsdam	7.8		EUR	27,601	1,273
Bürgschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	9.1		EUR	16,350	201
Bürgschaftsbank Nordrhein-Westfalen GmbH						
– Kreditgarantiegemeinschaft –	Düsseldorf	0.6		EUR	34,158	1,114
Bürgschaftsbank Rheinland-Pfalz GmbH	Mainz	1.4		EUR	16,525	145
Bürgschaftsbank Saarland Gesellschaft mit beschränkter						
Haftung, Kreditgarantiegemeinschaft für den Handel,						
Handwerk und Gewerbe	Saarbrücken	1.3		EUR	4,295	43
Bürgschaftsbank Sachsen-Anhalt GmbH	Magdeburg	8.9		EUR	15,158	209
Bürgschaftsbank Sachsen GmbH (share voting rights: 5.4%)	Dresden	4.7		EUR	40,370	2,220
Bürgschaftsbank Schleswig-Holstein GmbH	Kiel	5.4		EUR	39,211	564
Bürgschaftsbank Thüringen GmbH	Erfurt	8.7		EUR	25,304	700
Bürgschaftsgemeinschaft Hamburg GmbH	Hamburg	10.5		EUR	24,499	535
MCB Bank Limited	Lahore	>0.0		PKR	138,105,686	19,138,491

Other Information (Continued)

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Niedersächsische Bürgschaftsbank GmbH	Hanover	3.0		EUR	24,464	1,273
Saarländische Investitionskreditbank AG	Saarbrücken	3.3		EUR	64,680	866
solarisBank AG	Berlin	11.8		EUR	5,675	(7,588)
4.2 Other companies						
Acton GmbH & Co. Heureka II KG	Munich	8.9		EUR	53,120	(895)
Amstar Liquidating Trust (share voting rights: 0.0%)	New York	>0.0	>0.0			
Babcock & Brown Limited	Sydney	3.2				
BayBG Bayerische Beteiligungsgesellschaft mbH[7]	Munich	22.5		EUR	226,714	12,688
Bayerischer BankenFonds GbR[7]	Munich	25.6				
BCV Investment SCA (share voting rights: 0.0%)	Luxembourg	1.1	1.1	EUR	603	230
BGN GmbH & Co. KG	Wiesbaden	6.0	6.0			
BIL Leasing-Fonds GmbH & Co. Altstadtsanierung Freiberg KG						
(share voting rights: 0.3%)	Grünwald	—	—	EUR	459	886
BIL Leasing-Fonds GmbH & Co. Bankgebäude Leipzig KG						
(share voting rights: 0.3%)	Grünwald	—	—	EUR	(597)	720
BIL Leasing-Fonds GmbH & Co HONOR KG i.L.						
(share voting rights: 0.1%)	Grünwald	—	—			
Bil Leasing-Fonds GmbH & Co Objekt Verwaltungssitz						
Bankenverband KG (share voting rights: 0.2%)	Grünwald	—	—	EUR	824	1,184
BIL Leasing-Fonds GmbH & Co. Stadtsanierung Freiberg KG						
(share voting rights: 0.2%)	Grünwald	—	—	EUR	2,005	6,829
BIL Leasing GmbH & Co Objekte Freiberg KG	Grünwald	6.0	6.0			
BIL Leasing GmbH & Co Objekt Verwaltungsgebäude Halle KG						
(share voting rights: 0.1%)	Grünwald	—	—			
BioM Aktiengesellschaft Munich Bio Tech Development	Planegg	8.5		EUR	2,198	(54)
Blue Capital Equity I GmbH & Co.KG i.L.	Munich	>0.0	>0.0			
Blue Capital Equity II GmbH & Co. KG i.L.	Munich	>0.0	>0.0	EUR	1,811	(45)
Blue Capital Equity III GmbH & Co. KG						
(share voting rights: >0.0%)	Munich	0.8	0.8	EUR	8,800	(589)
Blue Capital Equity IV GmbH & Co. KG	Munich	>0.0	>0.0	EUR	15,576	275
Blue Capital Equity V GmbH & Co. KG						
(share voting rights: >0.0%)	Munich	0.1	0.1	USD	4,135	134
Blue Capital Equity VI GmbH & Co. KG	Munich	>0.0	>0.0	USD	23,300	1,997
Blue Capital Equity VII GmbH & Co. KG	Munich	>0.0	>0.0	USD	18,831	2,834
Blue Capital Equity VIII GmbH & Co. KG						
(share voting rights: 0.0%)	Munich	0.7	0.7	EUR	20,232	420
Blue Capital Equity IX GmbH & Co. KG						
(share voting rights: 0.6%)	Munich	0.7	0.7	EUR	9,515	414
Blue Capital Europa Immobilien GmbH & Co.						
Fünfte Objekte Österreich KG	Munich	0.1	0.1	EUR	15,149	343
Blue Capital Europa Immobilien GmbH & Co.						
Sechste Objekte Großbritannien KG i.L.	Munich	>0.0	>0.0	EUR	1,500	(3,506)
Blue Capital Europa Immobilien GmbH & Co.						
Siebte Objekte Österreich KG	Munich	0.1	0.1	EUR	24,360	2,237
Blue Capital Metro Amerika Fund, L.P.	Wilmington	0.1	0.1	USD	164,923	(2,524)
Blue Capital Metropolitan Amerika GmbH & Co. KG	Munich	0.1	0.1	USD	120,502	6,755
Boston Capital Partners V, L.L.C.	Wilmington	10.0	10.0			
Boston Capital Ventures V, L.P. (share voting rights: 0.0%)	Wilmington	20.0		USD	13,201	6
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	13.6		EUR	4,158	584
BV Capital GmbH & Co. Beteiligungs KG Nr. 1	Hamburg	16.8	16.8	EUR	2,094	237
Carlyle Partners V, L.P. (share voting rights: 0.0%)	Wilmington	>0.0	>0.0	USD	4,668,584	666,851
Carlyle U.S. Equity Opportunity Fund, L.P.						
(share voting rights: 0.0%)	Wilmington	0.9	0.9	USD	992,567	(65,725)
Charme II (share voting rights: 0.0%)	Milan	7.7		EUR	8,651	6,866

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CHARME INVESTMENTS S.C.A. (share voting rightsl: 12.1%)	Luxembourg	13.4		EUR	22,770	697
China International Packaging Leasing Co., Ltd.	Beijing	17.5		CNY	(101,056)	553
China Investment Incorporations (BVI) Ltd.	Tortola	10.8	10.8	USD	48,485	4,570
Circle 1 Luxembourg Holdings S.C.A.	Luxembourg	0.6	0.6			
CLS Group Holdings AG	Zurich	1.2		GBP	369,636	32,345
CMC-Hertz Partners, L.P. (share voting rights: 0.0%)	Wilmington	7.1	7.1			
CME Group Inc.	Wilmington	>0.0		USD	20,340,700	1,534,100
Earlybird GmbH & Co. Beteiligungskommanditgesellschaft III i.L.	Munich	9.7	9.7	USD	7,385	4,673
Easdaq NV	Leuven	>0.0		EUR	1,867	2,604
East Capital Financials Fund AB (share voting rights: 0.0%)	Stockholm	0.2		EUR	25,225	(11,047)
EDD AG (share voting rights: 3.1%)	Düsseldorf	3.0		EUR	32,245	(542)
Einkaufsgalerie Roter Turm Beteiligungs GmbH & Co. KG	Munich	>0.0	>0.0	EUR	7,926	310
Einkaufsgalerie Roter Turm Chemnitz GmbH & Co. KG	Munich	>0.0	>0.0	EUR	54,969	1,116
EURO Kartensysteme GmbH	Frankfurt am Main	6.0		EUR	11,635	173
FBEM Gesellschaft mit beschränkter Haftung i. L.	Berlin	3.0		EUR	271	2,740
Film & Entertainment VIP Medienfonds 4 GmbH & Co. KG	Grünwald	9.3	9.3	EUR	24,939	(1,426)
FinLeap GmbH[8]	Berlin	3.6		EUR	21,935	(6,878)
Gut Waldhof GmbH & Co. Golfplatz Betriebs KG	Hamburg	0.7				
H.F.S. Immobilienfonds Bahnhofspassagen						
Potsdam GmbH & Co. KG	Munich	5.9	5.9	EUR	23,183	(397)
H.F.S. Immobilienfonds "Das Schloss"						
Berlin-Steglitz GmbH & Co. KG	Munich	6.0	6.0	EUR	26,861	776
H.F.S. Immobilienfonds Deutschland 1 GmbH & Co. KG	Munich	0.6	0.6	EUR	841	184
H.F.S. Immobilienfonds Deutschland 3 GmbH & Co. KG	Munich	0.2	0.2	EUR	1,903	935
H.F.S. Immobilienfonds Deutschland 4 GmbH & Co. KG	Munich	0.2	0.2	EUR	(2,487)	(962)
H.F.S. Immobilienfonds Deutschland 6 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	16,291	8,498
H.F.S. Immobilienfonds Deutschland 7 GmbH & Co. KG	Munich	0.1	0.1	EUR	7,034	1,549
H.F.S. Immobilienfonds Deutschland 8 GmbH & Co. KG	Munich	0.1	0.1	EUR	11,886	614
H.F.S. Immobilienfonds Deutschland 9 GmbH & Co. KG	Munich	0.1	0.1	EUR	6,619	410
H.F.S. Immobilienfonds Deutschland 10 GmbH & Co. KG	Munich	1.4	1.4	EUR	133,077	5,712
H.F.S. Immobilienfonds Deutschland 12 GmbH & Co. KG	Munich	3.9	3.9	EUR	80,655	11,511
H.F.S. Immobilienfonds Deutschland 15 GmbH & Co. KG	Munich	0.1	0.1	EUR	18,666	(36)
H.F.S. Immobilienfonds Deutschland 16 GmbH & Co. KG	Munich	0.1	0.1	EUR	61,584	1,367
H.F.S. Immobilienfonds Deutschland 18 GmbH & Co. KG i. L.	Munich	6.1	6.1	EUR	10,773	47,377
H.F.S. Immobilienfonds GmbH & Co. Europa 3 KG	Munich	0.1	0.1	EUR	13,161	(3,765)
H.F.S. Immobilienfonds Köln GmbH & Co. KG	Munich	>0.0	>0.0	EUR	67,570	359
H.F.S. Immobilienfonds Köln Supplier-Park GmbH & Co. KG	Munich	>0.0	>0.0	EUR	24,307	2,732
H.F.S. Immobilienfonds Schweinfurt GmbH & Co. KG	Munich	>0.0	>0.0	EUR	7,246	307
H.F.S. Zweitmarktfonds Deutschland 1 GmbH & Co. KG	Ebersberg	0.1	0.1	EUR	14,831	2,696
H.F.S. Zweitmarktfonds Deutschland 2 GmbH & Co. KG	Ebersberg	>0.0	>0.0	EUR	86,863	11,978
HVBFF Immobilien-Fonds GmbH & Co Wohnungen Leipzig KG i.L.						
(share voting rights: 1.0%)	Munich	—	—	EUR	557	376
HVBFF Life Britannia GmbH & Co Erste KG	Grünwald	>0.0	>0.0	EUR	22,139	5,398
HVB Trust Pensionsfonds AG (share voting rights: 0.0%)[8]	Munich	100.0				
IGEPA Gewerbepark GmbH & Co Vermietungs KG	Fürstenfeldbruck	2.0	2.0	EUR	(9,704)	9,650
Industriepalast in Leipzig Verwaltungs-GmbH & Co. KG i.L.						
(share voting rights: 6.3%)	Berlin	6.2				
Interbanking Systems S.A. (Dias S.A.)	Maroussi	0.9		EUR	26,734	
IPE Tank and Rail Investment 1 S.C.A.	Luxembourg	7.8	7.8			
JBG/BC Investor, L.P.	Chevy Chase	0.5	0.5	USD	85,812	6,172
Kepler Cheuvreux S.A. (share voting rights: 4.6%)	Paris	5.2		EUR	63,061	7,080
Kreditgarantiegemeinschaft der freien Berufe						
Baden-Württemberg Verwaltungs-GmbH	Stuttgart	1.3				

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Kreditgarantiegemeinschaft der Industrie,						
des Verkehrsgewerbes und des Gastgewerbes						
Baden-Württemberg Verwaltungs-GmbH	Stuttgart	2.6				
Kreditgarantiegemeinschaft des bayerischen Gartenbaues GmbH	Munich	8.1				
Kreditgarantiegemeinschaft des bayerischen Handwerks GmbH	Munich	7.2		EUR	4,846	
Kreditgarantiegemeinschaft des Handels Baden-Württemberg						
Verwaltungs-GmbH	Stuttgart	2.3		EUR	1,022	
Kreditgarantiegemeinschaft des Handwerks						
Baden-Württemberg Verwaltungsgesellschaft mbH	Stuttgart	2.5		EUR	1,001	
Kreditgarantiegemeinschaft des Hotel- und						
Gaststättengewerbes in Bayern GmbH	Munich	9.7		EUR	4,359	
Kreditgarantiegemeinschaft für den Handel in Bayern GmbH	Munich	2.2		EUR	6,317	
Kreditgarantiegemeinschaft in Baden-Württemberg						
Verwaltungs-GmbH	Stuttgart	5.1		EUR	1,023	
Life Britannia First LP (share voting rights: 1.0%)	Uxbridge	—	—	GBP	17,699	429
Life Britannia Second LP (share voting rights: 1.0%)	Uxbridge	—	—	GBP	17,699	355
Life GmbH & Co Erste KG	Munich	>0.0	>0.0	USD	104,623	(17,436)
Life GmbH & Co. Zweite KG (share voting rights: 0.1%)	Grünwald	>0.0	>0.0	USD	87,882	(3,738)
Lion Capital Fund I, L.P. (share voting rights: 0.0%)	London	0.9		EUR	2,429	(410)
Liquiditäts-Konsortialbank GmbH i.L.	Frankfurt am Main	5.7		EUR	230,536	(5,996)
Martin Schmälzle Grundstücksgesellschaft						
Objekt Wolfsburg GmbH & Co. KG	Munich	>0.0	>0.0	EUR	15,692	868
MBG Mittelständische Beteiligungsgesellschaft						
Baden-Württemberg GmbH	Stuttgart	5.0		EUR	66,948	6,067
MBG Mittelständische Beteiligungsgesellschaft						
Rheinland-Pfalz mbH (share voting rights: 11.1%)	Mainz	9.8		EUR	13,548	1,172
MBG Mittelständische Beteiligungsgesellschaft						
Schleswig-Holstein mbH	Kiel	3.6		EUR	36,042	2,604
MFG Flughafen-Grundstücksverwaltungs-						
gesellschaft mbH & Co Beta KG i.L.	Grünwald	10.6				
Mittelständische Beteiligungsgesellschaft						
Berlin-Brandenburg GmbH	Potsdam	11.6		EUR	18,278	1,956
Mittelständische Beteiligungsgesellschaft						
Mecklenburg-Vorpommern mbH	Schwerin	15.4		EUR	14,141	655
Mittelständische Beteiligungsgesellschaft						
Niedersachsen (MBG) mbH	Hanover	8.2		EUR	13,131	895
Mittelständische Beteiligungsgesellschaft						
Sachsen-Anhalt mit beschränkter Haftung	Magdeburg	12.7		EUR	22,870	153
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	11.8		EUR	44,729	2,464
Mittelständische Beteiligungsgesellschaft						
Thüringen mbH	Erfurt	13.4		EUR	23,730	1,214
Motion Picture Production GmbH & Co. Erste KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	(28,103)	1,461
Mühoga Münchner Hochgaragen Gesellschaft						
mit beschränkter Haftung[7]	Munich	25.0	25.0	EUR	4,473	2,050
Natural Stone Investments S.A.	Luxembourg	7.4	7.4	EUR	(175,926)	(14,052)
Neumayer Tekfor Verwaltungs GmbH i.L.						
(share voting rights: 0.0%)	Offenburg	4.0	4.0			
Osca Grundstücksverwaltungsgesellschaft mbH & Co. KG i.L.	Grünwald	18.0				
PAI Europe VII-1 Global S.L.P.	Paris	0.5	0.5			
PICIC Insurance Ltd.	Karachi	>0.0		PKR	38,211	(311,789)
PRINCIPIA FUND (share voting rights: 0.0%)	Milan	10.0				
ProAreal GmbH i. I.	Wiesbaden	10.0		EUR	(93,513)	(26)
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S.						
(share voting rights: 0.0%)	Luxembourg	38.3	38.3			

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
Rocket Internet Capital Partners (Euro) SCS						
(share voting rights: 0.0%)	Luxembourg	4.4		EUR	37,806	5,002
Roomstore Inc.	Richmond	7.7	7.7			
Saarländische Kapitalbeteiligungsgesellschaft						
mit beschränkter Haftung (share voting rights: 8.8%)	Saarbrücken	8.7		EUR	7,475	35
Social Venture Fund GmbH & Co. KG						
(share voting rights: 0.0%)	Munich	9.6		EUR	3,308	(264)
Social Venture Fund II GmbH & Co. KG						
(share voting rights: 0.0%)	Munich	4.5		EUR	6,179	(2,362)
Stahl Group S.A.	Luxembourg	0.5	0.5	EUR	651,494	914,893
SwanCap FLP II SCSp (share voting rights: 37.5%)[9]	Senningerberg	—				
SwanCap FLP SCS (Stimmrechtsanteil: 37,5%)[9]	Senningerberg	—				
SwanCap TB II SCSp (share voting rights: 0.0%)[10]	Senningerberg	>0.0				
SwanCap Blocker GmbH & Co. KG[10]	Munich	—				
S.W.I.F.T., (Co-operative 'Society for Worldwide						
Interbank Financial Telecommunication')	Brussels	0.3		EUR	415,332	26,219
Texas Energy Future Holdings L.P. (share voting rights: 0.0%)	Fort Worth	1.5	1.5	USD	2,003	(172)
True Sale International GmbH	Frankfurt am Main	7.7		EUR	4,809	46
UniCredit Business Integrated Solutions						
Società Consortile per Azioni	Milan	>0.0		EUR	332,921	2,572
VISA Inc. (share voting rights: 0.0%)	Wilmington	>0.0		USD	32,912,000	5,991,000
VV Immobilien GmbH & Co. United States KG i.L.						
(share voting rights: 9.2%)	Munich	9.3				
VV Immobilien GmbH & Co. US City KG i.L.	Munich	0.9				
WealthCap Aircraft 1 GmbH & Co. KG	Munich	>0.0	>0.0	USD	22,461	344
WealthCap Aircraft 25 GmbH & Co. KG	Grünwald	>0.0	>0.0	USD	45,046	(835)
WealthCap Aircraft 26 GmbH & Co. KG	Grünwald	>0.0	>0.0	USD	57,251	(576)
WealthCap Immobilien Deutschland 38 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	EUR	89,704	6,513
WealthCap Immobilien Deutschland 39 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	EUR	1,070	(498)
WealthCap Immobilienfonds Deutschland 30 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	44,276	6,171
WealthCap Immobilienfonds Deutschland 31 GmbH & Co. KG						
(share voting rights: 0.1%)	Munich	>0.0	>0.0	EUR	35,062	1,514
WealthCap Immobilienfonds Deutschland 32 GmbH & Co. KG						
(share voting rights: 0.1%)	Munich	>0.0	>0.0	EUR	50,741	2,092
WealthCap Immobilienfonds Deutschland 33 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	59,900	2,516
WealthCap Immobilienfonds Deutschland 34 GmbH & Co. KG						
(share voting rights: 0.1%)	Munich	>0.0	>0.0	EUR	39,681	2,545
WealthCap Immobilienfonds Deutschland 35 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	124,993	7,463
WealthCap Immobilienfonds Deutschland 37 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	64,359	2,455
WealthCap Immobilienfonds Donauwörth 1 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	21,571	1,592
WealthCap Immobilienfonds Donauwörth 2 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	5,498	595
WealthCap Immobilien Nordamerika 16 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	USD	36,431	18
WealthCap Immobilien Nordamerika 17 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	USD	14,639	5,689
WealthCap Infrastructure Fund I GmbH & Co. KG	Munich	>0.0	>0.0	EUR	4,997	3,386
WealthCap Infrastruktur Amerika GmbH & Co. KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	USD	4,995	(52)
WealthCap Leasing 1 GmbH & Co. KG	Grünwald	5.5	5.5	EUR	31,529	1,576
WealthCap Leasing 2 GmbH & Co. KG	Grünwald	5.5	5.5	EUR	30,985	1,471
WealthCap Leasing 3 GmbH & Co. KG	Grünwald	5.5	5.5	EUR	30,223	1,453
WealthCap Leasing 4 GmbH & Co. KG	Grünwald	5.5	5.5	EUR	29,153	1,233

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap LebensWert 1 GmbH & Co. KG						
share voting rights: 0.3%)	Grünwald	>0.0	>0.0	USD	2,277	844
WealthCap LebensWert 2. GmbH & Co. KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	USD	8,792	760
WealthCap Life Britannia 2. GmbH & Co KG	Munich	>0.0	>0.0	EUR	21,433	1,428
WealthCap Life USA 4. GmbH & Co. KG	Grünwald	>0.0	>0.0	USD	76,013	8,495
WealthCap Los Gatos 121 Albright Way L.P.	Wilmington	>0.0	>0.0	USD	63,881	7,471
WealthCap Mountain View I L.P. (share voting rights: 0.1%)	Georgia	—	—	USD	40,063	5,070
WealthCap Objekt Berg-am-Laim GmbH & Co. KG	Munich	5.2	5.2	EUR	121,259	8,143
WealthCap Objekt Essen GmbH & Co. KG	Munich	5.2	5.2	EUR	30,877	(376)
WealthCap Objekt Frankfurt GmbH & Co. KG	Munich	5.2	5.2	EUR	(426)	(218)
WealthCap Objekt Hackerbrücke GmbH & Co. KG	Munich	5.2	5.2	EUR	33,358	1,253
WealthCap Objekt Hannover Ia GmbH & Co. KG	Munich	5.2	5.2	EUR	17,169	229
WealthCap Objekt Hannover Ib GmbH & Co. KG	Munich	5.2	5.2	EUR	3,885	450
WealthCap Objekt Hannover II GmbH & Co. KG	Munich	5.2	5.2	EUR	17,955	86
WealthCap Objekt Hufelandstraße GmbH & Co. KG	Munich	5.2	5.2	EUR	11,748	851
WealthCap Objekt Riem GmbH & Co. KG	Munich	5.2	5.2	EUR	30,630	1,431
WealthCap Objekt Riem II GmbH & Co. KG	Munich	5.2	5.2	EUR	46,082	(1,676)
WealthCap Objekt Schwabing GmbH & Co. KG	Munich	5.2	5.2	EUR	32,146	761
WealthCap Objekt Sendling GmbH & Co. KG	Munich	5.2	5.2	EUR	(822)	(813)
WealthCap Objekt Stuttgart Ib GmbH & Co. KG	Munich	>0.0	>0.0	EUR	21,775	(332)
WealthCap Objekt Stuttgart II GmbH & Co. KG	Munich	5.2	5.2	EUR	(170)	(177)
WealthCap Objekt Theresienhöhe GmbH & Co. KG	Munich	5.2	5.2	EUR	67,488	3,155
WealthCap Photovoltaik 1 GmbH & Co. KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	26,021	(223)
WealthCap Portfolio 3 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0			
WealthCap Private Equity 10 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	14,212	3,917
WealthCap Private Equity 11 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	5,471	1,675
WealthCap Private Equity 12 GmbH & Co. KG	Grünwald	>0.0	>0.0	EUR	58,879	3,050
WealthCap Private Equity 13 GmbH & Co. KG	Grünwald	>0.0	>0.0	EUR	47,661	2,148
WealthCap Private Equity 14 GmbH & Co. KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	28,216	1,349
WealthCap Private Equity 15 GmbH & Co. KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	USD	19,049	554
WealthCap Private Equity 16 GmbH & Co. KG						
(share voting rights: 0.3%)	Grünwald	>0.0	>0.0	USD	4,135	134
WealthCap Private Equity 17 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	13,426	1,161
WealthCap Private Equity 18 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	9,683	841
WealthCap Private Equity 19 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	8,940	(5,899)
WealthCap Private Equity 20 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	2,208	(1,352)
WealthCap SachWerte Portfolio 1 GmbH & Co. KG	Grünwald	>0.0	>0.0	EUR	42,141	1,955
WealthCap SachWerte Portfolio 2 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	90,090	(9,701)
WealthCap Spezial-AIF 1 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	EUR	158,188	17,936
WealthCap Spezial-AIF 2 GmbH & Co.						
geschlossene Investment KG	Munich	5.2	5.2	EUR	63,429	3,481
WealthCap Spezial-AIF 3 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	EUR	184,410	11,541

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap Spezial-AIF 5 GmbH & Co.						
geschlossene Investment KG	Munich	5.1	5.1	EUR	(769)	(779)
WealthCap US Life Dritte GmbH & Co. KG						
(share voting rights: 0.0%)	Grünwald	0.1	0.1	USD	26,949	528
WealthCap Zweitmarkt 3 BASIS GmbH & Co. KG	Grünwald	>0.0	>0.0	EUR	36,027	1,373
WealthCap Zweitmarkt 3 PLUS GmbH & Co. KG	Grünwald	>0.0	>0.0	EUR	13,092	1,220
WealthCap ZweitmarktWerte Immobilien 4 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	8,845	259
WH – Erste Grundstücks GmbH & Co. KG	Munich	6.0		EUR	82,496	18
Wohnungsbaugesellschaft der Stadt Röthenbach						
a. d. Pegnitz mit beschränkter Haftung	Röthenbach a. d. Pegnitz	5.2		EUR	3,223	80

Other Information (Continued)

Exchanges rates for 1 euro at 31 December 2017
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

China	1 euro =	7.8044	CNY
UK	1 euro =	0.88723	GBP
Pakistan	1 euro =	132.483	PKR
USA	1 euro =	1.1993	USD

Notes and comments to the list of holdings

Percentages marked < or > are rounded up or down to one decimal place, e.g. < 100.0% = 99.99% or > 0.0% = 0.01%.

1 UniCredit Bank AG has concluded profit-and-loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Food & more GmbH, Munich	(417)
1.2	HJS 12 Beteiligungsgesellschaft mbH, Munich	2
1.3	HVB Capital Partners AG, Munich	2,920
1.4	HVB Immobilien AG, Munich	7,697
1.5	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	(445)
1.6	HVB Secur GmbH, Munich	1
1.7	HVB Verwa 4 GmbH, Munich	(361)
1.8	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	2,514
1.9	UniCredit Beteiligungs GmbH, Munich	(14)
1.10	UniCredit Direct Services GmbH, Munich	(483)
1.11	UniCredit Leasing GmbH, Hamburg	20,000
1.12	Verwaltungsgesellschaft Katharinenhof mbH, Munich	437
1.13	Wealth Management Capital Holding GmbH, Munich	30,225

2 Profit and loss transfer to shareholders and partners.

3 The exemption under Section 264b, German Commercial Code and under Section 264 (3), German Commercial Code applies to the company.

4 Figures of the 2016 annual accounts are indicated for this consolidated company.

5 Where equity capital and net profit are not stated, the information is omitted due to minor importance compliant with Section 286 (3) 1 No. 1, German Commercial Code.

6 Equity capital amounts to minus €10,000 and the net profit €50,000.

7 Despite a holding of more than 20%, UniCredit Bank AG has no significant influence over the company on account of the ownership structure and voting patterns to date.

8 The company is held by a trustee for UniCredit Bank AG.

9 UniCredit Bank AG has the position of a limited partner under company law and participates in the profit of the company.

10 UniCredit Bank AG has the position of a limited partner under company law but does not participate in the profit of the company.

11 Pursuant to Section 340a (4) No. 2 German Commercial Code all holdings in large corporations with a share of voting rights greater than 5 percent.

Other Information (Continued)

96 Supervisory Board

Gianni Franco Papa	**Chairman**
Florian Schwarz Dr Wolfgang Sprissler	**Deputy Chairmen**
Paolo Cornetta Beate Dura-Kempf Francesco Giordano Klaus Grünewald Werner Habich until 30 November 2017 Prof Dr Annette G. Köhler Dr Marita Kraemer Klaus-Peter Prinz Jens-Uwe Wächter until 30 September 2017 Oliver Skrbot since 1 December 2017 Christian Staack since 1 October 2017	**Members**

97 Management Board

Sandra Betocchi Drwenski since 1 November 2017	**Chief Operating Officer (COO)**
Peter Buschbeck	**Commercial Banking – Private Clients Bank**
Ljiljana Čortan since 1 January 2018	**Chief Risk Officer (CRO)**
Dr Michael Diederich	**Corporate & Investment Banking** **Board Spokesman** **(since 1 January 2018)** **Human Capital/Labour and Social Affairs** **(since 1 January 2018)**
Heinz Laber until 31 October 2017	**Chief Operating Officer (COO)**
Robert Schindler	**Commercial Banking – Unternehmer Bank**
Andrea Umberto Varese until 31 December 2017	**Chief Risk Officer (CRO)**
Dr Theodor Weimer until 31 December 2017	**Board Spokesman** **Human Capital/Labour and Social Affairs**
Guglielmo Zadra	**Chief Financial Officer (CFO)**

Munich, 27 February 2018

UniCredit Bank AG
The Management Board

Betocchi Drwenski	Buschbeck	Čortan
Dr Diederich	Schindler	Zadra

Declaration by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and Management's Discussion and Analysis includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 27 February 2018

UniCredit Bank AG
The Management Board

Betocchi Drwenski	Buschbeck	Čortan
Dr Diederich	Schindler	Zadra

Auditor’s Report

INDEPENDENT AUDITOR’S REPORT

To UniCredit Bank AG, Munich

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of UniCredit Bank AG, Munich, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders’ equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2017 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of UniCredit Bank AG, Munich, for the financial year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report specified in the “Other information” section of our auditor’s report.

In our opinion, on the basis of the knowledge obtained in the audit
– the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017, and
– the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the group management report specified in the “Other information” section of our auditor’s report.

Pursuant to § 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”), and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters we have determined in the course of our audit:
1. Loan loss provisions in the credit business
2. Determination of the fair value of financial instruments of the trading book
3. IT controls related to financial reporting
4. Valuation of significant legal risks from potential breach of financial sanctions
5. Valuation of deferred taxes

Our presentation of these key audit matters has been structured as follows:
– Description (including reference to corresponding information in the consolidated financial statements)
– Auditor’s response
– Key Observations

1. Loan loss provisions in the credit business

a) UniCredit Bank AG provides loans to customers. In accounting, the valuation of loans to customers often require the use of estimates. In the consolidated financial statements, loan loss provisions are set off against the balance sheet item “loans to customers”. Furthermore, provisions for credit risks are disclosed under other provisions. Further, it is to be estimated until which point of time the loss event is recognized and the default risk is taken into account by means of a specific loan loss provision. Also, in particular cases, portfolio provisions were built for special cases being based on certain assumptions and estimates. The key feature of the portfolio allowance in accordance with IAS 39 is the use of various risk parameters in relation to defined portfolios. Significant valuation parameters are the probability of default of a certain portfolio, the exposure as well as the loss given default. The valuation parameters used for the measurement of the loan loss provisions have a significant impact on the recognition respectively the amount of the required provisions for credit risk. In this respect, these provisions are subject to considerable uncertainty and therefore this issue was selected as a key audit matter. The disclosure regarding the loan loss provisions are enclosed in sections 39, 51, 52, 54 and 70 in the notes to the consolidated financial statements.

b) During the audit of the consolidated financial statements, we firstly audited the effectiveness of the internal controls that capture recording, processing and valuation of loans as well as related financial reporting. In doing so, we also took into account the relevant business organisation, including the significant IT systems and valuation models. The audit of the valuation also included the assessment of implemented processes and controls in place to identify the impaired loans. For a sample, we have audited the credit-worthiness of borrowers, the estimated collateral values and the liquidation periods for credit collaterals based on the historical values of comparable collaterals in the past. We used specialists from our Risk Advisory division who have their focus on credit risk management and IT- audit. For the audit of valuation of loans and contingent liabilities as well as other financial commitments related to credit business, focus was set on the significant impaired loans, since significant areas of judgement are exercised und these have a material impact on the valuation of loans and the recognition of loan loss provisions. We evaluated the valuation of the loans based on group-internal forecasts for the future income and liquidity position of borrowers and assessed the appropriateness of the information basis used for planning purposes. In doing so, we critically challenged and assessed the underlying assumptions of the legal representatives with regard to the expected cash flows of the audited loans respectively the recovery of collaterals. During our audit, we utilised the internal validation reports and third-party audit reports and we evaluated the internal audit reports. Furthermore, we reviewed the portfolio allowance for the different balance sheet items on the basis of our own calculations for expected values.

c) The development of the loan loss provisions was influenced by the favorable economic environment.

2. Determination of the fair value of financial instruments of the trading book

a) Financial instruments assets, which are valued at fair value, are disclosed under the balance sheet items “Financial assets held for trading”, “Financial assets at fair value through profit or loss”, “Available-for-sale financial assets” and “Hedging derivatives” in the consolidated financial statements. Similarly, financial instruments liabilities at fair value are disclosed under the balance sheet items „Financial liabilities held for trading“ and „Hedging derivatives“ in the consolidated financial statements. The valuation of financial instruments has been selected as a key audit matter as it is subject to complex accounting principles, valuation procedures and -methods and is partially based on estimates and assumptions made by the legal representatives. The disclosure made by the legal representatives regarding the valuation of financial instruments is enclosed in section 8 of the notes to the consolidated financial statements.

b) We have audited the organizational structure and relating processes with regard to the determination of fair value of financial instruments by examination of the adequacy and effectiveness of the implemented key controls. We used specialists from our Risk Advisory division for our audit. In particular our audit includes the independent verification process for pricing, the validation of valuation methods and assumptions, the approval process for new financial instruments as well as the audit of controls for recording business and valuation parameters and the flow of market data, the governance and the reporting processes including the corresponding controls. Noteworthy issues from disputes with counterparties and extraordinary gains or losses from the sale of financial instruments were investigated. For adjustments to the calculated fair values due to the Group’s creditworthiness, the counterparty credit risk, model risk mitigation, bid-ask spreads, refinancing costs and costs in connection with the liquidation for less actively traded instruments we have audited the assumptions, procedures and models of the bank with regard to the use of valuation techniques used in the industry and a correct and comprehensible valuation. In addition, we conducted our own independent valuation of selected financial instruments and compared our results with the valuation performed by the holding company.

c) The valuation methods selected by the legal representatives of the Bank for the determination of the fair value of financial instruments are in line with industry standards and are, according to our evaluation, within an acceptable range.

3. IT controls related to financial reporting

a) As part of the preparation of the consolidated financial statements, the Bank uses a large number of IT applications that have numerous interfaces. In order to maintain the integrity of the data used for the preparation of the consolidated financial statements, the Bank has taken various precautionary measurements and implemented controls. The Bank has outsourced IT services to a large extent to UniCredit Business Integrated Solutions S.C.p.A., Milan (Italy), (UBIS) that has further outsourced a part of these services to other service providers. The IT controls related to financial reporting has been selected as a key audit matter, as the security of information affects many aspects of the accounting and financial reporting process, results in a large audit effort and is characterised by a high level of complexity. We refer to the disclosure of the legal representatives in section 4 Operational Risk in the risk report of the group management report with regards to the outsourcing of IT services.

b) Based on our risk assessment, we have audited the design, implementation and functionality of the controls related to user rights and change management processes for the significant accounting-relevant IT applications by incorporating IT-specialists from Risk Advisory for the audit. In doing so, we have coordinated the plan for the ISAE 3402 audit with the ISAE 3402 auditor at UBIS and the group auditors of UniCredit S.p.A. and utilised the audit activities and -results of the ISAE 3402 auditors and the group auditors. We have informed ourselves of the professional competence, independence and regulatory governance of these auditors. During the utilisation of the reports, we have inter alia critically assessed the reporting related to these audit procedures and audit results.

c) IT controls related to financial reporting implemented by the Bank were enhanced over the past years. They are adequately designed with regard to the complexity and size of the Bank.

4. Valuation of significant legal risks from potential breach of financial sanctions

a) Provisions for Legal Risks are disclosed under the balance sheet item "provisions" in the consolidated financial statements, of which a part relates to a potential breach of financial sanctions. This issue has been selected as a key audit matter, since the recognition and measurement of these quantitatively material legal risks are based to a large extent on estimates and assumptions made by the legal representatives. The disclosure made by the legal representatives regarding the provisions in relation to the legal risks is enclosed in section 70 of the notes to the consolidated financial statements and in section 4 Operational Risk in the risk report of the group management report.

b) As there is an increased risk of misstatements in accounting for estimates and the valuation choices made by the legal representatives have a significant effect on the annual group result, we have audited the operational and organizational structure with regard to the recording and valuation of legal risks. In addition, we have assessed the appropriateness of the amount stated, i.a. using values determined according to comparable settlement proceedings and based on the calculations and assessments provided by the Group's attorneys and requested confirmation letters from them. With the support of a financial sanctions expert, we have critically considered the underlying assumptions of the legal representatives. In addition, we have reviewed group-internal investigation results.

c) The provision created by the legal representatives for the legal risks from a potential breach of financial sanctions is within the spectrum of estimations of the Group's Attorneys. In our opinion, the assumptions selected by the legal representatives are justified.

5. Valuation of deferred taxes

a) Deferred tax assets are disclosed under the balance sheet item "Tax assets" in the consolidated financial statements. Deferred tax assets are based on either deductible temporary differences between the tax base and book value in accordance with IFRS or on tax assets from tax-loss carryforwards, to the extent that it is expected that these differences will reverse within the next five years, with a reducing effect on tax. Deferred tax assets are valued at the current effective tax rate or if applicable, at the established future tax rate. The valuation of deferred tax assets is highly dependent on the assumptions made by the legal representatives about the amount and timing of reversal effects from temporary differences and utilisation of tax-loss carryforwards. As the planning assumptions, which are the foundation for the valuation of tax-loss carryforwards (especially future taxable income and expenses), are subject to considerable uncertainty, the valuation of deferred taxes has been selected as a key audit matter. The disclosure made by the legal representatives regarding the deferred taxes is contained in section 43 of the notes to the consolidated financial statements.

b) We used specialists from our Tax and Financial Advisory divisions for our audit. We have assessed the valuation of the capitalised deferred taxes on loss carry-forwards and temporary differences on the basis of bank-internal forecasts based on future taxable income and expenses and the five-years planning prepared by the legal representatives on the future tax income situation of the Bank. Due to the importance of deferred tax assets and due to the fact that the valuation thereof is dependent on economic parameters, which cannot be influenced by the Group, we have conducted a sensitivity analysis for the deferred taxes. Furthermore, we have audited the consistency of material assumptions used in forecasts by comparison with the general and sector-specific market expectations.

c) The tax planning is derived from the multi-year plan, approved by the executive board.

Other information

The legal representatives are responsible for the other information. The other information comprises:

– the statement on business management included in section "Fundamentals of UniCredit Bank AG" of the group management report pursuant to § 289f (4) German Commercial Code (HGB) (gender quota disclosures),
– the legal representatives' confirmation relating to the consolidated financial statements and to the group management report pursuant to § 297 (2) sentence 4 and Section 315 (1) sentence 5 German Commercial Code (HGB) respectively, and
– the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

Responsibilities of the legal representatives and the supervisory board for the consolidated financial statements and the group management report

The legal representatives are responsible for the preparation of the consolidated financial statements, that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute der Wirtschaftsprüfer (IDW), will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also
– identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
– evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.
– conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report, or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
– evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to § 315e (1) German Commercial Code (HGB).
– obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
– evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
– perform audit procedures on the prospective information presented by the legal representatives in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the annual general meeting on 22 May 2017. We were engaged by the supervisory board on 20 June 2017. We have been the group auditor of UniCredit Bank AG, Munich, without interruption since the financial year 2013.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:
– Audits and reviews of reporting packages
– Audits recording to § 36 of the Securities Trading Act
– Project assurance related to the implementation of new accounting standard
– Non audit services in connection with a follow-up audit

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Martin Kopatschek.

Munich, March 6, 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Prof Dr Leuschner)	(Kopatschek)
German Public Auditor	German Public Auditor

The translation of the Independent Auditor's Report is for convenience only; the German version prevail.

Corporate Governance

List of Executives and Outside Directorships

Supervisory Board

NAME, OCCUPATION, PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES[1]	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES[1]
Gianni Franco Papa General Manager of UniCredit S.p.A., Vienna Chairman		UniCredit Bank Austria AG, Vienna, Bank Polska Kasa Opieki Spółka Akcyjna (BANK PEKAO SA), Warsaw, until 7 June 2017
Florian Schwarz Employee of UniCredit Bank AG, Munich Deputy Chairman		
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman		Dr. R. Pfleger Chemische Fabrik Gesellschaft mit beschränkter Haftung, Bamberg (Deputy Chairman)
Paolo Cornetta Head of Group Human Capital of UniCredit S.p.A., Milan		ES Shared Service Center S.p.A., Cernusco sul Naviglio/Milan, UniCredit Bank Austria AG, Vienna, since 19 April 2017
Beate Dura-Kempf Employee of UniCredit Bank AG, Litzendorf		
Francesco Giordano Co-Chief Operating Officer of UniCredit S.p.A., Milan		UniCredit Business Integrated Solutions S.C.p.A., Milan, Pioneer Asset Global Management S.p.A., Milan, until 3 July 2017
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia & GAD IT AG, Frankfurt am Main, until 29 June 2017	
Werner Habich until 30 November 2017 Employee of UniCredit Bank AG, Mindelheim		

1 as of 31 December 2017

NAME, OCCUPATION, PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES[1]	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES[1]
Prof Dr Annette G. Köhler University professor and Chair of Accounting, Auditing and Controlling, University of Duisburg-Essen, Faculty of Business Administration – Mercator School of Management, Düsseldorf	Value-Holdings Capital Partners AG, Gersthofen, until 26 April 2017, DMG MORI AKTIENGESELLSCHAFT, Bielefeld, since 5 May 2017	
Dr Marita Kraemer Former member of the Management Board of Zurich GI Management Aktiengesellschaft (Deutschland), and former member of the Management Board of Zurich Service GmbH, Frankfurt am Main		EULER HERMES GROUP S.A., Paris, Allianz France S.A., Paris
Klaus-Peter Prinz Employee of UniCredit Luxembourg S.A., Trier		
Oliver Skrbot since 1 December 2017 Employee of UniCredit Bank AG, Buttenwiesen		
Christian Staack since 1 October 2017 Employee of UniCredit Bank AG, Hamburg		
Jens-Uwe Wächter until 30 September 2017 Employee of UniCredit Bank AG, Himmelpforten		

1 as of 31 December 2017

List of Executives and Outside Directorships (Continued)

Supervisory Board committees[1]

Audit Committee
Dr Wolfgang Sprissler, Chairman
Francesco Giordano
Prof Dr Annette G. Köhler
Florian Schwarz

Nomination Committee
Gianni Franco Papa, Chairman
Florian Schwarz, since 6 October 2017
Dr Wolfgang Sprissler
Jens-Uwe Wächter, until 30 September 2017

Remuneration Control Committee
Paolo Cornetta, Chairman
Florian Schwarz, since 6 October 2017
Dr Wolfgang Sprissler
Jens-Uwe Wächter, until 30 September 2017

Risk Committee
Dr Marita Kraemer, Chairwoman
Gianni Franco Papa
Florian Schwarz

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Bernd Schreiber
President of the Bavarian Department of State-owned Palaces, Gardens and Lakes, Markt Schwaben

Deputies

Stefan Höck
Chief Ministerialrat in the Bavarian State Ministry of Finance, Regional Development and Regional Identity, Hohenschäftlarn

Robert Saliter
Chief Ministerialrat in the Bavarian State Ministry of Finance, Regional Development and Regional Identity, Munich

1 see also the Report of the Supervisory Board

Management Board

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES[1]	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES[1]
Sandra Betocchi Drwenski born 1958 since 1 November 2017 Chief Operating Officer (COO)	HVB Immobilien AG, Munich (Chairwoman)[2], since 1 November 2017	UnCredit Business Integrated Solutions S.C.p.A., Milan
Peter Buschbeck born 1961 Commercial Banking – Private Clients Bank	Bankhaus Neelmeyer Aktiengesellschaft, Bremen (Chairman)[2], until 31 March 2017, WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (Deputy Chairman)[2], Wüstenrot & Württembergische AG, Stuttgart	Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2]
Dr Michael Diederich born 1965 Corporate & Investment Banking	Bayerische Börse Aktiengesellschaft, Munich (Deputy Chairman)	PORR AG, Vienna, ESMT European School of Management and Technology GmbH, Berlin
Heinz Laber born 1953 until 31 October 2017 Chief Operating Officer (COO)	HVB Immobilien AG, Munich (Chairman)[2], until 31 October 2017, HVB Trust Pensionsfonds AG, Munich (Chairman)	BVV Versorgungskasse des Bankgewerbes e.V., Berlin (Chairman), BVV Versicherungsverein des Bankgewerbes a.G., Berlin (Chairman), UniCredit Business Integrated Solutions S.C.p.A., Milan, Deputy Chairman, until 10 April 2017
Robert Schindler born 1964 Commercial Banking – Unternehmer Bank		UniCredit Leasing GmbH, Hamburg (Chairman)[2], UniCredit Leasing Finance GmbH, Hamburg (Chairman)[2]
Andrea Umberto Varese born 1964 until 31 December 2017 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2], WealthCap Kapitalverwaltungsgesellschaft mbH, Munich[2]	UniCredit Luxembourg S.A., Luxembourg (Chairman)[2], Wealth Management Capital Holding GmbH, Munich[2], UniCredit Bank Austria AG, Vienna, since 27 November 2017
Dr Theodor Weimer born 1959 until 31 December 2017 Board Spokesman Human Capital/Arbeit und Soziales	FC Bayern München AG, Munich, Thyssen'sche Handelsgesellschaft mit beschränkter Haftung, Mülheim an der Ruhr, since 1 January 2017	
Guglielmo Zadra born 1972 Chief Financial Officer (CFO)		

1 as of 31 December 2017
2 Group directorship

Report of the Supervisory Board

In the year under review, the Supervisory Board discharged the responsibilities incumbent on it by law, the Articles of Association and its By-Laws and within that framework advised the Management Board on the running of the company, continuously monitored its management activities and thus satisfied itself of the legality and regularity thereof, which gave no cause for complaint. The Supervisory Board focused on the economic and financial performance of the HVB subgroup (hereinafter referred to as “HVB Group”) and particularly on the implementation of the new Group strategy and the Project Transform 2019 as part of the Multi-Year Plan 2017–2019 at UniCredit Bank AG (hereinafter referred to as “HVB” or “Bank”) and HVB Group. The Management Board informed the Supervisory Board regularly, promptly and comprehensively about the business situation and the economic position of the individual business units, business policies and fundamental issues concerning corporate management and planning. The Supervisory Board examined the financial development of the Bank and HVB Group, the earnings situation as well as liquidity and capital management and the risk situation. A full report was also submitted by the Management Board on significant transactions, legal disputes, internal and governmental investigations of the Bank in Germany and abroad, compliance topics and other events of considerable importance to the Bank. This happened primarily during the meetings of the Supervisory Board and its committees, but also outside meetings in written form. In addition, important topics and pending decisions were also discussed at regular meetings between the Spokesman of the Management Board and the Chairman of the Supervisory Board. The Supervisory Board was directly consulted at an early stage on decisions of fundamental importance for the Bank, engaged in comprehensive consultations on the matters at hand and, insofar as this was indicated, voted on the same after conducting an appropriate review. Resolutions were also passed between the scheduled meetings in written form, as required.

Meetings of the Supervisory Board

The Supervisory Board held five meetings in the 2017 financial year, one of which was an extraordinary meeting. In addition, the HVB business strategy (including the digitalisation strategy) and risk strategies as well as the related future orientation of the individual business segments were discussed in-depth in a separate strategy workshop. At these meetings, the Supervisory Board addressed the following subjects in particular:

The first meeting of the year on **16 February 2017** focused on the topic of “Strategies of the Bank”. In a **strategy workshop** held in advance on **14 February 2017,** the embedding of the HVB business strategy within the new UniCredit Group strategy and the future orientation of Commercial Banking, Corporate & Investment Banking, the ICT strategy, and the risk strategies of the Bank were discussed individually with the Management Board and considered in-depth. In the process, the Bank’s business model was discussed with the Management Board against the background of the Group strategy and the Transform 2019 project. At the meeting on 16 February 2017, the Supervisory Board then discussed the multi-year business strategy and the Multi-Year Plan 2017–2021 of HVB Group with the Management Board, particularly the specific implementation measures of the Project Transform 2019 at HVB and the related job cuts as well as the budget for 2017. Based on the integrated risk report of HVB Group and the status report on large loan exposures for Q4/2016, the Chief Risk Officer explained the development of the regulatory ratios, the risk-taking capacity as well as credit and market risk, operational risk, reputational risk, liquidity risk and strategic risk. Furthermore, the Supervisory Board approved the regular reappointment of Dr Theodor Weimer with effect from 1 January 2018 and the appointment of Ms Sandra Betocchi Drwenski as a member of the Management Board with effect from 1 November 2017.

At the meeting held on **22 March 2017** devoted to the annual financial statements, the Supervisory Board discussed the annual and consolidated financial statements for 2016 including the Management’s Reports with the independent auditor, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (hereinafter referred to as “Deloitte”), and subsequently approved them at the recommendation of the Audit Committee following its own in-depth review. The Supervisory Board also dealt with the report on relations with affiliated companies (Dependency Report) and approved the Management Board’s proposal for the appropriation of net profit including the special dividend. At this meeting, the Management Board informed the Supervisory Board of the cross-border merger of HypoVereinsFinance N.V. with HVB, and the Supervisory Board took note of and approved the conditions stated in the merger plan. The Management Board also provided information on the outcome of the identification of Risk Takers at the Bank in 2017 and on the monitoring of compliance with banking supervisory regulations by the Management Board. The Supervisory Board approved the implementation of the policy of UniCredit S.p.A.

on the 2017 Group Incentive System and the Long Term Incentive Plan 2017–2019 at HVB for the remuneration of the Management Board, taking into account the recommendation of the Remuneration Control Committee and the Remuneration Officer including external consultants. Moreover, it determined the total amount of variable remuneration for the Management Board members and employees ("bonus-pool") for the 2016 financial year and approved the 2017 goals set for the Management Board. The Supervisory Board also addressed the evaluation of the 2016 Performance Screens and goal achievement by Management Board members. Related resolutions were passed, taking account of the recommendations of the Remuneration Control Committee.

Outside a meeting on **10 May 2017,** the Supervisory Board adopted the proposed resolutions for the Bank's Annual Shareholders' Meeting on 22 May 2017.

The Supervisory Board approved the granting of the audit engagement (including the specification of audit focus areas and the remuneration) to Deloitte, which had been elected the independent auditor and the auditor of the 2017 consolidated financial statements on 22 May 2017 by the Shareholders' Meeting, at the recommendation of the Audit Committee on **6 June 2017** outside a meeting. By way of exception this year, the resolutions required to prepare for the election of Deloitte as the independent auditor and auditor of the 2018 consolidated financial statements were already adopted outside a meeting on 11 December 2017 so as to enable their early election at an Extraordinary Shareholders' Meeting on 11 January 2018.

At the meeting on **28 July 2017,** the Management Board explained the performance of the Bank and the results for the first half of 2017 (Half-yearly Financial Report) on the basis of detailed documents. The Management Board also provided an update on the status of implementation of the Transform 2019 project at HVB and information in this connection on the future of UniCredit Luxembourg S.A. and related possible measures. In addition, the Management Board informed the Supervisory Board of the planned sale of the mortgage business in the UK which the Supervisory Board approved after an in-depth discussion. The implementation of the 2017 Group Compensation Policy of UniCredit S.p.A. at HVB for the Management Board was also approved. Moreover, the Supervisory Board considered the review of the appropriateness of the remuneration systems as a whole and discussed the Remuneration Report 2016 of the Management Board and the Management Board's report on the human resources work in 2016. At this meeting, the Supervisory Board also approved the amicable termination of the term of office of Heinz Laber as a Management Board member effective from the end of 31 October 2017.

In the meeting on **9 November 2017,** the Management Board provided an overview of the performance and the results for the first nine months of 2017 (discussion of the provisional figures at 30 September 2017) on the basis of detailed documents. The Management Board also submitted a report on the implementation of the new Private Banking/Wealth Management business model and the related measures in the Bank, which were extensively discussed. The final transaction structure and measures regarding UniCredit Luxembourg S.A. meanwhile resolved by the Management Board were presented in detail by the Management Board and the Supervisory Board approved the transaction after an in-depth discussion. In addition to discussing the succession planning for the Management Board and the Supervisory Board at this meeting, the results of the annual evaluation for the Management Board and Supervisory Board, which was carried out with the aid of an external, independent consultant (auditing company), were presented. Based on the preliminary discussion at the meeting of the Nomination Committee on 23 October 2017, these results were then discussed by the Supervisory Board as a whole and measures and recommendations for improvement were examined. The auditing company arrived at the result that, in its opinion, the size, composition, structure and performance of the Supervisory Board comply with the legal requirements of Section 25d KWG (German Banking Act) and that the performance of this body should be rated as efficient and in compliance with legal requirements overall. The Supervisory Board concurred with this opinion after discussing the matter. Furthermore, the Supervisory Board approved the amicable termination of the term of office of Mr Andrea Varese as a Management Board member effective from the end of 31 December 2017 and the appointment of Ms Ljiljana Čortan as a member of the Management Board and his successor in the position of CRO with effect from 1 January 2018.

Due to the retirement of Mr Jens-Uwe Wächter and Mr Werner Habich and their stepping down from the Supervisory Board as employee representatives, changes occurred in the composition of the committees which the Supervisory Board approved outside a meeting on **6 October 2017** and **8 December 2017.**

Report of the Supervisory Board (Continued)

In another extraordinary meeting of the Supervisory Board on **16 November 2017,** the Supervisory Board approved the amicable termination of the term of office of Dr Theodor Weimer as a Management Board member effective from 31 December 2017. The Management Board elected Dr Michael Diederich as the new Board Spokesman.

In the **meetings held in 2017** and based on written information on findings management, the Supervisory Board dealt at regular intervals with the key internal audit results and reports (Compliance and Internal Audit) and external audit results and reports (German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and ECB) and those of the independent auditor and monitored the appropriate implementation of audit findings. The remediation of the documented findings in compliance with the timetables are subject to close scrutiny and progress monitoring by both the Management Board and the Supervisory Board. Based on BaFin Circular No. 6/2013, the Management Board also informed the Supervisory Board about the Bank's algorithmic trading strategy and corresponding risks through the Algorithmic Trading Report 2017.

Legal disputes as well as internal and external investigations

The Supervisory Board solicited information and deliberated on important legal disputes and proceedings at every meeting last year. Where necessary, ad-hoc committees were set up on individual issues which prepared recommendations on dealing with the results of investigations for the Supervisory Board. An ad-hoc committee was already able to be dissolved in February 2017 as the investigations in this connection had been finally completed. External legal advisers were called in to provide advice to the Supervisory Board on individual issues. The chairmen of the ad-hoc committees reported to the plenary sessions of the Supervisory Board at regular intervals together with the external legal advisers. As in previous years, these included the proceedings in connection with trades around the dividend ex-date (cum/ex trades) in particular. In this context the Management Board also provided information on the cum/ex committee of inquiry of the Deutscher Bundestag and on the cum/cum trades issue on a regular basis. In addition, the Supervisory Board obtained information over the course of the year 2017 about the status and further development of the investigations being conducted by US authorities in connection with past transactions pertaining to certain Iranian individuals and/or legal entities. The Supervisory Board also obtained reports on further investigations conducted in this context by HVB.

When required, meetings were also held without the participation of the Management Board. Prior to every Supervisory Board meeting, the Supervisory Board members representing both the employees and the shareholders had the opportunity to address the topics of the meeting in question in preliminary discussions with the Management Board. In the 2017 financial year, no conflicts of interests were disclosed by Supervisory Board members, nor is the Supervisory Board aware of any such conflicts of interests.

Supervisory Board committees

To efficiently perform its tasks, the Bank's Supervisory Board set up a Nomination Committee, a Remuneration Control Committee, a Risk Committee and an Audit Committee. Each committee elected a chairman. The composition of the committees is shown in the Supervisory Board list in this Annual Report. The responsibilities of each of the committees are defined in the rules of procedure of the Supervisory Board.

The cooperation and sharing of content among the individual committees is ensured by the same members sitting on the committees in some cases. The chairmen of the committees coordinated intercommittee topics with the Management Board member responsible in each case and among one another to strengthen cooperation in the committees as a whole. They also exercised their rights to information vis-à-vis the head of the Internal Audit and the Chief Compliance

Officer as well as the level below the Management Board, where agreed with the Management Board. As far as necessary, the committees adopted resolutions or gave recommendations to the Supervisory Board for adopting resolutions, also outside of meetings. The chairmen of all the committees reported in detail at the next respective plenary session of the Supervisory Board on the topics of the committees' discussions, the results and the resolutions passed by the committees.

Nomination Committee
The Nomination Committee met three times in the past year and in particular performed its duties as defined in Section 25d (11) KWG. These consisted above all in assisting the Supervisory Board in the preparation of the re-appointment and new appointment of Management Board members and succession planning on the Management Board and the Supervisory Board. The Nomination Committee helped the Supervisory Board to review the strategy to achieve the goal of promoting women on the Management Board and on the Supervisory Board and with the support of an external, independent consultant (auditing company), the Nomination Committee prepared the annual evaluation of the Management Board and Supervisory Board according to Section 25d (11) KWG and issued corresponding recommendations for action to the Supervisory Board. The Nomination Committee also reviewed the Management Board's principles for selecting and appointing individuals to senior management level, including key function holders, and supported the Supervisory Board in making corresponding recommendations to the Management Board. The Nomination Committee consented to Management Board members accepting offices within the meaning of Section 25c (2) KWG and to personal loans pursuant to Section 15 KWG following an appropriate review.

Remuneration Control Committee
The Remuneration Control Committee met six times in the past year, and also met once in a joint meeting with the Risk Committee. In particular, this committee performed the tasks set forth in Section 25d (12) KWG and in the Regulation on the Requirements for the Remuneration Systems of Institutions under Regulatory Law (Institutsvergütungsverordnung – InstitutsVergV) of 16 December 2013 and the amended version of 25 July 2017. In the 2017 financial year, the Remuneration Control Committee discussed the appropriate design of the remuneration systems for the employees in the 2016 financial year on the basis of the Remuneration Control Report 2016 of the Bank's Remuneration Officer. Based on this report, it held a joint meeting with the Risk Committee to review relevant interfaces between the remuneration system and the risk management system in order to analyse the effects of the remuneration systems on the risk, capital and liquidity situation of the Bank and HVB Group and to ensure that the remuneration systems are oriented towards achieving the goals defined in the business and risk strategy. The committee also solicited a presentation of the 2017 annual plan of the Remuneration Officer. Furthermore, it discussed the appropriateness of the total amount of variable remuneration for the Management Board and employees ("bonus-pool") for the 2016 financial year, discussed the evaluation of Management Board members' performance and the determination of the respective variable remuneration for the 2016 financial year and the goals set for the individual Management Board members in the 2017 financial year and gave appropriate recommendations to the Supervisory Board. The Remuneration Control Committee took note of the principles of the remuneration systems for employees. In this context, it discussed the reasonableness of the 2017 Group Compensation Policy, the 2017 Group Incentive System and the Long Term Incentive Plan 2017–2019 of UniCredit S.p.A and recommended to the Supervisory Board that this system is also implemented for the Management Board. The Remuneration Control Committee also assisted the Supervisory Board in reviewing the appropriateness and compatibility of the compensation packages for Management Board members in 2017 based on a benchmark analysis carried out by an external consultant. It supported the Supervisory Board in monitoring the appropriate design of remuneration in 2017 for the heads of the Risk Control function, the Compliance function, the Risk Takers and the 2017 remuneration systems for employees based on the Remuneration Report of the Management Board. The Remuneration Control Committee monitored the proper involvement of the internal control functions and all other relevant areas in the design

Report of the Supervisory Board (Continued)

of the remuneration systems. Moreover, the committee discussed the employment contracts of Management Board members in order to make recommendations to the Supervisory Board in connection with the new appointments and discussed the contractual arrangements as well as the remuneration of Management Board members in detail. Independent external legal advisers were consulted in individual cases. The Remuneration Officer assisted the Remuneration Control Committee in all of its monitoring and design duties with respect to all remuneration systems.

Risk Committee

The Risk Committee met five times in the past year and also held a joint meeting with the Remuneration Control Committee. The independent auditor, the head of the Internal Audit and the head of CRO Central Functions (Risk Controlling) attended all the committee meetings to provide information. The Risk Committee advised the Management Board in particular on the Bank's current and future overall risk appetite and risk strategy and helped the Supervisory Board to monitor the implementation of that strategy. The Risk Committee solicited reports on the implementation of the Project Transform 2019 in the CRO division on a regular basis. In compliance with the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement der Kreditinstitute – MaRisk), the Risk Committee received monthly risk reports. The CRO used the integrated risk reports in the meetings to explain the development of the regulatory financial ratios, risk taking capacity, credit risk, market risk, operational risk, reputational risk and liquidity risk as well as the strategic risk in the fourth quarter. The Risk Committee was briefed on a regular basis on the topic of risk and strategy. It was informed of new regulatory requirements, particularly of the status of implementation of MiFID II requirements and changes as a result of the MaRisk revision. The committee discussed an analysis of the Bank's legal risks. The efficiency of the risk management system was also the subject of detailed discussion with the CRO, the Internal Audit, the Chief Compliance Officer and the independent auditor. The committee regularly discussed the findings of the Internal Audit and the measures taken as well as the status of remediation of significant findings of the supervisory authorities and the independent auditor. In two meetings, the Risk Committee discussed at length with the Management Board, the Internal Audit and the independent auditor whether the terms in the customer business were in harmony with the business model and the risk structure of the Bank. In a joint meeting with the Remuneration Control Committee, the Risk Committee used the Remuneration Control Report 2016 of the Remuneration Officer to analyse whether the incentives set by the remuneration system take the risk, capital and liquidity structure of the Bank into account, as well as the probability and due dates of revenues. In addition, the Risk Committee held discussions in the meetings on individual credit exposures as well as on country, concentration and sector risks. Moreover, the Risk Committee received regular reports at its meetings on IT security management and IT organisation, one focus of which was monitoring the outsourcing partner UniCredit Business Integrated Solutions SCpA. Further topics considered by the Risk Committee were particularly the North Sea wind farm project financed by the Bank. The committee also analysed potential impacts of the Brexit on the Bank. Following an appropriate review, the Risk Committee granted its consent to loans to bodies of a company pursuant to Section 15 KWG.

Audit Committee

The Audit Committee held five meetings in the reporting year. Representatives of the independent auditor and particularly also the persons from whom the Audit Committee has a right to obtain information (the head of the Internal Audit, the Chief Compliance Officer and the head of CRO Central Functions (Risk Controlling)) attended all of the committee meetings to advise and to provide information. The key responsibilities of the Audit Committee are to monitor the financial reporting process, the effectiveness of the risk management system, particularly the internal control system including the compliance function and the internal audit system as well as the audit of the financial statements.

The meetings thus looked at the audit of the 2016 annual and consolidated financial statements and the report on relations with affiliated companies as well as the 2017 Half-yearly Financial Report and the figures at 31 March and 30 September 2017. The Audit Committee carefully and comprehensively examined the efficiency of the risk management system, particularly the internal control system, the compliance management system and the internal audit system. The efficiency of the individual systems was discussed in depth with the Management Board, the Internal Audit, the Compliance function and the independent auditor. In this connection the chairwoman of the Risk Committee also reported on the assessment and the examination of the efficiency of the risk management by the Risk Committee at two meetings of the Audit Committee. The Audit Committee discussed the quarterly reports of the Internal Audit and the Compliance function on a regular basis in its meetings. The committee was also provided with the annual plan of the Internal Audit. Moreover, the committee solicited reports on a regular basis on the status and the progress made in the remediation of the relevant internal and external findings of the Internal Audit, the Compliance function, the independent auditor and the supervisory authorities. The Audit Committee was also briefed on key results of audits of the supervisory authorities. Furthermore, the audit considered the SREP Letter 2017, the auditor's report on the annual audit of the securities account business according to Section 36 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the Bank's outsourcing arrangements, the report of the Data Protection Officer, the annual report of the Legal department and the adequacy of staffing levels of the CFO division, particularly against the background of the Transform 2019 project. The Audit Committee requested quarterly reports on the liquidity situation. In the reporting year, the Audit Committee received an update on the status of the IFRS 9 project on a regular basis. The committee considered the proposal on the election of the independent auditor for the 2017 financial year and assessed the qualification and independence of the auditor and the quality of the audit. It prepared the granting of the audit engagement by the Supervisory Board including the specification of audit focus areas and a recommendation on the amount of remuneration for the independent auditor. By way of exception, the measures to prepare for the election of the 2018 independent auditor at an Extraordinary Shareholders' Meeting in January 2018 were already taken at the meeting held by the Audit Committee in December 2017. Discussions at the meetings also focused on the effects and implementation of the EU Audit Reform, particularly in connection with the approval of audit-unrelated services of the independent auditor. The members of the Audit Committee and the independent auditor discussed in detail the new requirements relating to the audit opinion including the key audit matters to be disclosed for the first time in the 2017 annual financial statements.

Corporate Governance

The Supervisory Board and its committees again intensively examined the implementation of the requirements set forth in Sections 25c and 25d KWG in the past year. A key aspect of this examination was the legally prescribed responsibilities of the Supervisory Board committees. As already mentioned, the Nomination Committee and the Supervisory Board discussed the results of the annual evaluation of the Management Board and the Supervisory Board. The Supervisory Board believes that the size, composition, structure and performance of the Supervisory Board comply with the legal requirements of Section 25d KWG and that the performance of this body should be rated as efficient and in compliance with legal requirements on the whole. Both the Supervisory Board and the Management Board work efficiently and a good standard has been achieved. The audit indicated individual areas for improvement that were discussed in-depth by the plenary session of the Supervisory Board – and where these concerned the work of the committees – also by the committees and will be taken into account in future. In its opinion, the Supervisory Board has a sufficient number of independent members.

Report of the Supervisory Board (Continued)

Training and education
The members of the Supervisory Board took part in the training and educational programmes required for their tasks on their own initiative. In the process, they were appropriately supported by HVB. An internal induction programme was offered particularly to new Supervisory Board members and written information was provided. HVB offered all Supervisory Board members internal training and educational measures by specialists in the Bank and representatives of auditing companies. The topics covered were the new minimal capital requirements for market risk (BCBS 352) and the fundamental review of the trading book (FRTB), the future of internal models for credit risk and regulatory changes by the EBA, ECB and the Basel Committee as well as the implications for HVB and the new InstitutsVergV and its impact on the Bank's remuneration systems. In addition, Supervisory Board members received information from the Bank on the new regulatory developments relating to supervisory board members of banks, including the ECB guide to fit and proper assessments, on the changes to the German Corporate Governance Code 2017, on non-financial reporting based on the CSR Directive Implementation Act and on the Minimum Requirements for Risk Management (MaRisk).

Annual financial statements for 2017
The annual financial statements and Management Report of UniCredit Bank AG prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and the consolidated financial statements and Group Management Report prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, for the 2017 financial year were audited by Deloitte. The independent auditor issued an unqualified opinion in each case.

The financial statements listed above were forwarded to the Supervisory Board, together with the Management Board's proposal for the appropriation of profits and the independent auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The lead auditor of the independent auditor reported on the key findings of the audit, in particular on the internal control system and the risk management system relating to the financial reporting process compliant with Section 171 (1) AktG (German Stock Corporation Act), and provided detailed answers to the questions of Supervisory Board members at the preparatory meeting of the Audit Committee, each of the preliminary discussions and at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the independent auditor also reported on the work performed by the independent auditor in addition to the audit of the financial statements and stated that there were no circumstances giving rise to concerns about its partiality. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by this committee. Upon recommendation by the Audit Committee, the Supervisory Board approved the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. The Supervisory Board determined that, on the basis of its own examination of the annual financial statements, the consolidated financial statements, the Management Report and Group Management Report as well as the proposal for the appropriation of profits, no objections were to be raised. The Supervisory Board has therefore approved the annual financial statements and the consolidated financial statements prepared by the Management Board. Consequently, the annual financial statements were adopted. The Supervisory Board also concurred with the Management Board's proposal for the appropriation of net profit.

UniCredit S.p.A. has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relations of HVB with affiliated companies for the 2017 financial year in accordance with Section 312 AktG. The report contains the following concluding statement by the Management Board:
"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted, or any disadvantages arising were compensated."

Deloitte audited this report and issued the following opinion:
"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high or disadvantages were compensated for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relations with affiliated companies and the related audit report by Deloitte were also forwarded to the Supervisory Board. In the course of the preliminary audit, the Audit Committee and then the full Supervisory Board considered these documents in-depth. The information was checked for plausibility and consistency, and individual legal transactions between HVB and UniCredit S.p.A. and its affiliated companies were carefully examined together with other cost generating measures initiated by UniCredit S.p.A. The independent auditor took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. Based on the final outcome of the Supervisory Board's own examination of the report on relations of HVB with affiliated companies in the 2017 financial year prepared by the Management Board compliant with Section 312 AktG, which did not identify any deficiencies, no objections are to be raised about the final declaration of the Management Board in this report.

Personnel

Mr Heinz Laber resigned from the Management Board effective from the end of 31 October 2017 by mutual consent as he went into retirement. Ms Sandra Betocchi Drwenski was appointed to the Management Board as his successor with effect from 1 November 2017. Dr Theodor Weimar (Board Spokesman) and Mr Andrea Varese (CRO) resigned from the Management Board effective from the end of 31 December 2017 by mutual consent. Dr Michael Diederich was appointed the new Board Spokesman with effect from 1 January 2018. In addition, Ms Ljiljana Čortan was appointed a full member of the Management Board (CRO) by the Supervisory Board with effect from 1 January 2018. Mr Jens-Uwe Wächter stepped down from the Supervisory Board effective from the end of 30 September 2017 and Mr Werner Habich effective from the end of 30 November 2017 by resigning from office as employee representatives, both of whom retired. For the remaining period of their terms of office Mr Christian Staack replaced Mr Wächter with effect from 1 October 2017 and Mr Oliver Skrbot replaced Mr Habich with effect from 1 December 2017 as substitute members who were already appointed in 2015 in compliance with the German Act on the Co-determination of Employees in a Cross-border Merger (Gesetz über die Mitbestimmung der Arbeitnehmer bei einer grenzüberschreitenden Verschmelzung – MgVG). The term of office of all the Supervisory Board members, including the new substitute members, ends as scheduled at the end of the Annual Shareholders' Meeting resolving on the formal discharge of the Supervisory Board for the 2019 financial year.

The Supervisory Board thanks Mr Jens-Uwe Wächter and Mr Werner Habich for their long-term, committed and valuable service on this board as employee representatives and also for their commitment and their constructive support for the Bank on the Supervisory Board.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work and their services in the 2017 financial year.

Munich, 15 March 2018

The Supervisory Board

Gianni Franco Papa
Chairman

Additional Information

Summary of Annual Financial Data

(€ millions)

OPERATING PERFORMANCE	2017	2016	2015	2014	2013
Net interest	2,541	2,518	2,728	2,643	2,873
Dividends and other income from equity investments	11	57	69	92	117
Net fees and commissions	1,103	1,066	1,035	1,082	1,102
Net trading income	928	903	525	483	1,095
Net other expenses/income	399	354	318	302	328
OPERATING INCOME	**4,982**	**4,898**	**4,675**	**4,602**	**5,515**
Payroll costs	(1,600)	(1,668)	(1,821)	(1,782)	(1,770)
Other administrative expenses	(1,443)	(1,536)	(1,560)	(1,532)	(1,509)
Amortisation, depreciation and impairment losses					
on intangible and tangible assets	(227)	(257)	(198)	(245)	(199)
Operating costs	**(3,270)**	**(3,461)**	**(3,579)**	**(3,559)**	**(3,478)**
OPERATING PROFIT	**1,712**	**1,437**	**1,096**	**1,043**	**2,037**
Net write-downs of loans and provisions for guarantees and commitments	(195)	(341)	(113)	(151)	(214)
NET OPERATING PROFIT	**1,517**	**1,096**	**983**	**892**	**1,823**
Provisions for risks and charges	(25)	(193)	(194)	25	(220)
Restructuring costs	(7)	(645)	(112)	18	(362)
Net income from investments	112	39	99	148	198
PROFIT BEFORE TAX	**1,597**	**297**	**776**	**1,083**	**1,439**
Income tax for the period	(261)	(140)	(26)	(298)	(377)
PROFIT AFTER TAX	**1,336**	**157**	**750**	**785**	**1,062**
Impairment on goodwill	—	—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**1,336**	**157**	**750**	**785**	**1,062**
Profit before tax from discontinued operations[1]	—	—	—	185	19
Income tax from discontinued operations[1]	—	—	—	(12)	(7)
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS[1]	**—**	**—**	**—**	**173**	**12**
CONSOLIDATED PROFIT OF FULL HVB GROUP	**1,336**	**157**	**750**	**958**	**1,074**
attributable to the shareholder of UniCredit Bank AG	1,332	153	743	947	1,033
attributable to minorities	4	4	7	11	41
Cost-income ratio in % (based on total revenues)	65.6	70.7	76.6	77.3	63.1
Earnings per share from continuing operations (€)	—	—	—	0.96	1.27
Earnings per share of full HVB Group (€)	1.66	0.19	0.93	1.18	1.29

	2017	2016	2015	2014	2013
Balance sheet figures (€ billions)					
Total assets	299.1	302.1	298.7	300.3	290.0
Shareholders' equity	18.9	20.4	20.8	20.6	21.0
Key capital ratios[2]	**Compliant with Basel III**	**Compliant with Basel III**	**Compliant with Basel III**	**Compliant with Basel III**	**Compliant with Basel II**
Core capital (€ billions)	16.6	16.6	19.6	19.0	18.5
Risk-weighted assets (€ billions)					
(including equivalents for market risk and operational risk)	78.7	81.6	78.1	85.7	85.5
Core capital ratio (%)					
(calculated based on risk-weighted assets including equivalents					
for market risk and operational risk)	21.1	20.4	25.1	22.1	21.6
Employees[3]	13,405	14,748	16,310	17,980	19,092
Branch offices	553	579	581	796	933

1 contains the contribution to profits of DAB Bank AG and its direktanlage.at AG subsidiary
2 in accordance with approved financial statements
3 in full-time equivalents

Contact

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UniCredit Profile

Highlights

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise: 25 million clients.
UniCredit offers local expertise as well as an international one reaching and supporting its clients globally, providing them with unparalleled access to leading banks in its 14 core markets as well as in other 18 countries worldwide. UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

Financial Highlights[1]

Operating income
€ 19,619 m

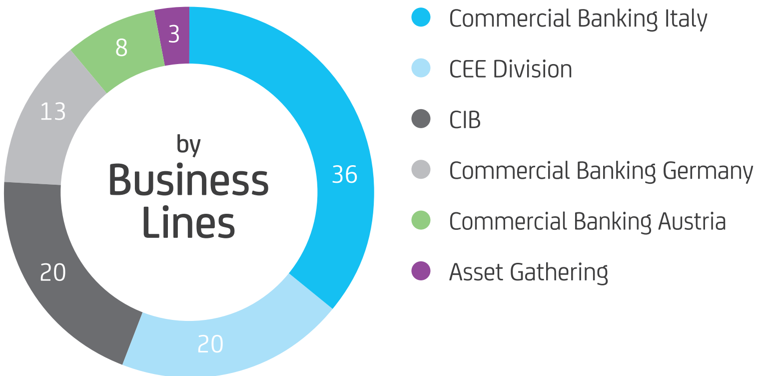
Net profit (loss)
€ 5,473 m

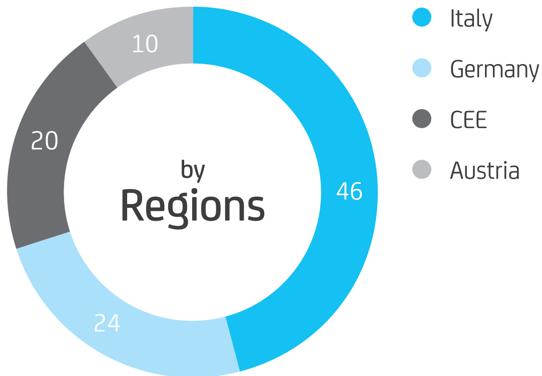
Shareholders' equity
€ 59,331 m

Total assets
€ 836,790 m

Common Equity Tier 1 ratio*
13.60%

Revenues[1] (%)





1 Data as at 31 December 2017. In accordance with IFRS5, the profit/loss of Bank Pekao S.A., Pioneer Global Asset Management S.p.A. and their subgroups' companies till the date of the deconsolidation, were recognized in Income Statement under item "Profit (loss) after tax from discontinued operation".
Disposals were finalized during 2017.
* Fully loaded CET1 ratio.

UniCredit European Banking Network

Market Shares[2] (%)

Austria	14.0
Bosnia and Herzegovina	23.0
Bulgaria	19.7
Croatia*	27.3
Czech Republic	8.5
Germany	2.5
Hungary	9.0
Italy	11.1
Romania	9.5
Russia	1.5
Serbia	11.3
Slovakia	8.5
Slovenia	7.5
Turkey	9.1

2 Market Shares in terms of Total Loans as at November 2017.
* data as at October 2017.
Source Company data, National Central Banks.

Transform 2019 Milestones

Transform 2019 – our strategic plan – is yielding tangible results.

Our strategy is to be One Bank, One UniCredit: a simple, successful, Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

2016 CAPITAL MARKETS DAY

Strengthen and Optimise Capital – **02.03**

CAPITAL INCREASE

Successful **€13bn capital increase**

Strengthen and Optimise Capital – **07.06**

STRENGTHEN CAPITAL

Disposal of 32.8% stake in **Bank Pekao**

Transform Operating Model – **01.07**

UBIS REORGANISATION

UBIS reorganisation brings improved accountability and simplified processes to further improve customer experience

Strengthen and Optimise Capital – **03.07**

STRENGTHEN CAPITAL

Disposal of **Pioneer Investments** to Amundi

Improve Asset Quality – **17.07**

FINO PHASE 1 SUCCESSFULLY CLOSED

FINO Phase 1 definitive agreements signed with Pimco and Fortress for the sale of €17.7bn portfolio

Improve Asset Quality – **21.09**

STRENGTHEN RISK CONTROLS

New Risk Management structure in place to further strengthen the effectiveness of risk controls

Adopt Lean but Steering Corporate Center – **04.12**

CORPORATE GOVERNANCE SIMPLIFICATION

Strengthened corporate governance and simplified share capital structure to position UniCredit as best in class in terms of European **corporate governance**

2017 CAPITAL MARKETS DAY

Improve Asset Quality

The banking industry is evolving but our core business will always be to support client growth with a unique proposition linked to credit. It is our responsibility to provide advice and support so that companies can develop and globalise – while ensuring sustainable growth. This also means looking beyond purely economic returns, to drive investments with a positive impact on society.

In UniCredit, **"Improve Asset Quality"** is a key pillar of our strategic plan.

- We are focused on the proactive de-risking of our balance sheet
- A strong risk discipline safeguards the quality of future origination
- A new risk management structure further strengthens the effectiveness of our risk controls.

Key Asset Quality Metrics

	2016	2017	2019
Coverage ratio	55.6%	56.2%	>54%
Group Gross NPEs ratio	11.8%	10.2%	7.8%
FINO* portfolio disposal	FINO Phase 1 signed in December 2016	FINO Phase 1 concluded with **€ 17.7bn**	FINO Phase 2 signed to sell down below **20%**

* FINO stands for: Failure Is Not an Option.

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

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