One Bank
One
UniCredit

2017

Half-yearly Financial Report at 30 June 2017

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Contents

Financial Highlights

Key performance indicators

	1/1–30/6/2017	1/1–30/6/2016
Net operating profit	€942m	€542m
Cost-income ratio (based on operating income)	61.2%	71.6%
Profit before tax	€933m	€568m
Consolidated profit	€717m	€371m
Earnings per share	€0.89	€0.46

Balance sheet figures/Key capital ratios

	30/6/2017	31/12/2016
Total assets	€294,598m	€302,090m
Shareholders' equity	€18,278m	€20,420m
Common Equity Tier 1 capital[1]	€16,761m	€16,611m
Core capital (Tier 1 capital)[1]	€16,761m	€16,611m
Risk-weighted assets (including equivalents for market risk and operational risk)	€79,019m	€81,575m
Common Equity Tier 1 capital ratio[1, 2]	21.2%	20.4%
Core capital ratio (Tier 1 capital ratio)[1, 2]	21.2%	20.4%
Leverage ratio in accordance with Commission Delegated Regulation[1, 3]	5.3%	5.3%

1 31/12/2016: 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

	30/6/2017	31/12/2016
Employees (in FTEs)	14,031	14,748
Branch offices	574	579

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	STAND-ALONE RATING	CHANGED/ CONFIRMATION	PFANDBRIEFS		CHANGED/ CONFIRMATION
						PUBLIC SECTOR	MORTGAGE	
Fitch Ratings				bbb+	27/4/2017	AAA/stable	AAA/stable	15/5/2017 8/5/2017
Derivative Counterparty Ratings	BBB+				27/4/2017			
Deposits	BBB+	F2			27/4/2017			
Issuer Default Rating	BBB+	F2	negative		27/4/2017			
Moody's				baa2	31/5/2017	Aaa/–	Aaa/–	23/6/2015 23/6/2015
Counterparty Risk	A1	P-1	—		31/5/2017			
Deposits	A2	P-1	stable		31/5/2017			
Senior – Senior Unsecured Bank Debt	A2		stable		31/5/2017			
Senior Unsecured & Issuer Rating	Baa2	P-1	stable		31/5/2017			
Standard & Poor's				bbb+	28/3/2017	AAA/negative	—	22/8/2016
Issuer Credit Rating	BBB	A-2	developing		28/3/2017			
Senior Subordinated Debt	BBB–	—	—		28/3/2017			

Financial Review

Corporate structure

Legal corporate structure and organisation of management and control

In the first half of 2017, the legal corporate structure and the organisation of management and control remained unchanged compared with year-end 2016. Please refer to the respective sections in Management's Discussion and Analysis of the 2016 Annual Report for statements in this context.

A list showing the names of all of the members of the Management Board and the Supervisory Board of UniCredit Bank AG (HVB) is given in the notes to the consolidated financial statements under "Members of the Supervisory Board" and "Members of the Management Board" in the present Half-yearly Financial Report.

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

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

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

Economic report

Underlying economic conditions

Economic growth[1]	First half 2017[2]	Full year 2016	Main drivers of development in the first half of 2017
Global economy[3]	3.5%	3.1%	Global growth was largely influenced by a recovery in global trade in the first half of the year.
Eurozone countries	2.0%	1.7%	The recovery in global trade, particularly in emerging markets, provided additional stimulus to the eurozone countries. Furthermore, solid employment development and good sentiment indicators supported domestic demand.
including: Germany	1.8%	1.9%	Besides robust growth in domestic consumption, Germany benefitted also from the positive development in global trade. Equipment investments and activities in the construction sector also picked up.
USA	2.1%	1.6%	The most important growth driver in the USA was private consumption. In addition, corporate investments accelerated (e. g. in the energy sector) after being exposed to a number of difficulties, particularly on account of the low energy prices.

1 change in real GDP (in % compared with the previous year)
2 sources: national authorities, UniCredit research forecasts
3 source: full year value expected by the IMF

Sector-specific developments

In the first half of 2017, market sentiment brightened following the election results in Austria, France and the Netherlands. Pro-European forces were generally strengthened. The political risk was one of the main concerns of investors at the beginning of the year, especially in respect of the cohesion of the eurozone. Since the election results, more attention is being paid to the future policies of the ECB.

The ECB's purchase programme has been continued with a lower volume of €60 billion per month since April 2017 and is set to remain as such until at least the end of 2017. Furthermore, the last of the four tranches of funding under the TLTRO II programme took place in March 2017. In total, liquidity of €233.5 billion was provided to 474 banks, which was by far the largest net drawdown of the four TLTRO II tranches. The conditions for TLTRO II are favourable and involve rates as low as minus 0.4%, provided banks are willing to expand their lendings above set thresholds.

After the US election and following the FED interest rate hikes, the interest rate level increased again at the end of 2016 and in the first half of 2017. The ten-year US government bond rose to more than 2.60% by March 2017 and was thus more than 1 percentage point higher than the level of September 2016. By the end of June 2017, the yield fell again slightly to a level of 2.30%. The yield on government bonds rose to over 50 basis points by the end of June 2017, the highest level since the end of 2015. The downward trend in the 3-month Euribor stopped at the end of 2016 and has remained at a level of minus 0.33% since then. The spreads for non-financials with good credit ratings continued to narrow on credit markets in 2017. This development is attributable to the ECB's purchase programme and the backdrop of low interest rates.

The euro appreciated by more than 9% against the US dollar in the first half of 2017. The appreciation of the common European currency reflects the solid growth in Europe while the interest rates and economic growth in the USA in the first half of 2017 fell short of the high expectations after the US election. The euro appreciated by 7% against the British pound in the first half of 2017, which was driven by the outcome of the early general election in the UK. The euro appreciated slightly against the Swiss franc and the Japanese yen in the first half of 2017.

The Italian banking sector came under greater scrutiny from investors in the wake of the Brexit referendum as it specifically has a relatively large stock of impaired loans on its books. Several banks in Italy presented plans to reduce the high level of impaired loans and have implemented these in part. This was assisted by Italy's rescue package in the amount of €20 billion that was launched in December 2016 and January 2017. Three Italian banks that have a large stock of impaired loans were supported with this package until July 2017. It should be emphasised that our parent company, UniCredit S.p.A., presented in December 2016 an extensive programme geared to reducing its portfolio of impaired loans. This programme does not involve any form of government aid and is running according to plan. The measures that were taken significantly improved investor sentiment in the Italian banking sector.

Financial Review (Continued)

Operating performance of HVB Group
All the statements regarding the operating performance of HVB Group in this Interim Management Report refer to the structure of our segmented income statement (see the Note "Income statement, broken down by business segment" in this Half-yearly Financial Report). By doing so, we are following the Management Approach incorporated into our segment reporting.

	1/1–30/6/2017	1/1–30/6/2016	CHANGE	
INCOME/EXPENSES	€ millions	€ millions	€ millions	in %
Net interest	1,316	1,317	(1)	(0.1)
Dividends and other income from equity investments	2	48	(46)	(95.8)
Net fees and commissions	599	567	+ 32	+ 5.6
Net trading income	680	342	+ 338	+ 98.8
Net other expenses/income	161	165	(4)	(2.4)
OPERATING INCOME	**2,758**	**2,439**	**+ 319**	**+ 13.1**
Payroll costs	(819)	(861)	+ 42	(4.9)
Other administrative expenses	(750)	(762)	+ 12	(1.6)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(119)	(123)	+ 4	(3.3)
Operating costs	**(1,688)**	**(1,746)**	**+ 58**	**(3.3)**
OPERATING PROFIT	**1,070**	**693**	**+ 377**	**+ 54.4**
Net write-downs of loans and provisions				
for guarantees and commitments	(128)	(151)	+ 23	(15.2)
NET OPERATING PROFIT	**942**	**542**	**+ 400**	**+ 73.8**
Provisions for risks and charges	(17)	(9)	(8)	+ 88.9
Restructuring costs	(2)	(2)	—	—
Net income from investments	10	37	(27)	(73.0)
PROFIT BEFORE TAX	**933**	**568**	**+ 365**	**+ 64.3**
Income tax for the period	(216)	(197)	(19)	+ 9.6
PROFIT AFTER TAX	**717**	**371**	**+ 346**	**+ 93.3**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**717**	**371**	**+ 346**	**+ 93.3**
attributable to the shareholder of UniCredit Bank AG	715	369	+ 346	+ 93.8
attributable to minorities	2	2	—	—

Net interest
At €1,316 million, net interest remained almost unchanged in a challenging environment of persistently ultra-low interest rates in the first half of 2017.

In the Commercial Banking business segment there was a 3.3% decline in net interest to €727 million. Deposit-taking operations continued to be weighed down by the persistently ultra-low interest rates. Despite a rise in real estate financing in the retail customer business with a slight fall in margins, a very good expansion in consumer lending activities (up 48%) and increased demand for credit in our business customer activities (up 2.9%) with stable margins compared with the previous year, it was not possible to offset the fall in profit in the deposit-taking business.

Net interest in the CIB business segment fell a sharp 20.9% to €443 million. The decline is mainly attributable to the trading induced business and the Treasury business caused by the interest rate levels. In addition, it should also be taken into account that net interest in 2016 benefitted from a gain in connection with the sale of a credit portfolio to finance commercial property.

In the Other/consolidation business segment, there was net interest income of €146 million compared with €5 million in the previous year, which is mainly attributable to the positive non-recurring effect from the reversal of provisions.

Dividends and other income from equity investments

In the reporting period dividends and other income from equity investments totalled €2 million. This can be attributed to dividend income of €3 million and the result of companies accounted for using the equity method of minus €1 million.

Income of €48 million from dividends and other income from equity investments was generated in 2016. At the same time, it should be taken into account that an extraordinary dividend payout from our investment in EURO Kartensysteme GmbH, Frankfurt am Main, and another significant dividend yield from our shareholdings were included in the previous year.

Net fees and commissions

We increased net fees and commissions by €32 million, or 5.6%, to €599 million in the first half of 2017. This development is largely due to higher commission income in payment services, which were up by €33 million to €131 million. In addition, net fees and commissions from management, brokerage and consultancy services also rose by €6 million to €303 million. In our lending operations, we generated fees and commissions of €162 million that did not quite match the good year-ago figure (€178 million). Fees and commissions from other services came to €3 million after an expense of €6 million in the previous year.

Net trading income

After the first six months of 2017, net trading income rose a significant €338 million, or 98.8%, to €680 million. The year-on-year improvement was achieved particularly in the Treasury business. We also generated an increase in earnings in the business with equity derivatives. The contribution to earnings by the valuation adjustments, which mainly include credit value adjustments and funding value adjustments as well as effects from a change in own credit spreads, was slightly lower than in the previous year.

Net other expenses/income

In the first half of 2017, net other expenses/income, at €161 million, was almost at the same level as in the previous year (€165 million). This can be attributed notably to earnings in connection with our Bard Offshore 1 wind farm, which slightly surpassed the year-ago figure. On the expense side, the contributions for the European bank levy represent a significant individual item, which was only slightly higher than the previous year’s figure.

Financial Review (Continued)

Operating costs
We continued the consistent cost management of operating costs also in the reporting period, which for years has been successful. Compared with the previous year, we reduced operating costs by €58 million, or 3.3%, to €1,688 million. This reduction is attributable to payroll costs, which were down by €42 million, or 4.9%, to €819 million, particularly on account of a lower headcount. Other administrative expenses also fell a slight 1.6% to €750 million. In this context, higher costs, for example from the implementation of regulatory requirements, were more than offset by lower marketing expenses. Amortisation, depreciation and impairment losses on intangible and tangible assets decreased by 3.3% to €119 million.

Operating profit (before net write-downs of loans and provisions for guarantees and commitments)
The operating profit of HVB Group rose sharply overall in the reporting period, both as a result of the good performance reflected in the higher operating income and through the reductions in operating costs, by €377 million, or 54.4%, to €1,070 million. This resulted in a significant improvement in the cost-income ratio (ratio of operating expenses to operating income) to 61.2% after 71.6% in the first half of 2016.

Net write-downs of loans and provisions for guarantees and commitments and net operating profit
In the first half of 2017, net write-downs of loans and provisions for guarantees and commitments were down by €23 million to €128 million and thus still at a low level. As a result, the cost-of-risk remained low (ratio of net write-downs of loans and provisions for guarantees and commitments to average holdings of loans and receivables with customers) of 21 basis points compared with 26 basis points in the equivalent period of the previous year.

Net operating profit rose by a strong €400 million, or 73.8%, to €942 million on the back of a slight decline in net write-downs of loans and provisions for guarantees and commitments.

Provisions for risks and charges
In the first six months of the 2017 financial year, there were expenses of €17 million for provisions for risks and charges after €9 million in the previous year. These are primarily provisions for legal risks in both years. The legal risks of HVB Group are described in detail in the section entitled "Operational risk" in the Risk Report of this Interim Management Report.

Net income from investments
Net income from investments amounted to €10 million in the first half of 2017. This figure was generated with gains on disposal of €11 million largely relating to gains of €9 million on the disposal of available-for-sale financial assets. By contrast, net write-downs and value adjustments totalling €1 million were taken on the available-for-sale financial assets (€5 million), while write-ups were taken on investment properties (€4 million).

In 2016, we generated net income from investments of €37 million which is largely attributable to gains on disposal of €36 million. Of this figure, €14 million relate to available-for-sale financial assets and €22 million to the sale of investment properties.

Profit before tax, income tax for the period and consolidated profit
In the reporting period, we succeeded in generating a good profit before tax of €933 million, which significantly exceeded the year-ago figure by €365 million or 64.3%, in the persistently challenging market environment on account of our well-balanced and robust business model.

Income tax expense amounted to €216 million after €197 million in the previous year. In the current reporting period, income tax expense benefitted among other things from a non-recurring item resulting from the reversal of provisions.

After deducting income tax, the consolidated profit in the reporting period amounted to €717 million, which is significantly higher than the year-ago consolidated profit (€371 million).

Return on allocated capital

The profitability ratio return on allocated capital (ROAC) presents the consolidated profit of HVB Group (accruing to the HVB shareholder) as a ratio of the allocated capital and, in the context of management, replaces return on equity which was used in the past for reporting purposes. With ROAC, the allocated capital is determined on the basis of the average risk-weighted assets (including equivalents for market risk and operational risk). In the process, 12% of equity (2016: 11%) is allocated to the average risk-weighted assets. In the first half of 2017, this ratio increased to 14.8% after 8.2% in the first half of 2016.

Segment results by business segment

After the first six months of 2017, all the business segments generated a profit before tax:

(€ millions)

PROFIT/(LOSS) BEFORE TAX	1/1–30/6/2017	1/1–30/6/2016
Commercial Banking	194	224
Corporate & Investment Banking	552	260
Other/consolidation	187	84
Total	**933**	**568**

The income statements for each business segment and comments on the economic performance of the individual business segments are provided in the Note "Income statement, broken down by business segment" in the notes to this Half-yearly Financial Report. The tasks of each business segment are described in detail under the Note "Method and components of segment reporting by business segment" in the notes to our 2016 consolidated financial statements.

Financial situation

Total assets

The total assets of HVB Group fell by €7.5 billion, or 2.5%, to €294.6 billion, at 30 June 2017 compared with year-end 2016.

The decrease in total assets is primarily due on the assets side to the €13.5 billion decline to €80.5 billion in financial assets held for trading, which essentially fell on account of the lower positive fair values of derivative financial instruments (down €9.7 billion to €48.7 billion). There was also a decrease in the portfolio of financial assets at fair value through profit or loss, which was down by €4.4 billion to €24.1 billion almost exclusively in fixed-income securities. In addition, loans and receivables with banks fell by €2.2 billion to €30.8 billion, primarily in cash collateral and pledged credit balances by €2.1 billion and the reverse repos by €1.2 billion, while current accounts increased by €0.8 billion. Non-current assets or disposal groups held for sale disclosed in the balance sheet were down by €0.8 billion to €0.3 billion. This decrease relates primarily to assets in connection with the sale and deconsolidation of our subsidiary Bankhaus Neelmeyer AG, Bremen, to Bremer Kreditbank Aktiengesellschaft, Bremen, (the closing of the transaction took place at the end of 31 March 2017). On the assets side, there was an expansion particularly in the cash and cash balances by €12.1 billion to €21.9 billion. This increase is partly related to the borrowings under the ECB's TLTRO programme (see the explanations below on the liabilities side). There was also a slight rise of €1.0 billion to €122.4 billion in loans and receivables with customers on the back of increases in other receivables (up €0.8 billion), in mortgage loans (up €0.7 billion) and in current accounts (up €0.6 billion) while non-performing loans and receivables in particular decreased by €0.6 billion. Furthermore, there was an increase in holdings in available-for-sale financial assets. At 30 June 2017, these amounted to €6.7 billion and had thus risen by €0.8 billion compared with year-end 2016, mainly in fixed-income securities.

Financial Review (Continued)

On the liabilities side, there was primarily a decline in financial liabilities held for trading by €14.8 billion to €58.1 billion. At the same time, mostly the negative fair values of derivative financial instruments fell in line with the assets side (down €10.5 billion). The decrease of €1.2 billion in liabilities of disposal groups held for sale is related to the sale and deconsolidation of the subsidiary Bankhaus Neelmeyer AG in line with the corresponding balance sheet item on the assets side. By contrast, the deposits from banks rose a sharp €12.2 billion to €69.8 billion. Within this total, the deposits from central banks increased by €3.7 billion to €19.7 billion compared with year-end 2016. This development is attributable to more borrowings within the framework of the ECB's TLTRO programme this year offered as support for the real economy. As an inexpensive targeted longer term refinancing operation, a volume of €5.6 billion was allocated to HVB Group in the first half of 2017 and a volume of €7.0 billion in 2016 to be used to implement our growth initiatives in lending operations with our customers. Furthermore, the deposits from banks shown in the balance sheet contained increases of €4.2 billion in repos, €1.6 billion in credit balances on current accounts, €1.2 billion in other liabilities and €0.9 billion in cash collateral and pledged credit balances compared with year-end 2016.

The shareholders' equity shown in the balance sheet fell by €2.1 billion to €18.3 billion at 30 June 2017. This decline is largely attributable to the dividend of €3,005 million paid to UniCredit S.p.A., Rome, Italy, in the second quarter of 2017 as resolved by the Shareholders' Meeting. This development was partially compensated by the consolidated profit of €715 million generated in the first half of 2017 as well as the increases of €102 million in other reserves and €46 million in the available-for-sale reserve. The increase in other reserves is mainly due to positive effects from adjustments in pensions and other obligations (mainly on account of the increase in the discount rate from 1.90% to 2.15%).

The contingent liabilities and other commitments not included in the balance sheet amounted to €70.5 billion at 30 June 2017 compared with €71.0 billion at year-end 2016. This figure includes an amount of €20.8 billion in contingent liabilities in the form of financial guarantees (31 December 2016: €21.9 billion) and other liabilities which are almost exclusively due to irrevocable credit commitments of €49.6 billion (31 December 2016: €49.1 billion). These contingent liabilities are offset by contingent assets of the same amount.

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

The total risk-weighted assets of HVB Group (including market risk and operational risk) determined in accordance with Basel III requirements amounted to €79.0 billion at 30 June 2017 and were thus €2.6 billion lower than year-end 2016.

The risk-weighted assets for credit risk (including counterparty default risk) determined by applying partial use decreased by €3.0 billion to €57.9 billion. This decrease occurred particularly on account of lower risk weightings in the area of corporate customers of HVB, lower exposures partly caused by the exchange rate development of the USD and the deconsolidation of the subsidiary Bankhaus Neelmeyer AG.

The risk-weighted assets for market risk rose by €0.5 billion to €11.4 billion. This is due to an increase in market risk on the part of HVB's internal market risk model.

The risk-weighted equivalents for operational risk remained almost unchanged at €9.7 billion compared with year-end 2016.

At 30 June 2017, the core capital compliant with Basel III excluding hybrid capital (Common Equity Tier 1 capital/CET1 capital) and the core capital (Tier 1 capital) of HVB Group amounted to €16.8 billion and had thus increased by €0.2 billion compared with year-end 2016 (31 December 2016: €16.6 billion in accordance with approved annual financial statements). The CET1 capital ratio (ratio of Common Equity Tier 1 capital to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) and the core capital ratio under Basel III (Tier 1 capital ratio; including market risk and operational risk) amounted to 21.2% at 30 June 2017 (year-end 2016: 20.4% in both cases). The increase is attributable to the expansion of the core capital and the decline in risk-weighted assets. The equity capital amounted to €17.3 billion at 30 June 2017 (31 December 2016: €17.2 billion in accordance with the approved annual financial statements). The equity funds ratio was 21.9% at 30 June 2017 (31 December 2016: 21.1%).

To ensure sufficient liquidity at all times, key figures are used, among other things, which act as triggers. A detailed description of the management of liquidity and the liquidity position is given in the Risk Report of our 2016 consolidated financial statements and in this Half-yearly Financial Report under the section entitled "Liquidity risk". A bank's liquidity is evaluated using the liquidity ratio defined in the German Banking Act/German Liquidity Regulation (KWG/LiqV). This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if this ratio is at least 1.00. At HVB, this figure had increased to 1.36 by the end of June 2017 after 1.15 at year-end 2016.

The leverage ratio is determined by setting the core capital measure against the exposure measure. The total exposure measure is the sum total of the exposure values of all assets and off-balance sheet items. The leverage ratio of HVB Group in accordance with the Commission Delegated Regulation (EU) 2015/62 amounted to 5.3% at 30 June 2017 (year-end 2016: 5.3%).

Ratings

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

S&P was the last rating agency to respond to this specification. As a result it placed the issuer credit rating of HVB (BBB) in March 2017 on "CreditWatch developing" and introduced the senior subordinated debt rating class. The status "CreditWatch developing" means that a rating may be raised, lowered or affirmed depending on the details of the resolution strategy of UniCredit. Since March 2017, the senior subordinated securities of HVB have been rated at BBB–.

In April 2017, Fitch Ratings adjusted the derivative counterparty rating, the issuer default rating and the deposit rating of HVB from A– to BBB+. Fitch Ratings thus responded to the adjustment of the ratings of UniCredit S.p.A. (BBB) which, in turn, were triggered by Italy's downgrading to BBB. The outlook remains negative as Fitch believes the fungibility of capital and liquidity could increase within banking groups under the direct supervision of the ECB.

In May 2017, Moody's adjusted the senior unsecured rating of HVB to Baa2 with a stable outlook. At the same time the counterparty risk rating was confirmed at A1. The assessment of A2 for the deposit rating and the senior-senior unsecured bank debt rating were affirmed.

Report on subsequent events (events after the reporting period)

There were no significant events at HVB Group after 30 June 2017 to report.

Financial Review (Continued)

Forecast report/Outlook

The following comments on the outlook are to be viewed in connection with the comments on the outlook in the Financial Review and the Risk Report in Management's Discussion and Analysis of the 2016 Annual Report.

General economic outlook

According to projections by the IMF, the global economy is likely to grow by around 3.5% in 2017 with growth probably accelerating both in the USA and in the eurozone. The environment and the growth prospects for many emerging and developing countries have also brightened. Signs of a pick-up in world trade and higher commodity prices should support this development. In particular, the increase in oil prices compared with 2016 is likely to ease the situation for oil-exporting countries such as Russia. The slowdown in economic growth in China is, however, still having a negative impact on global growth prospects. Although fiscal stimuli will also assist GDP growth in China in 2017, primarily through further infrastructure projects, the change in economic structures towards more private consumption and services will result in production continuing to lose momentum. In addition, there is still uncertainty about global trade and the global economy due to the yet unforeseeable consequences of the Brexit decision and the election of Donald Trump as the new US president.

The US economy will remain one of the main drivers of global growth also in 2017. We expect real GDP growth to reach 2.2% and thus be up 1.6% on last year's figure. However, due to the political developments in the USA, we no longer assume that fiscal measures that support growth (including significant reductions in income and corporate tax), as announced by Donald Trump before his election as the new US president, will materialise this year. One of the main factors in the second half of the year will be the momentum on the labour market. It can be assumed that the unemployment rate will fall below 4%, which will probably result in greater wage pressure, increased consumer spending and thus higher macroeconomic inflation.

GDP growth of 2.1% in the eurozone in 2017 would be significantly higher than the level achieved in the previous year (1.7%). The acceleration can be primarily attributed to a stronger recovery in world trade, particularly in emerging markets. However, there are risks to the development of world trade on account of increasing protectionist tendencies worldwide. Overall, growth in the eurozone is projected to once more be driven mainly by domestic demand in 2017, with the expansion rate of consumer spending likely to moderately weaken due to higher inflation rates (negative purchase power effect).

The extension of the ECB's bond-buying programme until the end of 2017 at a lower amount of €60 billion per month as announced in December 2016 will ensure favourable financing terms also this year. We expect the inflation rate in the eurozone, which is still below the ECB's target rate of 2%, to increase to 1.6% for 2017 as a whole.

At country level, we forecast a GDP growth rate in Germany of 1.8% in 2017 compared with 1.9% in 2016 (not adjusted for calendar reasons). In 2017, growth in France should accelerate to 1.6% from last year's level of 1.2% while we project an increase in Italy to 1.3% in 2017 compared with 1.0% in the previous year. Following on from a very strong year in 2016, the recovery will probably peter out in Spain, with growth likely to slow from 3.2% to 2.8% in 2017.

In addition to domestic consumption, the upturn in world trade is expected to be another key driver of growth in the German economy in 2017. At the same time, domestic consumption will continue to benefit from positive stimuli from the construction industry in addition to a substantial increase in consumer spending and moderate pay increases.

Sector development in 2017
In the second half of 2017, a primary focus will be the ECB's future policy (keyword: tapering). The market expects the ECB to announce further details on this in September 2017. The strong growth in Europe and rising interest rates are positive for the European banking sector in the medium term (trend towards an expansion of lendings and higher interest margins). In addition, banks have made increasing progress in reducing their legal risks. Sentiment has already brightened significantly on the stock markets. Since the beginning of July 2016 until the end of June 2017, the STOXX Europe 600 Banks rose by almost 45%.

Key regulatory issues in the coming years will be the harmonisation of the creditor hierarchies of banks in Europe, filling the required TLAC and MREL quotas by issuing suitable debt instruments, discussions on Basel III reforms (on output floor for internal models) and IFRS 9.

Basel III reforms should not lead as a whole to significant capital increases for the banking sector but until these are introduced individual banks will have to continue gradually strengthening their capital base in the transitory period.

In 2016, the BaFin held a public consultation on a revision of the Minimum Requirements for Risk Management (MaRisk). The draft of the fifth round of amendments to the MaRisk contains, among other things, improvements to risk data aggregation and risk reporting, and incorporates the Basel Committee's BCBS 239 standard into the MaRisk. Furthermore, the intention is to strengthen the effective management of risks by management bodies and cultivate an appropriate risk culture in banks. Last of all, the regulations on outsourcing will be specified and supplemented.

Development of HVB Group
On account of the persistently high level of uncertainty entailed in the macropolitical environment in Europe and the resulting high structural volatility of financial and capital markets, forward-looking statements on performance are very unreliable. Based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we assume that, in a consistently challenging environment for the financial industry, we will be able to generate a satisfactory profit before tax in the 2017 financial year. In view of the performance in the first half of 2017, we continue to expect that the profit for the whole of the 2017 financial year will be significantly higher than the figure seen in the previous year. It should be taken into account in this regard that the 2016 profit before tax was depressed by restructuring costs among other things. Compared with the profit before tax in 2016 adjusted for restructuring costs we expect a moderate increase in 2017. And we will continue to enjoy an excellent capital base in 2017.

More details on how the HVB Group's business is anticipated to develop over the 2017 financial year can be found in Development of HVB Group contained in the Forecast report/Outlook section of the 2016 Annual Report. The statements made there are still valid.

The opportunities in terms of future business policy and corporate strategy, performance and other opportunities are described in detail in the HVB Group's 2016 Annual Report (starting on page 26). The statements made there remain valid.

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

Risk Report

HVB Group as a risk-taking entity

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

The Risk Report deals exclusively with the risks at HVB Group. The opportunities were presented separately in the section of the Financial Review in the 2016 Annual Report entitled "Opportunities in terms of future business policy and corporate strategy, performance and other opportunities".

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

Risk types

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

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

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

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

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

– **Real estate risk** covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies and special purpose vehicles (SPVs). No land or properties are included that are held as collateral in lending transactions.
– **Financial investment risk** arises from equity interests held in companies that are not consolidated by HVB Group in accordance with IFRS or included in the trading book. A conservative approach is applied to the measurement of financial investment risk involving 100% capital backing of the financial investments.
– **Reputational risk** is defined as the risk of a negative effect on the income statement caused by adverse reactions by stakeholders due to a changed perception of the Bank. This altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk, strategic risk or other primary risks.
– **Strategic risk** results from management either not recognising early enough or not correctly assessing significant developments or trends in the Bank's environment. As a consequence fundamental management decisions could, in retrospect, prove to be disadvantageous in terms of the bank's long-term goals. In addition, some decisions may be difficult or impossible to reverse. In the worst case, this can negatively impact the profitability and risk profile of HVB Group.
– **Pension risk** can impact both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as an increase in the obligations on the liabilities side, due for instance to a reduction in the discount rate. Furthermore, actuarial risks such as longevity risk (changes to the mortality tables) may arise on the obligation side. In this context, pension risk is the risk that the pension provider will have to provide additional capital to service the vested pension commitments.

Integrated overall bank management

Risk management

HVB Group's risk management programme is built around the business strategy adopted by the Management Board, the Bank's risk appetite and the corresponding risk strategy. Implementation of the risk strategy is a task for the Bank as a whole, with key support from the Chief Risk Officer (CRO) organisation.

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

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

The business segments are responsible for performing risk management, working closely with the CRO within the framework of competencies defined by the Management Board of HVB.

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

Functional separation

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

Risk Report (Continued)

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

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

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

The following are quantifiable risk types: credit risk, market risk, liquidity risk, operational risk, business risk, financial investment risk, real estate risk and pension risk. A qualitative approach is used to monitor strategic risk and reputational risk.

Parallel to these activities, the available financial resources are defined, quantified and compared with the risk capital for the analysis of the risk-taking capacity.

Implementation of overall bank management

Strategy

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

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

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

Overall bank management

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

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

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

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

Regulatory capital adequacy

Used core capital

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

Management of regulatory capital adequacy requirements

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

Risk Report (CONTINUED)

We carry out a rolling eight-quarter projection on a monthly basis to provide an ongoing forecast of our capital ratios on the basis of our (multi-year) annual plan.

More details on how these ratios have developed are presented in the section entitled “Risk-weighted assets, key capital ratios, liquidity and leverage ratio of HVB Group” in the Financial Review of the Interim Management Report of HVB Group.

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

HVB and UniCredit S.p.A. agreed with the relevant regulators that HVB and HVB Group would not fall below an equity funds ratio of 13%. This agreement will remain in force until further notice. The equity funds ratio of HVB Group was 21.9% at the end of June 2017 (31 December 2016: 21.1%).

Economic capital adequacy

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

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

An all-round overview of the risk situation of HVB Group is obtained by regularly assessing the Bank’s risk-taking capacity, as shown in the following table.

Internal capital after portfolio effects (confidence level 99.90%)

	30/6/2017		31/12/2016	
Broken down by risk type	€ millions	in %	€ millions	in %
Credit risk	2,556	34.4	2,820	34.9
Market risk	2,050	27.6	2,145	26.6
Operational risk	1,075	14.5	1,373	17.0
Business risk	291	3.8	287	3.6
Real estate risk	373	5.0	385	4.8
Aggregated economic capital	**6,345**	**85.3**	**7,010**	**86.9**
Pension risk	905	12.2	815	10.1
Financial investment risk	145	1.9	149	1.8
Economic capital of small legal entities	42	0.6	98	1.2
Internal capital of HVB Group	**7,437**	**100**	**8,072**	**100**
Available financial resources of HVB Group	**17,195**		**16,355**	
Risk-taking capacity of HVB Group, in %	**231.2**		**202.6**	

In total, the IC falls by €635 million. One of the main reasons for this development is an adjustment to the methodology used for risk aggregation that would give rise to significant declines especially in the operational risk after portfolio effects. Applying the current methodology retroactively to the reference date would result in an IC of €1,113 million for operational risk as at 31 December 2016.

Similarly, major decreases have occurred in the credit risk which is partially attributable to changes in the methodology and partially to changes in the portfolio.

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

Since 30 June 2017, the assumption is no longer made that there are diversification effects between the types of risk with regard to financial investment risk. Instead the EC is aggregated and added to the aggregate economic capital. Seen as a whole, this only has a minor effect on the IC, however.

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

Aggregated economic capital[1] after portfolio effects (confidence level 99.90%)

	30/6/2017		31/12/2016	
Broken down by business segment	**€ millions**	**in %**	**€ millions**	**in %**
Commercial Banking	1,471	22.5	1,591	21.9
Corporate & Investment Banking	4,445	68.1	4,935	68.0
Other/consolidation	616	9.4	731	10.1
Aggregated economic capital of HVB Group	**6,532**	**100**	**7,257**	**100**

1 aggregate of EC of the individual risk types and EC of small legal entities, excluding pension risk

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

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

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

Recovery plan
The preparation of recovery plans (RPs) is intended to facilitate the restructuring of systemically important financial institutions. UniCredit S.p.A. and HVB have been identified as systemically important at a global level and at a national level, respectively. Supervision of HVB passed to the ECB when the Single Supervisory Mechanism (SSM) came into effect in November 2014. According to a decision of the Joint Supervisory Team (JST), HVB, as part of UniCredit, has not been required to prepare a HVB Group recovery plan since 2015. For this reason, HVB works closely together with UniCredit S.p.A. each year to prepare a joint UniCredit Group Recovery Plan. The most recent UniCredit Group Recovery Plan was officially submitted to the ECB on 30 September 2016 and had been in effect since then. The UniCredit Group Recovery Plan for 2017 is currently being prepared and is scheduled for presentation to the ECB in September 2017.

Risk Report (Continued)

Risk-taking capacity

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

HVB Group uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach. Under this approach, the risk-taking capacity is defined by comparing unexpected losses at the confidence level (IC) with the ability to absorb losses using the available equity funds (available financial resources). When determining the available financial resources, the available capital is viewed from an economic standpoint. In other words, the calculation is made in accordance with a value-oriented approach, under which shareholders' equity shown in the balance sheet is adjusted for fair value adjustments. Furthermore, intangible assets, deferred tax assets and effects of own credit rating are deducted and minority interests are only taken into account to the extent of the risk-bearing portion. At the same time, subordinated liabilities recognised as regulatory capital are included. The available financial resources at HVB Group totalled €17,195 million at 30 June 2017 (31 December 2016: €16,355 million).

With IC of €7,437 million, the risk-taking capacity for HVB Group is 231.2% (31 December 2016: 202.6%). This figure is much higher than the target HVB Group has set itself. The rise of 28.6 percentage points in comparison to 31 December 2016 for HVB Group is attributable to the increase in the financial resources of €840 million or 5.1% and the simultaneous decrease in the IC of €635 million or 7.9% in the first half of 2017. The increase in the financial resources is the result of changes to several components but primarily of the positive development of the reserves recognised in the balance sheet and the development of deferred taxes and of the increase in hidden reserves contained in real estate.

Limit concept

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

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

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

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

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

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

The macroeconomic downturn scenarios and the underlying baseline scenario is currently being reviewed and the corresponding macroeconomic parameters and market parameters are being adjusted following the presidential elections in France.

The cross-risk-type stress tests are presented and analysed in the Stress Test Council (STC) on a quarterly basis and, where necessary, appropriate measures are presented to the management and the Risk Committee (RC). The risk-taking capacity of HVB Group would currently be ensured, even if the stress test scenarios listed above were to materialize. The risk-taking capacity is computed in the stress test with a confidence level of 99.90%.

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

The inverse stress tests involve analysing what events could endanger the continued existence of the Bank as a going concern. The continued existence as a going concern is considered at risk when the original business model proves to be no longer feasible or viable. Inverse stress tests are based on the Bank's risk structure and the interviews that are conducted regularly as part of the risk inventory. The hypothetical events analysed included fraud by a trader, rating downgrades, a bank run and default by the biggest customers. After being discussed by the STC, it was decided that further measures were not necessary.

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

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

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

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

Risk Report (Continued)

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

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

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

Risk types in detail

We presented the management (strategy, limit system, risk reduction, measurement) and the monitoring and controlling of the individual risk types at HVB Group in detail in the 2016 Annual Report. Where minor refinements are made to the methods used to measure the individual risk types, these are described under the risk type concerned.

1 Credit risk

The EC for credit risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €2,833 million, which is €422 million lower than the total reported at 31 December 2016 (€3,255 million).

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

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

The remaining exposures assigned to the former Real Estate Restructuring business segment are excluded from the analysis because the portfolio does not include any further new business and is earmarked for elimination. The portfolio has been reduced consistently in recent years and now stands at a mere €193 million (31 December 2016: €248 million).

Development of metrics by business segment

	EXPECTED LOSS[1] € millions		RISK DENSITY in BPS[2]		ECONOMIC CAPITAL[3] € millions	
	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Commercial Banking	144	159	15	17	751	858
Corporate & Investment Banking	153	165	12	14	2,072	2,384
Other/consolidation	4	4	30	30	10	13
HVB Group	**301**	**328**	**14**	**15**	**2,833**	**3,255**

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

In the first half of 2017, the expected loss (EL) of HVB Group fell by €27 million and risk density by 1 BP. This development can be attributed mainly to an improvement in the portfolio structure in the CIB and Commercial Banking business segments. With a lower EL, the exposure in both business segments rose due to the increase in the liquidity reserves in rating class 1 and the reduction in the volume of business with customers with lower ratings, and improvements in the ratings of specific contracting parties.

The decline in the EC by business segment in the first half of 2017 essentially reflects the updating of the model parameters. A change in exposure to individual counterparties constitutes another reason for the decline in EC over the first half of the year.

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

Breakdown of exposure by business segment	CREDIT DEFAULT RISK EXPOSURE		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		OF WHICH ISSUER RISK IN TRADING BOOK	
	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Commercial Banking	96,660	95,035	3,098	3,371	—	126	—	—
Corporate & Investment Banking	134,013	129,659	17,159	19,691	42,069	46,066	6,315	5,429
Other/consolidation	1,420	1,366	178	131	31	35	—	—
HVB Group	**232,093**	**226,060**	**20,435**	**23,193**	**42,100**	**46,227**	**6,315**	**5,429**

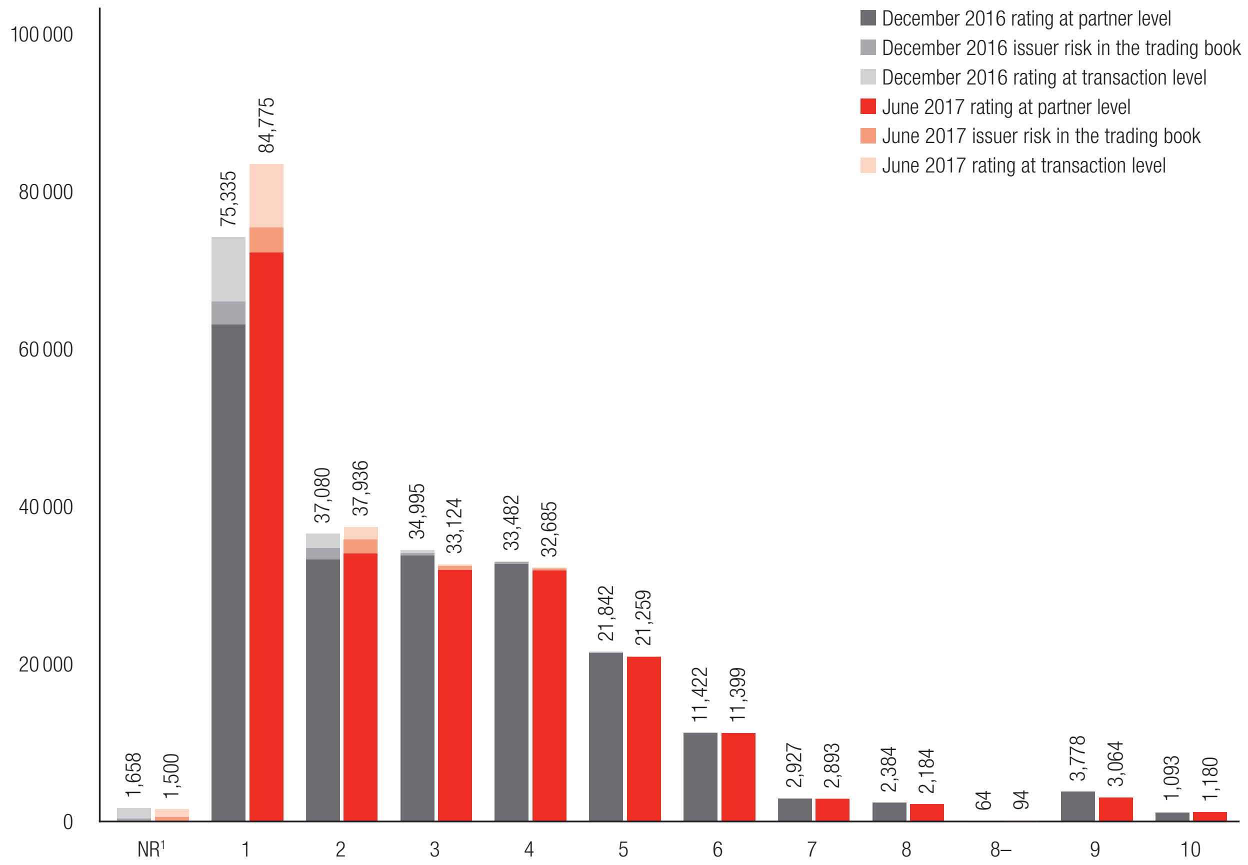
HVB Group's credit default risk exposure rose by €6,033 million in the first half of 2017.

In the CIB business segment in particular, the exposure rose by €4,354 million due to the increased investment of liquidity reserves in the in the financial institutions (including foreign sovereigns) industry group.

Deconsolidation of Bankhaus Neelmeyer AG caused a decrease of €917 million in the Commercial Banking business segment's exposure. This was more than compensated for by a general growth in business, particularly in the real estate industry. All in all, exposure in the Commercial Banking business segment increased by €1,625 million.

Risk Report (Continued)

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



1 not rated

The rating structure of HVB Group changed over the course of the first half of 2017 mainly on account of the development of business in the financial institutions (including foreign sovereigns) industry. In rating class 1 exposure increased by €9,440 million. This was caused primarily by the rise in HVB Group's liquidity investments.

Furthermore, the portfolio structure improved in rating class 2 among other things due to growth in business in the financial institutions (including foreign sovereigns) industry and rating improvements from lower rating classes.

Development of metrics by industry group

	CREDIT DEFAULT RISK EXPOSURE € millions		OF WHICH ISSUER RISK IN TRADING BOOK € millions		EXPECTED LOSS[1] € millions		RISK DENSITY in BPS[2]	
Industry group	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Financial institutions								
(including foreign sovereigns)	60,574	50,039	4,571	4,187	23	26	4	6
Public sector								
(including German sovereign)	27,195	31,404	247	205	1	2	0	1
Real estate	26,147	25,918	58	53	27	31	10	12
Energy	12,146	13,692	281	205	36	39	32	29
Special products	11,889	12,312	—	2	10	9	9	8
Chemicals, pharma, healthcare	10,535	10,275	166	114	16	19	16	19
Food, beverages, agriculture	8,557	8,925	14	39	14	15	16	16
Consumer goods, textile industry	8,124	6,161	52	39	13	15	16	26
Automotive	7,248	7,270	268	86	7	9	10	13
Services	5,657	5,575	87	40	16	16	30	30
Metals	5,131	5,048	118	72	9	14	20	31
Construction, building materials	5,024	4,824	65	45	10	10	21	22
Transport, travel	4,880	5,176	102	70	9	10	20	22
Machinery	4,733	4,879	8	17	12	10	25	22
Telecommunication, IT	4,383	4,327	189	132	7	9	16	23
Shipping	4,138	4,770	4	1	53	55	190	173
Media, paper	2,127	2,075	9	20	4	4	17	18
Electronics	1,998	1,950	60	86	3	2	14	14
Tourism	1,897	1,917	11	9	3	4	18	21
Private customers	19,669	19,432	—	—	25	26	13	14
Others	41	91	5	7	3	3	830	334
HVB Group	**232,093**	**226,060**	**6,315**	**5,429**	**301**	**328**	**14**	**15**

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

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

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

The exposure in the financial institutions (including foreign sovereigns) industry group increased by €10,535 million in the first half of 2017. This development is attributable, among other things, to the reallocation of liquidity investments from the public sector (including German sovereign) industry group to Deutsche Bundesbank and increases in the same. The increase in the exposure lies within the volatility parameters for business in this industry. The €3 million decrease in EL is primarily the result of the reduction in exposure at a number of commercial banks, but also of rating improvements and the reclassification of several customers to other industries. The risk density decreased from 6 BPS to 4 BPS.

In the public sector (including German sovereign) industry group, the exposure decreased by €4,209 million in the first half of 2017. This is essentially attributable to the aforementioned reallocation of maturing liquidity investments to the financial institutions (including foreign sovereigns) industry group. The EL and the risk density have remained virtually constant in this respect.

Risk Report (Continued)

In the energy industry group, exposure fell by €1,546 million in the first half of 2017. This was caused, in particular, by the repayment of a major interim facility and a low level of utilization of the credit lines granted to major oil traders. This, however, also resulted in a slightly lower average portfolio quality in terms of risk density as most of these customers are classified as having a good rating class.

The sharp rise in the exposure in the consumer goods, textile industry industry group of €1,963 million in the first half of 2017 that was associated with an improvement in the risk density of 10 BPS can be explained essentially by the granting of new loans to some key accounts.

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

Financial institutions (including foreign sovereigns)
Rising costs from regulatory requirements and in connection with compliance (fines and investments), together with falling earnings due to modified business models and less demand for credit, are leading to strong downward pressure on margins throughout the industry.

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

The provision of liquidity to banks is largely unproblematic. As a result of ECB policies, negative interest rates for deposits may be imposed in individual cases in the industry.

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

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

Real estate
The real estate market in Germany once again proved very stable in the first half of 2017 thanks to historically extremely low long-term interest rates coupled with a very robust labour market and persistently strong demand for residential property and now also commercial property, especially in major conurbations. The change in investment patterns seen during the most recent financial crisis in 2008 led to large shifts of assets into real estate. Because it is considered to be a "safe haven", foreign market participants are also increasingly investing in the German real estate market. At attractive locations, sales prices are reaching all-time highs. The rental returns have reached a correspondingly low level. Due to yield considerations, buyers are increasingly investing in types of properties subject to market cycles, such as hotels, logistics centres, student (micro) living and nursing care facilities.

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

Partly as a result of the conservative, forward-looking credit risk strategy for the real estate industry group that has been applied for years, the portfolio of existing properties remained robust and relatively low risk in the first half of 2017 (measured by risk density). In the first half of 2017, the real estate industry achieved the lowest volume of properties in the refurbishment sector in a long-term comparison. All in all, the real estate portfolio is expected to grow in line with expected economic growth, taking into account the proven financing parameters. The financing business is restricted to Germany.

Special products

A strategy of growth within clearly defined parameters involving conservative credit standards (e. g. asset classes, rating quality and others) was defined for sub-segments of the special products portfolio under the 2017 risk strategy. It was not possible to fully realise this growth in these portfolio segments in the second quarter due to the difficult market environment (factors included the competitive situation, downward pressure on margins). We are nevertheless upholding the existing growth strategy for the second half of 2017. Non-strategic sub-portfolios continue to be reduced in a controlled manner.

Energy

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

Shipping

The overall situation in the industry remained less than satisfactory in the first half of 2017. Whereas the freight and time charter rates for bulk carriers recovered from the all-time lows seen in 2016, they went back into decline, however, in the second quarter of 2017 as a consequence of overcapacity and have now stabilised at a level that is still inadequate.

In container shipping, time charter rates recovered slightly but they are likewise still insufficient to cover the cost of capital. As a consequence of increasing concentration at shipping lines, freight rates have increased considerably on the same period of the previous year.

Demand in the offshore industry suffered from the ongoing low price of oil. Accordingly, the demand for equipment for offshore oil exploration and extraction declined sharply.

Tankers for oil products and crude oil tankers alike recorded significant declines in freight rates in comparison to the previous year. Their rates remain at an adequate level, however.

After the prices on the market for new ships and on the secondary market for ships stabilised at a low level, prices have recently demonstrated different trends tracking the development of freight rates. Whereas a slight rise in prices could be seen for bulk carriers, tanker prices were in decline in the first half of 2017. Container ship prices similarly saw a slight recovery but persistently remain at a low level.

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

Risk Report (Continued)

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

HVB Group's acquisition financing portfolio decreased in the first half of 2017 in comparison to the end of 2016. It is true that new transactions more than compensated for the decrease in the existing portfolio but there was a reclassification of exposures in the corporate segment on account of the reporting date. The portfolio quality (measured in terms of EL and risk density) remains at an acceptable level and comfortably within the defined limits.

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

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

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

There have been significant increases in production since the Bank's acquisition of the wind farm in 2014. Using the date when power was fed into the grid for the first time in December 2010 as the baseline and the end of December 2016 as the cut-off point, more than 3.7 billion KWh of energy have already been generated. A production output of 1.45 billion KWh is expected for 2017 with a high level of availability and stable operations overall. The wind farm is designed for 25 years of feed-in operation.

All known issues relating to damage are included in the operator's current business and multiple-year planning. On this basis and with regard to the wind park's performance parameters, it may continue to be assumed that the cash flow that can be generated in regular operation will be adequate to ensure that the debt level will be repaid over a period that is customary for the industry. Repayment of the exposure has already begun, annual repayments of triple-digit millions from the forecast cash flow are scheduled for 2017 and each of the following years.

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

Exposure development of countries/regions
The following tables show the comprehensive concentration risk at country level. The exposure figures are shown with regard to the risk country of the partner.

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

Country	CREDIT DEFAULT RISK EXPOSURE 30/6/2017	CREDIT DEFAULT RISK EXPOSURE 31/12/2016	OF WHICH ISSUER RISK IN TRADING BOOK 30/6/2017	OF WHICH ISSUER RISK IN TRADING BOOK 31/12/2016
Germany	142,019	135,535	1,578	744
Italy	8,857	8,044	1,052	1,048
France	7,704	7,123	447	317
Spain	7,209	7,331	217	93
Luxembourg	6,986	4,769	792	234
Ireland	4,891	4,724	70	70
Netherlands	4,769	4,820	294	193
Austria	1,966	3,258	413	1,457
Belgium	391	987	58	152
Greece	256	275	1	1
Finland	237	231	19	28
Cyprus	191	220	1	6
Slovenia	62	88	9	17
Portugal	56	93	6	37
Malta	29	34	—	—
Lithuania	26	13	26	12
Latvia	18	15	16	—
Slovakia	4	27	1	24
Estonia	3	0	3	—
Supranational organisations and multilateral banks[1]	2,719	3,535	—	—
HVB Group	**188,393**	**181,122**	**5,003**	**4,433**

1 The exposure (without issuer risk in the trading book) from supranational organisations and multilateral banks has been subject to separate limits since January 2017 and disclosed in the supranational organisations and multilateral banks category. The issuer risk in the trading book is disclosed as at 30 June 2017 in the respective eurozone country to which the European supranational organisation or multilateral bank is allocated. A change in the method and the allocation to the category of the European supranational organisations and multilateral banks is scheduled from July 2017 onwards.

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

Italy

The size of the portfolio results from HVB Group's role as group-wide centre of competence for the markets and investment banking business of UniCredit. This portfolio is actively managed in accordance with market standards (such as collateralized derivative transactions). The exposure to Italy also includes the exposure with UniCredit S.p.A., for which a separate strategy was defined. There was clearly positive GDP growth in Italy in 2016. Underpinned primarily by rising household incomes with employment on the increase, forecasts even anticipate a slightly stronger growth rate in 2017 overall than that seen in 2016. An upper limit is placed on the pace of growth by uncertainly with regard to further political developments specifically with regard to the next parliamentary elections due to be held by spring 2018.

Risk Report (Continued)

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

Development of the weaker eurozone countries
The strict austerity measures and reforms imposed by some eurozone countries have been successful, leading to a generally better assessment by the capital markets. Spain in particular should be highlighted in this respect as this country generated strong growth once again in the first half of 2017. The portfolio in the weaker eurozone countries was again actively managed in the first half of 2017, albeit with different strategies.

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

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

Region/country	CREDIT DEFAULT RISK EXPOSURE 30/6/2017	CREDIT DEFAULT RISK EXPOSURE 31/12/2016	OF WHICH ISSUER RISK IN TRADING BOOK 30/6/2017	OF WHICH ISSUER RISK IN TRADING BOOK 31/12/2016
UK	9,666	11,615	161	160
USA	8,753	10,416	242	225
Switzerland	5,126	5,003	162	84
Japan	3,379	855	0	9
Asia/Oceania (without Japan, China, Hong Kong)	3,121	3,779	29	25
Turkey	2,337	2,498	52	22
China (including Hong Kong)	1,972	1,791	0	0
Western Europe (without Switzerland, UK)	1,963	1,900	187	179
North America (including offshore jurisdictions, without USA)	1,536	1,276	93	50
Near/Middle East[1]	1,446	1,577	0	0
Eastern Europe (without eurozone countries)	1,436	1,203	240	166
Africa[1]	1,197	1,348	17	24
CIS/Central Asia (without Turkey)[2]	1,067	1,082	98	22
Central/South America	701	595	31	30
Without country classification[3]	0	—	—	—
HVB Group	**43,700**	**44,938**	**1,312**	**996**

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

The total exposure to regions/countries outside the eurozone decreased by €1,238 million in the first half of 2017. The decline in exposure in the UK and the USA made a particular contribution to this development.

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

Geopolitical flashpoints

In response to the conflict in eastern Ukraine and its economic impact on the country as a whole, unsecured business with Ukrainian banks remains discontinued. An escalation of the situation with Russian involvement led to continuing EU and US sanctions with an impact on cross-border business involving Russia. This is reflected in the decline in exposure, as new business is not written unless all the sanctions are observed and customer interests have been taken into account on a case-by-case basis.

In the Near/Middle East region, political and economic stabilisation continues to be jeopardised by the IS terror organisation and the war in Syria. There is no end in sight to the armed conflicts in either Syria or Iraq. Furthermore, the ongoing escalation and internationalisation of the conflict has led to foreign-policy risks for Turkey. In addition, increasing terrorist activities in Turkey are damaging its tourist industry. Alongside this, the Turkish economy is coming under pressure from domestic policy developments following the failed coup d'état, which is putting a damper on demand for investment. In particular, the inflow of international portfolio investments that to date financed the country's large current account deficit has slowed. Beside the terrorist threat and the civil war in Syria, the region is also suffering from the increasing tensions between Saudi Arabia and Iran together with an oil price that has fallen to a significantly lower level since mid-2014. This is forcing Saudi Arabia and the Golf States to adjust public spending downwards in the medium term, despite their considerable fiscal reserves, which could give rise to dissatisfaction in their respective populations and also cause payments to Egypt to dry up, a country that has to date benefited from an extensive amount of favourable loans from these countries. Furthermore, there are political risks arising from the recently emerging confrontation between a number of Gulf States, including Saudi Arabia, and Qatar.

Financial derivatives

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

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

On the basis of these replacement values and not taking into account any risk-reducing effects, the maximum counterparty risk for HVB Group at 30 June 2017 totalled €65.1 billion (31 December 2016: €76.1 billion).

In accordance with the regulatory provisions under Basel III and CRR as well as taking account of the internal model method (IMM) that has been approved by the regulatory authorities for use by HVB to determine counterparty risks, HVB Group's derivative business results in risk-weighted assets arising from counterparty risk of €4.6 billion as at 30 June 2017 (31 December 2016: €5.3 billion).

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

Risk Report (Continued)

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Interest rate derivatives	775,259	715,472	718,622	2,209,353	2,065,742	52,597	60,989	47,589	57,836
Foreign exchange derivatives	262,488	40,020	5,658	308,166	323,455	3,791	5,342	4,013	6,000
Cross-currency swaps	36,019	99,649	44,558	180,226	191,544	5,520	6,544	5,455	6,795
Equity/index derivatives	47,763	37,212	12,041	97,016	78,942	2,478	2,252	3,441	3,184
Credit derivatives	13,173	33,505	2,109	48,787	56,205	645	671	515	556
– Protection buyer	7,168	15,936	1,012	24,116	27,795	57	161	461	394
– Protection seller	6,005	17,569	1,097	24,671	28,410	588	510	54	162
Other transactions	8,020	3,416	537	11,973	13,386	294	438	336	622
HVB Group	**1,142,722**	**929,274**	**783,525**	**2,855,521**	**2,729,274**	**65,325**	**76,236**	**61,349**	**74,993**

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €551,455 million as at 30 June 2017 (thereof credit derivatives: €1,472 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Central governments and central banks	7,371	7,036	1,408	1,559
Banks	34,632	41,122	37,017	45,185
Financial institutions	20,795	24,590	21,092	25,988
Other companies and private individuals	2,527	3,488	1,832	2,261
HVB Group	**65,325**	**76,236**	**61,349**	**74,993**

Summary and outlook

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

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

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

2 Market risk

Since June 2017, the EC for market risk has been calculated using a method that has been refined in certain points. The EC for market risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €2,339 million and has changed hardly at all in comparison to the figure as at 31 December 2016 (€2,488 million). The decrease is essentially due to the aforementioned refinement in the method used.

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

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

	AVERAGES					PERIOD-END TOTALS	
	2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	30/6/2017	31/12/2016
Credit spread risks	5	5	5	4	4	7	4
Interest rate positions	6	4	7	12	5	6	11
Foreign exchange positions	3	3	4	5	4	3	4
Equity/index positions[1]	3	3	3	3	3	3	2
HVB Group[2]	**7**	**8**	**7**	**9**	**7**	**7**	**9**

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

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

Regulatory metrics of HVB Group (€ millions)

	30/6/2017	31/3/2017	31/12/2016	30/9/2016	30/6/2016
Value-at-risk	143	147	198	172	562
Stressed value-at-risk	284	277	286	310	215
Incremental risk charge	268	219	168	188	195
Market risk Standard Approach	1	1	2	2	2
CVA value-at-risk	37	46	48	50	48
Stressed CVA value-at-risk	148	151	157	174	191
CVA Standard Approach	32	16	16	17	38

There has been an increase in the value-at-risk (VaR) since then and the figure seen on 30 June 2016 is a consequence of the model's weakness in taking account of negative interest rates. Once the extension of the model had been approved, the figures decreased considerably again.

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

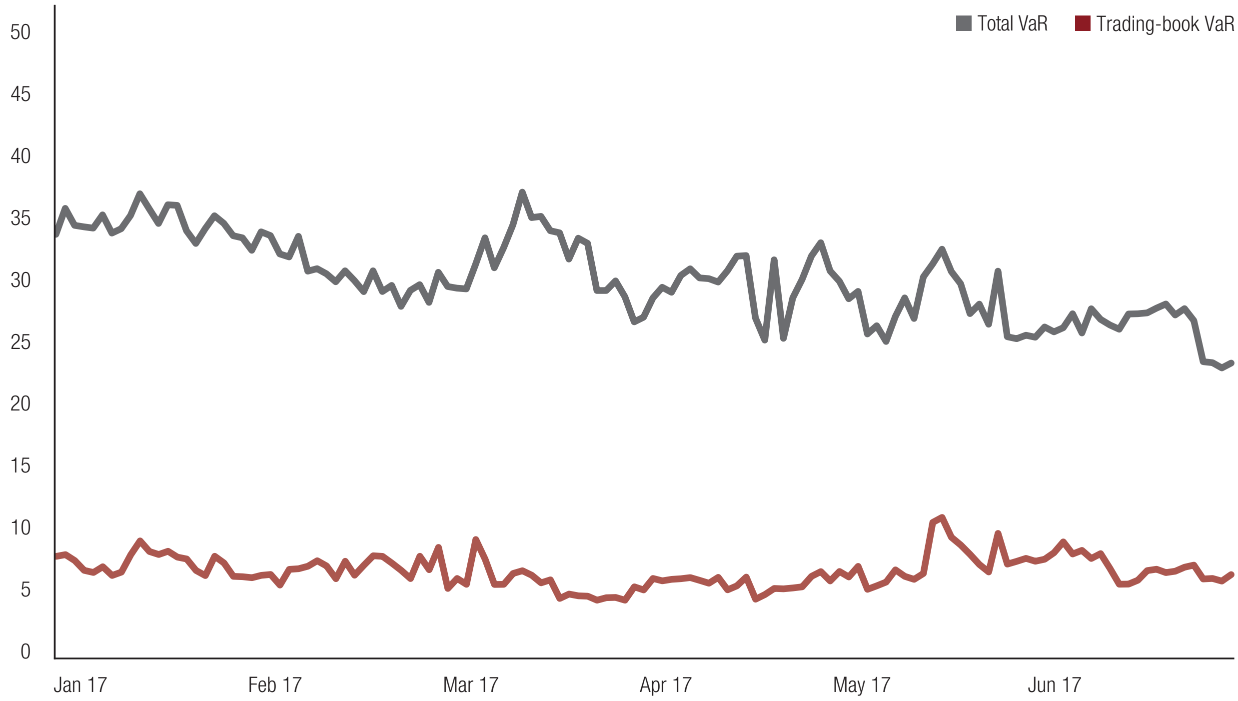
Market risk from trading- and banking-book activities of HVB Group (VaR, 99.00% confidence level, one-day holding period) (€ millions)

	AVERAGES					PERIOD-END TOTALS	
	2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	30/6/2017	31/12/2016
Credit spread risks	23	22	24	25	29	23	23
Interest rate positions	10	8	12	17	13	10	16
Foreign exchange positions	11	10	11	11	8	8	13
Equity/index positions[1]	3	3	3	4	4	3	3
HVB Group[2]	**29**	**27**	**31**	**34**	**35**	**22**	**34**

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

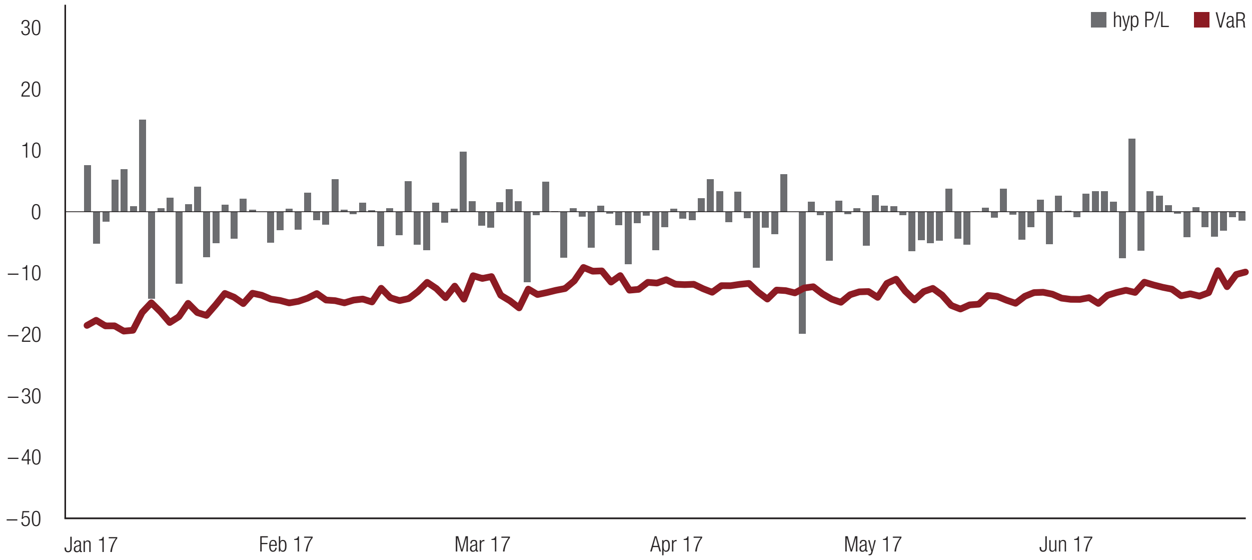
Risk Report (Continued)

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



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

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



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

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

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

In addition, a simulation of interest income in the banking book is carried out for HVB on a monthly basis. The future development of the net interest income is simulated under various scenarios regarding the development of interest rates. Model assumptions are incorporated in the analysis. This relates notably to products with unknown and/or undefined capital employed and options included. The interest rate risk inherent in these product types in the banking book is measured on the basis of assumptions and analyses of customer behaviour in lending and deposit-taking together with forecasts of the development of future market interest rates.

Risk Report (Continued)

One scenario involves a parallel interest shock of minus 30 or minus 100 basis points (BPS) depending on the product currency. Assuming that the expiring contracts were reinvested within the next twelve months with the same product features, this would serve to reduce net interest by €67 million (31 December 2016, minus 100 BPS: minus €56 million), whereas a parallel interest shock of plus 100 BPS would increase net interest for the same period by €99 million (31 December 2016, plus 100 BPS: €84 million). A floor of 0% can be employed, meaning that the interest shock of minus 30 or minus 100 BPS is not fully applied if this was agreed in the underlying transaction.

The resulting sensitivity analysis is carried out on the basis of the planned net interest income for the 2017 financial year.

The differing changes in results as at the end of 2016 can be explained by the changed market conditions and the persistently low interest rates, and the refinement in the calculation method.

In compliance with the regulatory rules published by BaFin on 9 November 2011, the change in the fair value of the banking book in case of a sudden and unexpected interest shock of +/–200 BPS is compared with the Bank's eligible equity funds on a monthly basis. This analysis is carried out both with and without the hedging effect from the model book for equity. At 30 June 2017, the calculation of the present value from the managerial viewpoint taking into account the interest rate shocks gives rise to a capital requirement of 1.6% (31 December 2016: 0.9%). When calculated from the regulatory viewpoint, by contrast, a capital charge of 9.8% becomes apparent given an increase of 200 BPS in interest rates (31 December 2016: 8.3%). HVB Group is well below the 20% mark (in relation to the capital charge) specified, above which the banking supervisory authorities consider a bank to have increased interest rate risk. These figures include the positions of HVB as well as the positions of the material Group companies.

Market liquidity risk

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

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

Summary and outlook

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

3 Liquidity risk

Short-term liquidity risk

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €30.5 billion in HVB Group for the three-month maturity bucket at the end of June 2017 (30 June 2016: €37.6 billion). The holding of available securities eligible as collateral for central bank borrowings that can be employed on the next banking day to compensate for unexpected outflows of liquidity amounted to €20.6 billion at the end of the first half of 2017 (30 June 2016: €30.1 billion).

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

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB Group during the reporting period. The funds available exceeded its payment obligations for the following month by an average of €35.8 billion for HVB Group in the first half of 2017 (in the first half of 2016: €19.8 billion) and €35.7 billion at 30 June 2017. This means that we are significantly above the internally defined trigger.

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

Funding risk

The funding risk of HVB Group was again low in the first half of 2017 thanks to our broad funding base in terms of products, markets and investor groups. This ensured that we were able to obtain adequate funding for our lending operations in terms of volume and maturity within the framework of our limit system at all times. By the end of June 2017, HVB Group had obtained longer term funding with a volume of €11.0 billion (30 June 2016: €11.3 billion), including €5.6 billion under the ECB's TLTRO-II programme. At the end of June 2017, 108.5% (30 June 2016: 105.1%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Summary and outlook

Alongside the existing sovereign debt crisis, political and economic uncertainties continue especially in connection with the ongoing tensions with Russia and Turkey and relating to the continuing geopolitical conflicts and the associated movements of refugees. Increasing numbers of terrorist attacks give rise to further potential risks in relation to the security, monetary and economic situation throughout Europe.

Further sources of uncertainty include the course and the outcome of the negotiations on the UK's exit from the European Union, which have already begun, and the political situation in the USA.

To what extent and to what degree the financial markets react to overall developments still remains unforeseeable.

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

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

4 Operational risk

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

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

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

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

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

The economic capital for operational risk at HVB Group, without taking account of the diversification effects between the risk types, amounted to €1,499 million as at 30 June 2017 (31 December 2016: €1,577 million).

Risk Report (Continued)

Information technology (IT)

HVB's IT services are mostly provided by UBIS. The ICT management processes continue to require adjustments to be made to the internal control system (ICS) for IT to allow for all significant IT risks within the ICT Management processes, among other things, to be monitored and managed appropriately. This also includes the processes in the field of the IT infrastructure outsourced by UBIS to Value Transformation Services (V-TS, a joint venture of IBM and UBIS) as defined for the separate controls in HVB's ICS. Within the ICS, the enhancement of relevant metrics and control processes forms a key element of the activities planned for 2017. In addition, the control system will be adjusted as necessary in line with the potential improvements identified at regular intervals and findings from audits.

Business continuity management, IT service continuity management and crisis management

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

Legal risk and compliance risk

Legal risk is a subcategory of operational risk that represents a risk to the earnings position due to infringements of the law or violations of rights, regulations, agreements, obligatory practices or ethical standards that have specifically occurred.

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

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

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

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

Legal risks

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

A failure to deal appropriately with various legal and regulatory requirements may lead to litigation and administrative proceedings or investigations and subject HVB and/or other companies belonging to HVB Group to damage claims, regulatory fines or other penalties.

In many cases, there is a substantial uncertainty regarding the outcome of the proceedings and the amount of possible damages. These cases include criminal or administrative proceedings by the relevant authority and claims in which the petitioner has not specifically quantified the amounts in dispute. In all proceedings where it is possible to reliably estimate the amount of possible losses, and the loss is considered likely, appropriate provisions have been set up based on the circumstances and consistent with IFRS accounting principles applied by HVB Group.

VIP 4 Medienfonds Fund

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

Closed-end funds

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

Relating to one retail fund with heating plants as its investment target, a number of investors brought legal proceedings against HVB pursuant to the Capital Markets Test Case Act. Munich Higher Regional Court has ordered several court expert opinions to be obtained in order to assess the question of an alleged prospectus liability. After it can be expected that investors in this fund retain their invested capital mainly through fund payout, the consequences of a potentially negative decision of the Higher Regional Court are essentially limited to the compensation of lost profit and interest relating to the judicial proceedings.

Real estate financing

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

Derivative transactions

The number of complaints and lawsuits filed against HVB by customers in connection with inadequate advice in the context of the conclusion of derivative transactions is declining. Among other things, the arguments raised are that the Bank allegedly did not sufficiently inform the customer with respect to potential risks related to such transactions and especially did not inform the customer about a potential initial negative market value of the derivative. Experience gained so far reveals that the characteristics of the relevant product and the individual circumstances of each case are decisive. In particular, the statute of limitations, the client´s economic experience and risk tolerance, and the actual investment advice given may be relevant aspects.

Proceedings related to claims for withholding tax credits

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

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

Risk Report (Continued)

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

Lawsuit for consequential damages
A customer filed an action against HVB with Frankfurt Regional Court for consequential damages of €174 million for the following reasons: In 2010, HVB was ordered by Frankfurt Higher Regional Court to pay damages in the amount of €4.8 million to the plaintiff due to the faulty handling of a bill of exchange and in addition to compensate further damages suffered by the plaintiff as a result of this deficiency. In 2011, the plaintiff filed an action against HVB with Frankfurt Regional Court for alleged consequential damages in the amount of €33.7 million stating that such losses were suffered as a consequence of not being able to profitably invest the amount of the bill of exchange. The plaintiff then extended the claim to the amount of €51.54 million and most recently the plaintiff extended the claim to the amount of €174 million. HVB is of the opinion that the claim is unfounded and the allegations raised by the plaintiff are unreasonable and fallacious.

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

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

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

5 Other risks

HVB Group considers together business risk, real estate risk, financial investment risk, reputational risk, strategic risk and pension risk under other risks. The risk arising from outsourcing activities does not constitute a separate risk type at HVB Group; instead, it is treated as a cross-risk-type risk and consequently listed under other risks.

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

The EC for HVB Group's business risk, without taking account of diversification effects between the risk types, fell by €4 million to €399 million in the first half of 2017 (31 December 2016: €403 million). The fully diversified EC for HVB Group's business risk totals €291 million as at 30 June 2017 (31 December 2016: €287 million).

Real estate risk

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

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

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

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

The EC for the real estate risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €572 million at 30 June 2017, which is €16 million lower (31 December 2016: €588 million). The fully diversified EC for the real estate risk at HVB Group stands at €373 million (31 December 2016: €385 million).

The risk figures relate to a portfolio valued at €3,743 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Strategic real estate	1,723	1,740	46.0	45.1
Non-strategic real estate	2,020	2,114	54.0	54.9
HVB Group	**3,743**	**3,854**	**100**	**100**

From a geographical perspective, the focus is on Munich region with 40.6% of the value of the portfolio located there.

For the second half of 2017, there are also plans to make further disposals from the portfolio of non-strategic real estate. The situation on the real estate markets will depend on economic developments once again in the second half of 2017. There is ongoing great demand from investors for properties in prime locations.

Risk Report (Continued)

Financial investment risk

The investment portfolio mainly consists of interests, derivatives (where the underlying is an equity), holdings in retail funds and private equity co-/direct investments that are either unlisted or listed on markets other than official or regulated markets. All the investments to be included in the financial investment risk are either considered strategic and allocated to a business segment or competence line, or deemed non-strategic and connected with the fundamental goal of reduction.

The financial investment risk is measured conservatively with 100% capital backing of the investment value following modification of the model used. The investments in private equity funds have been taken into consideration in the market risk framework since 30 June 2017 as part of the modification to the model used. Without taking into account any diversification effects between the risk types, the EC for HVB Group's financial investment risk fell by €63 million and stands at €145 million as at 30 June 2017 (31 December 2016: €208 million). Applying the new model retroactively to the previous reporting date, the EC for the financial investment risk stands at €145 million as at 31 December 2016. Eliminating the modification to the model used gives rise to a slight increase in the EC of €0.4 million in comparison to 31 December 2016.

HVB's fully diversified EC stands at €145 million as at 30 June 2017 (31 December 2016: €149 million).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Private equity funds	—	119	—	46.7
Private equity investments	22	23	15.2	9.0
Other holdings	123	113	84.8	44.3
HVB Group	**145**	**255**	**100**	**100**

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

Reputational risk

The statements made in the 2016 Annual Report regarding reputational risk remain basically valid.

Strategic risk

The statements made in the 2016 Annual Report regarding strategic risk remain basically valid. Changes in general economic trends and information regarding the development of HVB's ratings are shown in the Interim Management Report in the section entitled "Economic report".

Pension risk

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

The risks are calculated and monitored at regular intervals in our risk management department using a model devised specifically for pension risk. A risk figure is determined periodically using calculations based on changes in key risk parameters for both the various capital investments and the cash flows on the obligations side. A figure of €905 million was determined as at 30 June 2017 for the total pension risk of HVB Group (31 December 2016: €815 million); this figure is incorporated in the calculation of the risk-taking capacity in the form of an additive component to the IC. In addition, the impact on pension risk is analysed at regular intervals as part of the cross-risk-type stress tests.

Low interest rates continue to be seen as the main negative factor for both the amount of the pension commitments disclosed and the amount of the income that can be generated from the plan assets with acceptable risk. In the current low interest rate environment, it is perfectly conceivable that the discount rate will return to its all-time lows seen in 2016 (as at the end of 2016 the discount rate stood at 1.90% and as at 30 June 2017 at 2.15%), thus causing the pension obligations to rise. Additional adjustments to the risk model applied are still under discussion. Depending on the final structure of the model with regard to the various risk factors applied, the pension risk might again significantly increase after a further adjustment. Furthermore, uniform European rules for the measurement of pension risk do not exist at present. This gives rise to further uncertainty regarding the future development of the disclosed pension risk.

Risks arising from outsourcing activities

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

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

No material new instances of outsourcing were entered into at HVB in the first half of 2017. An instance of outsourcing to UniCredit S.p.A. relating to the professional management of a system for credit risk evaluation (addressee risk analysis management system, ARAMIS), that had previously been classified as material, was downgraded to non-material following re-evaluation. This did not result in any material change to the risk involved.

Bankhaus Neelmeyer AG (BNM) left HVB Group as at 31 March 2017. This reduced the number of instances of outsourcing at HVB Group by the five material instances at BNM. Otherwise, there were no changes in the material instances of outsourcing in HVB Group.

Consolidated Income Statement

INCOME/EXPENSES	NOTES	1/1–30/6/2017 € millions	1/1–30/6/2016 € millions	CHANGE € millions	in %
Interest income		1,865	2,118	(253)	(11.9)
Interest expense		(549)	(801)	+ 252	(31.5)
Net interest	6	1,316	1,317	(1)	(0.1)
Dividends and other income from equity investments	7	2	48	(46)	(95.8)
Net fees and commissions	8	599	567	+ 32	+ 5.6
Net trading income	9	680	342	+ 338	+ 98.8
Net other expenses/income	10	161	165	(4)	(2.4)
Payroll costs		(819)	(861)	+ 42	(4.9)
Other administrative expenses		(750)	(762)	+ 12	(1.6)
Amortisation, depreciation and impairment losses on intangible and tangible assets		(119)	(123)	+ 4	(3.3)
Operating costs	11	(1,688)	(1,746)	+ 58	(3.3)
Net write-downs of loans and provisions for guarantees and commitments	12	(128)	(151)	+ 23	(15.2)
Provisions for risks and charges	13	(17)	(9)	(8)	+ 88.9
Restructuring costs		(2)	(2)	—	—
Net income from investments	14	10	37	(27)	(73.0)
PROFIT BEFORE TAX		**933**	**568**	**+ 365**	**+ 64.3**
Income tax for the period		(216)	(197)	(19)	+ 9.6
PROFIT AFTER TAX		**717**	**371**	**+ 346**	**+ 93.3**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT		**717**	**371**	**+ 346**	**+ 93.3**
attributable to the shareholder of UniCredit Bank AG		715	369	346	+ 93.8
attributable to minorities		2	2	—	—

Earnings per share

(in €)

	NOTES	1/1–30/6/2017	1/1–30/6/2016
Earnings per share (undiluted and diluted)	15	0.89	0.46

Consolidated statement of total comprehensive income

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Consolidated profit recognised in the income statement	**717**	**371**
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)	158	(546)
Non-current assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	(50)	171
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	(6)	(8)
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	70	9
Unrealised gains/(losses)	77	19
Gains/(losses) reclassified to the income statement	(7)	(10)
Changes in valuation of financial instruments (hedge reserve)	(1)	2
Unrealised gains/(losses)	1	7
Gains/(losses) reclassified to the income statement	(2)	(5)
Other changes	—	—
Taxes on income and expenses to be reclassified to the income statement in future periods	(24)	(5)
Total income and expenses recognised in equity under other comprehensive income	**147**	**(377)**
Total comprehensive income	**864**	**(6)**
of which:		
attributable to the shareholder of UniCredit Bank AG	862	(8)
attributable to minorities	2	2

Consolidated Balance Sheet

ASSETS	NOTES	30/6/2017 € millions	31/12/2016 € millions	CHANGE € millions	CHANGE in %
Cash and cash balances		21,901	9,770	+ 12,131	>+ 100.0
Financial assets held for trading	16	80,540	94,087	(13,547)	(14.4)
Financial assets at fair value through profit or loss	17	24,113	28,512	(4,399)	(15.4)
Available-for-sale financial assets	18	6,690	5,929	+ 761	+ 12.8
Investments in associates and joint ventures	19	40	44	(4)	(9.1)
Held-to-maturity investments	20	25	36	(11)	(30.6)
Loans and receivables with banks	21	30,813	33,043	(2,230)	(6.7)
Loans and receivables with customers	22	122,430	121,474	+ 956	+ 0.8
Hedging derivatives		366	384	(18)	(4.7)
Hedge adjustment of hedged items					
in the fair value hedge portfolio		95	51	+ 44	+ 86.3
Property, plant and equipment		2,802	2,869	(67)	(2.3)
Investment properties		942	1,028	(86)	(8.4)
Intangible assets		450	455	(5)	(1.1)
of which: goodwill		418	418	—	—
Tax assets		1,375	1,696	(321)	(18.9)
Current tax assets		146	333	(187)	(56.2)
Deferred tax assets		1,229	1,363	(134)	(9.8)
Non-current assets or disposal groups held for sale		278	1,077	(799)	(74.2)
Other assets		1,738	1,635	+ 103	+ 6.3
Total assets		**294,598**	**302,090**	**(7,492)**	**(2.5)**

LIABILITIES	NOTES	30/6/2017 € millions	31/12/2016 € millions	CHANGE € millions	in %
Deposits from banks	24	69,758	57,584	+ 12,174	+ 21.1
Deposits from customers	25	117,083	117,204	(121)	(0.1)
Debt securities in issue	26	24,099	24,214	(115)	(0.5)
Financial liabilities held for trading	27	58,080	72,834	(14,754)	(20.3)
Hedging derivatives		634	997	(363)	(36.4)
Hedge adjustment of hedged items					
in the fair value hedge portfolio		1,351	1,785	(434)	(24.3)
Tax liabilities		709	723	(14)	(1.9)
Current tax liabilities		596	642	(46)	(7.2)
Deferred tax liabilities		113	81	+ 32	+ 39.5
Liabilities of disposal groups held for sale		8	1,162	(1,154)	(99.3)
Other liabilities		1,854	2,145	(291)	(13.6)
Provisions	28	2,744	3,022	(278)	(9.2)
Shareholders' equity		18,278	20,420	(2,142)	(10.5)
Shareholders' equity attributable to the shareholder					
of UniCredit Bank AG		18,271	20,414	(2,143)	(10.5)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		5,209	5,107	+ 102	+ 2.0
Changes in valuation of financial instruments		149	104	+ 45	+ 43.3
AfS reserve		120	74	+ 46	+ 62.2
Hedge reserve		29	30	(1)	(3.3)
Consolidated profit 2016		—	3,005	(3,005)	(100.0)
Net profit 1/1–30/6/2017[1]		715	—	+ 715	
Minority interest		7	6	+ 1	+ 16.7
Total shareholders' equity and liabilities		**294,598**	**302,090**	**(7,492)**	**(2.5)**

1 attributable to the shareholder of UniCredit Bank AG

The 2016 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 €3,005 million. On 22 May 2017, the Shareholders' Meeting adopted a resolution to pay a dividend of €3,005 million to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.75 per share after around €0.50 in the 2015 financial year.

Statement of Changes in Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES: TOTAL OTHER RESERVES	OTHER RESERVES: OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2016	**2,407**	**9,791**	**8,125**	**(1,135)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[4]	**—**	**—**	**(383)**	**(375)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	(375)	(375)
Reserve arising from foreign currency translation	—	—	(8)	—
Other changes	—	—	—	—
Total other changes in equity	**—**	**—**	**15**	**13**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	—	—
Changes in group of consolidated companies	—	—	15	13
Capital decreases	—	—	—	—
Shareholders' equity at 30/6/2016	**2,407**	**9,791**	**7,757**	**(1,497)**
Shareholders' equity at 1/1/2017	**2,407**	**9,791**	**5,107**	**(1,316)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[4]	**—**	**—**	**102**	**108**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	108	108
Reserve arising from foreign currency translation	—	—	(6)	—
Other changes	—	—	—	—
Total other changes in equity	**—**	**—**	**—**	**5**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	—	—
Changes in group of consolidated companies	—	—	—	5
Capital decreases	—	—	—	—
Shareholders' equity at 30/6/2017	**2,407**	**9,791**	**5,209**	**(1,203)**

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

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS: AFS RESERVE	CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS: HEDGE RESERVE	CONSOLIDATED PROFIT[1]	PROFIT 1/1–30/6[2]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[3]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
11	**30**	**398**	**—**	**20,762**	**4**	**20,766**
—	**—**	**—**	**369**	**369**	**2**	**371**
5	**1**	**—**	**—**	**(377)**	**—**	**(377)**
14	5	—	—	19	—	19
(9)	(4)	—	—	(13)	—	(13)
—	—	—	—	(375)	—	(375)
—	—	—	—	(8)	—	(8)
—	—	—	—	—	—	—
—	**—**	**(398)**	**—**	**(383)**	**(1)**	**(384)**
—	—	(398)	—	(398)	(3)	(401)
—	—	—	—	—	—	—
—	—	—	—	15	2	17
—	—	—	—	—	—	—
16	**31**	**—**	**369**	**20,371**	**5**	**20,376**
74	**30**	**3,005**	**—**	**20,414**	**6**	**20,420**
—	**—**	**—**	**715**	**715**	**2**	**717**
46	**(1)**	**—**	**—**	**147**	**—**	**147**
51	—	—	—	51	—	51
(5)	(1)	—	—	(6)	—	(6)
—	—	—	—	108	—	108
—	—	—	—	(6)	—	(6)
—	—	—	—	—	—	—
—	**—**	**(3,005)**	**—**	**(3,005)**	**(1)**	**(3,006)**
—	—	(3,005)	—	(3,005)	(1)	(3,006)
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
120	**29**	**—**	**715**	**18,271**	**7**	**18,278**

Consolidated Cash Flow Statement (abridged version)

(€ millions)

	2017	2016
Cash and cash equivalents at 1 January	9,770	11,443
Net cash provided/used by operating activities	15,714	1,850
Net cash provided/used by investing activities	(695)	(4,138)
Net cash provided/used by financing activities	(2,888)	(817)
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale	—	—
Cash and cash equivalents at 30 June	21,901	8,338

Accounting and Valuation

1 Accounting and valuation principles

The present Half-yearly Financial Report 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.

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., Rome, Italy (ultimate parent company).

We did not avail ourselves of the possibility of reviewing the present Half-yearly Financial Report of HVB Group compliant with Section 37w (5) WpHG.

The amounts shown in the tables and texts below relate to the reporting date of 30 June 2017 for disclosures regarding balance sheet items, or 31 December 2016 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.

We have applied the same accounting, valuation and disclosure principles in 2017 as in the consolidated financial statements for 2016 (please refer to the HVB Group Annual Report for 2016, starting on page 104).

The changes in the following standards newly published or revised by the IASB are mandatorily applicable in the EU for the first time in the 2017 financial year:
– Amendments to IAS 7 “Disclosure Initiative”
– Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”
– “Annual Improvements to IFRSs 2014-2016 Cycle (IFRS 12)”

Implementation of these standard amendments will have no effect or no material effect on the consolidated financial statements of HVB Group.

We refer to the comments, which continue to be valid without changes, in the 2016 Annual Report in the notes to the consolidated financial statements concerning the effects of published, not yet applicable IFRS. On account of the relevance of IFRS 9, which is applicable for the first time as of 1 January 2018, the comments made in the 2016 Annual Report will be updated based on the progress meanwhile made in implementation.

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

Accounting and Valuation (Continued)

In previous years UniCredit started a group-wide project involving HVB to implement IFRS 9. In the first half of 2017, project activities focused on the implementation of the new requirements relating to the required classification of financial instruments based on business models and on methods for the calculation of the expected losses, which are necessary for the new or modified valuation techniques under IFRS 9. For individual subareas, the technical concepts are being revised based on new insights, whereby their application is planned for the second half of the year to ensure that the IFRS 9 requirements can be implemented on schedule.

In connection with the initial adoption of IFRS 9, the effects arising from the retrospective adoption of IFRS 9 will be recognised in shareholders' equity. In the process, one important factor will be the change in the methodology applied to determine the portfolio allowances. The portfolio allowances for fully performing debt instruments measured at amortised cost will be determined in future based on the 12-month expected loss or if the credit rating has been significantly downgraded since the extension of the credit, based on the life-time expected loss. This will cause an increase in portfolio allowances for fully performing debt instruments. However, it will not be possible to estimate the effects in terms of quantity with sufficient reliability until a later date.

Against the backdrop that the Bank's business model prioritises the cultivation of customer relations, there is generally an intention to hold to maturity the loans extended by the Bank. The analysis of the credit portfolio, which has been completed for the most part, showed that only in a few exceptional cases are the cash flow conditions (cash flows represent solely interest and repayments of the outstanding capital) not met. As regards the portfolio of securities, no significant changes are planned in relation to the business model, which means that no material effects from changes in valuation (change in valuation from securities valued at cost to securities valued at fair value and vice versa) are expected in this respect either.

HVB intends to exercise the option provided in IFRS 9 to continue applying the regulations set forth in IAS 39 on the fair value hedge portfolio. No significant changes to hedge accounting are thus to be expected as a result of the application of IFRS 9. As the Bank is not exercising the option to apply the fair value option for liabilities, the new regulations on the treatment of own credit spread do not apply.

It is not yet possible to conduct a reliable quantitative assessment of the effects of the first-time application of IFRS 9. Individual effects result in both an increase and a decrease of shareholders' equity which means these compensate each other. According to current information, it is possible to rule out a significant reduction in shareholders' equity on account of the first-time application of IFRS 9.

2 Companies included in consolidation

The following companies left the group of companies included in consolidation in the first half of 2017 due to merger, sale, imminent or completed liquidation:
– Bankhaus Neelmeyer AG, Bremen
– Newstone Mortgage Securities No. Plc., London
– HVB Asset Management Holding GmbH, Munich

Segment Reporting

3 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 2017 financial year as were used at year-end 2016. 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 11% to 12% at the beginning of 2017. The interest rate used to assess the equity capital allocated to companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) was 1.88% in the 2016 financial year. This interest rate was redetermined for the 2017 financial year and has been 1.02% since 1 January 2017.

In the course of the reorganisation, there were essentially shifts in net interest between all the business segments in the first half of 2017. These are mainly due to a recalculation of the return on investment.

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

Since the 2017 financial year, certain balance sheet items of the segment assets (loans and receivables with banks) and segment liabilities (deposits from banks, debt securities in issue) are no longer segmented as this information is no longer required on a regular basis for management purposes by the Management Board as the responsible management body. Consequently, the balance sheet figures, broken down by business segment, disclosed as part of segment reporting have also been eliminated for these items.

Segment Reporting (Continued)

4 Income statement, broken down by business segment

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	443	146	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	12	72	77	161
OPERATING INCOME	**1,207**	**1,317**	**234**	**2,758**
Payroll costs	(332)	(226)	(261)	(819)
Other administrative expenses	(586)	(428)	264	(750)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(5)	(58)	(56)	(119)
Operating costs	**(923)**	**(712)**	**(53)**	**(1,688)**
OPERATING PROFIT	**284**	**605**	**181**	**1,070**
Net write-downs of loans and provisions for guarantees and commitments	(61)	(69)	2	(128)
NET OPERATING PROFIT	**223**	**536**	**183**	**942**
Provisions for risks and charges	(25)	8	—	(17)
Restructuring costs	—	—	(2)	(2)
Net income from investments	(4)	8	6	10
PROFIT BEFORE TAX	**194**	**552**	**187**	**933**

Income statement, broken down by business segment for the period from 1 January to 30 June 2016 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	752	560	5	1,317
Dividends and other income from equity investments	22	4	22	48
Net fees and commissions	377	197	(7)	567
Net trading income	(7)	349	—	342
Net other expenses/income	6	71	88	165
OPERATING INCOME	**1,150**	**1,181**	**108**	**2,439**
Payroll costs	(338)	(236)	(287)	(861)
Other administrative expenses	(607)	(442)	287	(762)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(5)	(58)	(60)	(123)
Operating costs	**(950)**	**(736)**	**(60)**	**(1,746)**
OPERATING PROFIT	**200**	**445**	**48**	**693**
Net write-downs of loans and provisions for guarantees and commitments	9	(175)	15	(151)
NET OPERATING PROFIT	**209**	**270**	**63**	**542**
Provisions for risks and charges	1	(11)	1	(9)
Restructuring costs	—	(2)	—	(2)
Net income from investments	14	3	20	37
PROFIT BEFORE TAX	**224**	**260**	**84**	**568**

Development of the Commercial Banking business segment (€ millions)

INCOME/EXPENSES	1/1–30/6/2017	1/1–30/6/2016
Net interest	727	752
Dividends and other income from equity investments	—	22
Net fees and commissions	430	377
Net trading income	38	(7)
Net other expenses/income	12	6
OPERATING INCOME	**1,207**	**1,150**
Payroll costs	(332)	(338)
Other administrative expenses	(586)	(607)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(5)	(5)
Operating costs	**(923)**	**(950)**
OPERATING PROFIT	**284**	**200**
Net write-downs of loans and provisions for guarantees and commitments	(61)	9
NET OPERATING PROFIT	**223**	**209**
Provisions for risks and charges	(25)	1
Restructuring costs	—	—
Net income from investments	(4)	14
PROFIT BEFORE TAX	**194**	**224**
Cost-income ratio in %[1]	76.5	82.6

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 42.0%, or €84 million, to €284 million in the first half of 2017.

At €1,207 million, operating income surpassed the year-ago figure (€1,150 million). On account of the extremely low interest rates, net interest of €727 million was generated, which had fallen by 3.3%. Deposit-taking operations continued to be weighed down by the persistently ultra-low interest rates. Despite a rise in real estate financing in the retail customer business with a slight fall in margins, a very good expansion in consumer lending activities (up 48%) and increased demand for credit in our business customer activities (up 2.8%) with stable margins compared with the previous year, it was not possible to compensate for the fall in profit in the deposit-taking business. No dividends and other income were generated from equity investments in 2017, while an extraordinary dividend payout from our investment in EURO Kartensysteme GmbH was contained in the first half of 2016. Net fees and commissions were up by €53 million to €430 million compared with the year-ago figure. At €38 million, net trading income developed favourably in the first half of 2017 compared with the previous year (down €7 million). Net other expenses/income also improved from €6 million in the first half of 2016 to €12 million in the current reporting period.

In the first half of 2017, operating costs were again reduced and fell by 2.8%, or €27 million, to €923 million compared with the equivalent period of the previous year. Payroll costs fell by 1.8%, or €6 million, to €332 million, particularly also on account of the smaller workforce. Likewise, other administrative expenses were lowered by 3.5%, or €21 million, to €586 million, which is attributable, among other factors, to a reduction in marketing expenses and a lower level of contributions to deposit guarantee institutions.

The cost-income ratio improved significantly from 82.6% in the first half of 2016 to 76.5% in the current reporting period due to an increase in operating income and higher cost reductions.

In the first half of 2017, there was a net addition to net write-downs of loans and provisions for guarantees and commitments of minus €61 million, after a net reversal (€9 million) was recorded in the equivalent period of the previous year. This increase of €70 million in net write-downs of loans and provisions for guarantees and commitments, in conjunction with the improved operating profit, resulted in a rise of 6.7%, or €14 million, to €223 million in net operating profit.

The additions to the provisions for risks and charges, with a net addition of €25 million recorded in the current reporting period, are mainly related to legal transactions. In the first half of 2017, the business segment generated a profit before tax totalling €194 million (year-ago figure: €224 million) on the back of a €18 million decline in net income from investments.

Segment Reporting (Continued)

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

INCOME/EXPENSES	1/1–30/6/2017	1/1–30/6/2016
Net interest	443	560
Dividends and other income from equity investments	1	4
Net fees and commissions	178	197
Net trading income	623	349
Net other expenses/income	72	71
OPERATING INCOME	**1,317**	**1,181**
Payroll costs	(226)	(236)
Other administrative expenses	(428)	(442)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(58)	(58)
Operating costs	**(712)**	**(736)**
OPERATING PROFIT	**605**	**445**
Net write-downs of loans and provisions for guarantees and commitments	(69)	(175)
NET OPERATING PROFIT	**536**	**270**
Provisions for risks and charges	8	(11)
Restructuring costs	—	(2)
Net income from investments	8	3
PROFIT BEFORE TAX	**552**	**260**
Cost-income ratio in %[1]	54.1	62.3

1 ratio of operating costs to operating income

In the first half of 2017, the Corporate & Investment Banking business segment generated operating income of €1,317 million, thus improving on the year-ago figure by €136 million or 11.5%.

In the reporting year, net interest continued to come under clear pressure from the ultra-low interest rate environment. At €443 million, net interest was €117 million lower than in the equivalent period in the previous year. The decline is mainly attributable to the Treasury business and the trading-induced interest. In addition, it should also be taken into account that net interest in 2016 benefitted from a gain in connection with the sale of a credit portfolio to finance commercial property. At €178 million, net fees and commissions did not manage to match the result of the first half of 2016 (€197 million). Net other expenses/income remained almost unchanged at €72 million (year-ago figure: €71 million).

Compared with 2016, net trading income rose a sharp €274 million, or 78.5%, to €623 million. This profit improvement was generated particularly in the fixed-income products and the Treasury business. We also generated an increase in earnings in the business with equity derivatives. The contribution to earnings by the valuation adjustments, which mainly include credit value adjustments and funding value adjustments as well as effects from a change in own credit spreads, was slightly higher than in the previous year.

Operating costs fell in comparison to the equivalent period last year by €24 million, or 3.3%, to €712 million. Of this total, payroll costs fell by €10 million to €226 million and other administrative expenses by €14 million to €428 million. At €58 million, amortisation, depreciation and impairment losses on intangible and tangible assets remained almost constant.

The cost-income ratio improved significantly by 8.2 percentage points to 54.1% both as a result of the pleasing earnings performance and cost reductions. Consequently, the operating profit rose by €160 million, or 36.0%, to €605 million.

In the reporting period, net write-downs of loans and provisions for guarantees and commitments amounted to €69 million, which is thus €106 million lower than the year-ago figure of €175 million. In the reporting period, provisions of €8 million were reversed in the non-lending business, after €11 million were transferred to provisions in the same period in 2016, which essentially relate to legal risks. For the first half of 2017, €8 million was generated in net income from investments after €3 million in the previous year.

In the current reporting period, the business segment generated a profit before tax of €552 million, which significantly exceeded the equivalent figure in the previous year by €292 million.

Development of the Other/consolidation business segment (€ millions)

INCOME/EXPENSES	1/1–30/6/2017	1/1–30/6/2016
Net interest	146	5
Dividends and other income from equity investments	1	22
Net fees and commissions	(9)	(7)
Net trading income	19	—
Net other expenses/income	77	88
OPERATING INCOME	**234**	**108**
Payroll costs	(261)	(287)
Other administrative expenses	264	287
Amortisation, depreciation and impairment losses on intangible and tangible assets	(56)	(60)
Operating costs	**(53)**	**(60)**
OPERATING PROFIT	**181**	**48**
Net write-downs of loans and provisions for guarantees and commitments	2	15
NET OPERATING PROFIT	**183**	**63**
Provisions for risks and charges	—	1
Restructuring costs	(2)	—
Net income from investments	6	20
PROFIT BEFORE TAX	**187**	**84**
Cost-income ratio in %[1]	22.6	55.6

1 ratio of operating costs to operating income

In the first half of 2017, the operating income of the Other/consolidation business segment, at €234 million, was significantly higher than the year-ago figure (€108 million). This development is mainly due to net interest (up €141 million to €146 million), which benefitted substantially from the positive non-recurring effect from the reversal of provisions. In the reporting period, €1 million was generated in dividends and similar income from equity investments, while €22 million attributable to a single notable dividend yield from our shareholdings was recorded in the previous year. The higher net trading income is driven by the positive effects from the buy-back of our own bonds and hybrid capital instruments (Tier 1 capital).

With operating costs having fallen by €7 million to €53 million compared with the previous year, the operating profit amounted to €181 million after €48 million in the previous year.

There was a net reversal in net write-downs of loans and provisions for guarantees and commitments in both years: €2 million in 2017 and €15 million in 2016. This meant that the net operating profit in the reporting year amounted to €183 million after €63 million in the previous year.

At €6 million, a lower result was generated in net income from investments compared with the previous year (€20 million). In 2017, this mainly relates to write-ups for investment properties, while 2016 contained gains on the disposal of investment properties. The profit before tax of €187 million was significantly higher than the year-ago figure (€84 million), particularly on account of the increase in net interest.

Segment Reporting (Continued)

5 Balance sheet figures, broken down by business segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Loans and receivables with customers				
30/6/2017	80,415	41,794	221	122,430
31/12/2016	78,435	43,863	(824)	121,474
Goodwill				
30/6/2017	130	288	—	418
31/12/2016	130	288	—	418
Deposits from customers				
30/6/2017	81,368	32,639	3,076	117,083
31/12/2016	81,962	30,519	4,723	117,204
Risk-weighted assets compliant with Basel III				
(including equivalents for market risk and operational risk)				
30/6/2017	29,859	42,754	6,406	79,019
31/12/2016	30,440	44,493	6,642	81,575

Notes to the Income Statement

6 Net interest

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Interest income	1,865	2,118
Lending and money market transactions	1,393	1,471
Other interest income	472	647
Interest expense	(549)	(801)
Deposits	(66)	(101)
Debt securities in issue and other interest expenses	(483)	(700)
Total	**1,316**	**1,317**

Interest that the Bank is required to pay on assets (such as interest payable on average reserves maintained with the ECB above the minimum required reserve and other deposits with the ECB) is carried as a negative item under interest income (€65 million); where interest receivable accrues on the liabilities side, this is similarly recognised as a positive item under interest expense (€128 million). This mainly relates to securities repurchase agreements, overnight deposits and forward transactions with banks and institutional investors.

Net interest attributable to related parties

The following table shows the net interest attributable to related parties:

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Non-consolidated affiliated companies	19	25
of which:		
UniCredit S.p.A.	2	6
Sister companies	17	19
Joint ventures	3	2
Associated companies	5	1
Other participating interests	9	—
Total	**36**	**28**

7 Dividends and other income from equity investments

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Dividends and other similar income	3	48
Companies accounted for using the equity method	(1)	—
Total	**2**	**48**

Notes to the Income Statement (Continued)

8 Net fees and commissions

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Fee and commission income	738	777
Fee and commission expense	(139)	(210)
Net fees and commissions	**599**	**567**
thereof:		
Management, brokerage and consultancy services	303	297
Collection and payment services	131	98
Lending operations	162	178
Other service operations	3	(6)

Net fees and commissions from related parties

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

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Non-consolidated affiliated companies	69	(8)
of which:		
UniCredit S.p.A.	17	(57)
Sister companies	48	45
Subsidiaries	4	4
Joint ventures	—	—
Associated companies	2	9
Other participating interests	—	—
Total	**71**	**1**

9 Net trading income

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Net gains on financial assets held for trading[1]	607	409
Effects arising from hedge accounting	54	(39)
Changes in fair value of hedged items	474	(494)
Changes in fair value of hedging derivatives	(420)	455
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	8	(28)
Other net trading income	11	—
Total	**680**	**342**

1 including dividends on financial assets held for trading
2 also including the valuation results of derivatives concluded to hedge financial assets through fair value at profit or loss (effect in the first half of 2017: plus €190 million; effect in the equivalent period last year: minus €236 million)

The effects arising from hedge accounting include the hedge results of the fair value hedge portfolio and the individual micro fair value hedges as a net aggregate total.

The net hedge accounting income of €54 million (first half of 2016: expense of €39 million) arises from the increase of €474 million (first half of 2016: decrease of €494 million) in fair value relating to the secured risk of the hedged items and the decrease of €420 million in the fair value of hedging derivatives (first half of 2016: increase of €455 million).

The net gains on holdings at fair value through profit or loss (held-for-trading portfolio and fair value option) generally only contain the changes in fair value disclosed in the income statement. The interest income from held-for-trading portfolios is normally disclosed under net interest. To ensure that the full contribution of these activities to profits is disclosed, the interest cash flows are only carried in net trading income for the interest rate swap trading book, which exclusively contains interest rate derivatives.

10 Net other expenses/income

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Other income	311	306
Other expenses	(150)	(141)
Total	**161**	**165**

Net other expenses/income attributable to related parties

The following table shows the net other expenses/income attributable to related parties:

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Non-consolidated affiliated companies	41	39
of which:		
UniCredit S.p.A.	7	7
Sister companies	34	32
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**41**	**39**

11 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)

	1/1–30/6/2017	1/1–30/6/2016
Non-consolidated affiliated companies	(365)	(351)
of which:		
UniCredit S.p.A.	(5)	(7)
Sister companies	(360)	(344)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(365)**	**(351)**

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

(€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Additions/releases	(147)	(181)
Allowances for losses on loans and receivables	(211)	(196)
Allowances for losses on guarantees and indemnities	64	15
Recoveries from write-offs of loans and receivables	19	30
Gains/(losses) on the disposal of impaired loans and receivables	—	—
Total	**(128)**	**(151)**

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)

	1/1–30/6/2017	1/1–30/6/2016
Non-consolidated affiliated companies	—	—
of which:		
UniCredit S.p.A.	—	—
Sister companies	—	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	(1)
Total	**—**	**(1)**

Notes to the Income Statement (Continued)

13 Provisions for risks and charges

In the first six months of the 2017 financial year, there were expenses of €17 million for provisions for risks and charges after €9 million in the previous year. These are 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.

14 Net income from investments

Net income from investments (€ millions)

	1/1–30/6/2017	1/1–30/6/2016
Available-for-sale financial assets	4	13
Shares in affiliated companies	1	—
Companies accounted for using the equity method	—	—
Held-to-maturity investments	—	—
Land and buildings	—	—
Investment properties[1]	5	24
Other	—	—
Total	**10**	**37**

1 gains on disposal, impairments and write-ups

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

	1/1–30/6/2017	1/1–30/6/2016
Gains on the disposal of	11	36
available-for-sale financial assets	9	14
shares in affiliated companies	1	—
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
land and buildings	—	—
investment properties	1	22
other	—	—
Write-downs, value adjustments and write-ups on	(1)	1
available-for-sale financial assets	(5)	(1)
shares in affiliated companies	—	—
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
investment properties	4	2
other	—	—
Total	**10**	**37**

15 Earnings per share

	1/1–30/6/2017	1/1–30/6/2016
Consolidated profit attributable to the shareholder (€ millions)	715	369
Average number of shares	802,383,672	802,383,672
Earnings per share (€) (undiluted and diluted)	0.89	0.46

Notes to the Balance Sheet

16 Financial assets held for trading

(€ millions)

	30/6/2017	31/12/2016
Balance-sheet assets	31,864	35,691
Fixed-income securities	10,050	10,928
Equity instruments	13,070	11,315
Other financial assets held for trading	8,744	13,448
Positive fair value from derivative financial instruments	48,676	58,396
Total	**80,540**	**94,087**

The financial assets held for trading include €290 million (31 December 2016: €170 million) in subordinated assets.

Financial assets held for trading of related parties

The following table shows the breakdown of financial assets held for trading involving related parties:

(€ millions)

	30/6/2017	31/12/2016
Non-consolidated affiliated companies	12,678	15,116
of which:		
UniCredit S.p.A.	8,549	9,937
Sister companies[1]	4,129	5,179
Joint ventures	24	20
Associated companies	838	703
Other participating interests	7	9
Total	**13,547**	**15,848**

1 mostly derivative transactions involving UniCredit Bank Austria AG

17 Financial assets at fair value through profit or loss

(€ millions)

	30/6/2017	31/12/2016
Fixed-income securities	23,062	27,423
Equity instruments	—	—
Investment certificates	—	—
Promissory notes	1,051	1,089
Other financial assets at fair value through profit or loss	—	—
Total	**24,113**	**28,512**

The financial assets at fair value through profit or loss (fair value option) include €7 million (31 December 2016: €6 million) in subordinated assets.

Notes to the Balance Sheet (Continued)

18 Available-for-sale financial assets

(€ millions)

	30/6/2017	31/12/2016
Fixed-income securities	6,393	5,627
Equity instruments	105	99
Other available-for-sale financial assets	58	56
Impaired assets	134	147
Total	**6,690**	**5,929**

Available-for-sale financial assets at 30 June 2017 include financial instruments of €150 million (31 December 2016: €231 million) valued at cost.

Available-for-sale financial assets at 30 June 2017 contain a total of €134 million (31 December 2016: €147 million) in impaired assets. Impairments of €2 million (first half of 2016: €1 million) were taken to the income statement during the reporting period.

None of the non-impaired debt instruments are financial instruments past due.

At 30 June 2017 and at 31 December 2016, the available-for-sale financial assets include no subordinated assets.

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

(€ millions)

	30/6/2017	31/12/2016
Associated companies accounted for using the equity method	40	44
of which: goodwill	11	11
Joint ventures accounted for using the equity method	—	—
Total	**40**	**44**

20 Held-to-maturity investments

(€ millions)

	30/6/2017	31/12/2016
Fixed-income securities	25	36
Impaired assets	—	—
Total	**25**	**36**

The held-to-maturity investments at 30 June 2017 include no subordinated assets, as was also the case at 31 December 2016.

The held-to-maturity investments at 30 June 2017 include no impaired or past due assets, as was also the case at 31 December 2016.

21 Loans and receivables with banks

(€ millions)

	30/6/2017	31/12/2016
Current accounts	1,891	1,059
Cash collateral and pledged credit balances	7,505	9,567
Reverse repos	11,998	13,169
Reclassified securities	209	450
Other loans to banks	9,210	8,798
Total	**30,813**	**33,043**

The non-performing loans and receivables with banks arise from the gross loans and receivables of €40 million before allowances (31 December 2016: €45 million) less the associated specific allowances of €40 million (31 December 2016: €43 million).

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

The loans and receivables with banks include €0 million (31 December 2016: €5 million) in subordinated assets at 30 June 2017.

Loans and receivables with related parties

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

	30/6/2017	31/12/2016
Non-consolidated affiliated companies	6,406	3,874
of which:		
UniCredit S.p.A.	4,043	1,897
Sister companies[1]	2,363	1,977
Joint ventures	285	295
Associated companies	47	12
Other participating interests	82	79
Total	**6,820**	**4,260**

1 mainly UniCredit Bank Austria AG

22 Loans and receivables with customers

(€ millions)

	30/6/2017	31/12/2016
Current accounts	7,900	7,315
Cash collateral and pledged cash balances	2,293	2,529
Reverse repos	1,470	1,632
Mortgage loans	44,755	44,009
Finance leases	1,878	2,026
Reclassified securities	1,093	1,271
Non-performing loans and receivables	1,961	2,511
Other loans and receivables	61,080	60,181
Total	**122,430**	**121,474**

The non-performing loans and receivables with customers arise from the gross loans and receivables of €4,123 million before allowances (31 December 2016: €4,661 million) less the associated specific allowances of €2,162 million (31 December 2016: €2,150 million).

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

Loans and receivables with customers include an amount of €3,720 million (31 December 2016: €3,515 million) funded under the fully consolidated Arabella conduit programme. This essentially involves buying short-term accounts payable and medium-term receivables under lease agreements from customers and funding them by issuing commercial paper on the capital market. The securitised loans and receivables essentially reflect loans and receivables of European borrowers.

The loans and receivables with customers at 30 June 2017 include €471 million (31 December 2016: €467 million) in subordinated assets.

Loans and receivables with related parties

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

	30/6/2017	31/12/2016
Non-consolidated affiliated companies	5	54
of which:		
Sister companies	4	2
Subsidiaries	1	52
Joint ventures	22	24
Associated companies	33	37
Other participating interests	445	437
Total	**505**	**552**

Notes to the Balance Sheet (Continued)

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

Analysis of loans and receivables

(€ millions)

Balance at 1/1/2016	**2,688**
Changes affecting income[1]	196
Changes not affecting income	(181)
Changes due to make-up of group of consolidated companies and reclassifications of non-current assets or disposal groups held for sale	(8)
Use of existing loan-loss allowances	(140)
Effects of currency translation and other changes not affecting income	(33)
Non-current assets or disposal groups held for sale	—
Balance at 30/6/2016	**2,703**
Balance at 1/1/2017	**2,563**
Changes affecting income[1]	211
Changes not affecting income	(147)
Changes due to make-up of group of consolidated companies and reclassifications of non-current assets or disposal groups held for sale	—
Use of existing loan-loss allowances	(96)
Effects of currency translation and other changes not affecting income	(51)
Non-current assets or disposal groups held for sale	—
Balance at 30/6/2017	**2,627**

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

24 Deposits from banks

(€ millions)

	30/6/2017	31/12/2016
Deposits from central banks	19,680	15,946
Deposits from banks	50,078	41,638
Current accounts	4,012	2,417
Cash collateral and pledged credit balances	12,034	11,132
Repos	16,512	12,362
Term deposits	5,290	4,720
Other liabilities	12,230	11,007
Total	**69,758**	**57,584**

Amounts owed to related parties

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

(€ millions)

	30/6/2017	31/12/2016
Non-consolidated affiliated companies	5,947	4,407
of which:		
UniCredit S.p.A.	2,850	1,139
Sister companies[1]	3,097	3,268
Joint ventures	13	33
Associated companies	45	78
Other participating interests	21	22
Total	**6,026**	**4,540**

1 the largest single item relates to UniCredit Bank Austria AG

25 Deposits from customers

(€ millions)

	30/6/2017	31/12/2016
Current accounts	66,143	69,341
Cash collateral and pledged credit balances	3,881	4,076
Savings deposits	13,710	13,780
Repos	7,520	8,798
Term deposits	20,757	16,028
Promissory notes	3,416	3,565
Other liabilities	1,656	1,616
Total	**117,083**	**117,204**

Amounts owed to related parties

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

(€ millions)

	30/6/2017	31/12/2016
Non-consolidated affiliated companies	259	333
of which:		
Sister companies	255	326
Subsidiaries	4	7
Joint ventures	2	6
Associated companies	5	4
Other participating interests	323	370
Total	**589**	**713**

26 Debt securities in issue

(€ millions)

	30/6/2017	31/12/2016
Bonds	22,237	21,834
of which:		
Registered mortgage Pfandbriefs	5,462	5,498
Registered public-sector Pfandbriefs	2,263	3,027
Mortgage Pfandbriefs	8,001	7,351
Public-sector Pfandbriefs	164	262
Registered bonds	2,792	2,740
Other securities	1,862	2,380
Total	**24,099**	**24,214**

Debt securities in issue, payable to related parties

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

(€ millions)

	30/6/2017	31/12/2016
Non-consolidated affiliated companies	—	217
of which:		
UniCredit S.p.A.	—	—
Sister companies	—	217
Joint ventures	1	16
Associated companies	151	146
Other participating interests	—	—
Total	**152**	**379**

Notes to the Balance Sheet (Continued)

27 Financial liabilities held for trading

(€ millions)

	30/6/2017	31/12/2016
Negative fair values arising from derivative financial instruments	44,276	54,806
Other financial liabilities held for trading	13,804	18,028
Total	**58,080**	**72,834**

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

28 Provisions

(€ millions)

	30/6/2017	31/12/2016
Provisions for pensions and similar obligations	777	898
Allowances for losses on guarantees and commitments and irrevocable credit commitments	150	230
Restructuring provisions	624	631
Other provisions	1,193	1,263
Payroll provisions	262	272
Provisions related to tax disputes (without income taxes)	34	60
Provisions for rental guarantees and dismantling obligations	132	133
Other provisions	765	798
Total	**2,744**	**3,022**

Provisions for pensions and similar obligations

At 30 June 2017, 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 2016, the pension provisions shown in the consolidated balance sheet have decreased by €121 million (–13.5%) to €777 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 €4,846 million against the fair value of the plan assets of €4,069 million.

The main reason for the decrease in pension provisions was the increase in the actuarial interest rate (weighted average) by 25 basis points to 2.15% (31 December 2016: 1.90%) arising from developments on the capital markets in the first half of 2017. 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 €158 million, which was recognised immediately in shareholders' equity and carried under other comprehensive income (OCI) in the consolidated statement of total comprehensive income.

29 Subordinated capital

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

	30/6/2017	31/12/2016
Subordinated liabilities	545	543
Hybrid capital instruments	53	56
Total	**598**	**599**

Other Information

30 Reclassification of financial instruments in accordance with IAS 39.50 et seq. and IFRS 7

HVB reclassified certain financial assets to loans and receivables in 2008 and 2009 in accordance with the amendment to IAS 39 and IFRS 7 implemented by the International Accounting Standards Board (IASB) and Commission Regulation (EC) No 1004/2008. The intention to trade no longer exists for these reclassified holdings since the markets in these financial instruments had become illiquid as a result of the extraordinary circumstances created by the financial crisis (2008/09) through to the time of reclassification. Given the high quality of the assets concerned, HVB intends to retain the assets for a longer period. HVB has not reclassified any assets from the available-for-sale portfolio. No further reclassifications have been carried out since 2010.

The asset-backed securities and other debt securities reclassified in 2008 were disclosed at 31 December 2008 with a carrying amount of €13.7 billion and the holdings reclassified in 2009 were disclosed at 31 December 2009 with a carrying amount of €7.3 billion.

Analysis of the reclassified holdings for the current and previous reporting periods **(€ billions)**

RECLASSIFIED ASSET-BACKED SECURITIES AND OTHER DEBT SECURITIES	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1]	FAIR VALUE OF ALL RECLASSIFIED ASSETS	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS
Reclassified in 2008			
Balance at 31/12/2016	0.9	0.9	1.0
Balance at 30/6/2017	0.7	0.6	0.8
Reclassified in 2009			
Balance at 31/12/2016	0.9	1.0	0.9
Balance at 30/6/2017	0.7	0.9	0.7
Balance of reclassified assets at 30/6/2017	**1.4**	**1.5**	**1.5**

1 before accrued interest

The fair value at the date when the reclassification takes effect represents the new acquisition cost, which in some cases is considerably less than the nominal value. Accordingly, this difference (discount) is to be amortised over the remaining term of the reclassified financial assets. This together with the reclassified securities that had been matured or partially repaid gives rise to an effect of €6 million in the first half of 2017 (2016 financial year: €13 million), which is recognised in net interest.

A gain of €2 million (2016 financial year: €19 million) on reclassified securities that had been sold was recognised in the income statement in the first six months of 2017.

In the first half of 2017, we reversed write-downs of €4 million that had previously been taken on reclassified assets. Write-downs of €51 million were reversed on the reclassified assets in the 2016 financial year.

If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (inclusive realised disposals) would have given rise to a net loss of €9 million (2016 financial year: €25 million) in net trading income in the first half of 2017. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification. Accordingly, the inclusion of these effects on the income statement resulted in a profit before tax that was €21 million higher in the first six months of 2017 (2016 financial year: €108 million). Between the date when the reclassifications took effect in 2008 and the reporting date, the cumulative net effect on the income statement from the reclassifications already carried out totalled minus €83 million before tax (31 December 2016: minus €104 million).

Other Information (Continued)

31 Notes to selected structured products

Additional information regarding selected structured products is given below in order to provide greater transparency. Holdings of asset-backed securities (ABS) transactions issued by third parties are shown below alongside tranches retained by HVB Group.

ABS portfolio

In a securitisation transaction, above all the originator transfers credit receivables and/or credit risks to third parties. The securitisation itself is usually performed via what are known as structured entities (formerly called special purpose vehicles or SPVs). In order to refinance the acquisition of receivables, these vehicles issue securities on the capital market that are secured by the receivables acquired. This serves to transfer the associated credit risks to investors in the form of asset-backed securities. The securities issued by vehicles are generally divided into tranches which differ above all in terms of seniority in the servicing of claims to repayment and interest payments. These tranches are generally assessed by rating agencies.

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:
– residential mortgage-backed securities (RMBS) relating to mortgage loans in the private sector (residential mortgage loans)
– commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans)
– collateralised loan obligations (CLO) relating to commercial bank loans
– collateralised bond obligations (CBO) relating to securities portfolios

Besides this, consumer loans, credit card receivables and receivables under finance leases are also securitised.

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by rating class: (€ millions)

		30/6/2017				31/12/2016
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**6,257**	**350**	**—**	**6,607**	**6,788**
Residential mortgage-backed securities (RMBS)		2,276	139	—	2,415	2,888
Commercial mortgage-backed securities (CMBS)		69	47	—	116	122
Collateralised debt obligations (CDO)		55	—	—	55	61
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		2,760	135	—	2,895	2,161
Consumer loans		1,051	21	—	1,072	1,417
Credit cards		—	—	—	—	77
Receivables under finance leases		17	4	—	21	26
Others		29	4	—	33	36
Total	**30/6/2017**	**6,257**	**350**	**—**	**6,607**	
	31/12/2016	**6,278**	**510**	**—**	**6,788**	**6,788**

The positions are classified as senior, mezzanine and junior on the basis of external ratings, or internal ratings where no external rating exists. Only those tranches with the best rating are carried as senior tranches. Only tranches with low ratings (worse than BB– in external ratings) and unrated tranches (known as first loss pieces) are carried as junior tranches; all other tranches are grouped together as mezzanine tranches.

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by region (€ millions)

CARRYING AMOUNTS		30/6/2017 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**5,439**	**1,140**	**—**	**28**	**6,607**
Residential mortgage-backed securities (RMBS)		2,407	1	—	7	2,415
Commercial mortgage-backed securities (CMBS)		110	6	—	—	116
Collateralised debt obligations (CDO)		3	31	—	21	55
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		1,797	1,098	—	—	2,895
Consumer loans		1,068	4	—	—	1,072
Credit cards		—	—	—	—	—
Receivables under finance leases		21	—	—	—	21
Others		33	—	—	—	33
Total	**30/6/2017**	**5,439**	**1,140**	**—**	**28**	**6,607**
	31/12/2016	**5,800**	**957**	**—**	**31**	**6,788**

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by remaining maturity (€ millions)

CARRYING AMOUNTS		30/6/2017 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**566**	**4,473**	**1,568**	**6,607**
Residential mortgage-backed securities (RMBS)		242	1,754	419	2,415
Commercial mortgage-backed securities (CMBS)		10	31	75	116
Collateralised debt obligations (CDO)		1	2	52	55
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		79	1,835	981	2,895
Consumer loans		218	838	16	1,072
Credit cards		—	—	—	—
Receivables under finance leases		16	5	—	21
Others		—	8	25	33
Total	**30/6/2017**	**566**	**4,473**	**1,568**	**6,607**
	31/12/2016	**822**	**4,356**	**1,610**	**6,788**

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by class as per IAS 39 (€ millions)

		30/6/2017					
CARRYING AMOUNTS		HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**101**	**11**	**6,441**	**25**	**29**	**6,607**
Residential mortgage-backed securities (RMBS)		63	6	2,326	—	20	2,415
Commercial mortgage-backed securities (CMBS)		—	—	110	—	6	116
Collateralised debt obligations (CDO)		—	5	29	21	—	55
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		—	—	2,895	—	—	2,895
Consumer loans		27	—	1,041	4	—	1,072
Credit cards		—	—	—	—	—	—
Receivables under finance leases		11	—	7	—	3	21
Others		—	—	33	—	—	33
Total	**30/6/2017**	**101**	**11**	**6,441**	**25**	**29**	**6,607**
	31/12/2016	**156**	**14**	**6,517**	**36**	**65**	**6,788**

32 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 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 €489 million (31 December 2016: €1,168 million) have been transferred between Level 1 and Level 2. At the same time, financial assets or liabilities of €1,653 million (31 December 2016: €1,393 million) were transferred between Level 2 and Level 1. Most of the transfers relate to securities, resulting from an increase or decrease in the actual trading taking place in the securities concerned and the associated change in the bid-offer spreads.

The following table shows transfers between Level 1 and Level 2 for financial instruments where the fair value is determined on a recurring basis: **(€ millions)**

		TO LEVEL 1	TO LEVEL 2
Financial assets held for trading			
	Transfer from Level 1	—	18
	Transfer from Level 2	285	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	465
	Transfer from Level 2	1,329	—
Available-for-sale financial assets			
	Transfer from Level 1	—	0
	Transfer from Level 2	10	—
Financial liabilities held for trading			
	Transfer from Level 1	—	6
	Transfer from Level 2	29	—

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 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.

Other Information (Continued)

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%–106%
Equities	Market approach	Price	0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	68BSP–790BSP
		Residual value	20%–80%
		Default rate	0.5%–3.5%
		Prepayment rate	0%–20%
Equity derivatives	Option price model	Equity volatility	5%–85%
		Correlation between equities	(95)%–95%
	DCF method	Dividend yields	0%–8%
Interest rate derivatives	DCF method	Swap interest rate	(40)BSP–1,000BSP
		Inflation swap interest rate	0BSP–230BSP
	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%–35%
		Credit correlation	25%–85%
		Residual value	20%–41%
	Option price model	Credit volatility	37%–53%
Currency derivatives	DCF method	Yield curves	(25)%–20%
	Option price model	FX volatility	1%–40%

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 in fair value at 30 June 2017 resulting from the use of possible appropriate alternatives would be €112 million (31 December 2016: €125 million), and the negative change would be €50 million (31 December 2016: €61 million).

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

(€ millions)

	30/6/2017		31/12/2016	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	1	(1)	1	(1)
Equities	12	(12)	10	(10)
Asset-backed securities	—	—	1	—
Equity derivatives	75	(22)	80	(25)
Interest rate derivatives	6	(2)	2	(1)
Credit derivatives	20	(16)	26	(21)
Currency derivatives	(2)	3	3	(3)
Commodity derivatives	—	—	2	—
Total	**112**	**(50)**	**125**	**(61)**

For fixed-income securities and other debt instruments and asset-backed securities, the credit spread curves were varied as part of the sensitivity analyses in line with rating. For shares, the spot price is varied using a relative value.

The following non-observable parameters were varied (stress test) for the sensitivity analysis for equity derivatives included in Level 3: spot prices for hedge funds, implicit volatility, dividends, implicit correlations and the assumptions regarding the interpolation between individual parameters observable on the market, such as volatilities. For interest rate products, interest rates, interest rate correlations and implicit volatilities were varied as part of the sensitivity analysis. For credit derivatives, rating-dependent shifts in the risk premium curves for credit risk were assumed together with changes in implicit correlations and increases in default rates. Foreign currency derivatives were varied in terms of interest rates and the implicit volatility.

Where trades are executed for which the transaction price deviates from the fair value at the trade date and non-observable parameters are employed to a considerable extent in valuation models, the financial instrument concerned is recognised at the trade price. This difference between the transaction price and the fair value of the valuation model is defined as the trade date gain/loss. Any gain determined at the trade date is 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 that were deferred on account of the application of significant non-observable parameters for financial instruments recognised at fair value:

(€ millions)

	2017	2016
Balance at 1/1	**9**	**—**
New transactions during the period	4	13
Write-downs	1	1
Expired transactions	—	—
Retroactive change in observability	1	3
Exchange rate changes	—	—
Balance at 30/6/2017 and 31/12/2016	**11**	**9**

Other Information (Continued)

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)	
	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Financial assets recognised						
in the balance sheet at fair value						
Financial assets held for trading	23,759	23,431	55,403	69,620	1,378	1,036
thereof: derivatives	1,923	1,718	45,826	55,964	927	714
Financial assets at fair value through profit or loss	9,104	10,069	14,994	18,429	15	14
Available-for-sale financial assets[1]	5,721	4,846	812	846	7	6
Hedging derivatives	—	—	366	384	—	—
Financial liabilities recognised						
in the balance sheet at fair value						
Financial liabilities held for trading	6,547	7,661	49,806	63,842	1,727	1,331
thereof: derivatives	2,492	2,158	40,856	51,875	928	773
Hedging derivatives	—	—	634	997	—	—

1 Available-for-sale financial assets include financial instruments of €150 million (31 December 2016: €231 million) valued at historical cost that are not included in these totals at 30 June 2017.

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

(€ millions)

	2017			
	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	**1,036**	**14**	**6**	**—**
Additions				
Acquisitions	444	—	28	—
Realised gains[1]	21	—	—	—
Transfer from other levels	397	—	—	—
Other additions[2]	2	1	1	—
Reductions				
Sale	(440)	—	—	—
Repayment	—	—	(28)	—
Realised losses[1]	(48)	—	—	—
Transfer to other levels	(22)	—	—	—
Other reductions	(12)	—	—	—
Balance at 30/6	**1,378**	**15**	**7**	**—**

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

(€ millions)

	2017	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1	**1,331**	**—**
Additions		
Sale	300	—
Issues	286	—
Realised losses[1]	76	—
Transfer from other levels	433	—
Other additions[2]	5	—
Reductions		
Buy-back	(408)	—
Repayment	(24)	—
Realised gains[1]	(123)	—
Transfer to other levels	(127)	—
Other reductions	(22)	—
Balance at 30/6	**1,727**	**—**

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

(€ millions)

	2016			
	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	**1,047**	**130**	**31**	**—**
Additions				
Acquisitions	586	—	4	—
Realised gains[1]	99	—	—	—
Transfer from other levels	74	—	1	—
Other additions[2]	—	1	—	—
Reductions				
Sale	(563)	—	(7)	—
Repayment	—	—	—	—
Realised losses[1]	(113)	(1)	—	—
Transfer to other levels	(293)	(114)	(7)	—
Other reductions	(17)	—	(1)	—
Balance at 30/6	**820**	**16**	**21**	**—**

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

Other Information (Continued)

(€ millions)

	2016	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1	**1,623**	**—**
Additions		
Sale	257	—
Issues	150	—
Realised losses[1]	105	—
Transfer from other levels	93	—
Other additions[2]	23	—
Reductions		
Buy-back	(348)	—
Repayment	(94)	—
Realised gains[1]	(125)	—
Transfer to other levels	(411)	—
Other reductions	(13)	—
Balance at 30/6	**1,260**	**—**

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

The transfers from financial assets and liabilities held for trading to other levels are attributable to the reduced observability of the valuation parameters for interest rate derivates in certain currencies.

33 Fair values of financial instruments compliant with IFRS 7

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is assumed in this context that the transaction takes place on the principal market for the instrument or the most advantageous market to which the Bank has access.

The fair value of loans is calculated as the sum total of the discounted, risk-adjusted anticipated cash flows discounted on the basis of the swap curve (based on Libor). In this context, the anticipated, risk-adjusted cash flows are based on the survival probability and the loss given default. The survival probability is determined on the basis of the risk-neutral probability of default, while the proceeds upon realisation are determined on the basis of the internal loss given default parameters. In turn, the risk-neutral probability of default is determined on the basis of the internally calculated one-year default rate (real-world probability of default), the market risk premium and the correlation between the respective loan and the general market risk. The market risk premium represents a factor used to cover the difference between the real-world probability of default and the market's return expectations for the risk assumed. The loan portfolio is divided into four sectors (sovereign loans, loans to banks, corporate loans and retail loans) in order to take account of the specific features of each sector. For each of these sectors with exception of retail loans, first of all the market risk premium is determined on the basis of a portfolio of specific, liquid CDS prices for the respective sector. Only for retail loans is the market risk premium derived from the market risk premiums for the other sectors due to the lack of a CDS market.

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate. Such instruments are transferred at regular intervals at the amount repayable (such as the repayment of a deposit repayable on demand at the nominal amount), meaning that listed prices for identical and similar instruments are available on inactive markets. These instruments are allocated to Level 2 accordingly.

The fair value calculation for other loans and receivables for which the fair value is not roughly equivalent to the carrying amount is built around the risk-neutral credit spread, which takes account of all relevant factors on the market. Further parameters besides the risk-neutral credit spread and the risk-free return on investment are not included. Provided the markets are liquid and no relevant market disruptions are evident, as is currently the case, the arbitrage between the markets on which credit risks are traded leads to a narrowing of the credit spreads. Accordingly, the CDS market is defined as the relevant exit market for loans and receivables.

Since the parameters used to determine the real-world probability of default (PD) and loss given default (LGD) are not immaterial when determining the fair value, and these are determined on the basis of internal procedures meaning they cannot be observed on the market, the other loans and receivables are allocated to Level 3.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value. Where the fair value of non-listed equity instruments cannot be reliably determined, such assets are recognised at cost.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. These instruments are allocated to Level 1. The fair value of the remaining securities is calculated as the net present value of anticipated future cash flows. The methods used to determine the fair value levels as described in the note covering the fair value hierarchy are employed for this purpose.

The fair values of single-currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments. The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally accepted models used to calculate the price of options. The common Black & Scholes model and the Bachelier model are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters. The methods used to determine the fair value levels described in the note covering the fair value hierarchy are employed for this purpose.

Please refer to the note covering the fair value hierarchy for a description of the methods used to determine the fair value levels for non-listed derivatives.

The anticipated future cash flows of the liabilities (deposits from banks and customers, and debt securities in issue, provided these are not listed) are discounted to the present value using current interest rates taking into account internally determined funding premiums. The funding premiums correspond to the parameters that the Bank uses when setting the prices for its own issues. These funding premiums represent internally determined parameters that are essential for the determination of the fair value; the other liabilities are allocated to Level 3 accordingly.

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

Other Information (Continued)

(€ billions)

ASSETS	CARRYING AMOUNT 30/6/2017	CARRYING AMOUNT 31/12/2016	FAIR VALUE 30/6/2017	FAIR VALUE 31/12/2016
Cash and cash balances	21.9	9.8	21.9	9.8
Financial assets held for trading	80.5	94.1	80.5	94.1
Financial assets at fair value through profit or loss	24.1	28.5	24.1	28.5
Available-for-sale financial assets				
thereof measured:				
at cost	0.2	0.2	0.2	0.2
at fair value	6.5	5.7	6.5	5.7
Held-to-maturity investments	—	—	—	—
Loans and receivables with banks	30.8	33.0	31.1	33.5
Loans and receivables with customers	122.4	121.5	125.9	125.0
thereof: finance leases	1.9	2.0	1.9	2.0
Hedging derivatives	0.4	0.4	0.4	0.4
Total	**286.8**	**293.2**	**290.6**	**297.2**

(€ billions)

	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)	
ASSETS	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016
Financial assets not carried at fair value						
in the balance sheet						
Cash and cash balances	—	—	21.9	9.8	—	—
Held-to-maturity investments	—	—	—	—	—	—
Loans and receivables with banks	0.6	0.5	24.4	25.6	6.1	7.4
Loans and receivables with customers	1.1	1.1	19.0	17.7	105.8	106.2
thereof: finance leases	—	—	—	—	1.9	2.0

(€ billions)

LIABILITIES	CARRYING AMOUNT 30/6/2017	CARRYING AMOUNT 31/12/2016	FAIR VALUE 30/6/2017	FAIR VALUE 31/12/2016
Deposits from banks	69.8	57.6	69.5	57.5
Deposits from customers	117.1	117.2	117.3	117.8
Debt securities in issue	24.1	24.2	26.4	27.2
Financial liabilities held for trading	58.1	72.8	58.1	72.8
Hedging derivatives	0.6	1.0	0.6	1.0
Total	**269.7**	**272.8**	**271.9**	**276.3**

(€ billions)

LIABILITIES	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 30/6/2017	31/12/2016	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 30/6/2017	31/12/2016	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 30/6/2017	31/12/2016
Financial liabilities not carried at fair value						
in the balance sheet						
Deposits from banks	—	—	46.5	25.7	23.0	31.8
Deposits from customers	—	—	93.3	82.2	24.0	35.6
Debt securities in issue	6.4	5.7	5.7	6.0	14.3	15.5

The difference in HVB Group between the fair values and carrying amounts totals €3.8 billion (31 December 2016: €4.0 billion) for assets and €2.2 billion (31 December 2016: €3.5 billion) for liabilities. The balance of these amounts is €1.6 billion (31 December 2016: €0.5 billion). When comparing carrying amounts and fair values for the hedged items, it should be noted that part of the undisclosed reserves/charges has already been included in the hedge adjustment amount.

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

	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	AMOUNTS NOT RECOGNISED: EFFECTS OF MASTER NETTING ARRANGE-MENTS	AMOUNTS NOT RECOGNISED: FINANCIAL INSTRUMENTS AS COLLATERAL	AMOUNTS NOT RECOGNISED: CASH COLLATERAL	NET AMOUNT 30/6/2017
Derivatives[1]	66,369	(17,327)	49,042	(29,870)	(746)	(8,949)	9,477
Reverse repos[2]	23,481	(5,010)	18,471	—	(18,250)	—	221
Loans and receivables[3]	91,081	(1,202)	89,879	—	—	—	89,879
Total at 30/6/2017	**180,931**	**(23,539)**	**157,392**	**(29,870)**	**(18,996)**	**(8,949)**	**99,577**

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 €5,003 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables (including cumulative variation margins), as covered in the notes covering loans and receivables with banks and loans and receivables with customers

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

	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	AMOUNTS NOT RECOGNISED: EFFECTS OF MASTER NETTING ARRANGE-MENTS	AMOUNTS NOT RECOGNISED: FINANCIAL INSTRUMENTS AS COLLATERAL	AMOUNTS NOT RECOGNISED: CASH COLLATERAL	NET AMOUNT 30/6/2017
Derivatives[1]	61,473	(16,563)	44,910	(29,870)	(708)	(8,893)	5,439
Repos[2]	30,931	(5,010)	25,921	—	(25,786)	—	135
Liabilities[3]	101,922	(1,966)	99,956	—	—	—	99,956
Total at 30/6/2017	**194,326**	**(23,539)**	**170,787**	**(29,870)**	**(26,494)**	**(8,893)**	**105,530**

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 €1,636 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities (including cumulative variation margins), as covered in the notes covering deposits from banks and deposits from customers

Other Information (Continued)

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

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2016
Derivatives[1]	77,853	(19,073)	58,780	(37,520)	(1,379)	(9,697)	10,184
Reverse repos[2]	29,142	(3,770)	25,372	—	(25,211)	—	161
Loans and receivables[3]	90,728	(1,279)	89,449	—	—	—	89,449
Total at 31/12/2016	**197,723**	**(24,122)**	**173,601**	**(37,520)**	**(26,590)**	**(9,697)**	**99,794**

1 derivatives are included in financial assets held for trading and hedging derivatives
2 Reverse repos are covered in the notes regarding loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €10,571 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables (including cumulative variation margins), as covered in the notes covering loans and receivables with banks and loans and receivables with customers

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

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2016
Derivatives[1]	73,559	(17,756)	55,803	(37,520)	(1,114)	(10,280)	6,889
Repos[2]	29,908	(3,770)	26,138	—	(25,982)	—	156
Liabilities[3]	102,185	(2,596)	99,589	—	—	—	99,589
Total at 31/12/2016	**205,652**	**(24,122)**	**181,530**	**(37,520)**	**(27,096)**	**(10,280)**	**106,634**

1 derivatives are included in financial liabilities held for trading and hedging derivatives
2 Repos are covered in the notes covering deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €4,978 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities (including cumulative variation margins), as covered in the notes covering deposits from banks and deposits from customers

Compliant with IAS 32.42, financial assets and liabilities with the same counterparty are to be offset and recognised in the balance sheet at the net amount if such offsetting of the amounts recognised at the present date is legally enforceable and the intention is to settle on a net basis during the normal course of business or to realise the asset and settle the liability simultaneously. The tables show a reconciliation from the gross amounts prior to netting and the set-off amounts to the net amounts after offsetting for these set-offs in the balance sheet. At HVB Group, the set-offs in the balance sheet relate to transactions with central counterparties (CCPs), being OTC derivatives (set-off of the balancing positive and negative fair values at currency level) and the receivables and liabilities arising from reverse repos and repos concluded with the same central counterparty. At the same time, nettable receivables and liabilities repayable on demand with the same counterparty in the banking business are also offset in the balance sheet. In addition, cumulative changes in the fair value of listed future-styled derivatives are netted with the cumulative variation margin payments.

The column "Effects of master netting arrangements" shows the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement, but which are not netted in the balance sheet as they do not satisfy the IAS 32.42 offsetting requirements as described above. At HVB Group, this includes OTC derivatives and repo transactions with individual counterparties with which legally enforceable master netting arrangements have been concluded allowing netting in the event of default. In addition, the tables contain the financial instruments received or pledged as collateral in this context and cash collateral. With regard to the presentation of reverse repos or repos, as the case may be, collateral in the form of financial instruments was recorded in a Group unit for the first time in the reporting year. The previous-year disclosures were correspondingly corrected.

35 Contingent liabilities and other commitments

(€ millions)

	30/6/2017	31/12/2016
Contingent liabilities[1]	**20,796**	**21,856**
Guarantees and indemnities	20,796	21,856
Other commitments	**49,686**	**49,165**
Irrevocable credit commitments	49,643	49,111
Other commitments[2]	43	54
Total	**70,482**	**71,021**

1 Contingent liabilities are offset by contingent assets to the same amount.
2 Not included in other commitments are the future payment commitments arising from non-cancellable operating leases.

HVB has made use of the option to provide some of the annual contribution to the bank restructuring fund in the form of fully secured payment claims (irrevocable payment commitments) in accordance with Section 12 of the German Bank Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG). The cash collateral provided in this regard amounted to €48 million at 30 June 2017 (31 December 2016: €34 million).

Contingent liabilities payable to related parties

(€ millions)

	30/6/2017	31/12/2016
Non-consolidated affiliated companies	1,091	1,403
of which:		
UniCredit S.p.A.	558	563
Sister companies	533	786
Subsidiaries	—	54
Joint ventures	46	46
Associated companies	—	—
Other participating interests	127	250
Total	**1,264**	**1,699**

Other Information (Continued)

36 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 Interim Management Report entitled “Credit risk” under “Risk types in detail” contains further information regarding the exposure to UniCredit and its subsidiaries.

Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), Milan, a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services by means of a service level agreement. HVB incurred expenses of €280.6 million (first half of 2016: €279.7 million) for these services during the first half of 2017. This was offset by income of €8.8 million (first half of 2016: €6.1 million) from services rendered and internal charges. Moreover, software products worth €0.5 million (first half of 2016: €0.8 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS. In this context, UBIS provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €54.2 million (first half of 2016: €48.3 million) for these services during the first half of 2017.

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)

	30/6/2017			31/12/2016		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	1,375	—	8,932	1,416	—	7,896
Members of the Supervisory Board of UniCredit Bank AG	300	—	4,437	340	—	4,260
Members of the Executive Management Committee[1]	—	—	1,926	—	—	1,994

1 excluding members of the Management Board and Supervisory Board of UniCredit Bank AG

Members of the Supervisory Board and Management Board at HVB, and members of the Executive Management Committee of UniCredit S.p.A. and their respective immediate family members are considered related parties.

Loans and advances were granted to members of the Management Board and their immediate family members in the form of planned overdraft facilities with an interest rate of 6% with a term to maturity until 2021 and mortgage loans with interest rates of between 1.36% and 5.13% falling due in the period from 2022 to 2025.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of overdraft facilities with an interest rate of 6% with no fixed maturity and mortgage loans with interest rates of between 1.92% and 3.33% falling due in the period from 2017 to 2035.

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

37 Members of the Supervisory Board

Gianni Franco Papa	**Chairman**
Florian Schwarz Dr Wolfgang Sprissler	**Deputy Chairmen**
Paolo Cornetta Beate Dura-Kempf Francesco Giordano Klaus Grünewald Werner Habich Prof Dr Annette G. Köhler Dr Marita Kraemer Klaus-Peter Prinz Jens-Uwe Wächter	**Members**

Other Information (Continued)

38 Members of the Management Board

Peter Buschbeck	**Commercial Banking – Private Clients Bank**
Dr Michael Diederich	**Corporate & Investment Banking**
Heinz Laber	**Chief Operating Officer (COO)**
Robert Schindler	**Commercial Banking – Unternehmer Bank**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Spokesman of the Management Board**
Guglielmo Zadra	**Chief Financial Officer (CFO)**

Munich, 9 August 2017

UniCredit Bank AG
The Management Board

Buschbeck Dr Diederich Laber Schindler

Varese Dr Weimer 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, 9 August 2017

UniCredit Bank AG
The Management Board

Buschbeck	Dr Diederich	Laber	Schindler
Varese	Dr Weimer	Zadra	

Contacts
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This edition of our half-yearly financial report is prepared for the convenience of our English-speaking readers. It is based on the German original, which takes precedence in all legal respects.

Published by:
UniCredit Bank AG
Head Office
D-81925 Munich
www.hvb.de
Registrar of companies: Munich HRB 421 48
Cover and creative definition: UniCredit S.p.A.
Design, graphic development and production: UniCredit S.p.A.
Typesetting: Serviceplan Solutions 1 GmbH & Co. KG, Munich
Printed by: G. Peschke Druckerei GmbH
Printed in Germany

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