This document constitutes a supplement (the "**Supplement**") pursuant to section 16 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*).

Supplement dated 24 August 2018

to the

Base Prospectus dated 23 August 2018
for Interest Securities
under the Euro 50,000,000,000 Debt Issuance Programme of
UniCredit Bank AG
Munich, Federal Republic of Germany

(the "**Base Prospectus**")

This Supplement is to be read and construed in conjunction with the Base Prospectus and, in connection with any issue of securities thereunder, with the relevant Final Terms. Therefore, with respect to issues under the Base Prospectus, references in the Final Terms to the Base Prospectus are to be read as references to the Base Prospectus as amended and supplemented.

UniCredit Bank AG accepts responsibility for the information contained in this Supplement and declares that the information contained in this Supplement is, to the best of its knowledge, in accordance with the facts and that no material information has been omitted.

Investors who have already agreed to purchase or subscribe for securities which are issued under the Base Prospectus before the Supplement is published shall have the right, exercisable within two working days after the publication of the Supplement, to withdraw their acceptances in the event that a new factor or an inaccuracy arose before the final closing of the offer of such Securities to the public and the delivery of the Securities, pursuant to section 16 paragraph 3 of the German Securities Prospectus Act.

UniCredit Bank AG, LCD6M3 Structured Securities & Regulatory, Arabellastraße 12, 81925 Munich, Germany, fax no.: +49-89-378 13944, has been appointed as recipient for the revocation notices according to section 16 paragraph 3 in connection with section 8 paragraph 1 sentence 4 of the German Securities Prospectus Act.

This Supplement, the Base Prospectus as well as any further supplements to the Base Prospectus are published on the website www.onemarkets.de/basisprospekte. The Issuer may replace this website by any successor website which will be published by notice in accordance with the General Conditions of the Base Prospectus.

Material inaccuracies in relation to the Base Prospectus have been noted since its approval on 23 August 2018. The reason for its incorrectness is that the F-Pages containing the unaudited consolidated results of HVB group as of 31 June 2018 are not set out after page F-0. Therefore, the following amendments shall be made to the Base Prospectus:

After page F-0 of the Base Prospectus the following pages F-1 to F-70 shall be added:

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			

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	OF WHICH: OWN CREDIT SPREAD	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.

(in Mio €)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS							
AFS RESERVE	HEDGE RESERVE	FVtOCI RESERVE	CONSOLIDATED PROFIT[1]	PROFIT 1/1–30/6[2]	TOTAL SHARE-HOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[3]	MINORITY INTEREST	TOTAL SHARE-HOLDERS' 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:	n/a	
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.

	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 Loss allowance

(€ 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 between the stages (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)

				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 31/12/2017
Derivatives[1]	60,630	(16,829)	43,801	(25,845)	(599)	(8,269)	9,088
Reverse repos[2]	24,626	(4,866)	19,760	—	(19,532)	—	228
Loans and receivables[3]	87,805	(1,035)	86,770	—	—	—	86,770
Total at 31/12/2017	**173,061**	**(22,730)**	**150,331**	**(25,845)**	**(20,131)**	**(8,269)**	**96,086**

1 Derivatives are included in financial assets held for trading and hedging derivatives.
2 Reverse repos are covered in the notes regarding loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €4,211 million.
3 Only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables (including cumulative variation margins), as covered in the notes covering loans and receivables with banks and loans and receivables with customers.

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

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGEMENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2017
Derivatives[1]	56,395	(15,902)	40,493	(25,845)	(503)	(8,660)	5,485
Repos[2]	29,858	(4,866)	24,992	—	(24,803)	—	189
Liabilities[3]	103,440	(1,962)	101,478	—	—	—	101,478
Total at 31/12/2017	**189,693**	**(22,730)**	**166,963**	**(25,845)**	**(25,306)**	**(8,660)**	**107,152**

1 Derivatives are included in financial liabilities held for trading and hedging derivatives.
2 Repos are covered in the notes covering deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €2,746 million.
3 Only relates to current accounts, cash collateral or pledged credit balances and other liabilities (including cumulative variation margins), as covered in the notes covering deposits from banks and deposits from customers.

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