One Bank
One
UniCredit

2018

Half-yearly Financial Report at 30 June 2018

Banking that matters.

HypoVereinsbank
Member of UniCredit

Contents

Financial Highlights

Key performance indicators

	1/1–30/6/2018	1/1–30/6/2017
Net operating profit[1,2]	€914m	€942m
Cost-income ratio (based on operating income)	65.9%	61.2%
Profit before tax	€602m	€933m
Consolidated profit	€262m	€717m
Earnings per share	€0.33	€0.89

1 Net operating profit according to IAS 39 until 31 December 2017.
2 Net operating profit according IFRS 9 since 1 January 2018.

Balance sheet figures/Key capital ratios

	30/6/2018	31/12/2017
Total assets	€294,387m	€299,060m
Shareholders' equity	€17,837m	€18,874m
Common Equity Tier 1 capital[1]	€16,557m	€16,639m
Core capital (Tier 1 capital)[1]	€16,557m	€16,639m
Risk-weighted assets (including equivalents for market risk and operational risk)	€79,903m	€78,711m
Common Equity Tier 1 capital ratio[1,2]	20.7%	21.1%
Core capital ratio (Tier 1 ratio)[1,2]	20.7%	21.1%
Leverage ratio in accordance with Commission Delegated Regulation[1,3]	5.1%	5.1%

1 31 December 2017: 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.

	30/6/2018	31/12/2017
Employees (in FTEs)	12,468	13,405
Branch offices	509	553

Ratings

	LONGTERM	SHORTTERM	OUTLOOK	STAND-ALONE RATING	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Fitch Ratings				bbb+	15/12/2017	AAA/stable	AAA/stable	15/3/2018 23/4/2018
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 Ratings	A1	P-1	—		19/6/2018			
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+	3/11/2017	AAA/stable	—	9/11/2017 —
Resolution Counterparty Ratings	A–	A-2			29/6/2018			
Issuer Credit Rating	BBB+	A-2	developing		3/11/2017			
Senior Subordinated Debt	BBB	—	—		3/11/2017			

Financial Review

Corporate structure

Legal corporate structure and organisation of management and control
In the first half of 2018, the legal corporate structure and the organisation of management and control remained unchanged compared with year-end 2017. Please refer to the respective sections in Management's Discussion and Analysis of the 2017 Annual Report for statements in this context.

Ms Ljiljana Čortan was appointed to the Management Board as the Chief Risk Officer (CRO) with effect from 1 January 2018. At its meeting on 16 February 2018, the Supervisory Board appointed Mr Jan Kupfer and Dr Emanuele Buttà as members of the Management Board with effect from 1 March 2018. Mr Kupfer is in charge of the Corporate & Investment Banking business segment and succeeded Dr Michael Diederich, who was appointed Board Spokesman of UniCredit Bank AG (HVB) as per 1 January 2018. Mr Peter Buschbeck resigned from the Management Board effective from the end of 28 February 2018. Dr Emanuele Buttà took over the Private Clients Bank business unit from him. This business unit together with the Unternehmer Bank business unit constitutes the Commercial Banking business segment of the Bank.

Mr Klaus Grünewald stepped down from the Supervisory Board as an employee representative effective from the end of 30 June 2018. He was succeeded with effect from 1 July 2018 by Mr Gregor Völkl as a substitute member, who was 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 notes to the consolidated financial statements under "Members of the Supervisory Board" and "Members of the Management Board" in the present Half-yearly Financial Report.

Transform 2019
The persistently challenging environment for the banking industry and the huge downward pressure on profitability and costs this entails required another adjustment to be made to bank structures and processes. To ensure the successful advancement of the Bank, we set up a Multi-Year Plan 2017–2019 during the second half of 2016. Our now updated strategic planning is embedded in the group-wide Transform 2019 programme, which comprises initiatives on the income, costs and cooperation side. Within the framework of the programme we are simultaneously aligning our staffing levels to the adjustment and streamlining of our structures and processes (also through end-to-end optimisation) which will extend into 2019. The implementation is proceeding according to schedule. There has been a significant increase in efficiency in a vast number of areas, the agreed adjustment of staffing levels has been largely completed and appropriate agreements have been made with all employees concerned. A socially responsible reduction of staff has been achieved by exploiting normal staff fluctuation, early retirement arrangements, severance payments and continuing existing programmes to create new employment perspectives. The management and the central works council of the Bank already signed an appropriate agreement in December 2016.

More details are provided on the implementation of the Multi-Year Plan 2017–2019 in the course of this Interim Management Report under the respective items of the income statement.

Corporate acquisitions and sales, and other major changes in the group of companies included in consolidation
In March 2018, we reached an agreement with an international financial investor on the sale of all the shares held in Mobility Concept GmbH, Oberhaching, which until then had been a 60 percent subsidiary of UniCredit Leasing GmbH. The closing of the transaction took place at the end of 31 May 2018. 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

Economic growth[1]	First half 2018[2]	Full year 2017	Main drivers of development in the first half of 2018
Global economy[3]	3.9%	3.8%	Global growth continued apace in the first half of the year, although the expansion rate is likely to have reached its peak in several fully developed economies, and growth has become less synchronised.
Eurozone countries	2.4%	2.6%	In the eurozone, the GDP grew slower than expected on account of lower leads from Germany and France. Besides temporary exceptional factors, weaker global trade presumably acted as a damper. The protectionist measures of the USA are likely to have had little effect on growth to date.
including: Germany	2.2%	2.2%	The weak growth in Germany in the first half of the year is probably due to reduced momentum in industrial production. However, besides exceptional factors (nation-wide strikes, work absences in the course of the flu epidemic), less demand from abroad also had a negative effect.
USA	2.8%	2.3%	Stronger growth in the first half of the year was again due among other things to private consumption, which was supported above all by a very favourable labour market and low taxes. Corporate investments (in the energy sector for instance) are also assumed to have picked up considerably and provided further stimulus for overall economic growth.

1 Change in real GDP (in % compared with the previous year).
2 Sources: national authorities, UniCredit research forecasts.
3 Source: full year value expected by the IMF.

Sector-specific developments

The first half of 2018 was characterised by growing uncertainty and volatility worldwide. The greatest global growth risks are an increase in trade tensions, including the imposition of tariffs by the USA and China on imports from the other country respectively, and the much discussed US tariffs on the import of motor vehicles from the European Union. A negative factor for the global economy is the somewhat weaker growth projected in China. In spite of rising political uncertainty, macroeconomic development in Europe can still be seen as positive. The formation of a coalition out of the Five Star Movement and the Lega in Italy in May and the ousting of Spain's prime minister in June led to a sharp increase in the risk premiums for the government bonds of both countries. This widening also resulted in higher risk premiums for bonds issued by banks from both countries. Compared with Germany's five-year bonds, the risk premium rose for Italy's five-year government bonds from a low 60 basis points in the first quarter to more than 300 basis points at the end of May but narrowed again to levels of 200 basis points by the end of June.

The increasing global and political uncertainty also caused a downturn in sentiment on stock markets. The STOXX Europe 600 Banks index fell by over 12% from the beginning of 2018 to the end of June 2018.

In June, the ECB announced that the monthly net purchases of bonds currently totalling €30 billion will be reduced to €15 billion as of October 2018 and stopped completely as of the beginning of 2019. At the same time, the prospect was held out of an increase in the key interest rates but not before the summer of 2019. An increase in interest rates by the ECB is to be seen as being generally positive for the profitability of banks.

Financial Review (Continued)

Following the FED interest rate hikes, the interest rate level continued to rise in the USA in 2018. In the first half of 2018, the interest on the ten-year US government bond rose to more than 3.0% and was thus more than 1 percentage point higher than the level in the middle of 2017. The yield on German government bonds rose to over 70 basis points at the beginning of 2018, the highest level since September 2015. However, the increasing risk aversion of investors on account of rising political uncertainty again led to a narrowing to around 30 basis points in July 2018. The 3-month Euribor remained unchanged at a level of negative 33 basis points in 2018. A general revaluation of the risk premiums for bonds was carried out in the first half of 2018. For instance, the credit spreads for non-financials with good credit ratings widened by over 20 basis points and senior bonds of banks by 40 basis points in the first half of 2018. This development partly offset the narrowing of spreads in 2017.

The euro appreciated by around 3.0% against the US dollar in the first half of 2018. The euro also appreciated against the Swiss franc and the Japanese yen. This appreciation of the common European currency reflects solid growth in Europe. The value of the euro remained almost unchanged against the British pound in the first half of 2018.

In the Italian banking sector, the reduction in the relatively large stock of impaired loans continued in the first half of 2018. In 2017, the stock of impaired loans in Italy was reduced by a total amount of €64 billion and in the first half of 2018, by another €37 billion. Large transactions in impaired loans in 2018 included phase two of the FINO transaction of UniCredit Group. Impaired loans were also further reduced in other countries which resulted in a reduction of risks in the European banking sector overall.

Initial adoption of IFRS 9

For the 2018 reporting period, HVB Group has for the first time adopted the new IFRS 9 Financial Instruments, which supersedes the IAS 39 Financial Instruments regarding the classification and measurement of financial instruments. The new standard addresses the accounting and measurement of financial assets and financial liabilities. As a result of the new accounting and measurement methods, the structure of the balance sheet and the income statement has been adjusted to reflect the new categories of IFRS 9. HVB Group waived the retrospective application of IFRS 9 which means that figures for previous years have not been stated for the new items in the balance sheet and income statement. Previous items that reflect IAS 39 categories have been retained and show the previous-year figures.

Net interest has been expanded to disclose negative interest. As the measurement of financial instruments at fair value was expanded in the banking book by IFRS 9, we have inserted a new item "Net gains/losses on financial assets and liabilities at fair value". This item includes all the financial instruments measured at fair value outside the trading book. As a result, the "Net trading income" item in the income statement in 2018 has been reduced to net income from trading positions. The now explicitly required item "Net gains/losses on derecognition of financial instruments measured at amortised cost" has been added and, in 2018, includes the gains/losses on disposals (assets) or buybacks (liabilities) of financial instruments measured at cost. These were previously disclosed under net other expenses/income or as parts of net trading income. The previous "Net write-downs of loans and provisions for guarantees and commitments IAS 39" item has been replaced by a new item "Credit impairment losses IFRS 9" for 2018 as the method for determining the loan-loss provisions has changed from the previous Incurred Loss model to the Expected Loss model. "Net gains/losses on disposals of investments" is also a new item. It includes parts of the previous net income from investments which has been completely discarded as an income statement item in 2018. This item, which ceased to apply when IFRS 9 was introduced, primarily contained gains and losses from the IAS 39 categories of available-for-sale financial assets and held-to-maturity investments. The income from land, buildings and improvements as well as investment properties shown under this item to date is disclosed as of 2018 under the "Net other expenses/income" item, which includes the current income and expenses of investment properties, among other things.

On the assets side of the balance sheet, new items are added for the 2018 disclosures in line with the classification of the financial instruments based on IFRS 9: financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. On the liabilities side, the item "Financial liabilities at fair value through profit or loss" was included in order to incorporate financial liabilities designated for measurement at fair value through profit or loss.

Remeasurements and adjustments were also made in equity on account of the effects of the initial adoption of IFRS 9. For instance, the available-for-sale reserve has been eliminated and an Other reserve has been added due to the fair value changes in own credit spread. In addition, a separate line was inserted to show the effects from the initial adoption of IFRS 9.

Essentially, this has resulted in shifts between the items named. Overall, this has had little effect on equity and total assets. Please refer to the explanations given in condensed form under the respective chapters in Management's Discussion and Analysis and in greater detail in the Notes to this Report (Note IFRS 9 – First time adoption (FTA)).

Operating performance of HVB Group

All the statements regarding the operating performance of HVB Group in this Interim Report refer to the structure of our income statement.

	1/1–30/6/2018	1/1–30/6/2017	CHANGE	
INCOME/EXPENSES	€ millions	€ millions	€ millions	in %
Net interest	1,244	1,316	(72)	– 5.5
Dividends and other income from equity investments	9	2	+ 7	>+100.0
Net fees and commissions	543	599	(56)	– 9.3
Net trading income	378	680	(302)	– 44.4
Net gains/losses on financial assets and liabilities at fair value	(39)	n/a		
Net gains/losses on derecognition of financial				
instruments measured at amortised cost	17	n/a		
Net other expenses/income	231	161	+ 70	+ 43.5
OPERATING INCOME	**2,383**	**2,758**	**(375)**	**– 13.6**
Payroll costs	(735)	(819)	+ 84	– 10.3
Other administrative expenses	(722)	(750)	+ 28	– 3.7
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(113)	(119)	+ 6	– 5.0
Operating costs	**(1,570)**	**(1,688)**	**+ 118**	**– 7.0**
OPERATING PROFIT	**813**	**1,070**	**(257)**	**– 24.0**
Net write-downs of loans and provisions				
for guarantees and commitments IAS 39	n/a	(128)		
Credit impairment losses IFRS 9	101	n/a		
NET OPERATING PROFIT[1, 2]	**914**	**942**	**(28)**	**– 3.0**
Provisions for risks and charges	(339)	(17)	(322)	>+100.0
Restructuring costs	(1)	(2)	+ 1	– 50.0
Net income from investments	n/a	10		
Net gains/losses on disposals of investments	28	n/a		
PROFIT BEFORE TAX	**602**	**933**	**(331)**	**– 35.5**
Income tax for the period	(340)	(216)	(124)	+ 57.4
PROFIT AFTER TAX	**262**	**717**	**(455)**	**– 63.5**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**262**	**717**	**(455)**	**– 63.5**
attributable to the shareholder of UniCredit Bank AG	261	715	(454)	– 63.5
attributable to minorities	1	2	(1)	– 50.0

1 Net operating profit according to IAS 39 until 31 December 2017.
2 Net operating profit according IFRS 9 since 1 January 2018.

Financial Review (Continued)

Net interest
In a challenging environment of persistently very low interest rates, net interest at €1,244 million in the first half of 2018 was slightly lower than the previous-year figure (€1,316 million). In this context, it should also be taken into account that a non-recurring effect is contained in the previous year's figure resulting from the reversal of provisions.

In the Commercial Banking business segment there was a 1.4% increase in net interest to €737 million. In the CIB business segment, net interest also rose a significant 15.4% to €516 million. In the Other/consolidation segment, net interest fell to €9 million compared with income of €142 million in the previous year, which was largely affected 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 €9 million during the reporting period. This is attributable to dividend income of €8 million and companies accounted for using the equity method of €1 million. Income of €2 million from dividends and other income from equity investments was generated in the previous year.

Net fees and commissions
In the first half of 2018, net fees and commissions fell by €56 million, or 9.3%, to €543 million. This development is mainly due to lower commission income from investment services for customers, which fell by €35 million to €233 million. In addition, net fees and commissions from the lending business were down by €30 million to €82 million.

Net trading income
Changes to measurement and recognition must be considered when comparing with the previous year's figure, as a result of the initial adoption of IFRS 9. In the result for the first half of 2018, only the net gains on financial instruments held for trading are shown under this item, which fell sharply to €378 million. In this context, it should be taken into account that at 1 January 2018 the Bank designated structured liabilities as measured at fair value through profit or loss for the first time. These structured liabilities are still contained in the previous year's figure but will be reported under the item "Net gains/losses on financial assets" as of 2018. In addition to the effects from changes in recognition, the decline in net trading income relates above all to the Fixed Income and Currencies unit and is mainly attributable to the market irritations following the election results in Italy in May 2018.

Net gains/losses on financial assets and liabilities at fair value (new as of 2018)
This new item according to IFRS 9 is shown for the first time. It reports a loss of €39 million, which is mainly due to the negative development of liabilities measured at fair value through profit or loss.

Net gains/losses on derecognition of financial instruments measured at amortised cost (new as of 2018)
This new item according to IFRS 9 is shown for the first time. It reports a gain of €17 million.

Net other expenses/income
The changes made to measurement and recognition must be taken into account when comparing with the previous year's figure. Net other expenses/income amounts to €231 million and cannot be compared with the previous year's figure. For the first time, figures for the first half of 2018 contain income from the measurement and sale of land and investment properties totalling €110 million.

Operating costs

In the downward development of operating costs, we are benefitting from the continuation of our longstanding and consistent cost management as well as from our Transform 2019 programme which has already increased efficiency by a significant level in many areas. Compared with the previous year, operating costs decreased by €118 million, or 7.0%, to €1,570 million. This decrease is attributable to the decline in payroll costs, which fell by €84 million, or 10.3%, to €735 million, mainly on account of the lower headcount. Other administrative costs were also down by 3.7% to €722 million.

Operating profit (before credit impairment losses IFRS 9)

The operating profit of HVB Group fell by €257 million, or 24.0%, to €813 million in the reporting period. The decline in operating income was partially compensated by the reductions achieved in operating costs. Nevertheless there was a slight deterioration in the cost-income ratio (ratio of operating expenses to operating income) to 65.9% after 61.2% in the previous year.

Credit impairment losses IFRS 9 (new as of 2018)

This new item according to IFRS 9 is shown for the first time. It reports an income of €101 million. We refer to the comments on the impact of the first-time adoption of IFRS 9 in the notes for the difference between the credit impairment losses IFRS 9 and the net write-downs of loans and provisions for guarantees and commitments shown in the first half of 2017.

Provisions for risks and charges

In the first six months of the 2018 financial year, there were net expenses for provisions for risks and charges of €339 million after €17 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 Interim Management Report.

Net gains/losses on disposals of investments (new as of 2018)

This new item according to IFRS 9 is shown for the first time. It reports a gain of €28 million on the disposal of our subsidiary Mobility Concept GmbH, Oberhaching.

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

In the first half of 2018, HVB generated a satisfactory profit before tax of €602 million in a persistently challenging market environment.

Income tax expense rose to €340 million. The increase of €124 million in relation to the first half of 2017 is attributable to non-tax deductible expenses among other things.

After deducting income tax, HVB generated a consolidated profit of €262 million in the reporting period, which is lower than the consolidated profit of the first half of 2017 (€717 million).

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, 12.5% equity (previous year: 12%) is allocated to the average risk-weighted assets. In the first half of 2018, this ratio fell to 5.3% after 14.8% in the first half of 2017.

Segment results by business segment

After the first six months of 2018, all the business segments generated a profit before tax or consolidated profit:

(€ millions)

OPERATING INCOME	1/1–30/6/2018	1/1–30/6/2017
Commercial Banking	1,179	1,206
Corporate & Investment Banking	1,015	1,321
Other/consolidation	77	231
Total	**2,271**	**2,758**

(€ millions)

PROFIT BEFORE TAX	1/1–30/6/2018	1/1–30/6/2017
Commercial Banking	161	195
Corporate & Investment Banking	296	554
Other/consolidation	145	184
Total	**602**	**933**

Financial Review (Continued)

Even though the profit before tax decreased in the first half of 2018 in the Commercial Banking business segment compared with the first half of the previous year, we expect a significant increase in earnings for this business segment for the whole of 2018. In this context, it should be taken into account that a non-recurring expense for the set-up of a provision arose in the first half of the year which will not be repeated in the second half. We also assume that costs will be further reduced compared with the first half as measures that have already been launched will then be reflected in figures. Furthermore, we expect lower credit impairment losses in the second half of 2018 compared with the first half. To summarise, the profit in the first half of the year cannot be extrapolated to the whole of 2018.

(€ millions)

CONSOLIDATED PROFIT	1/1–30/6/2018	1/1–30/6/2017
Commercial Banking	66	129
Corporate & Investment Banking	94	357
Other/consolidation	102	231
Total	**262**	**717**

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 this Half-yearly Financial Report. 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 2017 consolidated financial statements.

Financial situation

Total assets

The following comments are based on a comparison with the 2018 opening balance sheet in order to eliminate first-time adoption effects. The total assets of HVB Group decreased by €4.7 billion, or 1.6%, to €294.4 billion at 30 June 2018 compared with the opening balance sheet.

On the assets side, particularly the cash and cash balances fell by €23.3 billion to €13.2 billion. This decline is largely attributable to the lower balances with central banks. By contrast, there was a rise of €5.7 billion to €81.1 billion in financial assets held for trading, due almost exclusively to the sub-item “Balance sheet assets”. The portfolio of financial assets at fair value through profit or loss amounts to €17.8 billion compared with €22.3 billion at 1 January 2018. The item “Financial assets at fair value through other comprehensive income” came to €6.6 billion compared with €6.1 billion at 1 January 2018. Loans and receivables with banks increased by €7.4 billion to €37.9 billion, due particularly to increases of €6.2 billion in repo volumes and of €1.2 billion in current accounts. There were declines in other loans and receivables that fell by €0.9 billion. Loans and receivables with customers also rose by €9.6 billion to €130.6 billion. This rise can be attributed to larger volumes of current accounts (up €0.6 billion), repos (up €1.9 billion), securities (up €3.3 billion), mortgage loans (up €0.7 billion) and other loans and receivables (up €2.8 billion). By contrast, there was a slight decline in non-performing loans and receivables (down €0.3 billion). The balance sheet item “Non-current assets or disposal groups held for sale” decreased by €346 million to €165 million. This decrease largely relates to assets in connection with the sale and deconsolidation of our subsidiary Mobility Concept GmbH, Oberhaching.

On the liabilities side, the financial liabilities held for trading rose by €2.1 billion to €53.7 billion. This rise relates in particular to other financial liabilities held for trading. Deposits from banks fell by €1.8 billion to €65.5 billion. Within this item, the deposits from central banks fell by €3.4 billion to €16.4 billion compared with the 2018 opening balance sheet. Term deposits were also down by €4.2 billion to €5.4 billion while there were increases of €1.3 billion to €10.8 billion in cash collateral and of €4.3 billion to €17.4 billion in repos. The decline of €4.1 billion to €120.2 billion in deposits from customers is primarily attributable to the €4.3 billion decline in term deposits and promissory notes, which were down by €1.2 billion. By contrast, current accounts rose by €1.8 billion. Debt securities in issue declined by €0.7 billion to €24.8 billion compared with the opening balance sheet.

The shareholders' equity shown in the balance sheet fell by €1.0 billion to €17.8 billion at the balance sheet date of 30 June 2018. This decline is largely attributable to the dividend payout of €1,300 million to UniCredit S.p.A., Milan, Italy, as resolved by the Shareholders' Meeting in the second quarter of 2018. This development was unable to be offset by the consolidated profit generated in the first half of 2018.

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 2018 interim financial statements.

The contingent liabilities and other commitments not recognised in the balance sheet amounted to €70.7 billion at 30 June 2018 compared with €68.3 billion at year-end 2017. This figure includes contingent liabilities in the form of financial guarantees of €21.7 billion (1 January 2018: €21.1 billion) and other commitments of €49.0 billion (1 January 2018: €47.2 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 €79.9 billion at 30 June 2018 and were thus €1.2 billion higher than year-end 2017.

The risk-weighted assets for credit risk (including counterparty default risk) determined by applying partial use increased by €2.5 billion to €61.4 billion. Among other things, this increase is due to higher exposure values at HVB, particularly to companies.

The risk-weighted assets for market risk fell by €1.3 billion to €9.8 billion. The decline in market risk was largely due to a 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 30 June 2018 and were thus almost unchanged compared with year-end 2017.

At 30 June 2018, 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 and have thus remained stable compared with year-end 2017 (31 December 2017: €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 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 20.7% at 30 June 2018 (31 December 2017: 21.1% in both cases). The decrease is predominantly attributable to the increase in risk-weighted assets. Own funds came to €17.2 billion at 30 June 2018 (31 December 2017: €17.3 billion in accordance with approved annual financial statements). The own funds ratio was 21.6% at 30 June 2018 (31 December 2017: 22.0%).

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 of HVB Group in accordance with the Commission Delegated Regulation (EU) 2015/62 amounted to a stable 5.1% at 30 June 2018 (31 December 2017: 5.1%).

Ratings

The ratings of countries and banks are subject to constant monitoring by rating agencies. The implementation of new regulatory requirements (especially the Bank Recovery and Resolution Directive – BRRD) has resulted in continuous adjustments in the rating methodology applied by rating agencies.

Financial Review (Continued)

In June 2018, S&P introduced the resolution counterparty rating (RCR) rating category for banks because S&P assumes that the liabilities covered by this rating will be treated separately in the course of resolution. S&P assigned an initial rating of A-/A-2 for HVB's long-term RCR, which is a notch higher than the long-term issuer credit rating (BBB+ developing/A-2). The outlook of the issuer credit rating remains unchanged at "developing". This status shows that the rating can be upgraded, remain the same or downgraded depending on the details of the resolution strategy of UniCredit Group. The rating for the senior subordinated securities of HVB has remained unchanged at BBB since November 2017.

Fitch Ratings has not changed the ratings of HVB's rating categories since they were last affirmed in December 2017. The derivative counterparty rating, the issuer default rating and the deposit rating of HVB have been assigned BBB+. The short-term deposit rating and the short-term IDR have remained unchanged at F2. 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.

Moody's has assigned ratings of A2 with a stable outlook stable for both deposits and senior-senior unsecured bank debt, which have remained unchanged since mid 2017. Moody's last confirmed the senior unsecured debt rating of Baa2 in December 2017. The outlook was changed from stable to negative in this connection. The negative outlook reflects the potentially declining likelihood of support from the government for subordinated senior unsecured instruments of German issuers.

The amendment to the BRRD in November 2017 requires that an EU-wide subordinated senior unsecured class of debtors is introduced which will serve to achieve a closer harmonisation of the liability cascades of banks within the EU. For German banks, after implementation into German law (planned for July 2018) this could result in the senior unsecured instruments classified as subordinate in accordance with Section 46f KWG ranking pari passu with the newly introduced subordinated senior unsecured class of debtors. Against this background Moody's has published amendment suggestions for the rating methodology for German banks. These suggestions envisage the introduction of a new junior senior unsecured rating class, which applies to non-preferred senior unsecured instruments. Instruments included in the previous rating class senior-senior unsecured bank debt will be disclosed under the debt/issuer rating in future.

In June 2018, Moody's introduced the counterparty risk rating (CRR) as a new rating category in addition to the counterparty risk assessment. The rating is intended to reflect the expected financial loss of the unsecured part of certain financial liabilities (non-debt counterparty financial liabilities), such as the unsecured part of payments under derivative and repo transactions, in the event of resolution. The initial rating assigned as HVB's counterparty risk rating is A1/P-1, which is at the same level as the counterparty risk assessment (A1/-/P-1).

Report on subsequent events (events after the reporting period)

The merger of UniCredit Luxembourg S.A. with UniCredit Bank AG was entered in the Commercial Register for UniCredit Bank AG on 20 July 2018 and thus became legally effective. The merger was carried out with retroactive effect as per 1 July 2018 for tax and accounting purposes.

Forecast report/Outlook

The following comments on the outlook are to be viewed in connection with those in the Financial Review and the Risk Report in Management's Discussion and Analysis of the 2017 Annual 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 3.8% in 2017. While the economic development in the USA will probably also pick up, it should contract somewhat in the eurozone. Many emerging and developing countries are expected to continue posting solid growth also in 2018, although their growth risks have increased on account of higher oil prices, a rise in US interest rates and a stronger US dollar exchange rate. A negative factor for the global economy is the weaker growth projected in China. Besides the ongoing transformation of the economy, this development is attributable 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 an increase in protectionist measures by the US administration and the Brexit negotiations.

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 2.7% in the USA this year and thus be 0.4 percentage points higher than in the previous year. In this context, strong stimuli are expected to take effect probably at the beginning of the second half of the 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.

In the current year, we project slightly lower growth of 2.2% in the eurozone and thus expect a slight decline compared with 2017 (up 2.6%). In this context, particularly the recovery in global trade in the second half of the year is likely to support the economy in the eurozone in 2018 after a slowdown in the same in the first half and exceptional factors (particularly in Germany) acted as a damper. Furthermore, higher costs on the corporate and consumer side on account of higher oil prices and the diminishing effects of favourable financing conditions should be compensated by a lower euro exchange rate. Growth in the eurozone is expected to be driven primarily by domestic demand once more 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. The risks entailed in our forecasts are particularly an increasing intensification of protectionist measures of the US administration and corresponding countermeasures by trading partners.

The ECB's bond-buying programme will keep financing costs low also in 2018. We expect a slight increase to 1.7% in consumer price inflation in the eurozone for 2018 as a whole, driven mainly by higher oil prices.

At country level, we forecast a GDP growth rate in Germany of 2.0% 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 2.3%). For Italy, we also expect lower economic growth of 1.3% in 2018 compared with 1.6% in the previous year, and the economic recovery is also likely to continue to weaken in Spain from 3.1% in 2017 to around 2.7% in 2018. For the United Kingdom, we anticipate a significant contraction to 1.1% this year compared with the 1.8% in 2017.

Domestic consumption and a recovery in exports are likely to be the key drivers of German economic growth in the second half of the year. In particular, manufacturing companies should benefit from a recovery in global trade activities, provided the trade conflicts in the USA-China-Europe triad are not aggravated any further. In addition, we expect the increase in investments to continue. Private consumption should also record solid growth on the back of a historically low unemployment rate coupled with strong wage increases. But the construction industry in particular will probably once again make a significant contribution to overall economic growth in 2018. This is signalised not least by record levels in business expectations and a large backlog of completions in comparison with the building permits granted.

Financial Review (Continued)

Banking sector development in 2018

In the middle of June, the ECB announced further details of its future monetary policy. The monthly net purchases of currently €30 billion will be reduced to €15 billion between October 2018 and December 2018 and stopped completely as of 2019. The ECB also announced that a first interest rate hike can be expected in the summer of 2019 at the earliest. In June 2018, the ECB held assets worth €2.4 trillion. 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 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. This reduction is facilitated by the consistently favourable macroenvironment, various measures taken by banking supervisory authorities and national governments as well as a high level of interest still shown by specialised investors. Good growth rates in Europe, lower risk costs and a rise in interest rates will have a positive effect on the European banking sector in the medium term, resulting in a trend towards an increase in lending and higher interest margins.

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, the Targeted Review of Internal Models (TRIM) 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. Germany passed a law on the adjustment of the insolvency hierarchy of banks which enables German banks to issue unsecured, non-preferential senior bonds.

In May 2018, the European Council agreed measures to reduce risks in the banking sector. The package includes amendments to capital requirements and to the recovery and resolution of banks in difficulty. Fundamental agreements were reached:
– on the required scope and quality of the subordinated status of liabilities for global-systemically important institutions (‚G-SIIs‘) or other banks that might pose a system risk to financial stability if their resolution is required,
– on the implementation of the new capital requirements for market risk,
– on the fundamental review of the trading book by the Basel Committee on Banking Supervision,
– and on an adapted methodology for calculating the valuation of G-SIIs.

The resolutions will now be forwarded to the European Parliament for discussion.

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

The persistent uncertainty within the macropolitical environment in Europe is continuing to cause high structural volatility on financial and capital markets. Given this background, forward-looking statements on performance are unreliable. On account of the development in the first half of the year and based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we expect, in a still challenging environment for the financial industry, to again be able to generate a satisfactory profit before tax in the 2018 financial year. However, this is likely to be lower than the already good result of the previous year.

We assume that in this persistently difficult market environment operating income will no longer reach the figure posted in the 2017 financial year. Due to the elimination of a non-recurring effect in 2017, net interest should be moderately lower. We also expect a decline in net trading income. 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, we expect 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 credit impairment losses, the positive economic development, particularly in Germany, is continuing. This means that credit default losses will continue to remain below the expected figures. As a result, we project a decline in credit impairment losses compared with the already very good figure of the previous year. The level of credit impairment losses should normalise in 2019 and thereafter. Some significant non-recurring factors are reflected in profit before tax, as described in the development of the earnings position.

We expect 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. In the CIB business segment, we also anticipate a largely satisfactory development in operating income. As a result of non-recurring effects, the profit before tax in CIB will, however, probably fall below the previous year's level. Notwithstanding this, the CIB business segment will once again have a relevant share in the satisfactory result of HVB Group overall. 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 our excellent capital base without any change. The Common Equity Tier 1 ratio will probably fall moderately below the level of the previous year as we expect an increase in risk-weighted assets, particularly due to the planned expansion in the lending volume and an increase in market risk.

The opportunities in terms of future business policy and corporate strategy, performance and other opportunities were described in detail in the 2017 consolidated financial statements of HVB Group under Management's Discussion and Analysis (2017 Annual Report, page 21 ff.). The statements made in that report continue to apply.

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 duties 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 exclusively with the risks at HVB Group. The opportunities were presented separately in the section of the Financial Review in the 2017 Annual Report in the 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 by 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 sufficient liquidity not being available when required or that liquidity can only be obtained at higher interest rates, or that the Bank will only be able to liquidate assets on the market at a discount.

In line with the Capital Requirements Regulation (CRR), HVB Group defines **operational risk** as the risk of losses resulting from inadequate or failed internal processes, systems and people or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

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 occur both on 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 an increase in the obligations on the liabilities side, due for instance to a reduction in the discount rate. Furthermore, there are actuarial risks such as longevity risk (changes to the mortality tables) 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 occurrence of losses in equity provided, in connection with a financial investment to other 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 of HVB, 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 maintained.

Pursuant to the Minimum Requirements for Risk Management (MaRisk), multi-year budgeting is performed in relation to 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 scenarios with negative consequences are examined independently of each other to permit an assessment of the impact of a deteriorating macroeconomic business environment. Whereas the first scenario assumes a slump in the major economies of the European Monetary Union, the second scenario assumes a conventional recession in Germany on account of declining 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 CRO organisation is responsible for risk management and risk policy guidelines set by the Management Board of HVB, reporting on a regular basis to the management Board of HVB and the Risk Committee of the Supervisory Board on the Group's risk situation.

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 risk monitoring in accordance with the MaRisk rules, which is functionally and organisationally independent.

Risk Report (Continued)

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". They thus make it possible for the business segments to take on risk positions in a deliberate and controlled manner within the framework of the risk strategy and to 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 business segments are authorised to take their own lending decisions under conditions set by the CRO organisation. The Market Risk Management unit is responsible for controlling market risk and the Finance unit within the Chief Financial Office (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 proactively coordinates. The relevant business segments are responsible for controlling the financial investments. The real estate risk arising from property portfolio within the Group is controlled centrally by the Chief Operating Office (COO) unit. Within HVB Group, this is performed by the Real Estate unit, HVB Immobilien AG and the UniCredit Services S.C.p.A. (renamed from Business Integrated Solutions S.C.p.A., UBIS, in May 2018), which was engaged by HVB Immobilien AG by way of a service level agreement. 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 component 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 credit risk, business risk and real estate risk and merges these types of risk with the market risk and operational risk in order to determine the aggregated economic capital. For determining the internal capital requirement, the pension risk and the financial investment risk, including the risk for small legal entities, are 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. 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.

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's 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 of HVB 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 move within the corridor defined by the Management Board of HVB.

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 profitability and growth, as well as 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 expected economic returns 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 (common equity tier 1), 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.

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 (common equity tier 1)

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 12.5%. The expected return on investment is derived from the average used core capital (common equity tier 1).

Risk Report (Continued)

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 risk positions and the equivalent risk-weighted assets from market and operational risk positions)
– total capital ratio (ratio of total 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)

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 equity 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 a total capital ratio of 13%. This agreement will remain in force until further notice. The total capital ratio of HVB Group was 21.6% at the end of June 2018 (31 December 2017: 22.0%).

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-mitigating diversification effects are taken into account between the individual risk types. HVB Group deploys 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 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%)

	30/6/2018		31/12/2017	
Broken down by risk type	€ millions	in %	€ millions	in %
Credit risk	2,937	37.0	2,734	34.8
Market risk	1,763	22.2	2,023	25.7
Operational risk	1,485	18.7	1,318	16.8
Business risk	430	5.4	386	4.9
Real estate risk	238	3.0	280	3.6
Aggregated economic capital	**6,853**	**86.3**	**6,741**	**85.8**
Pension risk	888	11.2	924	11.7
Financial investment risk	171	2.1	163	2.1
Economic capital of small legal entities	28	0.4	34	0.4
Internal capital of HVB Group	**7,940**	**100.0**	**7,862**	**100.0**
Available financial resources of HVB Group	**17,067**		**17,475**	
Risk-taking capacity of HVB Group, in %	**214.9**		**222.3**	

Internal capital has increased by €78 million in comparison to 31 December 2017. This is mainly due to increase in economic capital of individual risk types.

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

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

	30/6/2018		31/12/2017	
Broken down by business segment	€ millions	in %	€ millions	in %
Commercial Banking	1,903	27.0	1,634	23.6
Corporate & Investment Banking	4,487	63.6	4,698	67.7
Other/consolidation	662	9.4	606	8.7
Internal capital (without pension risk) of HVB Group	**7,052**	**100.0**	**6,938**	**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 that are subdivided into the categories of "Pillar I", "commercial" and "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 of HVB, 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), where the fundamental aim of protective measures is to protect senior lenders. 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.

Risk Report (Continued)

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 an 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 multi-year 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 gone-concern 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 €17,067 million at 30 June 2018 (31 December 2017: €17,475 million).

With internal capital of €7,940 million, the risk-taking capacity for HVB Group is 214.9% (31 December 2017: 222.3%). This figure is much higher than the target HVB Group has set itself. The decrease of 7.4 percentage points in comparison with 31 December 2017 for HVB Group is attributable to a decrease of €408 million or 2.3% in the available financial resources and a simultaneous increase of €78 million or 1.0% in the internal capital in the first half of 2018. The decline in the available financial resources is the result of changes in individual components that had opposing effects in some cases; but above all, maturities in subordinated capital and a reduction in the undisclosed reserves in real estate had a particular impact on the gross perspective that was reinforced by tax effects from a net perspective.

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 potential 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 the first half of 2018:

- Contagion scenario – focusing on political tensions within 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 this scenario additionally reflects the default by the financial intermediary with the highest stressed counterparty risk exposures.
- Protectionism scenario – protectionism, China slowdown and Turkey shock
  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 – rise in interest rates in the eurozone

Taking account of macroeconomic developments over the first half of 2018, 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 Stress Test Council (STC) on a quarterly basis and any measures required are presented to the Risk Committee (RC) and the Management Board of HVB. 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%.

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

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 by 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 in a similar way 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 with customers and in products or specific industries and countries.

Risk Report (Continued)

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 interlinking 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 2018. The existing and potential new risks were analysed and scrutinised by means of structured interviews with numerous decision-makers within HVB Group and by means of questionnaires, among other things. The outcome of the 2018 risk inventory will be presented to the Risk Committee and HVB's Management Board in September 2018 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 of HVB, to the Risk Committee of the Supervisory Board and the Risk Committee 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 Risk Committee and the units involved in risk management, among others.

Risk types in detail

We presented the management (strategy, limit system, risk reduction, measurement) and the monitoring and controlling of the individual risk types at HVB Group in detail in the 2017 Annual Report. Where minor refinements are made to the methods used to measure the individual risk types, these are additionally described here under the risk type concerned.

1 Credit risk

The economic capital for credit risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €3,311 million, which is €253 million higher than the total reported value as at 31 December 2017 (€3,058 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 €54 million (31 December 2017: €127 million).

Development of metrics by business segment

Broken down by business segment	EXPECTED LOSS[1] € millions		RISK DENSITY in BPS[2]		ECONOMIC CAPITAL[3] € millions	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Commercial Banking	155	150	16	16	940	808
Corporate & Investment Banking	158	155	13	11	2,361	2,240
Other/consolidation	2	2	48	69	10	10
HVB Group	**315**	**307**	**15**	**13**	**3,311**	**3,058**

1 Expected loss of the performing exposure without 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 basis points (bps); 100bps = 1%.
3 Without taking account of diversification effects.

In the first half of 2018, the expected loss of HVB Group increased by €8 million and risk density by 2bps. The development of risk density is primarily attributable to the disposal of liquidity investments in the financial institutions (including foreign sovereigns) industry group and the associated change in the portfolio structure within the CIB business segment.

In the CIB business segment, the expected loss increased by a total of €3 million, which is attributable, among other things, to how business evolved in the shipping industry group.

The increase in the expected loss in the Commercial Banking business segment of €5 million mainly arises from the development in the real estate as well as the consumer goods, textile industry and private customers industry groups.

The increase in the economic capital by business segment in the first half of 2018 essentially reflects the updating of the model parameters. The aforementioned rise in the risk density due to a change in the portfolio structure is another reason for the increase in the economic capital in the first half of 2018.

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

Broken down by business segment	CREDIT DEFAULT RISK EXPOSURE		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		OF WHICH ISSUER RISK IN TRADING BOOK	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Commercial Banking	98,375	96,340	2,775	2,660	—	—	—	—
Corporate & Investment Banking	125,396	145,121	18,665	16,011	37,537	38,557	5,239	4,836
Other/consolidation	337	366	213	209	6	10	—	—
HVB Group	**224,108**	**241,827**	**21,653**	**18,880**	**37,543**	**38,567**	**5,239**	**4,836**

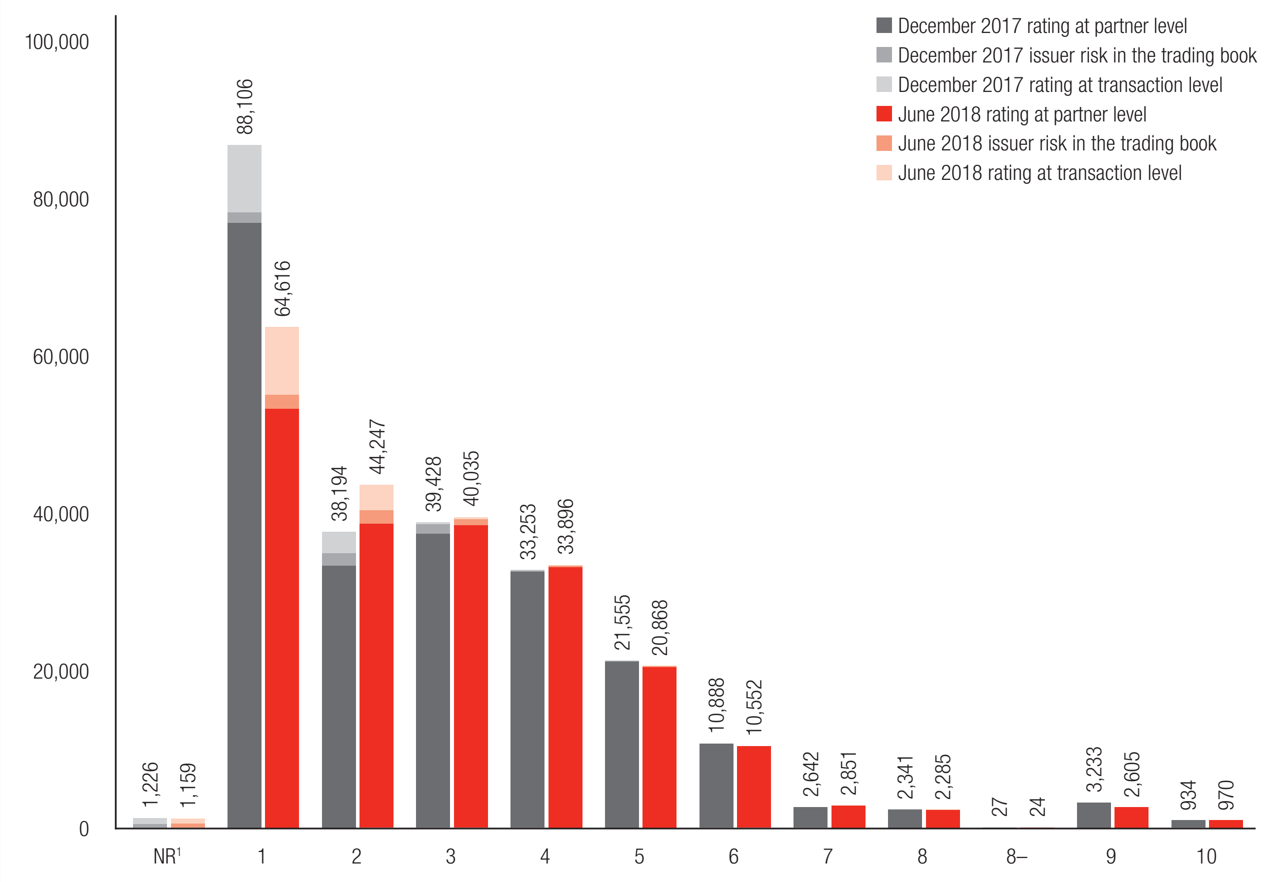
HVB Group's credit default risk exposure decreased by €17,719 million in the first half of 2018.

In the CIB business segment in particular, the exposure fell by €19,725 million primarily on account of the sharp reduction in liquidity reserves at Deutsche Bundesbank that are, however, not only set against growth in business at other financial institutions (including foreign sovereigns) but also in other industries.

In contrast, exposure in the Commercial Banking business segment increased by €2,035 million in the private customers, real estate, automotive and machinery industries, among others.

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 the first half of 2018 mainly on account of the development of exposure in the financial institutions (including foreign sovereigns) industry group.

In rating class 1, exposure fell by €23,490 million mainly on account of the significant reduction in HVB Group's liquidity investments at Deutsche Bundesbank.

This is contrasted by slight growth in business at other financial institutions (including foreign sovereigns) and in other industry groups of rating classes 2 to 4.

Development of metrics by industry group

Broken down 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]	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Financial institutions								
(including foreign sovereigns)	51,642	70,813	3,331	3,178	30	29	6	4
Real estate	27,104	26,446	98	61	28	24	11	9
Public sector								
(including German sovereign)	21,159	25,261	451	411	2	2	1	1
Energy	13,419	12,720	199	218	33	35	25	29
Special products	13,116	12,891	9	0	6	7	4	5
Food, beverages, agriculture	11,221	10,008	80	83	16	16	15	17
Chemicals, pharma, healthcare	10,190	10,337	135	102	15	18	15	18
Automotive	8,300	7,485	183	118	8	7	10	10
Consumer goods, textile industry	6,335	6,387	39	58	16	13	27	21
Machinery	5,712	4,964	13	18	14	14	26	28
Services	5,618	5,855	52	78	16	20	30	36
Metals	5,504	5,435	100	108	15	16	30	31
Construction, building materials	5,019	4,939	57	33	9	10	19	20
Transport, travel	4,793	4,589	125	98	8	8	19	20
Telecommunication, IT	4,573	4,470	238	180	10	9	23	21
Shipping	3,240	3,527	4	5	48	43	203	177
Electronics	2,418	2,059	57	29	4	3	16	14
Media, paper	2,387	2,089	32	22	4	4	15	19
Tourism	2,215	2,081	27	32	4	4	17	21
Private customers	20,079	19,347	—	—	28	26	14	13
Others	64	124	9	6	1	2	151	200
HVB Group	**224,108**	**241,827**	**5,239**	**4,836**	**315**	**307**	**15**	**13**

1 Expected loss of the performing exposure without 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 basis points (bps); 100bps = 1%.

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

How the top 5 industries developed within the HVB Group is described as follows.

Financial institutions (including foreign sovereigns)
The exposure in the financial institutions (including foreign sovereigns) industry group fell significantly by €19,171 million as at 30 June 2018. This development is exclusively attributable to the reduction in liquidity investments at Deutsche Bundesbank. A portion of this amount was reinvested both at other state institutions and issuers, and in other industries. The rise in the expected loss by €1 million is within the range of normal portfolio development. The risk density increased slightly from 4bps to 6bps.

Risk Report (Continued)

Rising costs from regulatory requirements and in connection with compliance (fines and investments), together with falling earnings due to partially 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 again are causing turbulence and volatilities 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 within the banking sector. A change in the exposure strategy will be adopted at short notice 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
In the real estate industry, exposure as at the 30 June 2018 reporting date increased by €658 million and the expected loss by €4 million in comparison to 31 December 2017.

The German real estate market saw a continuation of its boom phase once again in the first six months of 2018. 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 and 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. The purchase prices frequently outstripped growth in rental charges and continue to do so. Counteracting effects can be identified in some regional sub-markets, due to demographic developments, among other factors.

Unresolved international conflicts and uncertainty as to developments in the situation surrounding Europe and increasing dangers from trade wars could lead to worsening economic prospects in coming periods, which would have an impact on the commercial real estate market in particular. In the case of residential properties, the core markets (including Berlin, Hamburg, Munich) are showing indications of market cooling and a normalisation of sales patterns, 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 the first half of 2018, and measured in terms of risk density, was successfully kept at a low level. In a multi-year comparison, a very good risk result (measured against the actual loss) was achieved in the real estate industry group in the first half of 2018. The financing business remains focused on Germany.

HVB continues to place its focus on disciplined risk management and compliance with financing policies. Market and portfolio developments are monitored on an ongoing basis in order to be in a position to identify and counter negative developments at an early stage. Market observers, including Deutsche Bundesbank, warn of potentially over-inflating prices and overheating markets.

Public sector (including German sovereign)
In the public sector (including German sovereign) industry group, the exposure decreased by €4,102 million in the first half of 2018. This is essentially attributable to the maturing liquidity investments, a lack of corresponding investment opportunities and, to a certain extent, to a reallocation to other industry groups. The expected loss and the risk density remains unchanged in this context.

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 HVB Group's own liquidity investments.

Energy
As at the 30 June 2018 reporting date, exposure in the energy industry increased by €699 million while expected loss fell by €2 million at the same time.

In line with the defined risk strategy, we are focusing on large multinationals in the energy sector (including oil and gas). The increase in exposure over the reporting period essentially results from an expansion in the loans issued to large companies with good credit ratings, which is also reflected in a risk density that has decreased by 4bps.

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.

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 and acquisition financing).

A strategy of growth within clearly defined parameters involving conservative credit standards (for instance in relation to asset classes, rating quality) was defined for sub-segments of the special products portfolio under the 2018 risk strategy. This growth strategy was successfully implemented in one portfolio segment in particular over the first half of 2018, meaning that the total volume of the special products portfolio rose by €225 million compared to December 2017. Non-strategic transactions continued to be reduced. Despite the growth, the expected loss and the risk density were improved once again in the first half of 2018. For the second half of 2018, we are upholding the existing strategy for growth. Non-strategic sub-portfolios continue to be reduced in a controlled manner.

In addition, details on further industry groups of relevance with regard to their development within HVB Group are described in the following.

Food, beverages, agriculture
The food, beverages, agriculture industry group saw an increase in exposure of €1,213 million with an unchanged expected loss in the first half of 2018. The rise in the exposure is mainly the result of new business with four key accounts, each with a very good rating. The risk density decreased by 2bps to 15bps.

Automotive
Exposure in the automotive industry group increased by €815 million as at the 30 June 2018 reporting date. This increase essentially arose from new business with six existing key accounts as well as new accounts. Supported by our rigorous industry strategy and industry policies, the portfolio's high quality remains unchanged, the expected loss and the risk density remains virtually constant at a very low level.

Risk Report (Continued)

Shipping
Exposure in the shipping industry group continued to decrease, falling by €287 million as at the 30 June 2018 reporting date. Due to transfers back from the non-performing portfolio into normal business as well as to repayments of loans in good rating classes, the expected loss increased by €5 million and the risk density by 26bps to 203bps.

The industry situation improved overall in the first half of 2018, 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. After the freight rates in liner shipping had stabilized on account of the advanced stage of the consolidation process, the first quarter saw a return to declining profits that were exacerbated by rising fuel costs. 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 2018, prices have recently demonstrated different trends tracking the development of freight rates. While bulk carriers saw significant price increases, the vessel values for tankers were in decline in the first half of 2018. Container ships similarly experienced a slight recovery, but prices persist at a low level.

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 continued in the first half of 2018. In addition, customers repaid loans prematurely. At the same time, new business was written very selectively where this helped to enhance the quality of the portfolio.

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.

With an annual production of around 1.5 TWh in 2017, BO1 is currently Germany's offshore wind farm with the greatest output. This is roughly equivalent to the annual energy needs of 1.5 million people. Eighty wind turbines of the 5-megawatt class achieve a nominal output of up to 400 MW. Calculated from the date in December 2010 on which power was fed into the grid for the first time until the end of June 2018, just under 6 billion kWh of energy has been produced. An output of around 0.7 billion kWh (included in the total figure) was achieved in the first half of 2018 alone. The wind farm is designed for 25 years of feed-in operation.

There have been significant increases in availability – and thus in production – since the Bank's acquisition of the wind farm in 2014, such that the farm's rated output has been reached to a great extent in the meantime. The underlying financing arrangement has already reached the repayment stage. Annual repayments of amounts in the three-digit millions are intended to be made from the forecast cash flow over the next years. On this basis, it is possible to uphold the assumption that the cash flow that can be generated in regular operation will be sufficient to ensure that the debt level will be repaid over a period that is customary in the industry group.

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)

Broken down by eurozone countries	CREDIT DEFAULT RISK EXPOSURE		OF WHICH ISSUER RISK IN TRADING BOOK	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Germany	126,578	156,316	985	1,092
Italy	8,926	9,413	1,098	1,567
France	7,246	6,181	269	257
Spain	6,576	6,911	150	126
Luxembourg	6,452	5,605	80	98
Ireland	6,183	6,046	59	46
Netherlands	4,126	4,138	199	171
Austria	1,969	1,854	479	304
Finland	367	330	64	21
Belgium	317	319	53	94
Greece	216	237	3	—
Cyprus	149	157	1	1
Portugal	49	48	10	3
Malta	43	17	—	—
Slovenia	33	45	13	22
Slovakia	13	7	12	2
Latvia	8	2	7	—
Lithuania	3	16	3	16
Estonia	2	2	2	2
Supranational organisations and multilateral banks	3,167	2,057	453	—
HVB Group	**172,423**	**199,701**	**3,940**	**3,822**

Over the first half of the year, exposure developed within the framework set by the risk strategy for 2018. This was specifically true in light of the stabilisation seen to date in the eurozone economy. The increasing 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 the first half of 2018. Driven by consumer spending, which gathered pace partly due to positive developments on the labour market thanks to past reforms, real GDP growth amounted to +1.5% in 2017. The parliamentary elections in spring 2018 led to a strengthening of the Movimento Cinque Stelle and Lega Nord political parties, who have now joined up to form a government. This government's intention to simultaneously increase expenditure and to significantly reduce taxes, regardless of the fiscal rules of the European Economic and Currency Union (EECU), might lead to conflict with the EU and a further increase in the already high level of Italian sovereign debt. One noteworthy positive aspect is that, contrary to previous declarations, the leaders of both government parties have now stated that they no longer strive towards Italy leaving the Eurozone.

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. UniCredit Luxembourg S.A. is due to be merged into HVB with legal effect as of 20 July 2018.

Development of the weaker eurozone countries
The intense austerity and reform measures implemented in Spain and Portugal, countries formerly severely impacted by the euro crisis, have shown success, which in turn has led to an improved assessment overall by the capital markets. Spain in particular should be highlighted in this respect in that it was once again able to record strong growth of more than 3% for 2017. Only slightly weaker real GDP growth is expected for 2018. Alongside the strong economic growth, Spain has significantly reduced the level of unemployment since 2015. Furthermore, a gradual but persistent reduction in the sovereign debt ratio is becoming apparent. 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 recent change in government from Mariano Rajoy to Pedro Sánchez is not putting any strain on Spain's political stability and, on the contrary, might lead to a certain détente in the Catalonian crisis.

The portfolio in the weaker eurozone countries was again actively managed in the first half of 2018, albeit with different strategies.

The strategy of reduction continued to be applied for Greece in the first half of 2018.

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

Broken down by country/region outside the eurozone	CREDIT DEFAULT RISK EXPOSURE		OF WHICH ISSUER RISK IN TRADING BOOK	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017
UK	10,979	9,194	275	249
USA	9,202	8,986	258	161
Japan	7,868	1,481	2	0
Switzerland	6,139	5,494	215	142
Asien/Oceania (without Japan, China, Hong Kong)	3,462	3,616	7	25
Turkey	2,554	2,441	22	5
Western Europe (without Switzerland, UK)	2,289	1,788	129	104
China (including Hong Kong)	1,780	1,593	0	0
Near/Middle East	1,638	1,686	3	0
North America (including offshore jurisdictions, without USA)	1,520	1,616	47	63
Eastern Europe (without eurozone countries)	1,508	1,416	233	145
Africa	1,068	1,149	15	10
CIS/Central Asia (without Turkey)	978	1,007	55	86
Central/South America	700	644	39	23
Without country classification	0	15	—	—
HVB Group	**51,685**	**42,126**	**1,300**	**1,013**

Over the first half of 2018, the total exposure to countries/regions outside the eurozone increased by €9,559 million especially on account of the growth in business in Japan.

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 was cause for increasing concern. The commencement of actual armed conflict would have had catastrophic effects for the region but remains unlikely for the time being, particularly as there have recently been signs of détente between the two states.

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 30 June 2018 totalled €59.3 billion (31 December 2017: €59.0 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 €4.3 billion as at 30 June 2018 (31 December 2017: €4.7 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	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Interest rate derivatives	871,125	881,076	748,355	2,500,556	2,267,118	46,636	48,233	42,137	44,105
Foreign exchange derivatives	259,001	36,916	6,530	302,447	306,464	3,585	3,508	3,961	3,776
Cross-currency swaps	53,727	93,728	41,271	188,726	181,678	6,057	4,405	5,711	3,943
Equity/index derivatives	43,639	50,254	12,429	106,322	87,385	2,375	2,111	2,839	2,913
Credit derivatives	13,428	19,499	1,415	34,342	40,731	326	385	439	443
– Protection buyer	6,925	10,482	744	18,151	21,392	77	22	364	420
– Protection seller	6,503	9,017	671	16,191	19,339	249	363	75	23
Other transactions	8,033	3,974	502	12,509	12,535	350	375	546	529
HVB Group	**1,248,953**	**1,085,447**	**810,502**	**3,144,902**	**2,895,911**	**59,329**	**59,017**	**55,633**	**55,709**

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €715,394 million as at 30 June 2018 (thereof credit derivatives: €898 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Central governments and central banks	7,055	7,086	1,287	1,306
Banks	30,382	29,979	32,703	32,737
Financial institutions	19,587	19,701	19,906	19,719
Other companies and private individuals	2,305	2,251	1,737	1,947
HVB Group	**59,329**	**59,017**	**55,633**	**55,709**

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 relatively low-risk credit portfolio within the relevant peer group.

It remains a challenge to achieve the targeted growth for the full 2018 financial year on account of the fierce competition between banks and the ongoing difficult market environment.

Despite ongoing expectations of global economic growth, there remain numerous uncertainties of economic and geopolitical nature that have to be taken into consideration in any assessment of the macroeconomic environment.

2 Market risk

The economic capital for market risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €2,127 million, down slightly in comparison with the figure as at 31 December 2017 (€2,340 million) on account of calibration adjustments performed on a quarterly basis.

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	
	2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	30/6/2018	31/12/2017
Credit spread risk	4	4	5	6	6	3	6
Interest rate positions	4	5	4	4	4	4	5
Foreign exchange positions	2	2	3	2	3	2	3
Equity/index positions[1]	3	3	3	3	2	3	3
HVB Group[2]	**6**	**7**	**6**	**7**	**7**	**8**	**7**

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.

The regulatory capital requirements for the past twelve months are described below, broken down by the relevant risk metrics.

Regulatory metrics of HVB Group (€ millions)

	30/6/2018	31/3/2018	31/12/2017	30/9/2017	30/6/2017
Value-at-risk	74	62	90	104	143
Stressed value-at-risk	289	272	251	285	284
Incremental risk charge	281	301	319	249	268
Market risk Standard Approach	17	17	16	20	1
CVA value-at-risk	12	19	29	31	37
Stressed CVA value-at-risk	79	87	153	150	148
CVA Standard Approach	30	26	27	33	32

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 funds and from foreign currency risks for HVB subsidiaries and funds.

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.

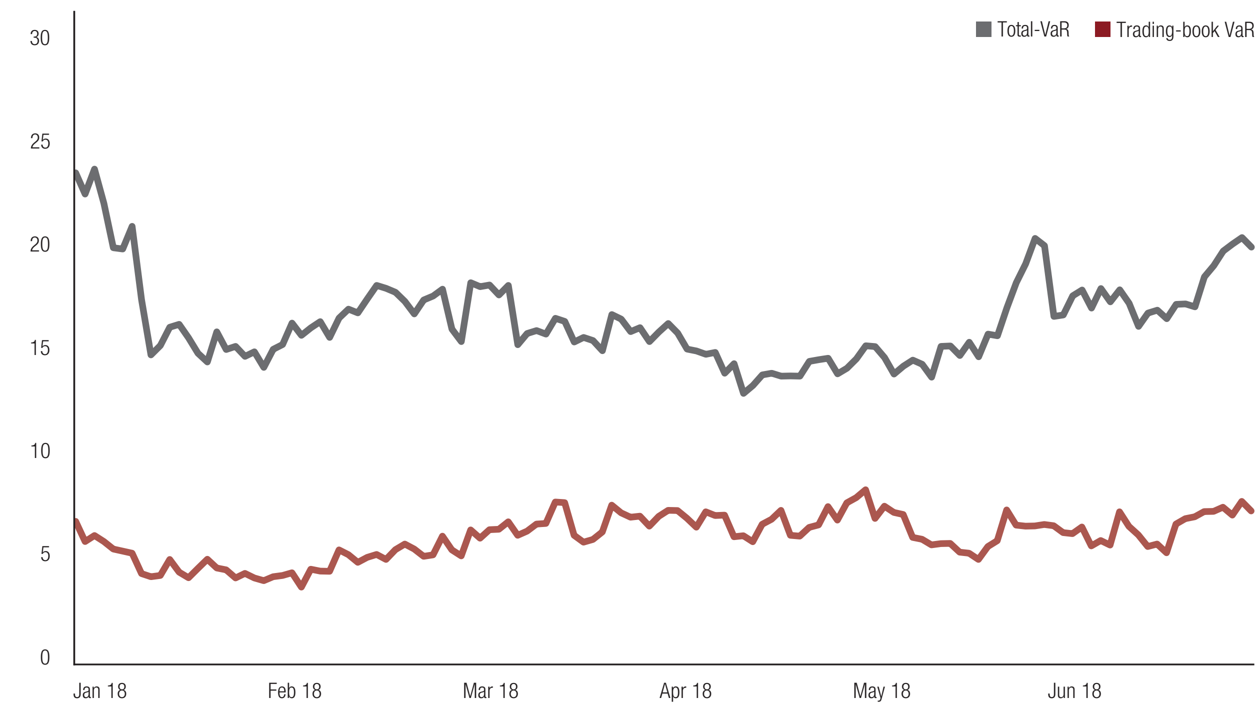
Market risk from trading- and banking-book activities of HVB Group (VaR, 99.00% confidence level, one-day holding period) (€ millions)

	AVERAGES					PERIOD-END TOTALS	
	2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	30/6/2018	31/12/2017
Credit spread risks	18	16	20	21	23	17	21
Interest rate positions	5	6	4	5	6	6	5
Foreign exchange positions	4	4	5	6	8	4	6
Equity/index positions[1]	3	3	3	3	2	3	3
HVB Group[2]	**17**	**16**	**17**	**21**	**22**	**20**	**24**

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.

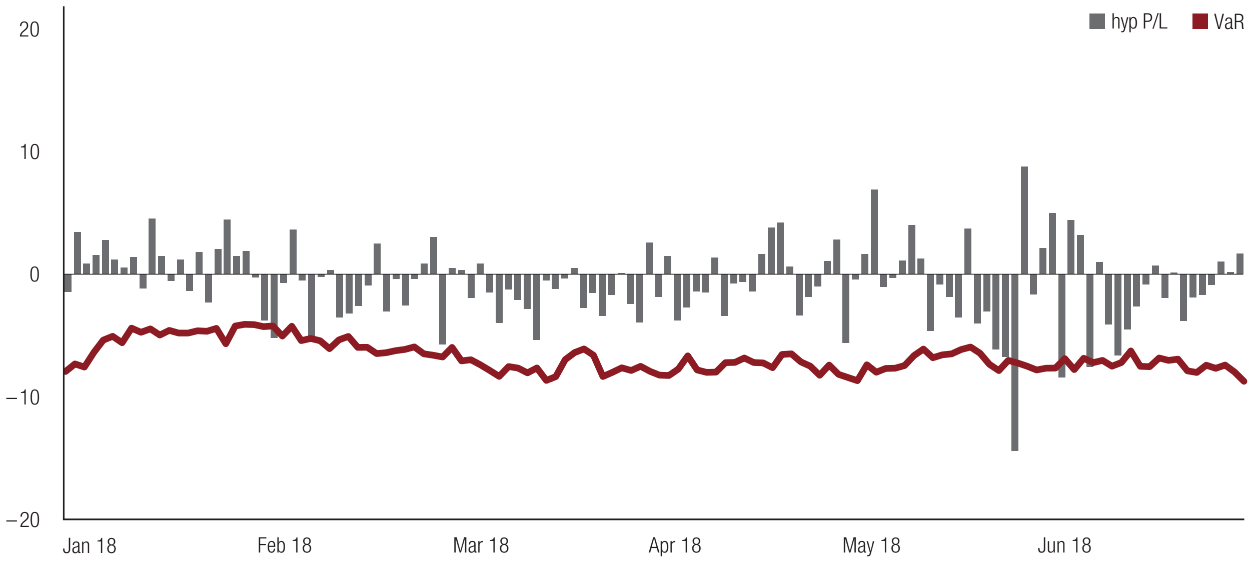
Risk Report (Continued)

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



The total value-at-risk (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. The decrease in total VaR in January 2018 is mainly attributable to more stable market conditions. The VaR curve for the trading book reveals a relatively stable development of risk over the course of 2018.

Regulatory back-testing of the internal model at HVB for the first half of 2018 (€ millions)



The forecasting quality of the VaR measurement method is reviewed by means of regular back-testing that compares the computed regulatory VaR figures with the changes in the hypothetical portfolio value (hyp P/L). Four reportable back-testing outliers occurred in the first half of 2018. The hypothetical loss was larger than the forecast VaR figure on these days (see the chart "Regulatory back-testing of the internal model at HVB for the first half of 2018"). One of these outliers (mid-February 2018) was caused by severe market fluctuations in the area of long-term interest rates. The three others mainly stemmed from significantly higher risk premiums for Italy and Italian banks.

Alongside back-testing using the hypothetical change in value, HVB also uses a back-testing method based on the change in the actual portfolio value to validate the model. There was one instance of a limit being exceeded in the first half of 2018, mainly due to regular adjustments to measurement.

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.

Risk Report (Continued)

In compliance with the regulatory rules published, 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 30 June 2018, 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 2017: 0%). When calculated from the regulatory viewpoint, by contrast, a capital charge of 10.1% becomes apparent given an increase in interest rates of 200bps (31 December 2017: 8.4%). 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.

In addition to the present-value perspective, a simulation of net interest income in the banking book is carried out for HVB Group 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 €175 million (31 December 2017, plus 100bps: €147 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 foreign currencies combined with minus 100bps interest rate shock for foreign currencies in USD and GBP would reduce net interest income for the same period by minus €133 million (31 December 2017: minus 30/minus 100bps: minus €77 million). Depending on the contractual agreement with the customer a floor of 0.0% could be employed for commercial banking products. In such a case, the interest rate shock of minus 30/minus 100bps would not be fully applied.

The resulting sensitivity analysis was carried out on the basis of the planned net interest income for the 2018 financial year. The change in results as of year-end can be explained by the changed positions held by the Bank 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 multi-year 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 multi-year 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 cash flow adjustments.

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 an 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.

Summary and outlook

As was already the case in the first six months of 2018, efforts will again be made in the full year 2018 to concentrate on low market risk customer business in our trading activities on the financial markets. HVB Group will continue to invest in the development and implementation of electronic sales platforms for the trading activities.

3 Liquidity risk

Short-term liquidity risk

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €28.1 billion at HVB Group for the three-month maturity bucket at the end of June 2018 (30 June 2017: €30.5 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 €19.2 billion at the end of June 2018 (30 June 2017: €20.6 billion).

We include Bank-specific, market-wide and combined scenarios when conducting our stress tests. The calculations at the end of June 2018 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded.

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 30 June 2018 of a minimum of 100% is significantly exceeded by HVB with a figure in excess of 100%.

Funding risk

The funding risk of HVB Group was again low in the first half of 2018 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 June 2018, HVB Group had obtained longer-term funding with a volume of €3.8 billion (30 June 2017: €11.0 billion, including €5.6 billion under the ECB's Targeted Longer-Term Refinancing Operations, TLTRO-II programme). 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.

Summary and outlook

There continue to be uncertainties regarding security, money and economic policy worldwide, specifically in connection with the ongoing geopolitical conflicts in the Arab region and on the Korean peninsula, and the increase in tensions relating to global trade policy and growing political uncertainties within the EU.

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

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 the first half of 2018 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.

Risk Report (Continued)

4 Operational risk

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 S.p.A. HVB checks the plausibility of the calculation results on a regular basis and validates the model to ensure that it is appropriate.

Information technology (IT)

UniCredit Services S.C.p.A. provides most of HVB's IT services. HVB's information and communication technology (ICT) management processes require continual 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 UniCredit Services S.C.p.A. to Value Transformation Services (V-TS, a joint venture of IBM and UniCredit Services S.C.p.A.) as defined for the separate controls in HVB's ICS. 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. Evidence of the appropriateness and proper functioning of the crisis management system was additionally provided by a crisis exercise in the first half of 2018.

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 unforeseeable changes to case law and/or the interpretation of the law by the authorities.

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 into 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 and refined within the CFO organisation exclusively by the Tax Affairs unit.

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.

A failure to deal appropriately with various 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, there is substantial uncertainty regarding the outcome of the proceedings and the amount of possible damages. These cases include criminal or administrative proceedings by the relevant authority and claims in which the petitioner has not specifically quantified the amounts in dispute. 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 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 pending cases.

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 they were advised on the basis of an allegedly incorrect prospectus. The questions regarding a correct and sufficient advice provided to a customer as well as questions regarding the limitation period and thus the success prospects in proceedings depend on the individual circumstances of the particular case and are therefore 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.

Risk Report (Continued)

Real-estate financing
In various cases, customers dispute their obligation to repay their property loan agreements because they are of the opinion that HVB gave insufficient advice about the intrinsic value of the acquired property and the expected rent. In the last few years only a small number of new lawsuits has been filed. In the light of the experience gained, HVB assumes that there are no significant risks expected in this context.

Derivative transactions
The number of complaints and lawsuits filed against HVB by customers in connection with inadequate advice in the context of the conclusion of derivative transactions is declining. Among other things, the arguments raised are 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 about a potential initial negative market value of the derivative. Experience gained so far show that the characteristics of the relevant product and the individual 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 may be relevant aspects.

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 on the part 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 ongoing.

In addition, criminal investigations have been instigated against current or former employees of HVB by the Prosecutors in Frankfurt on the Main, Cologne and Munich with the aim of verifying alleged tax evasion offences on their part. HVB cooperated – and continues to cooperate – with the aforesaid 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 came to a conclusion in November 2015 with, among other things, the payment by HVB of a fine of €9.8 million. The investigations by the Frankfurt on the Main Prosecutor against HVB under section 30 of the Administrative Offences Act (Ordnungswidrigkeitengesetz) came to a conclusion in February 2016 by the payment of a fine of €5 million. The investigation by the Munich Prosecutor against HVB also came to a conclusion 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 2009 to 2012 which includes, among other things, review of other transactions in equities around the dividend record date. During these years HVB performed, among other things, securities-lending with different domestic counterparties which include but are not limited to different types of securities transactions around the dividend date. It remains to be clarified whether, and under what circumstances, tax credits can be obtained or taxes refunded with regard to different types of transactions carried out close to the distribution of dividends, and what the further consequences for the Bank will be in the event of different tax treatment. The same applies for the years 2013 until 2015 following the current regular tax audit mentioned above. It cannot be ruled out that HVB might be exposed to tax-claims in this respect by 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 made provisions deemed appropriate.

Lawsuit for consequential damages
A customer filed an action against HVB with Frankfurt Regional Court for consequential damages of €232 million for the following reasons: In 2010, HVB was ordered by Frankfurt Higher Regional Court to pay damages in the amount of €4.8 million to the plaintiff due to the faulty handling of a bill of exchange and in addition to compensate further damages suffered by the plaintiff as a result of this deficiency. In 2011, the plaintiff filed an action against HVB with Frankfurt Regional Court for alleged consequential damages in the amount of €33.7 million stating that such losses were suffered as a consequence of not being able to profitably invest the amount of the bill of exchange. The plaintiff then extended the claim to the amount of €51.54 million and most recently to €232 million. By 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 and extended the amount of the claim to €232 million.

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 conducted a voluntary investigation of its US dollar payments practices and its historical compliance with applicable US financial sanctions, in the course of which certain historical non-transparent practices have been identified. HVB is cooperating with various US authorities and is updating other relevant non-US authorities as appropriate.

HVB recently commenced settlement discussions with the relevant US authorities to come to a resolution of these matters. However, these discussions are at a preliminary stage. HVB has not yet entered into any agreement with these authorities.

We cannot at this time determine the form, extent or timing of any resolution with any relevant authorities, including what final costs, remediation, payments or other criminal or civil liability may be incurred in connection with a final resolution.

The investigation costs, remediation required and/or payment or other legal liability incurred in connection with the proceedings could lead to liquidity outflows and could potentially negatively affect the net assets and operating results of HVB and could potentially have a material adverse effect on the net assets and operating results of HVB.

Risk Report (Continued)

Recent violations of US sanctions and certain US dollar payment practices by other European financial institutions have resulted in those institutions entering into settlements and paying material fines and penalties to various US authorities. The investigations and/or proceedings into certain Group companies could therefore result in the payment of material fines and/or criminal or civil penalties (which at present cannot be quantified).

While the timing of any agreement with the various US authorities is currently not determinable, it is possible that settlement discussions with HVB could be completed by the end of the year.

Lehman Brothers Special Financing Claim

The Lehman Brothers Special Fianancing ("LBSF") Claim relates to HVB's holding of: (A) 2005-1 Class A2-A9 notes issued by Ruby Finance PLC ("Ruby"), and (B) 2004-1 Upper Thames EUR25,000,000 Credit-Linked Synthetic Portfolio Notes due 2043 issued by Quartz Finance PLC ("Quartz").

Each of Ruby and Quartz entered into a credit derivative with Lehman Brothers Special Financing, Inc. LBSF included such credit derivative transactions in omnibus avoidance proceedings commenced before the US Bankruptcy Court on 1 October 2010 (LBSF v Bank of America, N.A. et. al. Adv. Pro. No. 10-03547; the "Adversary Proceeding"). On 18 July 2012, LBSF amended its First Amended Complaint in the Adversary Proceeding, in order to, among other things, add the London Branch of HVB as a "Noteholder Defendant", in an attempt to claw-back distributions for the benefit of LBSF (as derivative counterparty) already made by each of Ruby and Quartz to HVB (as noteholder).

The US Bankruptcy Court held a hearing on 4 May 2016 on an omnibus motion to dismiss filed by the Noteholder Defendants, and on 28 June 2016 the decision of Bankruptcy Judge Chapman on the omnibus motion was issued. In her decision, Judge Chapman dismissed the case against HVB and the other Noteholder Defendants.

LBSF unsuccessfully appealed such decision to the US District Court for the Southern District of New York.

On 13 April 2018, LBSF filed notice of appeal to the Second Circuit Court of Appeals. On 25 May 2018, the Second Circuit Court of Appeals issued an order specifying that LBSF has until 26 July 2018 to file its appeal brief. The defendants must file their brief in response within 91 days of such date.

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, which 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

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 the first half of 2018, 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 the first half of 2018 this related 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.

The economic capital for the real estate risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €580 million at 30 June 2018, which is €19 million lower (31 December 2017: €599 million). The fully diversified economic capital for the real estate risk at HVB Group stands at €430 million (31 December 2017: €386 million).

The risk figures relate to a portfolio valued at €3,533 million.

Breakdown of the real estate portfolio by strategic category

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Strategic real estate	2,090	2,073	59.1	55.6
Non-strategic real estate	1,443	1,659	40.9	44.4
HVB Group	**3,533**	**3,732**	**100.0**	**100.0**

From a geographical perspective, the focus is on the Munich region with 51.7% 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 real estate prices that would ensue compared with the base scenario, should the scenario materialise. This is the basis on which stressed VaR is determined.

For the second half of 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 the second half of 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 fourth quarter of 2018.

Business risk

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.

HVB Group uses 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 HVB Group's business risk, without taking account of diversification effects between the risk types, remained constant at €388 million in the first half of 2018 (31 December 2017: €388 million). The fully diversified economic capital for HVB Group's business risk totals €238 million as at 30 June 2018 (31 December 2017: €280 million).

Risk Report (Continued)

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. In addition, the stressed VaR is determined.

Pension risk

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 €888 million was determined as at 30 June 2018 for the total pension risk of HVB Group (31 December 2017: €924 million). 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 (at year-end 2017, the discount rate stood at 2.15%), 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

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 economic capital for financial investment risk at HVB Group, without taking into account any diversification effects between the risk types, rose by €8 million and stands at €171 million as at 30 June 2018 (31 December 2017: €163 million). HVB Group's fully diversified economic capital amounts to €171 million as at 30 June 2018 (31 December 2017: €163 million).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Private equity investments	19	19	11.1	11.7
Other holdings[1]	152	144	88.9	88.3
HVB Group	**171**	**163**	**100.0**	**100.0**

1 Listed and unlisted investments.

For the purpose of the cross-risk-type stress tests, a 100% capital charge is assumed for the stressed economic capital irrespective of the macroeconomic scenarios.

As was the case in the first half of 2018, HVB Group will continue to selectively dispose of non-strategic shareholdings in the second half of 2018. It will also look into setting up new companies and 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

The statements made in the 2017 Annual Report regarding strategic risk remain basically valid. Changes in general economic trends and information regarding the development of HVB´s rating are shown in the Interim Management Report in the section entitled "Economic report".

Reputational risk

The statements made in the 2017 Annual Report regarding reputational risk remain basically valid.

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 groupwide 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 all 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.

Within the scope of the introduction of the revised Markets in Financial Instruments Directive (MiFID II) as at 3 January 2018, a material outsourcing arrangement without significant impact with Deutsche Börse AG relating to reporting pursuant to Section 34h of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG, ensuring post-trade transparency) was put in place by a new instance of outsourcing relating to reporting services with Deutsche Börse AG as part of an approved publication arrangement (APA) and an approved reporting mechanism (ARM). Furthermore, an already existing arrangement with the subsidiary UniCredit Capital Markets LLC relating to various services associated with broker/dealer activities in New York was classified as a material outsourcing arrangement without significant impact. This did not give rise to any material change to the risk for HVB.

There were major changes in the outsourcing portfolio within HVB Group mainly due to instances of deconsolidation. Two relevant outsourcing arrangements ceased to apply due to the deconsolidation of Redstone Mortgages Ltd. and four relevant outsourcing arrangements on account of the deconsolidation of Mobility Concept GmbH. Four relevant outsourcing arrangements were no longer required thanks to the merger of Structured Lease GmbH into UniCredit Leasing GmbH; furthermore, intragroup services associated with rating models were transferred into existing agreements meaning that one relevant outsourcing arrangement each was terminated at UniCredit Leasing GmbH, UniCredit Leasing Finance GmbH and UniCredit Leasing Aviation GmbH. Changes in the task structure within the Wealth Management Capital Group led to the termination of three relevant outsourcing arrangements. Within the scope of these task changes, the outsourcing of ICT operations of Wealth Cap Kapitalverwaltungsgesellschaft mbH was classified as a material outsourcing arrangement without significant impact and a new material outsourcing arrangement without significant impact was set up with Immobilien Holding AG relating to property management services for real estate funds. This did not give rise to any material change to the risk for HVB.

Consolidated Income Statement

Consolidated Income Statement

INCOME/EXPENSE	NOTES	1/1–30/6/2018 € millions	1/1–30/6/2017 € millions	CHANGE € millions	CHANGE in %
Interest income		1,890	1,930	(40)	– 2.1
Negative interest on financial assets		(76)	(65)	(11)	+ 16.9
Interest expense		(704)	(677)	(27)	+ 4.0
Negative interest on financial liabilities		134	128	+ 6	+ 4.7
Net interest	9	1,244	1,316	(72)	– 5.5
Dividends and other income from equity investments	10	9	2	+ 7	>+ 100.0
Net fees and commissions	11	543	599	(56)	– 9.3
Net trading income	12	378	680	(302)	– 44.4
Net gains/losses on financial assets and liabilities at fair value	13	(39)	n/a		
Net gains/losses on derecognition of financial instruments measured at amortised cost	14	17	n/a		
Net other expenses/income	15	231	161	+ 70	+ 43.5
Payroll costs		(735)	(819)	+ 84	– 10.3
Other administrative expenses		(722)	(750)	+ 28	– 3.7
Amortisation, depreciation and impairment losses on intangible and tangible assets		(113)	(119)	+ 6	– 5.0
Operating costs	16	(1,570)	(1,688)	+ 118	– 7.0
Net write-downs of loans and provisions for guarantees and commitments IAS 39	17	n/a	(128)		
Credit impairment losses IFRS 9	18	101	n/a		
Provisions for risks and charges	19	(339)	(17)	(322)	>+ 100.0
Restructuring costs		(1)	(2)	+ 1	– 50.0
Net income from investments	20	n/a	10		
Net gains/losses on disposals of investments	21	28	n/a		
PROFIT BEFORE TAX		**602**	**933**	**(331)**	**– 35.5**
Income tax for the period		(340)	(216)	(124)	+ 57.4
PROFIT AFTER TAX		**262**	**717**	**(455)**	**– 63.5**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT		**262**	**717**	**(455)**	**– 63.5**
attributable to the shareholder of UniCredit Bank AG		261	715	(454)	– 63.5
attributable to minorities		1	2	(1)	– 50.0

Earnings per share

(in €)

	NOTES	1/1–30/6/2018	1/1–30/6/2017
Earnings per share (undiluted and diluted)	22	0.33	0.89

Consolidated statement of total comprehensive income

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Consolidated profit recognised in the income statement	**262**	**717**
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)	2	158
Non-current assets held for sale	—	—
Change in fair value attributable to change in the credit risk of financial		
liability designated aFVtPL (own credit spread reserve)	(4)	n/a
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	—	(50)
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	2	(6)
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	n/a	70
Unrealised gains/(losses)	n/a	77
Gains/(losses) reclassified to the income statement	n/a	(7)
Changes in valuation of financial instruments (hedge reserve)	(1)	(1)
Unrealised gains/(losses)	—	1
Gains/(losses) reclassified to the income statement	(1)	(2)
Changes in valuation of financial instruments at fair value through		
other comprehensive income (FVtOCI reserve)	(13)	n/a
Unrealised gains/(losses)	(12)	n/a
Gains/(losses) reclassified to the income statement	(1)	n/a
Other changes	4	—
Taxes on income and expenses to be reclassified to the income statement in future periods	4	(24)
Total income and expenses recognised in equity under other comprehensive income	**(6)**	**147**
Total comprehensive income	**256**	**864**
of which:		
attributable to the shareholder of UniCredit Bank AG	255	862
attributable to minorities	1	2

Consolidated Balance Sheet

ASSETS	NOTES	30/6/2018 € millions	31/12/2017 € millions	CHANGE € millions	CHANGE in %
Cash and cash balances		13,157	36,414	(23,257)	– 63.9
Financial assets held for trading	23	81,153	75,493	+ 5,660	+ 7.5
Financial assets at fair value through profit or loss (FVO)	24	n/a	21,456		
Financial assets at fair value through profit or loss	25	17,830	n/a		
Financial assets at fair value through					
other comprehensive income	26	6,660	n/a		
Available-for-sale financial assets	27	n/a	6,816		
Held-to-maturity investments	28	n/a	23		
Loans and receivables with banks	29	37,893	30,330	+ 7,563	+ 24.9
Loans and receivables with customers	30	130,551	121,178	+ 9,373	+ 7.7
Hedging derivatives		309	390	(81)	– 20.8
Hedge adjustment of hedged items					
in the fair value hedge portfolio		56	72	(16)	– 22.2
Investments in associates and joint ventures	32	36	34	+ 2	+ 5.9
Property, plant and equipment		2,520	2,599	(79)	– 3.0
Investment properties		1,147	808	+ 339	+ 42.0
Intangible assets		441	445	(4)	– 0.9
of which: goodwill		418	418	—	—
Tax assets		1,256	1,363	(107)	– 7.9
Current tax assets		142	113	+ 29	+ 25.7
Deferred tax assets		1,114	1,250	(136)	– 10.9
Non-current assets or disposal groups held for sale		165	511	(346)	– 67.7
Other assets		1,213	1,128	+ 85	+ 7.5
TOTAL ASSETS		**294,387**	**299,060**	**(4,673)**	**– 1.6**

LIABILITIES	NOTES	30/6/2018 € millions	31/12/2017 € millions	CHANGE € millions		in %
Deposits from banks	33	65,525	67,354	(1,829)	–	2.7
Deposits from customers	34	120,197	124,284	(4,087)	–	3.3
Debt securities in issue	35	24,843	25,552	(709)	–	2.8
Financial liabilities held for trading	36	53,680	56,217	(2,537)	–	4.5
Financial liabilities at fair value through profit or loss	37	5,085	n/a			
Hedging derivatives		569	469	+ 100	+	21.3
Hedge adjustment of hedged items						
in the fair value hedge portfolio		1,176	1,215	(39)	–	3.2
Tax liabilities		678	693	(15)	–	2.2
Current tax liabilities		560	604	(44)	–	7.3
Deferred tax liabilities		118	89	+ 29	+	32.6
Liabilities of disposal groups held for sale		—	102	(102)	–	100.0
Other liabilities		1,876	1,699	+ 177	+	10.4
Provisions	38	2,921	2,601	+ 320	+	12.3
Shareholders' equity		17,837	18,874	(1,037)	–	5.5
Shareholders' equity attributable to the shareholder						
of UniCredit Bank AG		17,835	18,867	(1,032)	–	5.5
Subscribed capital		2,407	2,407	—		—
Additional paid-in capital		9,791	9,791	—		—
Other reserves		5,329	5,289	+ 40	+	0.8
Changes in valuation of financial instruments		47	80	(33)	–	41.3
AfS reserve		n/a	52			
Hedge reserve		31	28	+ 3	+	10.7
Fair value through other comprehensive						
income reserve		16	n/a			
Consolidated profit 2017		—	1,300	(1,300)	–	100.0
Net profit 1/1–30/6/2018[1]		261	—	+ 261		
Minority interest		2	7	(5)	–	71.4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**294,387**	**299,060**	**(4,673)**	**–**	**1.6**

1 Attributable to the shareholder of UniCredit Bank AG.

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. On 11 June 2018, the Shareholders' Meeting adopted a resolution to pay a dividend of €1,300 million 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.

Statement of Changes in Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES: TOTAL OTHER RESERVES	OTHER RESERVES: OF WHICH: OWN CREDIT SPREAD	OTHER RESERVES: OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2017	**2,407**	**9,791**	**5,107**	**n/a**	**(1,316)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**n/a**	**—**
Total income and expenses recognised in equity under other comprehensive income[4]	**—**	**—**	**102**	**n/a**	**108**
Changes in valuation of financial instruments not affecting income	—	—	—	n/a	—
Changes in valuation of financial instruments affecting income	—	—	—	n/a	—
Actuarial gains/(losses) on defined benefit plans	—	—	108	n/a	108
Reserve arising from foreign currency translation	—	—	(6)	n/a	—
Other changes	—	—	—	n/a	—
Total other changes in equity	**—**	**—**	**—**	**n/a**	**5**
Dividend payouts	—	—	—	n/a	—
Transfers from consolidated profit	—	—	—	n/a	—
Changes in group of consolidated companies	—	—	—	n/a	5
Capital decreases	—	—	—	n/a	—
Shareholders' equity at 30/6/2017	**2,407**	**9,791**	**5,209**	**n/a**	**(1,203)**
Shareholders' equity at 1/1/2018	**2,407**	**9,791**	**5,289**	**—**	**(1,161)**
Effect of first-time adoption of IFRS 9	—	—	38	(21)	—
Shareholders' equity restated at 1/1/2018	**2,407**	**9,791**	**5,327**	**(21)**	**(1,161)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[4]	**—**	**—**	**—**	**(3)**	**1**
Changes in valuation of financial instruments not affecting income	—	—	(3)	(3)	—
Changes in valuation of financial instruments affecting income	—	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	1	—	1
Reserve arising from foreign currency translation	—	—	2	—	—
Other changes	—	—	—	—	—
Total other changes in equity	**—**	**—**	**2**	**—**	**—**
Dividend payouts	—	—	—	—	—
Transfers from consolidated profit	—	—	—	—	—
Changes in group of consolidated companies	—	—	2	—	—
Capital decreases	—	—	—	—	—
Shareholders' equity at 30/6/2018	**2,407**	**9,791**	**5,329**	**(24)**	**(1,160)**

1 The Shareholders' Meeting of 22 May 2017 resolved to distribute the 2016 consolidated profit in the amount of €3,005 million to our sole shareholder UniCredit S.p.A. (UniCredit), Milan, Italy. This represents a dividend of around €3.75 per share. The Shareholders' Meeting of 11 June 2018 resolved to distribute the 2017 consolidated profit in the amount of €1,300 million as a dividend to our sole shareholder, UniCredit S.p.A. (UniCredit), Milan, Italy. This represents a dividend of around €1.62 per share.
2 Attributable to the shareholder of UniCredit Bank AG.
3 UniCredit Bank AG (HVB).
4 See Consolidated statement of total comprehensive income.

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS							
AFS RESERVE	HEDGE RESERVE	FVtOCI RESERVE	CONSOLIDATED PROFIT[1]	PROFIT 1/1–30/6[2]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[3]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
74	30	n/a	3,005	—	20,414	6	20,420
—	—	n/a	—	715	715	2	717
46	(1)	n/a	—	—	147	—	147
51	—	n/a	—	—	51	—	51
(5)	(1)	n/a	—	—	(6)	—	(6)
—	—	n/a	—	—	108	—	108
—	—	n/a	—	—	(6)	—	(6)
—	—	n/a	—	—	—	—	—
—	—	n/a	(3,005)	—	(3,005)	(1)	(3,006)
—	—	n/a	(3,005)	—	(3,005)	(1)	(3,006)
—	—	n/a	—	—	—	—	—
—	—	n/a	—	—	—	—	—
—	—	n/a	—	—	—	—	—
120	29	n/a	—	715	18,271	7	18,278
52	28	—	1,300	—	18,867	7	18,874
(52)	—	25	—	—	11	—	11
n/a	28	25	1,300	—	18,878	7	18,885
n/a	—	—	—	261	261	1	262
n/a	3	(9)	—	—	(6)	—	(6)
n/a	—	(8)	—	—	(11)	—	(11)
n/a	(1)	(1)	—	—	(2)	—	(2)
n/a	—	—	—	—	1	—	1
n/a	—	—	—	—	2	—	2
n/a	4	—	—	—	4	—	4
n/a	—	—	(1,300)	—	(1,298)	(6)	(1,304)
n/a	—	—	(1,300)	—	(1,300)	—	(1,300)
n/a	—	—	—	—	—	—	—
n/a	—	—	—	—	2	(6)	(4)
n/a	—	—	—	—	—	—	—
n/a	31	16	—	261	17,835	2	17,837

Statement of Changes in Shareholders' Equity (Continued)

The changes in the statement of changes in shareholders' equity are the result of the first-time adoption of the IFRS 9 standard. The adjustments made in the statement of changes in shareholders' equity are described in the Note "Changes in disclosure principles compared with the previous year". The amounts shown in the line "Effect of first-time adoption of IFRS 9" relating to measurement adjustments performed are described in the Note "Effects of first-time adoption of IFRS 9". It should be noted that the Note "Effects of first-time adoption of IFRS 9" presents the effects in relation to the respective balance sheet item before tax (taxes constitute a separate balance sheet item), while the statement of changes in shareholders' equity shows the amounts after tax, i.e. taking account of tax effects.

The available-for-sale reserve is reversed upon first-time adoption of IFRS 9 from 1 January 2018 as the category "available for sale" no longer applies.

To the extent that certain securities are measured at fair value through profit or loss, the difference between amortised cost and the fair value for such portfolios is added to the fair value through other comprehensive income reserve. For the portfolios recorded in this category for the first time as of 1 January 2018, this difference is recorded in the statement of changes in shareholders' equity through the line "Effects of first-time adoption of IFRS 9", while follow-up measurement is performed through other comprehensive income in the consolidated statement of total comprehensive income.

If the required new classification and measurement of assets cause measurement effects (e.g. transition from measurement at cost to fair value measurement in the case of shareholdings), such measurement effects are recorded in retained earnings as at 1 January 2018 and added to Other reserves in the statement of changes in shareholders' equity through the line "Effects of first-time adoption of IFRS 9". As IFRS 9 is generally applied retrospectively, these effects remain in retained earnings on a permanent basis.

The effects arising from the changes in fair value of the own credit spread for financial liabilities designated as measured at fair value through profit or loss give rise to a special effect: According to the provisions of IFRS 9, such effects, to the extent they relate to periods prior to 1 January 2018, are added to the newly created reserve for the own credit spread effect. As these instruments were previously allocated to financial liabilities held for trading and have thus already been measured at fair value through profit or loss, such effect from the change in the own credit spread is already recorded through profit or loss in previous periods and is thus included in retained earnings. This means that these instruments must be reclassified from retained earnings to the new "own credit spread reserve". As both reserves are part of the Other reserves in the statement of shareholders' equity, there is no effect on equity at this point. The increase in Other reserves of €38 million is thus attributable to the remaining adjustments in the measurement of the financial instruments, as described in the Note "Effects of first-time adoption of IFRS 9".

Consolidated Cash Flow Statement (abridged version)

(€ millions)

	2018	2017
Cash and cash equivalents at 1 January	36,414	9,770
Net cash provided/used by operating activities	(25,614)	15,714
Net cash provided/used by investing activities	3,670	(695)
Net cash provided/used by financing activities	(1,313)	(2,888)
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale	—	—
Cash and cash equivalents at 30 June	13,157	21,901

Legal basis

UniCredit Bank AG (HVB) is a universal bank with its registered office and principal place of business in Arabellastrasse 12, Munich. 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).

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.

We did not avail ourselves of the possibility of reviewing the present Half-yearly Financial Report of HVB Group compliant with Section 115 (5) WpHG.

The amounts shown in the tables and texts below relate to the reporting date of 30 June 2018 for disclosures regarding balance sheet items, or 31 December 2017 in the case of figures for the previous year, and totals for the period from 1 January to 30 June of the respective year for disclosures regarding the income statement.

Accounting and Valuation

1 Accounting and valuation principles

The present Half-yearly Financial Report for HVB Group has been prepared in accordance with the regulations defined in the International Financial Reporting Standards (IFRS) and complies with IAS 34, which covers interim reporting. Thus, the present Half-yearly Financial Report meets the requirements of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) for the half-yearly financial reporting of capital-market-oriented companies.

The amendments to the following standards newly published or revised by the IASB are mandatorily applicable in the EU for the first time in the 2018 financial year:

Standards
- First time adoption IFRS 9 – Financial Instruments
- First time adoption IFRS 15 – Revenue from Contracts with Customers

Interpretations
IFRIC 22 – Foreign Currency Transactions and Advance Consideration

Amendments
- Annual improvements to the 2014–2016 IFRS cycle (IFRS 1, IFRS 12 and IAS 28)
- Clarifications to IFRS 15 – "Issues emerging from the Joint Transition Resource Group for Revenue Recognition (TRG) discussions"
- Amendments to IFRS 2 – "Clarifications of classification and measurement of share-based payment transactions"
- Amendments to IAS 40 – "Transfers of Investment Property"

The implementation of the first time adoption of the IFRS 9 standard has a major impact on the consolidated financial statements of HVB Group. The resulting changes to the disclosure and valuation methods will be dealt with below.

The **new IFRS 15 standard** "Revenue from Contracts with Customers" is mandatory for the financial years beginning on or after 1 January 2018 and supersedes IAS 11, IAS 18, IFRIC 13, 15 and 18 as well as SIC 31. IFRS 15 is to be applied to all contracts with customers with the exception of the following contracts:
- Leases that fall under IAS 17/IFRS 16 Leases
- Financial instruments and other contractual rights and obligations that fall under IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements or IAS 28 Investments in Associates and Joint Ventures
- Insurance contracts within the scope of application of IFRS 4 Insurance Contracts

The standard specifies how and when an IFRS reporting entity will recognise revenues as well as requiring such entities to provide users of financial statements with more informative and relevant disclosures than previously. According to the key principle of IFRS 15 a company should report income at the amount at which consideration is expected for the performance obligation(s) assumed, i.e. the transfer of goods and/or the provision of services. This key principle is implemented through a five-step model to be applied to all contracts with customers.

On account of the areas of exclusion named above, only commission income comes under the scope of application of the standard. The Bank has analysed the impact of IFRS 15 and has come to the conclusion that the application of the new standard has no effects on the accounting of commission income. It was not necessary to convert the timing or the amount of the revenue realisation.

According to the disclosure requirements already applicable for the half-yearly financial statements, the Bank broke down commission income by type of service provided. Please see the Note "Net fees and commissions" for further information.

Accounting and Valuation (Continued)

We likewise implemented the remaining interpretations, amendments and improvements, which had no impact on the consolidated financial statements. Apart from the changes described below, we applied the disclosure and measurement methods without any change compared with the previous year. These are described in the notes to the consolidated financial statements of the 2017 Annual Report.

Please refer to the information provided in the notes to the consolidated financial statements of the 2017 Annual Report, which continues to apply, on the impact of published IFRS that are not yet the subject of adoption.

As a result of the **first time adoption of IFRS 9** there have been significant changes to the methods for the recognition and measurement of financial instruments. In July 2014, the IASB published the definitive version of IFRS 9 "Financial Instruments" which besides IFRS 9 also covered further standards (particularly IFRS 7 and IAS 1). It was endorsed by the European Union in November 2016. IFRS 9 contains a revision of the main regulations concerning the classification and measurement of financial instruments, the measurement of impairments of financial assets and the recognition of hedges.

HVB exercised the option to continue applying the provisions of IAS 39 on Hedge Accounting. The new provisions on the classification and measurement of financial instruments and on the measurement of impairments of financial assets will be dealt with in greater detail below.

IFRS 9 generally provides the following valuation categories for assets: measurement at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss. A precondition for measurement at amortised cost is firstly that the asset is allocated to the "Hold to maturity" business model, i.e. HVB intends to hold the asset concerned until maturity and secondly, that the terms of contract only contain payments that are either interest or redemption payments. If this applies, the cash flow criteria required have been met. Measurement at fair value through other comprehensive income is subject to the following conditions: The asset must be allocated to a business model that provides for financial instruments to be both held to maturity and be available for sale. The asset must also meet the same cash flow criteria that are required for measurement at amortised cost. If an asset cannot be measured at amortised cost or at fair value through other comprehensive income, it is to be recognised at fair value through profit or loss.

The accounting methods for assets held for trading have been continued as part of the financial instruments measured at fair value through profit or loss without any change compared with IAS 39.

For assets measured at amortised cost, impairments are to be recognised based on the expected losses. If the default risk has not significantly increased since the initial recognition of the asset, an impairment is to be recognised at the amount of the 12-month credit loss (Stage 1), otherwise at the amount of the loss expected over the residual term. In this context, a distinction is made between whether default has already occurred (Stage 3) or not (Stage 2). While interest income is recognised for performing assets (Stage 1 and 2) using the effective interest method based on the gross carrying amount, interest income for non-performing loans (Stage 3) may only be recognised using the effective interest method based on the net carrying amount. In addition, the rules of Stage 3 apply to assets whose creditworthiness was already adversely affected upon initial recognition for the entire residual term, i.e. upgrading to Stages 1 and 2 is ruled out.

For assets measured at fair value without affecting profit or loss, these regulations on impairments are also to be recognised through profit or loss while the difference in the carrying amount calculated as such to the fair value is recognised under other comprehensive income.

The IFRS rules on impairments are also to be applied to guarantees and credit commitments that are not measured at fair value through profit or loss. With regard to credit commitments, both irrevocable credit commitments and revocable credit commitments, exposing HVB Group to a credit default risk, are included.

IFRS 9 largely adopts the existing accounting rules of IAS 39 for financial liabilities. Only in the case of financial liabilities designated to be measured at fair value through profit or loss are changes in fair value on account of a change in the default risk of the liability to be recognised in other comprehensive income provided this does not produce or increase any accounting mismatch.

2 Changes to measurement methods compared with the previous year

Loans and receivables measured at cost

As the lending business for HVB Group puts a focus on customer care and customer relationships, the intention is generally to hold to maturity loans issued by the Bank. Provided the loans also meet cash flow criteria, these are allocated to the hold-to-maturity business model and measured at amortised cost. In addition, securities holdings that meet cash flow criteria and are intended to be held to maturity are also measured at amortised cost.

As the intention is generally to hold to maturity, debt instruments allocated to the "Hold to maturity" business model may be sold only in the following exceptional cases:
– sales occur infrequently or irregularly even if they are of significant value in this case,
– sales, if they occur frequently, are individually or in the aggregate of insignificant value,
– sales occur just before the final maturity date and the sales proceeds equal the outstanding contractual payments for the most part or
– sales are made as a result of an increase in the risk of credit default.

Depending on the allocation of the debtor, the loans and receivables measured at cost are reported in the balance sheet under loans and receivables with banks or with customers.

HVB Group did not exercise the option of designating an asset to be measured at fair value through profit or loss. The Bank also waived measuring credit exposures at fair value through profit or loss.

Assets measured at fair value without affecting profit or loss

Certain securities holdings that are either held to maturity or can be sold have been allocated to the "Held for sale" business model. As these securities also meet cash flow criteria, the conditions for measurement at fair value without affecting profit or loss have been met. These holdings are reported under the balance sheet item named "Financial assets at fair value through other comprehensive income".

Assets measured at fair value through profit or loss

HVB Group has decided that all financial instruments measured at fair value through profit or loss will also be managed on this basis in order to avoid the otherwise imminent risk of differences between planning/internal management and accounting. Accordingly, all debt instruments that do not meet cash flow criteria are allocated to the "Other" business model and thus measured at fair value through profit or loss.

In addition, particularly securities holdings which to date were designated under IAS 39 as financial instruments to be measured at fair value through profit or loss continue to be managed unchanged on a fair value basis. As a result, these holdings are also to be allocated to the "Other" business model and are measured at fair value through profit or loss.

As holdings are generally to be measured at fair value through profit or loss in accordance with IFRS requirements, we have allocated our holdings to this balance sheet item, unless they are measured using the equity method or are fully consolidated. HVB Group did not exercise the option of measuring holdings at fair value without affecting profit or loss.

Impairments based on expected losses

Upon the introduction of IFRS 9, the method for determining impairments is being converted to the Expected Loss model. This is to be applied for loans and receivables measured at cost, assets measured at fair value without affecting profit or loss and credit commitments or financial guarantees that are measured at fair value without affecting profit or loss. In the case of the loans and receivables measured at cost, the impairments determined are posted to an impairment account and reduce the carrying amount. In the case of assets measured at fair value without affecting profit or loss, the impairments are determined for the asset and recognised in the statement of total comprehensive income as a result of the measurement at fair value while a provision is set up for the impairments of credit commitments and financial guarantees.

Accounting and Valuation (Continued)

In the course of determining the expect losses, not only reliable information on past events but also current conditions and predictions of future economic conditions are considered. In this context, the starting point is the regulatory procedures for the determination of PD, LGD and EAD. In order to comply with IFRS 9 requirements, these are then adjusted. The conservative elements based on the principle of caution are then removed in the regulatory procedures, the calculation of the expected credit losses adjusted to the basic conditions applying on the balance sheet date ("point in time" instead of "through the cycle"), forward-looking information taken into account and the credit risk parameters, where necessary, adjusted to the multi-year period or the expected residual term. Forward-looking information includes macroeconomic factors such as forecasts of the economic development. In this context a base scenario, a positive scenario and a negative scenario are assumed which are weighted with their expected probabilities of occurrence.

In addition, the HVB Group units responsible for the restructuring or handling of non-performing exposures determine the future incoming payments for non-performing exposures of significant amounts based on the circumstances in each case. A specific loan-loss allowance is thus recognised for these exposures while an impairment is parametrically recognised on a collective basis, in line with the determination of the expected credit losses, for non-performing exposures that involve insignificant amounts.

An impairment is generally recognised for a financial instrument at the time of addition at the amount of the expected 12-month credit loss (Stage 1). The only exceptions are the financial assets already impaired at the time of addition as the expected credit losses in this case have already been taken into account in the fair value at which such an asset is posted.

If the credit default risk has significantly risen since the time of addition, an impairment is to be recognised at the amount of the expected loss over the (residual) term (Stage 2). In order to determine when a significant increase in the credit default risk has occurred, HVB Group uses an internal model that takes account of both relative and absolute changes in the credit default risk. Key factors in this context are:

– a comparison of PD at the time of addition and at the reporting date at the level of each individual transaction, whereby thresholds to be exceeded for a significant increase are defined that take into account the main elements for the determination of an expected change in the credit default risk such as term, age, PD level at the time of addition.
– absolute limits such as payment default of 30 and more days.
– further internal features such as a forbearance measure.

If the credit default risk is no longer significantly higher on the reporting date, it is transferred back to Stage 1.

For Stages 1 and 2, the expected losses generally arise from taking account of two scenarios, namely no occurrence of the default by a borrower and thus no occurrence of credit losses or the occurrence of a default of the borrower and thus the occurrence of credit losses at the amount of the expected losses, whereby the latter scenario is weighted with the borrower's default probability, the PD.

HVB Group exercised the option for securities provided by IFRS 9.5.5.10, according to which it can be assumed for debt instruments with a low default risk that a significant increase in the default risk has not occurred. If these have an investment grade rating, they are generally allocated to Stage 1.

In the event that a borrower defaults on a debt instrument (credit-impaired asset), it is allocated to Stage 3. Any interest income for such assets is recognised only at the interest amount based on the net carrying amount.

A default is, as was the case to date, when either a material liability of the borrower is overdue for more than 90 days or HVB Group believes that the debtor is unable to meet the payment obligation in full without steps to realise collateral being taken. In such cases, an impairment is the difference between the carrying amount and the present value of the anticipated future cash flows. These are estimated by HVB Group and discounted at the respective interest rate. In the process, various realistic scenarios are then estimated, whereby the impairment is obtained from the expected value weighted with the probability of occurrence of default for each scenario. If the reasons for the default no longer apply, the liability is retransferred to Stages 1 or 2, depending on whether the default risk is still significantly increased or not compared with the default risk upon addition.

For financial assets that were already in default at the time of addition (purchased or originated credit impaired assets or POCI), interest income is likewise recognised only at the interest amount based on the net carrying amount. Only those new additions are recognised as a POCI asset that result not only in an insignificant increase in the existing exposure, i.e. do not exceed 20% of the unsecured, existing exposure. Loan losses expected at the time of addition are already taken into account in the carrying amount (fair value) when posted, which means that no impairment is recognised at the time of addition for POCI assets. In the subsequent measurement these are measured on the basis of the loss expected over the (residual) term whereby in the event of higher expected inflows than assumed at the time of addition, write-ups are also recognised in excess of the acquisition costs. The retrospective recognition of POCI assets was waived on account of cost-benefit considerations as the determination of the expected low level of POCI cases would have entailed an unreasonable amount of additional effort.

Modification of financial assets measured at amortised cost

If the contractual conditions of financial assets are modified, it is necessary to check whether those amendments are significant or insignificant. While significant amendments result in a derecognition of the existing asset and the posting of a new, significantly modified asset, in the case of insignificant amendments, only the agreed amendments to the contractual cash flows are discounted and the difference between the present value of the modified contractual payments determined in this way and the carrying amount (present value of the contractual payments before modification) are recognised through profit or loss.

A significant modification to the contractual terms has occurred where compliance with cash flow conditions has changed or where conditions have been adjusted to general market terms without this adjustment being seen as a concession made to the borrower based on his creditworthiness. In such cases, the existing loan is derecognised and the modified loan posted as a new loan. Conversely, the cases where HVB Group accepts an adjustment to the contractual terms merely on account of the weak creditworthiness of the borrower are insignificant modifications. As a rule, this concerns non-performing credit exposures which means that HVB Group shows the result of insignificant modifications in the income statement item "Credit impairment losses IFRS 9".

The Bank waived the retrospective recognition of effects from insignificant modifications on account of cost-benefit considerations as the determination of the expected minor effects from this would have entailed an unreasonable amount of additional effort.

3 Changes to disclosure principles compared with the previous year

Changes to the income statement

The structure of the income statement was adjusted with effect from the 2018 financial year onwards on account of new requirements (particularly IFRS 9 and IFRS 7) and the resulting consequences. The new structure of the income statement follows the measurement categories changed by IFRS 9, thus complementing or replacing the old structure based on IAS 39 categories. To this end, new items have been created and existing items adjusted or fully derecognised for the 2018 financial year. Items previously used that are not continued in the 2018 financial year, are shown this year for the last time in the previous-year figures. As the first-time adoption of IFRS 9 is not retrospective, the comparability particularly of income statement items will be restricted to the extent that they are affected by the changes to disclosure and measurement principles on the basis of IFRS 9.

Furthermore, negative interest, whether relating to financial assets or liabilities, is shown for the first time as a separate income statement item. Disclosure as a separate item takes account of the fact that negative interest on assets does not reflect an economic benefit and thus does not constitute any (interest) income. This applies correspondingly to negative interest on liabilities. The previous-year figures have been adjusted correspondingly.

In the opening balance sheet, we have designated own structured issues of €4.7 billion as measured at fair value through profit or loss. These are structured issues containing embedded derivatives. On account of the measurement at fair value through profit or loss, the obligation to separate out embedded derivatives no longer applies. These issued instruments are primarily intended to refinance the Bank's business activities. Disclosure outside of financial liabilities held for trading thus reflects the presentation of the business purpose and provides the user of the financial statements with a better insight into the assets position of HVB Group. Correspondingly, the net income from the fair value measurement of liabilities designated at fair value through profit or loss is disclosed in the new income statement item "Net gains/losses on financial assets and liabilities at fair value". The corresponding accounting provision governing how issues are reported was adapted for this purpose. In the previous year, the portfolio was disclosed in the financial liabilities held for trading and the net income was disclosed in net trading income. The previous-year figures were not restated.

Accounting and Valuation (Continued)

In order to match the new measurement categories contained in IFRS 9, the new item “Net gains/losses on financial assets and liabilities at fair value” was inserted in the income statement. Due to the increase in assets that are accounted for at fair value, it is necessary to use a separate item for this.

This item contains the measurement results and realised net gains and losses on the disposal of financial instruments measured at fair value which are not part of the assets held for trading. This item thus contains the following:
– the net gains/losses on financial instruments measured at fair value through profit or loss (assets and liabilities),
– the net gains/losses on the disposal of financial instruments measured at fair value directly in equity and
– the net gains/losses from hedge accounting.

The item “Net gains/losses on derecognition of financial instruments measured at amortised cost” is shown for the first time in the 2018 financial year in order to comply with the requirements of IFRS 9. This item contains the effects from the disposal of assets and buy-backs of liabilities relating to all financial instruments measured at amortised cost pursuant to IFRS 9. This includes other net trading income (buy-backs of issued securities) that was disclosed in net trading income in the 2017 financial year, and income from the sale of receivables/securities measured at cost that were shown in other comprehensive income in the 2017 financial year.

As a consequence, the scope covered by the net trading income item has been reduced such that in the 2018 financial year it contains only the measurement results or realised gains from the held-for-trading portfolio.

The previous IAS 39 item “Net write-downs of loans and provisions for guarantees and commitments” is no longer used in the 2018 financial year on account of the introduction of the Expected Loss model due to the first-time adoption of IFRS 9 (previously Incurred Loss model) and is replaced by the new item “Credit impairment losses IFRS 9”, which corresponds to the new Expected Loss model. The new item was created to show the fundamental changes to the methodology underlying the impairment model also in the income statement, as it does not simply involve a continuation of the former IAS 39 item and it is therefore not comparable with the previous-year figure.

Net income from investments was discontinued in the 2018 financial year and is shown for the last time with the figures for the 2017 financial year as the previously material components – available-for-sale and held-to-maturity financial instruments – no longer apply on account of IFRS 9, which means that net income from investments loses its original character. In order to provide a clear and meaningful income statement structure, the remaining components are reclassified to existing items or new ones especially created for this purpose. In this way, the gains on disposal of land and buildings and investment properties are shown in the item “Net other expenses/income” and the gains on disposal of shares in affiliated companies and companies accounted for using the equity method are shown in net gains/losses on disposal of investments. The former available-for-sale and held-to-maturity financial instruments are, depending on the business model and SPPI test, allocated either to the item “Net gains/losses on financial assets and liabilities at fair value” (business model: Other or Held for sale after passing the SPPI test) or to “Net gains/losses on derecognition of financial instruments measured at amortised cost (business model: Held for sale after passing the SPPI test).

The scope covered by the item “Net other expenses/income” was also adjusted to match the changes. In this way, a portion of other income – the net profit from the sale of receivables – was reclassified to “Net gains/losses on derecognition of financial instruments measured at amortised cost”. In the 2018 financial year, net profit from disposal of land and buildings as well as investment properties was recorded in this item for the first time; previously, both were shown in net income from investments.

The item “Net gains/losses on disposals of investments” is shown in the 2018 financial year for the first time; it contains the gains on disposal of shares in affiliated companies and companies accounted for using the equity method that were previously shown in net income from investments. This item was created to provide an informative grouping and presentation of the positions contained.

Changes to the balance sheet
The structure of the balance sheet was likewise adjusted as of the 2018 financial year on account of the new requirements (particularly IFRS 9 and IFRS 7) and the resulting effects of the same. The new balance sheet structure corresponds to the new measurement categories of IFRS 9, thus replacing for the 2018 financial year the balance sheet structure based on the categories of IAS 39 in use until the 2017 financial year.

The item "Financial assets at fair value through profit or loss" is shown for the first time in the 2018 financial year in order to correctly reflect the new measurement category introduced by IFRS 9. This item contains all the debt instruments that are to be measured at fair value through profit or loss on account of the "Other" business model as well as the shareholdings that are likewise to be measured at fair value through profit or loss. This also includes debt instruments that do not meet the cash flow criteria and were shown in the 2017 financial year in loans and receivables with customers or banks or available-for-sale financial assets. This item also includes the financial instruments of the former fair value option (financial instruments at fair value through profit or loss (fair value option)) that have to be measured at fair value on account of the "Other" business model.

The item "Financial assets at fair value through other comprehensive income" is shown for the first time in the 2018 financial year in order to accurately reflect the new measurement category introduced by IFRS 9. It contains all items measured at fair value directly in equity on account of the "Held for sale" business model and because the cash flow criteria are met. Only fixed-income securities reclassified from the previous available-for-sale portfolio are included.

The item "Financial instruments at fair value through profit or loss" (fair value option) no longer applies in the 2018 financial year and thus contains only previous-year figures for the 2017 financial year. This applies analogously for the items "Available-for-sale financial assets" and "Held-to-maturity investments".

The scope of the items "Loans and receivables with customers" and "Loans and receivables with banks" has changed. Loans and receivables that cannot be measured at amortised cost on account of the "Other" business model are reclassified to financial assets at fair value through profit or loss in the 2018 financial year on account of measurement at fair value through profit or loss. This means that the items "Loans and receivables with customers" and "Loans and receivables with banks" only contain loans and receivables that can be measured at amortised cost on account of the "Held for sale" business model and the fact that the cash flow criteria are met. The previous-year figures were not restated.

Equity
The structure of equity, the statement of changes in shareholders' equity and the statement of total comprehensive income was adjusted as of the 2018 financial year on account of the requirements of IFRS 9 and the consequences therefrom. The item "AfS reserve" no longer applies from the 2018 financial year onwards and is shown for the last time with the figures for the 2017 financial year, as the underlying category of financial instruments – available for sale – was discontinued upon the introduction of IFRS 9.

The item "Fair value through other comprehensive income reserve" is shown for the first time in the 2018 financial year to take account of the newly introduced category of measurement at fair value through profit or loss. To the extent that the difference between amortised cost and fair value of assets is recorded under this item, any reserve still in existence at this time is to be taken to the income statement. Furthermore, the reserve for the own credit spread is introduced in "Other reserves". This became necessary on account of the new option introduced by IFRS 9 allowing changes in fair value to be recorded in equity on account of the own credit spread of liabilities. This option is applicable only to those liabilities that are designated for measurement at fair value through profit or loss. To the extent that, at the time of disposal of liabilities, there are still amounts in this reserve, recording these in the income statement is not permitted and the corresponding amounts are generally reclassified to retained earnings.

Statement of changes in shareholders' equity
The aforementioned changes are also reflected in the statement of changes in shareholders' equity. In this way, the fair value through other comprehensive income reserve is presented for the first time, whereas the available-for-sale reserve can be seen in the statement of changes in shareholders' equity for the last time for the 2017 financial year. Likewise, the reserve for the own credit spread is inserted below "Other reserves". In addition, a line is inserted for only one time in order to show the changes in equity caused by the first-time adoption of IFRS 9 and in order to reconcile the equity from the closing IAS 39 balance sheet as at 31 December 2017 to the opening IFRS 9 balance sheet as at 1 January 2018.

Accounting and Valuation (Continued)

Statement of total comprehensive income
The new item "Changes in valuation of financial instruments at fair value through other comprehensive income" was included in order to record the measurement results of the assets measured at fair value without affecting profit or loss.

Following the option of recording in equity changes in fair value on account of the own credit spread with liabilities designated at fair value, the statement of total comprehensive income will contain for the first time in the 2018 financial year the item "Changes in fair value of financial liabilities at fair value through profit or loss" which is attributable to changes in the default risk (own credit spread reserve) in order to record the fluctuations in fair value arising from the own credit spread of the reserve required by IFRS 9.

The changes in the measurement of financial instruments (available-for-sale reserve) is shown for the last time in the 2017 financial year as the underlying reserve no longer applies in the 2018 financial year following introduction of IFRS 9. There are no longer any amounts assigned to this item in the 2018 financial year and it is shown one last time.

4 Effects of first-time adoption of IFRS 9

The following tables explain the adjustments and reconciliations performed as of 1 January 2018 on account of the first-time adoption of IFRS 9. For this purpose, these are initially introduced in an overview relating to the respective measurement categories. Subsequently, separate tables for each individual measurement category present the details of the reconciliation from the IAS 39 measurement categories or balance sheet items to the new balance sheet items. These constitute the opening balance sheet for the 2018 financial year.

Retrospective adoption of IFRS 9 was not applied. Correspondingly, the effects of measurement adjustments on account of the new accounting provisions contained in IFRS 9 are recorded in equity. For details, please refer to the Notes relating to the statement of changes in shareholders' equity.

The adjustments made to the disclosure and measurement methods used are presented in the corresponding Note.

Overview of the effects of first-time adoption of IFRS 9 (€ millions)

	IAS 39 CARRYING AMOUNT 31/12/2017	RECLASSIFICATIONS	REMEASUREMENTS	IFRS 9 CARRYING AMOUNT 1/1/2018
Financial assets measured aFVtPL total	97,339	766	46	98,151
Financial assets measured aFVtOCI total	6,816	(669)	—	6,147
Financial assets measured at cost total	151,531	(97)	(13)	151,421
Tax assets	1,363	—	64	1,427
Current tax liabilities	693	—	51	744
Hedge adjustment of hedged items in the				
fair value hedge portfolio (liabilities)	1,215	—	15	1,230
Provisions for off-balance sheet liabilities	180	—	20	200

The following tables provide a detailed overview of the effects of first time adoption of IFRS 9:

Financial assets measured at fair value (€ millions)

	IAS 39 CARRYING AMOUNT 31/12/2017	RECLASSIFICATIONS	REMEASUREMENTS	IFRS 9 CARRYING AMOUNT 1/1/2018
Financial assets held for trading				
Closing balance under IAS 39 on 31 December 2017	75,493			
remaining in assets held for trading		—	—	
Opening balance under IFRS 9 on 1 January 2018				75,493
Financial assets at fair value through profit or loss (FVO)				
Closing balance under IAS 39 on 31 December 2017	21,456			
to financial assets aFVtPL		(21,456)	—	
Opening balance under IFRS 9 on 1 January 2018				—
Financial assets aFVtPL				
Closing balance under IAS 39 on 31 December 2017	—			
from loans and receivables with banks		—	—	
from loans and receivables with customers		513	(2)	
from available-for-sale financial assets		252	48	
from held-to-maturity investments		1	—	
from financial assets at fair value through profit				
or loss (FVO)		21,456	—	
Opening balance under IFRS 9 on 1 January 2018				22,268
Hedging derivatives				
Closing balance under IAS 39 on 31 December 2017	390			
remaining in hedging derivatives		—	—	
Opening balance under IFRS 9 on 1 January 2018				390
Total	**97,339**	**766**	**46**	**98,151**

The assets held for trading are not affected by the first-time adoption of IFRS 9. As the definition of the held-for-trading portfolio has not been altered by IFRS 9 in comparison to IAS 39, the portfolio of assets held for trading remains unchanged.

The previous fair value option under IAS 39 no longer applies as these portfolios are managed in the HVB Group on the basis of fair value. These are correspondingly allocated to the "Other" business model and are consequently subject to the requirement of measurement at fair value through profit or loss. This means that the entire balance sheet item "Financial assets at fair value through profit or loss (FVO)" is reclassified to the balance sheet item "Financial assets at fair value through profit or loss". There were no changes in measurement.

The balance sheet item "Financial assets at fair value through profit or loss" contains all assets not counted as held for trading that are measured at fair value. The following were reclassified to this item:
– All financial assets at fair value through profit or loss (FVO) without any change in measurement
– Debt instruments measured at cost under IAS 39 from the balance sheet items "Loans and receivables with banks (or customers)" and held-to-maturity investments do not meet the cash flow criteria; these are measured at fair value for the first time and the difference between the fair value and the previous amortised cost is recorded in Other reserves in equity
– Available-for-sale financial assets measured at fair value (equity instruments measured at fair value and debt instruments) have been reclassified to this balance sheet item; re-measurement was not performed
– Available-for-sale financial assets measured at cost (equity instruments that are not listed on an active market and whose fair value cannot be reliably determined): As the exception for the measurement at amortised cost ceased to apply upon introduction of IFRS 9, these equity instruments are to be measured at fair value from the 2018 financial year onwards. HVB Group performed such fair-value measurement on the basis of the best possible models for the determination of fair value and the difference between the previous cost and fair value is added to other reserves

There were no changes relating to hedging derivatives. HVB Group continues to apply the hedge accounting provisions contained in IAS 39.

Accounting and Valuation (Continued)

Financial assets measured at fair value through other comprehensive income (€ millions)

	IAS 39 CARRYING AMOUNT 31/12/2017	RECLASSIFICATIONS	REMEASUREMENTS	IFRS 9 CARRYING AMOUNT 1/1/2018
Financial assets aFVtOCI				
Closing balance under IAS 39 on 31 December 2017	—			
from available-for-sale financial assets		6,147	—	
Opening balance under IFRS 9 on 1 January 2018				6,147
Available-for-sale financial assets				
Closing balance under IAS 39 on 31 December 2017	6,816			
to financial assets aFVtPL		(252)	—	
to financial assets aFVtOCI		(6,147)	—	
to loans and receivables with banks		(209)	—	
to loans and receivables with customers		(208)	—	
Opening balance under IFRS 9 on 1 January 2018				—
Total	**6,816**	**(669)**	**—**	**6,147**

The item “Financial assets at fair value through other comprehensive income” contains portfolios of assets allocated to the “Held for sale” business model and that meet the cash flow criteria. These were previously contained in available-for-sale financial assets. No adjustment to measurement was performed in this respect.

The previous category “Available for sale” under IAS 39 ceased to apply upon introduction of IFRS 9. Accordingly, this item has to be distributed among other balance sheet items. All the equity instruments included here have been allocated to the item “Financial assets at fair value through profit or loss”. The allocation to a business model was decisive for the distribution of debt instruments: securities portfolios allocated to the “Held for sale” business model have become part of the balance sheet item “Financial assets at fair value through other comprehensive income”. Securities portfolios allocated to the “Held to maturity” business model have, depending on the debtor, become part of the balance sheet items “Loans and receivables with banks” or “Loans and receivables with customers” and securities portfolios allocated to the “Other” business model have become part of the balance sheet item “Financial assets at fair value through profit or loss”.

Financial assets measured at amortised cost (€ millions)

	IAS 39 CARRYING AMOUNT 31/12/2017	RECLASSIFICATIONS	REMEASUREMENTS	IFRS 9 CARRYING AMOUNT 1/1/2018
Held-to-maturity investments				
Closing balance under IAS 39 on 31 December 2017	23			
to financial assets aFVtPL		(1)	—	
to loans and receivables with banks		—	—	
to loans and receivables with customers		(22)	—	
Opening balance under IFRS 9 on 1 January 2018				—
Loans and receivables with banks				
Closing balance under IAS 39 on 31 December 2017	30,330			
remaining in loans and receivables with banks		—	(32)	
to financial assets aFVtPL		—	—	
from available-for-sale financial assets		209	(18)	
from held-to-maturity investments		—	—	
Opening balance under IFRS 9 on 1 January 2018				30,489
Loans and receivables with customers				
Closing balance under IAS 39 on 31 December 2017	121,178			
remaining in loans and receivables with customers		—	36	
to financial assets aFVtPL		(513)	—	
from available-for-sale financial assets		208	1	
from held-to-maturity investments		22	—	
Opening balance under IFRS 9 on 1 January 2018				120,932
Total	**151,531**	**(97)**	**(13)**	**151,421**

The previous category for securities held to maturity under IAS 39 ceased to apply upon introduction of IFRS 9. Accordingly, this item has to be distributed among other balance sheet items. Allocation to a business model was decisive for distribution: securities portfolios allocated to the “Held to maturity” business model have, depending on the debtor, become part of the balance sheet items “Loans and receivables with banks” or “Loans and receivables with customers” and securities portfolios allocated to the “Other” business model have become part of the balance sheet item “Financial assets at fair value through profit or loss”. As the intention in this case is generally to hold the assets to maturity, the question as to whether the cash flow criteria are met was decisive: To the extent that these criteria are not met, the security is to be measured at fair value through profit or loss, which will lead to management on the basis of fair value, which necessitates allocation to the “Other” business model. If the cash flow criteria are met, the securities are allocated to the “Held to maturity” business model.

With assets disclosed in the balance sheet items “Loans and receivables with banks” and “Loans and receivables with customers”, the general intention is to hold them to maturity. If these assets meet the cash flow criteria, they are allocated to the “Held to maturity” business model and remain within the respective balance sheet item. There are measurement effects on these financial instruments on account of the transition in the method used to determine impairment losses to the Expected Loss model. If the cash flow criteria are not met, the debt instrument is to be measured at fair value through profit or loss, which will lead to management on the basis of fair value and therefore to allocation to the “Other” business model. Correspondingly, these financial instruments were reclassified to the balance sheet item “Financial assets at fair value through profit or loss”. This balance sheet item also took in the debt instruments that were previously accounted for as held-to-maturity investments or available-for-sale financial instruments and were allocated to the “Held to maturity” business model. In cases of reclassification from the balance sheet item “Available-for-sale financial assets”, measurement has been adjusted as these debt instruments are no longer accounted for at fair value but at amortised cost. As, under IAS 39, the difference between amortised cost and fair value for available-for-sale assets was shown in the available-for-sale reserve in equity, this was reversed and the carrying values were adjusted correspondingly, to maintain consistency.

Accounting and Valuation (Continued)

Income tax

(€ millions)

	IAS 39 CARRYING AMOUNT 31/12/2017	RECLASSIFICATIONS	REMEASUREMENTS	IFRS 9 CARRYING AMOUNT 1/1/2018
Tax assets	**1,363**	**—**	**64**	**1,427**
Current tax assets				
Closing balance under IAS 39 on 31 December 2017	113			
remaining in current tax assets		—	—	
Opening balance under IFRS 9 on 1 January 2018				113
Deferred tax assets				
Closing balance under IAS 39 on 31 December 2017	1,250			
remaining in deferred tax assets		—	64	
Opening balance under IFRS 9 on 1 January 2018				1,314
Current tax liabilities	**693**	**—**	**51**	**744**
Current tax liabilities				
Closing balance under IAS 39 on 31 December 2017	604			
remaining in current tax liabilities		—	—	
Opening balance under IFRS 9 on 1 January 2018				604
Deferred tax liabilities				
Closing balance under IAS 39 on 31 December 2017	89			
remaining in deferred tax liabilities		—	51	
Opening balance under IFRS 9 on 1 January 2018				140

The effects of first-time adoption on deferred taxes are a consequence of the adjustment of the measurement methods for assets on account of the first-time adoption of IFRS 9. As the carrying values change accordingly, while the values stated for tax reporting purposes remain unchanged as a rule, there is an impact on the recognition and measurement of deferred taxes.

Hedge adjustment of hedged items in the fair value hedge portfolio

(€ millions)

	IAS 39 CARRYING AMOUNT 31/12/2017	RECLASSIFICATIONS	REMEASUREMENTS	IFRS 9 CARRYING AMOUNT 1/1/2018
Hedge adjustment of hedged items in the				
fair value hedge portfolio				
Closing balance under IAS 39 on 31 December 2017	1,215			
remaining in Hedge adjustment of hedged items				
in the fair value hedge portfolio		—	15	
Opening balance under IFRS 9 on 1 January 2018				1,230
Total	**1,215**	**—**	**15**	**1,230**

On account of classification of a specific security (allocation to the “Other” business model on account of the cash flow criteria not being met), the hedge adjustment attributable to such security was also released. The hedge adjustment on the liabilities side generally constitutes a net figure, such that elimination of the hedge adjustment attributable to this specific security results in an increase in the remaining balance (increase in the hedge adjustment on the liabilities side).

Overview of the effects of first-time adoption of IFRS 9 – Impairment losses (€ millions)

	IAS 39 IMPAIRMENTS FOR CREDIT DEFAULT AND PROVISIONS FOR OFF-BALANCE SHEET LIABILITIES IN THE LENDING BUSINESS 31/12/2017	CHANGES DUE TO RECLASSI-FICATION	CHANGES DUE TO THE IMPLEMENTATION OF THE IFRS 9 ECL-MODEL	IFRS 9 IMPAIRMENTS FOR CREDIT DEFAULT AND PROVISIONS FOR OFF-BALANCE SHEET LIABILITIES IN THE LENDING BUSINESS 30/6/2018
Financial assets measured aFVtPL total	—	—	—	—
Financial assets measured aFVtOCI total	—	—	—	—
Financial assets measured at cost total	2,204	(61)	(3)	2,140
Total	**2,204**	**(61)**	**(3)**	**2,140**
Provisions for off-balance sheet liabilities	180	—	20	200

The recognition of an impairment loss for financial assets at fair value through profit or loss is no longer necessary on account of the fair value measurement. For instruments reclassified to this item, the corresponding reversal of the impairment loss is shown in the receiving balance sheet item.

The effects on financial assets measured at fair value through other comprehensive income are so minor that, after rounding, they come to a figure of €0 million. The corresponding portfolio is of such prime ranking that it is completely allocated to Stage 1.

The increase in impairment losses for off-balance sheet liabilities arises from the transition to the expected credit loss model.

Accounting and Valuation (Continued)

Financial assets measured at amortised cost

(€ millions)

	IAS 39 IMPAIRMENTS FOR CREDIT DEFAULT AND PROVISIONS FOR OFF-BALANCE SHEET LIABILITIES IN THE LENDING BUSINESS 31/12/2017	CHANGES DUE TO RECLASSI-FICATION	CHANGES DUE TO THE IMPLEMENTATION OF THE IFRS 9 ECL-MODEL	IFRS 9 IMPAIRMENTS FOR CREDIT DEFAULT AND PROVISIONS FOR OFF-BALANCE SHEET LIABILITIES IN THE LENDING BUSINESS 30/6/2018
Held-to-maturity investments				
Closing balance under IAS 39 on 31 December 2017	—			
to financial assets aFVtPL		—	—	
to loans and receivables with banks		—	—	
to loans and receivables with customers		—	—	
Opening balance under IFRS 9 on 1 January 2018				—
Loans and receivables with banks				
Closing balance under IAS 39 on 31 December 2017	55			
remaining in loans and receivables with banks		—	32	
to financial assets aFVtPL		—	—	
from available-for-sale financial assets		—	—	
from held-to-maturity investments		—	—	
Opening balance under IFRS 9 on 1 January 2018				87
Loans and receivables with customers				
Closing balance under IAS 39 on 31 December 2017	2,149			
remaining in loans and receivables with customers		—	(36)	
to financial assets aFVtPL		(61)	—	
from available-for-sale financial assets		—	1	
from held-to-maturity investments		—	—	
Opening balance under IFRS 9 on 1 January 2018				2,053
Total	**2,204**	**(61)**	**(3)**	**2,140**

The increase in the impairment losses in the balance sheet item “Loans and receivables with banks” arises from the introduction of the expected credit default model.

The net reversal of the impairment losses in the balance sheet item “Loans and receivables with customers” constitutes the net balance of two effects: firstly, the transition to the expected credit default model is reflected here; secondly, the effect arising from taking account of several scenarios has an impact here (impairment corresponds to the difference between the carrying amount of the net write-downs of loans and provisions for guarantees and commitments and the expected proceeds upon realisation, with the proceeds upon realisation in various scenarios being estimated, discounted and weighted with the probability of occurrence of the respective scenario).

5 Companies included in consolidation

Elektra Purchase No. 56 DAC, Dublin, was added to the group of companies included in consolidation in the first half of 2018.

The following companies left the group of companies included in consolidation in the first half of 2018 due to merger, sale or imminent or completed liquidation or loss of control:

- Elektra Purchase No. 35 DAC, Dublin
- Elektra Purchase No. 40 DAC, Dublin
- Mobility Concept GmbH, Oberhaching
- Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG, Munich
- WealthCap Objekte Südwest GmbH & Co. KG, Munich

The following companies left the group of companies included in consolidation in the first half of 2018 for reasons of materiality:

- "Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung, Munich
- Antus Immobilien- und Projektentwicklungs GmbH, Munich
- ARRONDA Immobilienverwaltungs GmbH, Munich
- Aufbau Dresden GmbH, Munich
- B.I. International Limited, George Town
- Bayerische Wohnungsgesellschaft für Handel und Industrie Gesellschaft mit beschränkter Haftung, Munich
- BV Grundstücksentwicklungs-GmbH, Munich
- CUMTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
- Cuxhaven Steel Construction GmbH, Cuxhaven
- Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Grefrath KG, Oldenburg
- Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Krähenberg KG, Oldenburg
- Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Mose KG, Oldenburg
- GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH, Munich
- Golf- und Country Club Seddiner See Immobilien GmbH, Munich
- H & B Immobilien GmbH & Co. Objekte KG, Munich
- HVB Export Leasing GmbH, Munich
- HVB Gesellschaft für Gebäude Beteiligungs GmbH, Munich
- HVB Investments (UK) Limited, George Town
- HVB London Investments (AVON) Limited, London
- HVB Profil Gesellschaft für Personalmanagement mbH, Munich
- HVBFF International Greece GmbH, Munich
- HVBFF Internationale Leasing GmbH, Munich
- HVBFF Objekt Beteiligungs GmbH, Munich
- Hypo-Bank Verwaltungszentrum GmbH, Munich
- HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG, Munich
- Life Management Zweite GmbH, Grünwald
- MILLETERRA Gesellschaft für Immobilienverwaltung mbH, Munich
- Movie Market Beteiligungs GmbH, Munich
- NF Objekt München GmbH, Munich
- RHOTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
- Roncasa Immobilien-Verwaltungs GmbH, Munich
- Salvatorplatz-Grundstücksgesellschaft mit beschränkter Haftung, Munich
- Terronda Development B.V., Amsterdam
- Trinitrade Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung, Munich
- UniCredit (China) Advisory Limited, Beijing
- WealthCap Aircraft 27 GmbH & Co. KG, Grünwald
- WealthCap Aircraft 27 Komplementär GmbH, Grünwald
- WealthCap Stiftungstreuhand GmbH, Munich
- WealthCap USA Immobilien Verwaltungs GmbH, Munich

The deconsolidation of these companies does not have any material impact. The share of these companies in the total assets of the Group stood at 0.002% as at 31 December 2017.

Segment Reporting

6 Notes to 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

Method of segment reporting

The same principles are being applied in the 2018 financial year as were used at year-end 2017. We use risk-weighted assets compliant with Basel III as the criterion for allocating tied equity capital. The core capital allocated to the business segments of HVB as a proportion of risk-weighted assets compliant with Basel III was raised from 12% to 12.5% at the beginning of the year. The interest rate used to assess the equity capital allocated to companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) was 1.02% in the 2017 financial year. This interest rate was redetermined for the 2018 financial year and has been 1.07% since 1 January 2018.

The figures in previous periods affected by this reorganisation have been adjusted accordingly.

7 Income statement, broken down by business segment

Income statement, broken down by business segment for the period from 1 January to 30 June 2018 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	737	516	(9)	1,244
Dividends and other income from equity investments	3	6	—	9
Net fees and commissions	412	139	(8)	543
Net trading income	33	288	16	337
Net other expenses/income	(6)	66	78	138
OPERATING INCOME	**1,179**	**1,015**	**77**	**2,271**
Payroll costs	(307)	(192)	(236)	(735)
Other administrative expenses	(550)	(396)	224	(722)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(5)	(58)	(50)	(113)
Operating costs	**(862)**	**(646)**	**(62)**	**(1,570)**
OPERATING PROFIT	**317**	**369**	**15**	**701**
Net write-downs of loans and provisions for				
guarantees and commitments	(91)	164	28	101
NET OPERATING PROFIT	**226**	**533**	**43**	**802**
Provisions for risks and charges	(104)	(236)	1	(339)
Restructuring costs	—	(1)	—	(1)
Net income from investments	39	—	101	140
PROFIT BEFORE TAX	**161**	**296**	**145**	**602**
Income tax for the period	(95)	(202)	(43)	(340)
PROFIT AFTER TAX	**66**	**94**	**102**	**262**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**66**	**94**	**102**	**262**
attributable to the shareholder of UniCredit Bank AG	65	94	102	261
attributable to minorities	1	—	—	1

Segment Reporting (Continued)

Reconciliation of the segmented income statement to the income statement (€ millions)

INCOME/EXPENSES	INCOME STATEMENT, BROKEN DOWN BY BUSINESS SEGMENTS	RECLASSIFICATION	CONSOLIDATED INCOME STATEMENT
Net interest	1,244	—	1,244
Dividends and other income from equity investments	9	—	9
Net fees and commissions	543	—	543
Net trading income	337	41	378
Financial assets mandatorily at fair value through profit or loss		20	
Financial liabilities designated at fair value through profit or loss		53	
Buy-backs of securities issued		1	
Effects arising from hedge accounting		(19)	
Fair value equity		(11)	
Net gains/losses on financial assets and liabilities at fair value	n/a	(39)	(39)
Financial assets mandatorily at fair value through profit or loss		(20)	
Financial liabilities designated at fair value through profit or loss		(53)	
Net gains/losses on the sale of financial securities (Held-for-sale business model)		1	
Effects arising from hedge accounting		19	
Fair value equity		11	
Net gains/losses on derecognition of financial instruments measured at amortised cost	n/a	17	17
Net gains/losses on the sale of performing loans and receivables and securities		18	
Buy-backs of securities issued		(1)	
Net other expenses/income	138	93	231
Net gains/losses on the sale of performing loans and receivables and securities		(18)	
Income from the sale of land and buildings		5	
Income from valuation/disposals of investment properties		106	
OPERATING INCOME	**2,271**	**112**	**2,383**
Payroll costs	(735)	—	(735)
Other administrative expenses	(722)	—	(722)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(113)	—	(113)
Operating costs	**(1,570)**	**—**	**(1,570)**
OPERATING PROFIT	**701**	**112**	**813**
Net write-downs of loans and provisions for guarantees and commitments IAS 39/			
Credit impaired losses IFRS 9	101	—	101
NET OPERATING PROFIT	**802**	**112**	**914**
Provisions for risks and charges	(339)	—	(339)
Restructuring costs	(1)	—	(1)
Net income from investments	140	(140)	n/a
Net gains/losses on the sale of securities (Held-for-sale business model)		(1)	
Income from the sale of land and buildings		(5)	
Income from valuation/disposals of investment properties		(106)	
Net gains/losses on disposals of investments		(28)	
Net gains/losses on disposals of investments	n/a	28	28
PROFIT BEFORE TAX	**602**	**—**	**602**
Income tax for the period	(340)	—	(340)
PROFIT AFTER TAX	**262**	**—**	**262**
Impairment on goodwill	—	—	—
CONSOLIDATED PROFIT	**262**	**—**	**262**
attributable to the shareholder of UniCredit Bank AG	261	—	261
attributable to minorities	1	—	1

Income statement, broken down by business segment for the period from 1 January to 30 June 2017 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	727	447	142	1,316
Dividends and other income from equity investments	—	1	1	2
Net fees and commissions	430	178	(9)	599
Net trading income	38	623	19	680
Net other expenses/income	11	72	78	161
OPERATING INCOME	**1,206**	**1,321**	**231**	**2,758**
Payroll costs	(332)	(224)	(263)	(819)
Other administrative expenses	(584)	(432)	266	(750)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(5)	(58)	(56)	(119)
Operating costs	**(921)**	**(714)**	**(53)**	**(1,688)**
OPERATING PROFIT	**285**	**607**	**178**	**1,070**
Net write-downs of loans and provisions for				
guarantees and commitments	(61)	(69)	2	(128)
NET OPERATING PROFIT	**224**	**538**	**180**	**942**
Provisions for risks and charges	(25)	8	—	(17)
Restructuring costs	—	—	(2)	(2)
Net income from investments	(4)	8	6	10
PROFIT BEFORE TAX	**195**	**554**	**184**	**933**
Income tax for the period	(66)	(197)	47	(216)
PROFIT AFTER TAX	**129**	**357**	**231**	**717**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**129**	**357**	**231**	**717**
attributable to the shareholder of UniCredit Bank AG	128	357	230	715
attributable to minorities	1	—	1	2

Segment Reporting (Continued)

Development of the Commercial Banking business segment (€ millions)

INCOME/EXPENSES	1/1–30/6/2018	1/1–30/6/2017
Net interest	737	727
Dividends and other income from equity investments	3	—
Net fees and commissions	412	430
Net trading income	33	38
Net other expenses/income	(6)	11
OPERATING INCOME	**1,179**	**1,206**
Payroll costs	(307)	(332)
Other administrative expenses	(550)	(584)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(5)	(5)
Operating costs	**(862)**	**(921)**
OPERATING PROFIT	**317**	**285**
Net write-downs of loans and provisions for guarantees and commitments	(91)	(61)
NET OPERATING PROFIT	**226**	**224**
Provisions for risks and charges	(104)	(25)
Restructuring costs	—	—
Net income from investments	39	(4)
PROFIT BEFORE TAX	**161**	**195**
Income tax for the period	(95)	(66)
PROFIT AFTER TAX	**66**	**129**
Impairment on goodwill	—	—
CONSOLIDATED PROFIT	**66**	**129**
attributable to the shareholder of UniCredit Bank AG	65	128
attributable to minorities	1	1
Cost-income ratio in %[1]	73.1	76.4

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 11.2%, or €32 million, to €317 million in the first half of 2018.

At €1,179 million, operating income fell slightly by €27 million, or 2.2%, compared with the equivalent period in the previous year (€1,206 million). It contains net interest of €737 million, which in spite of the still extremely low level of interest rates was 1.4% higher than the previous-year period. This positive development trend was supported in the retail banking business by a slight rise in real estate financing, a strong increase in consumer lending activities (up 7.3%) and, above all, by the income from foreign currency deposits in corporate customer activities. The customer deposit business continued to be weighed down by the persistently ultra-low interest rates.

Compared with the previous-year period, there were decreases of €18 million, or 4.2%, to €412 million in net fees and commissions and €5 million, or 13.2%, to €33 million in net trading income. In the first half of 2018, there was an expense of €6 million in net other expenses/income. The decline compared with the previous-year period (€11 million) is due to a higher charge for the European bank levy and a decline in contributions from our WealthCap subsidiary on account of non-recurring effects in the previous-year period. Dividends and other income from equity investments contributed €3 million to the operating income in the first half of 2018 (previous-year period: €0 million).

In the first half of 2018, a significant reduction was achieved in operating costs, which were down by 6.4%, or €59 million, to €862 million compared with the previous-year period. This is attributable to both the sharp decrease in payroll costs by 7.5%, or €25 million, to €307 million as a result of a lower headcount and to lower other administrative expenses, which fell by 5.8%, or €34 million, to €550 million, compared with the previous-year period. Among other things, this decline is due to lower marketing and consulting expenses coupled with lower internal charges from other service units of the Bank on account of a lower number of employees.

The cost-income ratio improved from 76.5% in the first half of 2017 to 73.1% in the current reporting period on the back of the cost reductions.

In the first half of 2018, there was a net addition of €91 million to net write-downs of loans and provisions for guarantees and commitments, which is equivalent to a rise of €30 million, or 49.2% (previous-year period: €61 million).

Due to the increase in net write-downs of loans and provisions for guarantees and commitments, the improved operating income in the first half of 2018 resulted in only a slight change in net operating profit of €226 million compared with the previous-year period (previous-year period: €224 million).

The additions to the provisions for risks and charges in the non-lending business, recorded with a net addition of €104 million in the current reporting period, are mainly related to legal risks (previous-year period: €25 million). This is offset by a €43 million increase in net income from investments totalling €39 million in the first half of 2018 (previous-year period: net loss of €4 million) from gains on the disposal of financial investments.

Overall, the Commercial Banking business segment generated a profit before tax of €161 million in the first half of 2018 (previous-year figure: €195 million).

Segment Reporting (Continued)

Development of the Corporate & Investment Banking business segment (€ millions)

INCOME/EXPENSES	1/1–30/6/2018	1/1–30/6/2017
Net interest	516	447
Dividends and other income from equity investments	6	1
Net fees and commissions	139	178
Net trading income	288	623
Net other expenses/income	66	72
OPERATING INCOME	**1,015**	**1,321**
Payroll costs	(192)	(224)
Other administrative expenses	(396)	(432)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(58)	(58)
Operating costs	**(646)**	**(714)**
OPERATING PROFIT	**369**	**607**
Net write-downs of loans and provisions for guarantees and commitments	164	(69)
NET OPERATING PROFIT	**533**	**538**
Provisions for risks and charges	(236)	8
Restructuring costs	(1)	—
Net income from investments	—	8
PROFIT BEFORE TAX	**296**	**554**
Income tax for the period	(202)	(197)
PROFIT AFTER TAX	**94**	**357**
Impairment on goodwill	—	—
CONSOLIDATED PROFIT	**94**	**357**
attributable to the shareholder of UniCredit Bank AG	94	357
attributable to minorities	—	—
Cost-income ratio in %[1]	63.6	54.0

1 Ratio of operating costs to operating income.

In the first half of 2018, the Corporate & Investment Banking business segment generated operating income of €1,015 million and was thus unable to match the year-ago figure of €1,321 million, which benefited from a non-recurring effect.

The primary cause of this development is the decline in net trading income compared with the previous-year period, which fell a sharp €335 million, or 53.8%, to €288 million. In this context, lower income was posted in the areas of fixed-income products in particular. The decline is attributable, above all, to a non-recurring effect arising from a customer transaction in 2017 and mark-to-market effects occurring in 2018 in connection with the elections in Italy. By contrast, the profit contribution of valuation adjustments, which mainly include credit value adjustments and funding value adjustments, made a positive contribution to net trading income.

At €139 million, net fees and commissions were €39 million, or 21.9%, lower than in the previous-year period. On the one hand, this is due to less demand by companies for equity or borrowings using capital market products, such as bonds or share issues, whereby it should be taken into account that in the first half of 2017 fee and commission income benefited from larger capital measures, and on the other hand, to lower loan commissions and advisory fees.

By contrast, a positive trend was reported in net interest, which was up by 15.4%, or €69 million, to €516 million in the first half of 2018 compared with the previous-year period. Besides an expansion of lending activities, this is also attributable to an increase in the Treasury contribution. Furthermore, higher interest income was generated from foreign currency deposits.

Net other expenses/income fell slightly to €66 million (previous-year period: €72 million) while, at €6 million, dividends and other income from equity investments showed a positive development compared with the previous-year period (€1 million).

Operating costs fell significantly by €68 million, or 9.5%, to €646 million compared with the previous-year period. Within this total, payroll costs fell by €32 million, or 14.3%, to €192 million and other administrative expenses by €36 million, or 8.3%, to €396 million. At €58 million, amortisation, depreciation and impairment losses on intangible and tangible assets remained the same.

The cost-income ratio rose from 54.0% to 63.6% in spite of the reduction in costs. Consequently, operating profit decreased by €238 million, or 39.2%, to €369 million.

In the first half of 2018, there was a net reversal of €164 million in net write-downs of loans and provisions for guarantees and commitments after a net addition of €69 million in the equivalent period in the previous year. Provisions for risks and charges of €236 million were posted, primarily in connection with legal risks. A net reversal of €8 million was posted for this in the previous-year period. Net income from investments amounted to €0 million in the first half of 2018 after €8 million in the same period in the previous year.

In the first half of 2018, the Corporate & Investment Banking business segment generated a profit before tax of €296 million in the first half of 2018, which is thus significantly below the previous-year figure of €554 million.

Segment Reporting (Continued)

Development of the Other/consolidation business segment

(€ millions)

INCOME/EXPENSES	1/1–30/6/2018	1/1–30/6/2017
Net interest	(9)	142
Dividends and other income from equity investments	—	1
Net fees and commissions	(8)	(9)
Net trading income	16	19
Net other expenses/income	78	78
OPERATING INCOME	**77**	**231**
Payroll costs	(236)	(263)
Other administrative expenses	224	266
Amortisation, depreciation and impairment losses on intangible and tangible assets	(50)	(56)
Operating costs	**(62)**	**(53)**
OPERATING PROFIT	**15**	**178**
Net write-downs of loans and provisions for guarantees and commitments	28	2
NET OPERATING PROFIT	**43**	**180**
Provisions for risks and charges	1	—
Restructuring costs	—	(2)
Net income from investments	101	6
PROFIT BEFORE TAX	**145**	**184**
Income tax for the period	(43)	47
PROFIT AFTER TAX	**102**	**231**
Impairment on goodwill	—	—
CONSOLIDATED PROFIT	**102**	**231**
attributable to the shareholder of UniCredit Bank AG	102	230
attributable to minorities	—	1
Cost-income ratio in %[1]	80.5	22.9

1 Ratio of operating costs to operating income.

The operating income of €77 million generated by the Other/consolidation business segment in the first half of 2018 was significantly lower than the previous-year period (€231 million). This development is mainly due to net interest (down €151 million to a net expense of €9 million), which benefitted substantially in the previous-year period from a positive non-recurring effect from the reversal of provisions.

With a €9 million rise in operating costs to €62 million compared with the previous year, the operating profit amounted to €15 million after €178 million in the previous year.

There was a net reversal of €28 million in net write-downs of loans and provisions for guarantees and commitments in 2018 and of €2 million in the previous-year period. Net operating profit in the reporting period thus amounted to €43 million after €180 million in the first half of 2017.

At €101 million, a significantly higher result was generated in net income from investments compared with the previous-year period (€6 million). This mainly relates to additions to investment properties. Particularly on account of the positive non-recurring effect contained in net interest in the previous-year period, the profit before tax for the Other/consolidation business segment of €145 million in the first half of 2018 was significantly lower than the year-ago figure (€184 million).

Segment Reporting (Continued)

8 Balance sheet figures, broken down by business segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Loans and receivables with customers[1]				
30/6/2018	81,652	39,402	(813)	120,241
1/1/2018	79,447	34,588	(1,007)	113,028
Goodwill				
30/6/2018	130	288	—	418
31/12/2017	130	288	—	418
Deposits from customers				
30/6/2018	87,303	30,911	1,983	120,197
31/12/2017	88,593	32,609	3,082	124,284
Risk-weighted assets compliant with Basel III				
(including equivalents for market risk and operational risk)				
30/6/2018	29,751	43,839	6,313	79,903
31/12/2017	29,196	43,559	5,956	78,711

1 The loans and receivables with customers do not contain any securities holdings for internal management purposes.

Notes to the Income Statement

9 Net interest

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Interest income	1,890	1,930
from financial assets at amortised cost	1,445	n/a
from financial assets at fair value through other comprehensive income	6	n/a
from financial assets at fair value through profit or loss and hedging derivatives	301	n/a
from financial assets held for trading	87	n/a
other interest income	51	n/a
Negative interest on financial assets	(76)	(65)
Interest expense	(704)	(677)
from financial liabilities at amortised cost	(455)	n/a
from financial liabilities at fair value through profit or loss and hedging derivatives	(44)	n/a
from financial liabilities held for trading	(188)	n/a
other interest expense	(17)	n/a
Negative interest on financial liabilities	134	128
Total	**1,244**	**1,316**

In order to comply with the extended disclosure requirements in connection with the first-time adoption of IFRS 9 and the modifications in IFRS 7, we have performed a breakdown of interest income and interest expense according to the new IFRS 9 measurement categories. As these are not applicable to the previous year, we have not broken down the previous-year figures.

Negative interest 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)

	1/1–30/6/2018	1/1–30/6/2017
Non-consolidated affiliated companies	21	19
of which:		
UniCredit S.p.A.	8	2
Sister companies	13	17
Subsidiaries	—	—
Joint ventures	2	3
Associated companies	13	5
Other participating interests	6	9
Total	**42**	**36**

10 Dividends and other income from equity investments

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Dividends and other similar income	8	3
Companies accounted for using the equity method	1	(1)
Total	**9**	**2**

Notes to the Income Statement (Continued)

11 Net fees and commissions

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Fee and commission income	677	738
Securities services for clients	316	358
Payment transactions	144	144
Loan business	85	114
Guarantees	60	65
Distribution of third party products	40	33
Other commission income	32	24
Fee and commission expense	(134)	(139)
Securities services for clients	(83)	(90)
Payment transactions	(13)	(12)
Loan business	(3)	(2)
Guarantees	(2)	(4)
Distribution of third party products	—	—
Other commission expense	(33)	(31)
Net fees and commissions	**543**	**599**

In order to meet the new disclosure requirements of IFRS 15, we have performed a breakdown into commission income and commission expense. Furthermore, we have adjusted the breakdown of the commission income and commission expense to the current circumstances at HVB Group. The previous-year figures were adjusted accordingly.

For the effects of first-time adoption, please refer to the Note “Accounting and valuation”. All in all, there were no effects of first-time adoption for HVB Group.

Net fees and commissions from related parties

The following table shows the net fees and commissions attributable to related parties:

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Non-consolidated affiliated companies	9	69
of which:		
UniCredit S.p.A.	7	17
Sister companies	—	48
Subsidiaries	2	4
Joint ventures	—	—
Associated companies	—	2
Other participating interests	—	—
Total	**9**	**71**

12 Net trading income

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Net gains on financial assets held for trading[1]	378	607
Effects arising from hedge accounting	n/a	54
Changes in fair value of hedged items	n/a	474
Changes in fair value of hedging derivatives	n/a	(420)
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	n/a	8
Other net trading income	n/a	11
Total	**378**	**680**

1 Including dividends on financial assets held for trading.
2 In the previous-year period, this item also includes the valuation results of derivatives of plus €190 million concluded to hedge financial assets through fair value at profit or loss.

It should be taken into account that as of 1 January 2018, HVB Group has designated structured liabilities as measured at fair value through profit or loss. The result from these contained in the previous year in net gains on financial assets held for trading is now shown in the item "Net gains/losses on financial assets and liabilities at fair value".

The item "Effects arising from hedge accounting" is contained in the item "Net gains/losses on financial assets and liabilities at fair value" as of 1 January 2018.

With regard to the item "Net gains/losses on financial instruments at fair value through profit or loss" (fair value option), please refer to the Note "Effects of first-time adoption of IFRS 9".

As of 1 January 2018, the item "Other net trading income" is contained in the item "Net gains/losses on derecognition of financial instruments measured at amortised cost".

As a result, the scope of the item "Net trading income" is reduced such that it now only contains the measurement results or realised net gains or losses of net trading income for the 2018 financial year.

The net gains on holdings at fair value through profit or loss 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.

13 Net gains/losses on financial assets and liabilities at fair value

(€ millions)

	30/6/2018	30/6/2017
Financial assets mandatorily at fair value through profit or loss	(20)	n/a
Financial liabilities designated at fair value through profit or loss	(53)	n/a
Derecognition from other comprehensive income	1	n/a
Effects arising from hedge accounting	19	n/a
Fair-value equity	14	n/a
Total	**(39)**	**n/a**

Notes to the Income Statement (Continued)

(€ millions)

	30/6/2018	30/6/2017
Fair value hedges	19	n/a
Changes in fair value of hedged items	69	n/a
Portfolio of fair value hedges	41	n/a
Micro fair value hedges	28	n/a
Changes in fair value of hedging derivatives	(50)	n/a
Portfolio of fair value hedges	(22)	n/a
Micro fair value hedges	(28)	n/a
Cash flow hedges	—	n/a
Net gains/(losses) on cash flows hedges (only ineffective part)	—	n/a
Total	**19**	**n/a**

To reflect the new measurement categories of IFRS 9, a new item "Net gains/losses on financial assets and liabilities at fair value" has been included in the income statement. On account of the increase in assets accounted for at fair value, it is necessary to show a separate item for this. This item contains the measurement results and realised net gains or losses on the disposal of financial instruments measured at fair value which are not part of the assets held for trading.

14 Net gains/losses on derecognition of financial instruments measured at amortised cost

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Loans and receivables (performing)	9	n/a
Buy-backs of securities issued	(1)	n/a
Promissory notes (assets side)	9	n/a
Total	**17**	**n/a**

The item "Net gains/losses on derecognition of financial instruments measured at amortised cost" is shown for the first time in the 2018 financial year in order to satisfy the requirements of IFRS 9. This contains the effects of the disposal of assets or buy-backs of liabilities relating to all financial instruments measured at amortised cost pursuant to IFRS 9. This includes other net trading income (repurchases of issued securities) that was shown in net trading income in the 2017 financial year, as well as the gains on sale of receivables/securities measured at cost that were shown in other comprehensive income in the 2017 financial year.

15 Net other expenses/income

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Other income	406	311
Disposal of land and buildings	1	n/a
Rental income	66	n/a
Valuation/Disposals Investment Properties	110	n/a
Other	229	n/a
Other expenses	(175)	(150)
Disposal of land and buildings	—	n/a
Valuation/Disposals Investment Properties	—	n/a
Expenses Investment Properties	(1)	n/a
Bank levy	(93)	n/a
Other	(81)	n/a
Total	**231**	**161**

Other income includes rental income of €89 million from investment properties and mixed usage buildings (equivalent period in the previous year: €104 million). Current operating expenses (including repairs and maintenance) directly allocable to investment properties and current expenses from mixed usage buildings of €23 million are netted with the other income (equivalent period in the previous year: €35 million).

Stating the previous year's figures for the total items in a condensed form within the table was waived as a comparable breakdown is not possible due to the changes made in presentation (see Note "Changes in disclosure principles compared with the previous year").

The scope of the item "Net other expenses/income" was similarly adjusted to the changes due to the first-time adoption of IFRS 9. The gains on sale of receivables as part of other income were reclassified to net gains/losses on derecognition of financial instruments measured at amortised cost. In the 2018 financial year, the gains on disposal of land and buildings and of investment properties are recorded here for the first time having previously been shown in net income from investments.

Net other expenses/income attributable to related parties

The following table shows the net other expenses/income attributable to related parties: (€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Non-consolidated affiliated companies	36	41
of which:		
UniCredit S.p.A.	5	7
Sister companies	31	34
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**36**	**41**

16 Operating 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)

	1/1–30/6/2018	1/1–30/6/2017
Non-consolidated affiliated companies	(350)	(365)
of which:		
UniCredit S.p.A.	(8)	(5)
Sister companies	(342)	(360)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(350)**	**(365)**

Notes to the Income Statement (Continued)

17 Net write-downs of loans and provisions for guarantees and commitments according to IAS 39

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Additions/releases	n/a	(147)
Allowances for losses on loans and receivables	n/a	(211)
Allowances for losses on guarantees and indemnities	n/a	64
Recoveries from write-offs of loans and receivables	n/a	19
Gains/(losses) on the disposal of impaired loans and receivables	n/a	—
Total	**n/a**	**(128)**

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)

	1/1–30/6/2018	1/1–30/6/2017
Non-consolidated affiliated companies	n/a	—
of which:		
UniCredit S.p.A.	n/a	—
Sister companies	n/a	—
Joint ventures	n/a	—
Associated companies	n/a	—
Other participating interests	n/a	—
Total	**n/a**	**—**

The IAS 39 item "Net write-downs of loans and provisions for guarantees and commitments" ceased to apply upon first-time adoption of IFRS 9. For more information, please refer to the Note "Changes to disclosure principles compared with the previous year".

18 Credit impairment losses IFRS 9

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Additions	(446)	n/a
Allowances for losses on loans and receivables at amortised cost	(374)	n/a
Allowances for losses on loans and receivables at fair value through other comprehensive income	—	n/a
Allowances for losses on guarantees and indemnities	(72)	n/a
Releases	543	n/a
Allowances for losses on loans and receivables at amortised cost	446	n/a
Allowances for losses on loans and receivables at fair value through other comprehensive income	—	n/a
Allowances for losses on guarantees and indemnities	97	n/a
Gains/(losses) from not substantial modification	—	n/a
Recoveries from write-offs of loans and receivables	16	n/a
Gains/(losses) on the disposal of impaired loans and receivables	(12)	n/a
Total	**101**	**n/a**

Credit impairment losses IFRS 9 attributable to related parties

The following table shows the credit impairment losses according to IFRS 9 attributable to related parties:

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Non-consolidated affiliated companies	—	n/a
of which:		
UniCredit S.p.A.	—	n/a
Sister companies	—	n/a
Joint ventures	—	n/a
Associated companies	4	n/a
Other participating interests	—	n/a
Total	**4**	**n/a**

The item “Credit impairment losses IFRS 9”, which corresponds to the new expected credit loss model, has been newly created in order to show the underlying change in the methodology for the impairment model also in the income statement. This is not merely a continuation of the previous IAS 39 item “Net write-downs of loans and provisions for guarantees and commitments”, which means it is not possible to make a comparison with the previous year.

19 Provisions for risks and charges

In the first six months of the 2018 financial year, there were expenses of €339 million for provisions for risks and charges after €17 million in the previous year. These were primarily provisions for legal risks in both years. The legal risks of HVB Group are described in greater detail in the section entitled “Operational risk” in the Risk Report of this Interim Management Report.

Notes to the Income Statement (Continued)

20 Net income from investments

Net income from investments (€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Available-for-sale financial assets	n/a	4
Shares in affiliated companies	n/a	1
Companies accounted for using the equity method	n/a	—
Held-to-maturity investments	n/a	—
Land and buildings	n/a	—
Investment properties[1]	n/a	5
Other	n/a	—
Total	**n/a**	**10**

1 Gains on disposal, impairments and write-ups.

Net income from investments breaks down as follows: (€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Gains on the disposal of	n/a	11
available-for-sale financial assets	n/a	9
shares in affiliated companies	n/a	1
companies accounted for using the equity method	n/a	—
held-to-maturity investments	n/a	—
land and buildings	n/a	—
investment properties	n/a	1
other	n/a	—
Write-downs, value adjustments and write-ups on	n/a	(1)
available-for-sale financial assets	n/a	(5)
shares in affiliated companies	n/a	—
companies accounted for using the equity method	n/a	—
held-to-maturity investments	n/a	—
investment properties	n/a	4
other	n/a	—
Total	**n/a**	**10**

The item “Net income from investments” ceased to apply upon first-time adoption of IFRS 9. For more information, refer to the Note “Changes to disclosure principles compared with the previous year”.

21 Net gains/losses on disposals of investments

(€ millions)

	1/1–30/6/2018	1/1–30/6/2017
Shares in affiliated companies	28	n/a
Disposal of companies accounted for using the equity method	—	n/a
Total	**28**	**n/a**

Shares in affiliated companies include the gains of €28 million on the disposal of our subsidiary Mobility Concept GmbH, Oberhaching.

The item “Net gains/losses on disposals of investments” is shown for the first time in the 2018 financial year and contains the gains on disposal of shares in affiliated companies and companies accounted for using the equity method that were previously shown in income from investments. This item was created to provide an informative grouping and presentation of the positions contained.

22 Earnings per share

	1/1–30/6/2018	1/1–30/6/2017
Consolidated profit attributable to the shareholder (€ millions)	261	715
Average number of shares	802,383,672	802,383,672
Earnings per share (€) (undiluted and diluted)	0.33	0.89

Notes to the Balance Sheet

23 Financial assets held for trading

(€ millions)

	30/6/2018	31/12/2017
Balance-sheet assets	37,657	32,082
Fixed-income securities	11,855	10,415
Equity instruments	12,721	12,636
Other financial assets held for trading	13,081	9,031
Positive fair value from derivative financial instruments	43,496	43,411
Total	**81,153**	**75,493**

The financial assets held for trading include €178 million (31 December 2017: €178 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)

	30/6/2018	31/12/2017
Non-consolidated affiliated companies	11,364	11,570
of which:		
UniCredit S.p.A.	7,931	7,940
Sister companies[1]	3,433	3,630
Joint ventures	91	10
Associated companies	1,003	931
Other participating interests	5	5
Total	**12,463**	**12,516**

1 Mostly derivative transactions involving UniCredit Bank Austria AG.

24 Financial assets at fair value through profit or loss

(€ millions)

	30/6/2018	31/12/2017
Fixed-income securities	n/a	20,346
Equity instruments	n/a	—
Investment certificates	n/a	—
Promissory notes	n/a	1,110
Other financial assets at fair value through profit or loss	n/a	—
Total	**n/a**	**21,456**

At 31 December 2017, the financial assets at fair value through profit or loss (fair value option) included €7 million in subordinated assets.

The item “Financial instruments at fair value through profit or loss” (fair value option) ceased to apply upon the first-time adoption of IFRS 9. For more information, please refer to the Note “Changes to disclosure principles compared with the previous year”.

Notes to the Balance Sheet (Continued)

25 Financial assets at fair value through profit or loss

(€ millions)

	30/6/2018	31/12/2017
Fixed-income securities	16,372	n/a
Equity instruments	192	n/a
Loans and Promissory notes	1,201	n/a
Other	65	n/a
Total	**17,830**	**n/a**

Financial assets at fair value through profit or loss include an amount of €416 million in subordinated loans and receivables at 30 June 2018.

At 30 June 2018 the financial assets at fair value through profit or loss do not include any loans and receivables past due.

The item "Financial assets at fair value through profit or loss" is shown for the first time in the 2018 financial year in order to correctly reflect the new measurement category introduced by IFRS 9. It contains all debt instruments that are to be measured at fair value through profit or loss on account of the "Other" business model as well as the shareholdings that likewise are to be measured at fair value through profit or loss. This also includes debt instruments that do not meet the cash flow criteria and were shown in the 2017 financial year in loans and receivables with customers and banks or available-for-sale financial instruments. This item also includes the financial instruments of the former fair value option (financial instruments at fair value through profit or loss (fair value option)) that have to be measured at fair value on account of the "Other" business model.

26 Financial assets at fair value through other comprehensive income

(€ millions)

	30/6/2018	31/12/2017
Fixed-income securities	6,660	n/a
Total	**6,660**	**n/a**

The item "Financial assets at fair value through other comprehensive income" is shown for the first time in the 2018 financial year in order to correctly reflect the new measurement category introduced by IFRS 9. It contains all items measured at fair value directly in equity on account of the "Held for sale" business model and because the cash flow criteria are met. Only fixed interest bonds reclassified from the previous available-for-sale portfolio are included.

Development of book values/fair values

(€ millions)

	STAGE 1	STAGE 2	STAGE 3	POCI
Balance at 1/1/2018	**6,148**	**—**	**—**	**—**
Transferal to another stage due to deterioration of credit quality	—	—	—	—
Transferal to another stage due to improvement of credit quality	—	—	—	—
Changes due to modification that did not result in derecognition	—	—	—	—
Net adjustment due to the changes in credit risk	512	—	—	—
Derecognition (due to incollectibility)	—	—	—	—
Other Changes	—	—	—	—
Total at 30/6/2018	**6,660**	**—**	**—**	**—**

There were no modifications to fixed-income securities in the reporting period.

27 Available-for-sale financial assets

(€ millions)

	30/6/2018	31/12/2017
Fixed-income securities	n/a	6,560
Equity instruments	n/a	117
Other available-for-sale financial assets	n/a	75
Impaired assets	n/a	64
Total	**n/a**	**6,816**

Available-for-sale financial assets as at 31 December 2017 include financial instruments of €147 million measured at cost.

Available-for-sale financial assets as at 31 December 2017 contain a total of €64 million in impaired assets. Impairments of €2 million were taken to the income statement in the first half of 2017.

As at 31 December 2017, none of the non-impaired debt instruments were financial instruments past due.

As at 31 December 2017, the available-for-sale financial assets include no subordinated assets.

The item “Available-for-sale financial instruments” ceased to apply upon first-time adoption of IFRS 9. For more information, please refer to the Note “Changes to disclosure principles compared with the previous year”.

28 Held-to-maturity investments

(€ millions)

	30/6/2018	31/12/2017
Fixed-income securities	n/a	23
Impaired assets	n/a	—
Total	**n/a**	**23**

The held-to-maturity investments at 31 December 2017 include no subordinated assets.

The held-to-maturity investments at 31 December 2017 include no impaired or past due assets.

The item “Held-to-maturity investments” ceased to apply upon the first-time adoption of IFRS 9. Please refer to the Note “Changes in disclosure principles compared with the previous year”.

Notes to the Balance Sheet (Continued)

29 Loans and receivables with banks

(€ millions)

	30/6/2018	31/12/2017
Current accounts	2,721	1,526
Cash collateral and pledged credit balances	7,253	7,306
Reverse repos	20,291	14,127
Securities	1,381	198
Other loans to banks	6,244	7,173
Non-performing loans and receivables	3	—
Total	**37,893**	**30,330**

The other loans to banks consist mostly of term deposits and bonds.

The loans and receivables with banks include €0 million (previous year: €0 million) in subordinated assets at 30 June 2018.

The scope of the item "Loans and receivables with banks" has changed. Receivables that cannot be measured at amortised cost on account of the "Other" business model are reclassified to financial assets at fair value through profit or loss in the 2018 financial year on account of measurement at fair value through profit or loss. This means that the item "Loans and receivables from banks" only contains receivables that can be measured at amortised cost on account of the "Held for sale" business model and the fact that the cash flow criteria are met. The previous-year figures were not restated.

Development of the gross carrying amounts

(€ millions)

	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Balance at 1/1/2018	**30,276**	**223**	**38**	**—**	**30,537**
Transferal to another stage due to deterioration of credit quality	6	(6)	—	—	—
Transferal to another stage due to improvement of credit quality	4	(4)	—	—	—
Changes due to modification of assets, not leading to derecognition	—	—	—	—	—
Changes within the stage (net)	6,504	891	4	—	7,399
Derecognition (due to incollectibility)	—	—	—	—	—
Other changes	—	—	—	—	—
Balance at 30/6/2018	**36,790**	**1,104**	**42**	**—**	**37,936**

Analysis of allowances

(€ millions)

	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Balance at 1/1/2018	**6**	**4**	**38**	**—**	**48**
Changes due to modification of assets, not leading to derecognition	—	—	—	—	—
Changes within the stage (net)	(2)	(4)	1	—	(5)
Derecognition (due to incollectibility)	—	—	—	—	—
Other changes	—	—	—	—	—
Balance at 30/6/2018	**4**	**—**	**39**	**—**	**43**

The development of the gross carrying amounts and impairments presented is the result of customary changes in the portfolio. There are no identifiable specific factors requiring an explanation.

Loans and receivables with related parties

The following table shows the breakdown of loans and receivables with banks involving related parties:

(€ millions)

	30/6/2018	31/12/2017
Non-consolidated affiliated companies	5,609	4,667
of which:		
UniCredit S.p.A.	3,499	3,434
Sister companies[1]	2,110	1,233
Joint ventures	167	337
Associated companies	41	41
Other participating interests	54	60
Total	**5,871**	**5,105**

1 Mainly UniCredit Bank Austria AG.

Notes to the Balance Sheet (Continued)

30 Loans and receivables with customers

(€ millions)

	30/6/2018	31/12/2017
Current accounts	7,175	6,548
Cash collateral and pledged cash balances	2,754	2,540
Reverse repos	3,282	1,422
Mortgage loans	45,354	44,667
Finance leases	1,843	1,689
Securities	11,430	8,125
thereof: ABS Securities	6,792	6,113
Other loans and receivables	57,253	54,431
Non-performing loans and receivables	1,460	1,756
Total	**130,551**	**121,178**

The Bank's portfolio of asset-backed securities mainly consists of low-risk senior tranches. As the turbulence caused by the financial market crisis in 2007/2008, which particularly affected asset-backed securities, has settled, it is no longer necessary to report asset-backed securities in detail in a separate note. This note has thus been discontinued. Instead we show our portfolio of asset-backed securities separately in the table above.

Other loans and receivables largely comprise other loans, installment loans, term deposits and refinanced special credit facilities.

Loans and receivables with customers include an amount of €5,255 million (previous year: €5,665 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 30 June 2018 include €40 million (previous year: €58 million) in subordinated assets.

The scope of the item "Loans and receivables with customers" has changed. Receivables that cannot be measured at amortised cost on account of the "Other" business model are reclassified to financial assets at fair value through profit or loss in the 2018 financial year on account of measurement at fair value through profit or loss. This means that the item "Loans and receivables with customers" only contains receivables that can be measured at amortised cost on account of the "Held for sale" business model and the fact that the cash flow criteria are met. The previous-year figures were not restated.

Development of gross carrying amounts

(€ millions)

	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Balance at 1/1/2018	**112,760**	**6,818**	**3,502**	**—**	**123,080**
Transferal to another stage due to deterioration of credit quality	(2,349)	2,105	244	—	—
Transferal to another stage due to improvement of credit quality	2,124	(1,997)	(127)	—	—
Changes due to modification of assets, not leading to derecognition	—	—	—	—	—
Changes within the stage (net)	10,725	(783)	(497)	—	9,445
Derecognition (due to incollectibility)	—	—	(80)	—	(80)
Other changes	—	—	—	—	—
Balance at 30/6/2018	**123,260**	**6,143**	**3,042**	**—**	**132,445**

In the case of transfers to another stage on account of a deterioration in the quality of the asset, the amount shown of €2,105 million constitutes the net balance of the transfer from Stage 1 to Stage 2 of €2,235 million and the transfer from Stage 2 to Stage 3 of €130 million.

Analysis of allowances

(€ millions)

	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Balance at 1/1/2018	**140**	**181**	**1,771**	**—**	**2,092**
Changes due to modification of assets, not leading to derecognition	—	—	—	—	—
Changes within the stage (net)	6	(11)	(99)	—	(104)
Derecognition (due to incollectibility)	—	—	(76)	—	(76)
Other changes	(3)	(1)	(14)	—	(18)
Balance at 30/6/2018	**143**	**169**	**1,582**	**—**	**1,894**

The table of changes in the balance of impairment losses shows those changes arising from a comparison of the balance as at 30 June 2018 with the balance as at 1 January 2018. The evolution of the impairment losses shown above in Stage 1 and Stage 2 is based on normal development of the portfolio of receivables, which means that the changes are attributable, among other factors, to customary changes in credit ratings, repayments and new business. No modifications to the models used to calculate the expected credit default losses were performed over the first half of 2018 following conversion to the new measurement method along with the introduction of IFRS 9. The only change made as at 30 June 2018 was to take the risks arising from a potential trade conflict between the USA and Europe into consideration as relevant forward-looking information within the scope of calibrating the models to determine the impairment losses in Stage 1 and Stage 2. With regard to the reversal of net write-downs of loans and provisions for guarantees and commitments in Stage 3, it should be noted that positive economic developments, especially in Germany, are reflected here, so that the impairment losses are once again under the already low figure seen in the previous year and remain under the expected values.

Other changes basically consist of effects from unwinding (interest received from non-performing loans) or currency translation.

Loans and receivables with related parties

The following table shows the breakdown of loans and receivables with customers involving related parties:

(€ millions)

	30/6/2018	31/12/2017
Non-consolidated affiliated companies	140	6
of which:		
Sister companies	1	5
Subsidiaries	139	1
Joint ventures	18	20
Associated companies	58	16
Other participating interests	466	420
Total	**682**	**462**

Notes to the Balance Sheet (Continued)

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

Analysis of loans and receivables

(€ millions)

	2018	2017
Balance at 1/1	**n/a**	**2,563**
Changes affecting income[1]	n/a	211
Changes not affecting income	n/a	(147)
Changes due to make-up of group of consolidated companies and reclassifications		
of non-current assets or disposal groups held for sale	n/a	—
Use of existing loan-loss allowances	n/a	(96)
Effects of currency translation and other changes not affecting income	n/a	(51)
Non-current assets or disposal groups held for sale	n/a	—
Balance at 30/6	**n/a**	**2,627**

1 The changes affecting income include the gains on the disposal of impaired loans and receivables.

The item "Allowances for losses on loans and receivables with customers and banks" refers to net write-downs of loans and provisions for guarantees and commitments according to IAS 39. Please refer to Note "Loans and receivables with customers" and "Loans and receivables with banks" for further information according to IFRS 9.

32 Shares in associated companies accounted for using the equity method and joint ventures accounted for using the equity method

(€ millions)

	30/6/2018	31/12/2017
Associated companies accounted for using the equity method	36	34
of which: goodwill	8	8
Joint ventures accounted for using the equity method	—	—
Total	**36**	**34**

33 Deposits from banks

(€ millions)

	30/6/2018	31/12/2017
Deposits from central banks	16,437	19,857
Deposits from banks	49,088	47,497
Current accounts	2,223	2,590
Cash collateral and pledged credit balances	10,821	9,559
Repos	17,369	13,026
Term deposits	5,372	9,517
Other liabilities	13,303	12,805
Total	**65,525**	**67,354**

Amounts owed to related parties

The following table shows the breakdown of deposits from banks involving related parties:

(€ millions)

	30/6/2018	31/12/2017
Non-consolidated affiliated companies	7,936	10,536
of which:		
UniCredit S.p.A.	3,911	6,900
Sister companies[1]	4,025	3,636
Joint ventures	9	35
Associated companies	43	38
Other participating interests	21	22
Total	**8,009**	**10,631**

1 The largest single item relates to UniCredit Bank Austria AG.

34 Deposits from customers

(€ millions)

	30/6/2018	31/12/2017
Current accounts	72,776	71,011
Cash collateral and pledged credit balances	4,034	3,874
Savings deposits	13,889	13,905
Repos	8,453	8,607
Term deposits	17,534	21,887
Promissory notes	2,172	3,361
Other liabilities	1,339	1,639
Total	**120,197**	**124,284**

Amounts owed to related parties

The following table shows the breakdown of deposits from customers involving related parties:

(€ millions)

	30/6/2018	31/12/2017
Non-consolidated affiliated companies	244	272
of which:		
Sister companies	235	242
Subsidiaries	9	30
Joint ventures	2	3
Associated companies	8	4
Other participating interests	311	282
Total	**565**	**561**

Notes to the Balance Sheet (Continued)

35 Debt securities in issue

(€ millions)

	30/6/2018	31/12/2017
Bonds	22,390	23,062
of which:		
Registered mortgage Pfandbriefs	4,845	5,020
Registered public-sector Pfandbriefs	2,675	3,700
Mortgage Pfandbriefs	7,755	7,883
Public-sector Pfandbriefs	11	136
Registered bonds	4,211	2,869
Other securities	2,453	2,490
Total	**24,843**	**25,552**

Debt securities in issue, payable to related parties

The following table shows the breakdown of debt securities in issue involving related parties:

(€ millions)

	30/6/2018	31/12/2017
Non-consolidated affiliated companies	—	—
of which:		
UniCredit S.p.A.	—	—
Sister companies	—	—
Joint ventures	—	6
Associated companies	—	125
Other participating interests	—	—
Total	**—**	**131**

36 Financial liabilities held for trading

(€ millions)

	30/6/2018	31/12/2017
Negative fair values arising from derivative financial instruments	39,540	40,024
Other financial liabilities held for trading	14,140	16,193
Total	**53,680**	**56,217**

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.

37 Financial liabilities at fair value through profit or loss

This item contains own structured issues of €5,085 million at 30 June 2018.

The difference between the carrying amount and the contractual amount payable amounts to €184 million at 30 June 2018.

The item "Financial liabilities at fair value through profit or loss" is shown for the first time in the 2018 financial year as HVB has designed liabilities as measured at fair value through profit or loss for the first time in the 2018 financial year.

38 Provisions

(€ millions)

	30/6/2018	31/12/2017
Provisions for pensions and similar obligations	745	734
Provisions for losses on guarantees and commitments and irrevocable credit commitments	215	180
Restructuring provisions	378	410
Other provisions	1,583	1,277
Payroll provisions	340	367
Provisions related to tax disputes (without income taxes)	47	48
Provisions for rental guarantees and dismantling obligations	131	134
Other provisions	1,065	728
Total	**2,921**	**2,601**

Provisions for pensions and similar obligations

At 30 June 2018, the provisions for pensions and similar obligations were remeasured on the basis of updated actuarial assumptions and market values of the plan assets. Compared with year-end 2017, the pension provisions shown in the consolidated balance sheet have increased by €11 million (up 1.5%) to €745 million. The recognised pension provisions correspond to the net liability under the defined benefit plans calculated by offsetting the present value of the defined benefit obligation (DBO) of €4,795 million against the fair value of the plan assets of €4,050 million.

The main reason for the increase in pension provisions was the decline in plan assets recorded at 30 June 2018 which more than compensated the offsetting effect from the decrease in pension obligations. Developments on the capital markets in the first half of 2018 resulted in an increase in the actuarial interest rate (weighted average) by 5 basis points to 2.20% (31 December 2017: 2.15%). An increased actuarial interest rate leads to higher discounting of the obligations arising from defined benefit pension commitments and hence to a lower present value of the obligation.

The actuarial gains resulting from the calculation of the estimated present value of the defined benefit obligation at the reporting date, netted with the losses from the current market valuation of the plan assets (difference between normalised and actual return), gave rise to an overall positive effect from remeasurement of €2 million, which was recognised immediately in shareholders' equity and carried under other comprehensive income (OCI) in the consolidated statement of total comprehensive income.

39 Subordinated capital

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

(€ millions)

	30/6/2018	31/12/2017
Subordinated liabilities	523	523
Hybrid capital instruments	52	51
Total	**575**	**574**

Other Information

40 Events after the reporting period

The merger of UniCredit Luxembourg S.A. with UniCredit Bank AG was entered in the commercial register for UniCredit Bank AG on 20 July 2018 when it became legally effective. The merger was effected retroactively from 1 July 2018 for both tax and accounting purposes.

41 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 €430 million (31 December 2017: €622 million) have been transferred between Level 1 and Level 2. At the same time, financial assets or liabilities of €1,939 million (31 December 2017: €1,679 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	—	127
	Transfer from Level 2	78	—
Financial assets aFVtPL			
	Transfer from Level 1	—	295
	Transfer from Level 2	1,626	—
Financial assets aFVtOCI			
	Transfer from Level 1	—	—
	Transfer from Level 2	233	—
Financial liabilities held for trading			
	Transfer from Level 1	—	8
	Transfer from Level 2	2	—
Financial liabilities aFVtPL			
	Transfer from Level 1	—	—
	Transfer from Level 2	—	—

The balance sheet items shown in the table were adjusted in accordance with the new balance sheet structure. The transfers disclosed relate to the comparison between the opening balance sheet as at 1 January 2018 and the balance sheet as at 30 June 2018.

1 January is considered the transfer date for instruments transferred between the levels in the reporting period (1 January to 30 June).

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%–196%
Equities	Market approach	Price	0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	5BPS–800BPS
		Residual value	0%–100%
		Default rate	0%–8%
		Prepayment rate	1%–45%
Commodity-/Equity derivatives	Option price model	Commodity price volatility/Equity volatility	5%–80%
		Correlation between commodities/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%–21%
		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 applying appropriate potential alternatives would be €92 million at 30 June 2018 (31 December 2017: €103 million), and the negative change €32 million (31 December 2017: minus €45 million).

The following table shows the significant sensitivity effects, broken down by the individual classes of financial instrument for the various product types:

(€ millions)

	30/6/2018		31/12/2017	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	2	(2)	1	(1)
Equities	1	(1)	—	—
Asset-backed securities	1	—	—	—
Commodity-/Equity derivatives	70	(16)	72	(21)
Interest rate derivatives	5	(1)	4	(1)
Credit derivatives	13	(12)	26	(22)
Currency derivatives	—	—	—	—
Total	**92**	**(32)**	**103**	**(45)**

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 equities, 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)

	2018	2017
Balance at 1/1	**15**	**9**
New transactions during the period	3	12
Write-downs	1	3
Expired transactions	—	—
Retroactive change in observability	—	3
Exchange rate changes	—	—
Balance at 30/6/2018 / 31/12/2017	**17**	**15**

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)	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Financial assets recognised						
in the balance sheet at fair value						
Financial assets held for trading	26,303	24,928	53,363	49,464	1,487	1,101
thereof: derivatives	1,891	1,709	40,843	40,993	762	709
Financial assets at fair value through profit or loss	n/a	6,541	n/a	14,902	n/a	13
Financial assets aFVtPL	6,982	n/a	10,043	n/a	805	n/a
Financial assets aFVtOCI	6,292	n/a	368	n/a	0	n/a
Available-for-sale financial assets[1]	n/a	5,582	n/a	1,065	n/a	22
Hedging derivatives	—	—	309	390	—	—
Financial liabilities recognised						
in the balance sheet at fair value						
Financial liabilities held for trading	8,669	7,510	43,906	46,985	1,105	1,722
thereof: derivatives	2,099	1,987	36,743	37,292	698	745
Financial liabilities aFVtPL	—	n/a	4,758	n/a	327	n/a
Hedging derivatives	4	—	565	469	—	—

1 As at 31 December 2017, available-for-sale financial assets include financial instruments of €147 million valued at historical cost that are not included in these totals.

The following tables show the development of the financial assets 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
Balance at 1/1/2017	**1,036**	**14**	**6**	**—**
Additions				
Acquisitions	494	—	28	—
Realised gains[1]	1	—	—	—
Transfer from other levels	268	—	—	—
Other additions[2]	7	1	21	—
Reductions				
Sale	(532)	(2)	—	—
Repayment	—	—	(29)	—
Realised losses[1]	(40)	—	(1)	—
Transfer to other levels	(110)	—	—	—
Other reductions	(23)	—	(3)	—
Balance at 31/12/2017	**1,101**	**13**	**22**	**—**

1 In the income statement and shareholders' equity.
2 Also including changes in the group of companies included in consolidation.

Other Information (Continued)

(€ millions)

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	FINANCIAL ASSETS aFVtPL	FINANCIAL ASSETS aFVtOCI	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2018	**1,101**	**n/a**	**714**	**—**	**n/a**	**—**
Additions						
Acquisitions	573	n/a	4	—	n/a	—
Realised gains[1]	128	n/a	33	—	n/a	—
Transfer from other levels	28	n/a	—	—	n/a	—
Other additions[2]	32	n/a	185	—	n/a	—
Reductions						
Sale	(179)	n/a	(17)	—	n/a	—
Repayment	—	n/a	—	—	n/a	—
Realised losses[1]	(120)	n/a	(12)	—	n/a	—
Transfer to other levels	(60)	n/a	(4)	—	n/a	—
Other reductions	(16)	n/a	(98)	—	n/a	—
Balance at 30/6/2018	**1,487**	**n/a**	**805**	**—**	**n/a**	**—**

1 In the income statement and shareholders' equity.
2 Also including changes in the group of companies included in consolidation.

The additions from purchases mainly arise from the acquisition of individual illiquid corporate bonds and asset-backed securities. 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.

The following tables show the development of the financial liabilities that are assigned to Level 3 as part of the fair value hierarchy:

(€ millions)

	FINANCIAL LIABILITIES HELD FOR TRADING		FINANCIAL LIABILITIES aFVtPL		HEDGING DERIVATIVES	
	2018	2017	2018	2017	2018	2017
Balance at 1/1	**1,722**	**1,331**	**—**	**n/a**	**—**	**—**
Reclassification of financial liabilities						
held for trading to financial liabilities aFVtPL	(551)	n/a	551	n/a	—	—
Balance at 1/1 (after reclassification)	**1,171**	**1,331**	**551**	**n/a**	**—**	**—**
Additions						
Sale	218	405	—	n/a	—	—
Issues	150	457	76	n/a	—	—
Realised losses[1]	102	58	7	n/a	—	—
Transfer from other levels	30	462	24	n/a	—	—
Other additions[2]	11	1	—	n/a	—	—
Reductions						
Buy-back	(228)	(698)	(12)	n/a	—	—
Repayment	(5)	(42)	(129)	n/a	—	—
Realised gains[1]	(162)	(46)	(5)	n/a	—	—
Transfer to other levels	(164)	(198)	(182)	n/a	—	—
Other reductions	(18)	(8)	(3)	n/a	—	—
Balance at 30/6	**1,105**	**1,722**	**327**	**n/a**	**—**	**—**

1 In the income statement and shareholders' equity.
2 Also including changes in the group of companies included in consolidation.

The transfers to other levels relating to liabilities held for trading as well as financial liabilities are primarily attributable to the improved liquidity of the instruments underlying certain structured issues.

42 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 method used to determine the fair values for loans was developed further in the first half of 2018. While the method for determining the fair values of performing loans is based on the previous fair value model which was supplemented by additional factors, a separate model was implemented for determining the fair values of non-performing loans.

The calculation of the fair value for performing loans is explained to begin with: 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). Cash flows are determined on the basis of the conditions of the loan agreement (interest and redemption), whereby rights of termination are taken into account for the first time. 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 five sectors (sovereign loans, loans to banks, corporate loans, syndicated loans and retail loans) in order to take account of the specific features of each sector. The sector for syndicated loans is taken into account in 2018 for the first time. 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 (except for syndicated loans). Furthermore, the fair value calculated by the model is calibrated in 2018 for the first time in order to take account of the difference between this value and the fair value upon addition. This is in line with the assumption based on IFRS 13.58 according to which the transaction price reflects the fair value.

The proceeds upon realisation estimated by the Bank are taken as a basis to determine the fair value of non-performing loans. These already take account of the expected credit default. The maturities of the expected proceeds upon realisation are determined using model assumptions. These cash flows are discounted at a market interest rate in order to establish the fair value.

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.

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.

Other Information (Continued)

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	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Cash and cash balances	13.2	36.4	13.2	36.4
Financial assets held for trading	81.2	75.5	81.2	75.5
Financial assets at fair value through profit or loss	n/a	21.5	n/a	21.5
Financial assets aFVtPL	17.8	n/a	17.8	n/a
Financial assets aFVtOCI	6.7	n/a	6.7	n/a
Available-for-sale financial assets				
thereof measured:				
at cost	n/a	0.1	n/a	0.1
at fair value	n/a	6.7	n/a	6.7
Held-to-maturity investments	n/a	—	n/a	—
Loans and receivables with banks	37.9	30.3	38.0	30.5
Loans and receivables with customers	130.6	121.2	133.1	123.5
thereof: finance leases	2.0	1.7	2.0	1.7
Hedging derivatives	0.3	0.4	0.3	0.4
Total	**287.7**	**292.1**	**290.3**	**294.6**

(€ billions)

ASSETS	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)	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Financial assets not carried at fair value						
in the balance sheet						
Cash and cash balances	—	—	13.2	36.4	—	—
Held-to-maturity investments	n/a	—	n/a	—	n/a	—
Loans and receivables with banks	0.5	0.5	32.1	25.5	5.4	4.5
Loans and receivables with customers	1.5	1.1	21.3	17.2	110.3	105.2
thereof: finance leases	—	—	—	—	2.0	1.7

(€ billions)

LIABILITIES	CARRYING AMOUNT		FAIR VALUE	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Deposits from banks	65.5	67.4	65.4	67.2
Deposits from customers	120.2	124.3	120.4	124.5
Debt securities in issue	24.8	25.6	26.8	27.6
Financial liabilities held for trading	53.7	56.2	53.7	56.2
Financial liabilities aFVtPL	5.1	n/a	5.1	n/a
Hedging derivatives	0.6	0.5	0.6	0.5
Total	**269.9**	**274.0**	**272.0**	**276.0**

(€ billions)

LIABILITIES	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)	
	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Financial liabilities not carried at fair value						
in the balance sheet						
Deposits from banks	0.2	—	48.6	47.8	16.6	19.4
Deposits from customers	—	—	98.6	99.8	21.8	24.7
Debt securities in issue	5.9	5.9	7.8	5.9	13.1	15.8

The difference in HVB Group between the fair values and carrying amounts totals €2.6 billion (31 December 2017: €2.5 billion) for assets and €2.1 billion (31 December 2017: €2.0 billion) for liabilities. The balance of these amounts is €0.5 billion (31 December 2017: €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.

Other Information (Continued)

43 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 ARRANGEMENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 30/6/2018
Derivatives[1]	60,883	(17,078)	43,805	(27,275)	(507)	(8,402)	7,621
Reverse repos[2]	33,219	(3,998)	29,221	—	(28,737)	—	484
Loans and receivables[3]	85,693	(2,293)	83,400	—	—	—	83,400
Total at 30/6/2018	**179,795**	**(23,369)**	**156,426**	**(27,275)**	**(29,244)**	**(8,402)**	**91,505**

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 €5,648 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 ARRANGEMENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 30/6/2018
Derivatives[1]	57,523	(17,414)	40,109	(27,275)	(606)	(8,959)	3,269
Repos[2]	34,981	(3,998)	30,983	—	(30,711)	—	272
Liabilities[3]	106,453	(1,957)	104,496	—	—	—	104,496
Total at 30/6/2018	**198,957**	**(23,369)**	**175,588**	**(27,275)**	**(31,317)**	**(8,959)**	**108,037**

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 €4,203 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.

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement (€ millions)

	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	AMOUNTS NOT RECOGNISED: EFFECTS OF MASTER NETTING ARRANGEMENTS	AMOUNTS NOT RECOGNISED: FINANCIAL INSTRUMENTS AS COLLATERAL	AMOUNTS NOT RECOGNISED: 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)

	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	AMOUNTS NOT RECOGNISED: EFFECTS OF MASTER NETTING ARRANGEMENTS	AMOUNTS NOT RECOGNISED: FINANCIAL INSTRUMENTS AS COLLATERAL	AMOUNTS NOT RECOGNISED: 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.

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 counterparties 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, collateral in the form of financial instruments and cash collateral pledged or received in this context is presented in the tables. Furthermore, the securities lending transactions shown off the balance sheet without the cash collateral are not included in the above netting tables.

Other Information (Continued)

44 Securities sale and repurchase and securities lending transactions by balance sheet item

(€ millions)

	30/6/2018		31/12/2017	
	CARRYING AMOUNT	OF WHICH: TRANSFERRED AS COLLATERAL	CARRYING AMOUNT	OF WHICH: TRANSFERRED AS COLLATERAL
Financial assets held for trading	81,153	4,133	n/a	n/a
Financial assets at fair value through profit or loss	17,830	1,756	n/a	n/a
Financial assets at fair value through other comprehensive income	6,660	522	n/a	n/a
Loans and receivables with banks	37,893	175	n/a	n/a
Loans and receivables with customers	130,551	282	n/a	n/a
Total	**274,087**	**6,868**	**n/a**	**n/a**

45 Contingent liabilities and other commitments

(€ millions)

	30/6/2018	31/12/2017
Contingent liabilities[1]	21,690	21,099
Guarantees and indemnities	21,690	21,099
Other commitments	49,020	47,161
Irrevocable credit commitments	48,984	47,124
Other commitments[2]	36	37
Total	**70,710**	**68,260**

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.

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 €71 million at 30 June 2018 (year-end 2017: €48 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 30 June 2018 (year-end 2017: €8 million).

Contingent liabilities payable to related parties

(€ millions)

	30/6/2018	31/12/2017
Non-consolidated affiliated companies	1,049	1,229
of which:		
UniCredit S.p.A.	426	486
Sister companies	623	743
Subsidiaries	—	—
Joint ventures	17	23
Associated companies	—	—
Other participating interests	121	126
Total	**1,187**	**1,378**

46 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 Services S.C.p.A., 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 €271 million for these services over the first half of the 2018 financial year (first half of 2017: €281 million). This was counteracted by income of €14 million (first half of 2017: €9 million) from services rendered and internal charges. Moreover, software products worth €0 million (first half of 2017: €1 million) were purchased from UniCredit Services S.C.p.A.

Furthermore, HVB has transferred certain back office activities to UniCredit Services S.C.p.A. In this context, UniCredit Services S.C.p.A. provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €60 million for these services over the first half of the 2018 financial year (first half of 2017: €54 million).

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

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: (€ thousands)

	30/6/2018			31/12/2017		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	2,548	10	2,318	2,401	10	8,156
Members of the Supervisory Board of UniCredit Bank AG	291	—	4,448	299	—	4,296
Members of the Executive Management Committee[1]	—	—	4,099	—	—	—

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 mortgage loans with interest rates of between 0.476% and 4.67% falling due in the period from 2019 to 2037.

A mortgage loan with an interest rate of 1.92% falling due in 2035 was granted to members of the Supervisory Board and their immediate family members.

All banking transactions involving the group of people listed were conducted at customary market terms with the usual collateral.

Other Information (Continued)

47 Supervisory Board

Gianni Franco Papa	**Chairman**
Florian Schwarz Dr Wolfgang Sprissler	**Deputy Chairmen**
Paolo Cornetta Beate Dura-Kempf Francesco Giordano Klaus Grünewald until 30 June 2018 Prof Dr Annette G. Köhler Dr Marita Kraemer Klaus-Peter Prinz Oliver Skrbot Christian Staack Gregor Völkl since 1 July 2018	**Members**

48 Management Board

Sandra Betocchi Drwenski	Chief Operating Officer (COO)
Peter Buschbeck until 28 February 2018	Commercial Banking – Private Clients Bank
Dr Emanuele Buttà since 1 March 2018	Commercial Banking – Private Clients Bank
Ljiljana Čortan since 1 January 2018	Chief Risk Officer (CRO)
Dr Michael Diederich	Board Spokesman (since 1 January 2018) Human Capital/Labour and Social Affairs (since 1 January 2018) Corporate & Investment Banking (provisionally until 28 February 2018)
Jan Kupfer since 1 March 2018	Corporate & Investment Banking
Robert Schindler	Commercial Banking – Unternehmer Bank
Guglielmo Zadra	Chief Financial Officer (CFO)

Munich, 3 August 2018

UniCredit Bank AG
The Management Board

Betocchi Drwenski   Dr Buttà   Čortan   Dr Diederich

Kupfer   Schindler   Zadra

Declaration by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Munich, 3 August 2018

UniCredit Bank AG
The Management Board

Betocchi Drwenski | Dr Buttà | Čortan | Dr Diederich

Kupfer | Schindler | Zadra

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These are designed to curb uncontrolled deforestation and other environmental destruction; they also protect human rights.
All products carrying the FSC® label pass through the processing and trading chain.
Thus, the FSC® rules also apply to paper-processors such as printing companies.