FOCUSED

2013 ANNUAL REPORT
STRONG FOR ENTREPRENEURS

HSH NORDBANK

MILESTONES IN 2013

- We expanded our new business by 12 % to € 7.6 billion.
- We fulfilled important EU requirements one year earlier than stipulated. For example, we reduced our total assets to € 109 billion and reduced the segment assets of the Restructuring Unit to € 37 billion.
- We increased the common equity Tier 1 capital ratio to 11.7 % plus a 5.2 percentage points buffer – thanks to the replenishment of the guarantee we are now among the well-capitalised banks even by European standards.
- The increasing volume of new business had a positive impact on the quality of the Bank's portfolio.
- In the Corporates division new business was more than 30 % above the previous year.
- With the "HSH Nordbank Run" we raised more than € 135,000 for the charity "Kinder helfen Kindern e. V."

FACTS

One of the **MOST IMPORTANT PROVIDERS OF FINANCE** in the renewable energies sector

One of the **WORLD'S LEADING SHIP FINANCE** providers

Market penetration of more than **50 %** in our target group, the upper medium-sized companies, in northern Germany.

Among Germany's top **5** providers of real estate finance

HSH NORDBANK GROUP AT A GLANCE

INCOME STATEMENT
(€ m)

	2013	2012
Net income before restructuring	–93	160
Net income before taxes	–563	–185
Group net result	–814	–124

BALANCE SHEET
(€ bn)

	31.12.2013	31.12.2012
Equity	4.5	5.3
Total assets	109.0	130.6
Business volume	118.6	138.5

CAPITAL RATIOS[1]
(%)

	31.12.2013	31.12.2012
Common equity Tier 1 capital ratio	11.7[2]	9.9
Tier 1 capital ratio	15.3	12.3
Regulatory capital ratio	23.8	19.1

EMPLOYEES
(computed on full-time equivalent basis)

	31.12.2013	31.12.2012
Total	2,834	3,123
Germany	2,627	2,821
Abroad	207	302

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities[3]	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa 3	Aa 1	Aa 2	Aa 3	Baa 2
Fitch	A–	AAA	–	–	–

[1] Taking into account the adopted financial statements.
[2] Additionally includes a buffer of 5.2 percentage points resulting from a capital protection clause in accordance with the requirements of the EU Commission. Please see the group management report for further details.
[3] Liabilities covered by guarantor's liability (Gewährträgerhaftung).

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

BANK FOR ENTREPRENEURS

CORE BANK

SHIPPING, PROJECT & REAL ESTATE FINANCE

- REAL ESTATE CLIENTS
- ENERGY & INFRASTRUCTURE
- SHIPPING CLIENTS DOMESTIC
- SHIPPING CLIENTS INTERNATIONAL

CORPORATES & MARKETS

- CORPORATES
- WEALTH MANAGEMENT
- SAVINGS BANKS & INSTITUTIONAL CLIENTS
- CAPITAL MARKETS
- PRODUCTS

RESTRUCTURING UNIT

FOCUSED

We are looking forward but without forgetting the lessons we have learnt from the past. We want to develop **HSH NORDBANK** further so as to **CREATE ADDED VALUE** over the long term: for our clients, our shareholders, for all our employees. This is what we're working on. **THIS IS WHAT WE'RE FOCUSED TO SUCCESSFULLY ON!**

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THE COMPANY

GROUP MANAGEMENT REPORT

GROUP FINANCIAL STATEMENTS

FURTHER INFORMATION

FOREWORD BY THE MANAGEMENT BOARD

Ladies and Gentlemen,

HSH Nordbank achieved much in 2013 and made tangible progress in terms of its realignment and positioning as well as in the area of new business. The Bank is again showing the strength it needs to serve its clients and home region as a dependable partner. Contributory factors here were our impressively high equity ratio and the replenishment of the second loss guarantee by our principal shareholders, the federal states of Hamburg and Schleswig-Holstein. In taking this important step the federal states showed their confidence in our business model, underpinning the Bank's viability while laying the foundations for long-term stability and operating profit, i.e. the benefits of our day-to-day work.

The Management Board, senior executives and the entire workforce support this business model and accept the challenges still to be overcome before the new HSH Nordbank has fully achieved the earning power it has targeted. The "bank for entrepreneurs" is making tangible progress and is increasingly establishing itself in the still tough competition for clients in the upper medium-sized business segment in the North and in Germany as a whole. Even today, the feedback we receive from clients and the operating successes in our core areas of business already make one thing plain: HSH Nordbank is right back on the market. Our clients are at the centre of our attention, we gear our work to them and it is to them that we want to act as a dependable provider of services. Loans remain our anchor product. However, we also hedge price risks for commodities or currencies, we structure complex finance deals, we advise on mergers and acquisitions and are an expert partner when it comes to managing significant private assets – another area on which we have focused our activities. We have moulded our former broader-based Private Banking unit into our new Wealth Management unit, which is exclusively dedicated on more substantial assets. For all areas of business our maxim is: client-related matters are automatically Management Board matters. As members of the Management Board we maintain close contact with our clients. HSH Nordbank is a firmly established member of the German Savings Bank Finance Group. Close collaboration with the savings banks is a key pillar of our business model.

Since the introduction of the "Bank for entrepreneurs" business model the Core Bank has been consistently geared to this and has steadily increased its new business. In 2013 alone we posted another gratifying increase in this major component of success amounting to a good 12 % increase on the previous year, to € 7.6 billion.

In addition to the clear focus on growth in income at good margins and attractive risk profiles together with sustained cost discipline, we have also resolutely continued winding down our legacy encumbrances. We will continue to focus on this area in the future. As required by the European Union, our total assets continued to decline in 2013. By the end of 2013 we had already met the target defined by Brussels for the end of 2014. The Bank is also on schedule in terms of fulfilling the other conditions and commitments stipulated by the EU Commission.

We have also made significant progress inside the Bank by further improving our processes and structures. Our processes have become faster, less costly and more dependable. Here we have notched up successes that will already benefit our clients in 2014. Our organisational setup is corresponding increasingly to the future size of our bank – as a regional bank for medium-sized companies.

However, the year 2013 was characterised by a still difficult market setting. Global economic growth was certainly robust and this momentum looks likely to continue in 2014. However, in sharp contrast to this, the situation of the international shipping sector remains difficult. Five years into the crisis, for most ship classes there are no indications of any perceptible recovery, at least not before 2015. In line with this trend we have once again significantly stepped up our risk provisioning. The additional loan loss provisions were, moreover, the basis for our deliberate decision to increase the guarantee to its original volume of € 10 billion. The resulting further increase in spending on guarantee charges weighed heavily on our result last year, as expected. Combined with negative exceptional items in the tax result, this led to a Group net loss well in the upper nine-digit euro range, as announced since spring 2013 and according to plan.

Not least thanks to the significant progress made in terms of the Core Bank's operating profit and our much improved organisational setup, we expect a positive result at Group level and thus a return to profit territory in 2014. This forecast is based on realistic assumptions, bearing in mind the successes already achieved.

Thanks to our positioning, our now much better portfolio structure and our stringent pre-emptive risk management, today we feel well prepared for the fundamental regulatory changes the entire banking sector faces in 2014. These include, above all, the introduction of Basel III and the Europe-wide stress test by the European Banking Authority for systemically relevant banks, planned for autumn 2014, and the transfer of bank regulation to the European Central Bank, which will be responsible for our bank in future. We also take a constructive view of the course of our ongoing audit proceedings by the EU Commission.

2013 was another year that was not easy for the financial sector and HSH Nordbank. However, we made use of it to create the preconditions for the long-term success of our Bank. We have taken a major step forward towards achieving our objective of establishing HSH Nordbank as a profitable and well capitalised "bank for entrepreneurs" over the long term.

Yours sincerely,

Constantin von Oesterreich
Chairman of the Management Board

Stefan Ermisch
Chief Financial Officer

Torsten Temp
Member of the Management Board, Shipping, Project & Real Estate Finance

Edwin Wartenweiler
Chief Risk Officer

Matthias Wittenburg
Member of the Management Board, Corporates & Markets

THE MANAGEMENT BOARD
from left to right

TORSTEN TEMP

Member of the Management Board, Shipping, Project & Real Estate Finance

Born in 1960, Torsten Temp has been Head of Market Units of HSH Nordbank since 1 May 2010.

CONSTANTIN VON OESTERREICH

Chairman of the Management Board

Born in 1953, Constantin von Oesterreich has been Chairman of HSH Nordbank's Management Board since 1 November 2012. He joined the Bank on 1 November 2009 and has held various positions on the Management Board.

STEFAN ERMISCH

Chief Financial Officer

Born in 1966, Stefan Ermisch has been Chief Financial Officer of HSH Nordbank since 1 December 2012.

EDWIN WARTENWEILER

Chief Risk Officer

Born in 1959, Edwin Wartenweiler has been Chief Risk Officer of HSH Nordbank since 1 June 2012.

MATTHIAS WITTENBURG

Member of the Management Board, Corporates & Markets

Born in 1968, Matthias Wittenburg has been Head of Market Units at HSH Nordbank since 1 January 2013.

INTERVIEW WITH THE CHAIRMAN OF THE MANAGEMENT BOARD

Mr von Oesterreich, which of your objectives did you reach in your first year as Chairman of the Management Board of HSH Nordbank?
In 2013 we gave an even stronger foundation to HSH Nordbank as a "bank for entrepreneurs" in its target markets. At the same time, we worked extremely hard to align the Bank ever more closely to our clients. Our business model is working and has proved to be very popular among both existing and new clients. We are in a good position as far as our ambitious operating targets are concerned. We have expanded our new business by a good 12 % year on year to € 7.6 billion. This means that we have virtually met our targets for new business in spite of harsh competition. We aim to continue with such success in 2014 and expand our new business and client base even further.

So, a positive development ...
... mainly attributable to the fact that we are signing high-quality deals, particularly with new corporate and real estate clients. On average, we are getting substantially higher margins than last year without making any concessions in terms of risk. This has helped decisively improve the income situation and risk profile of the Core Bank. Given that demand for loans has been very muted across the sector, we have thus bucked the trend in a hotly contested market. All told, in 2013 total income came to € 1.5 billion, corresponding to a slight year-on-year increase, while total assets decreased by around 17 % at the same time. A remarkable performance, to which every employee of the Bank made a contribution. I would like to express my heartfelt thanks to them for their efforts.

You also made considerable progress in reducing your legacy encumbrances in 2013.
Correct. We have now reduced our total assets to € 109 billion. Here too, we have fulfilled a key requirement of the EU Commission one year earlier than stipulated. We owe this success to our internal Restructuring Unit, where we are winding down loan portfolios that are particularly prone to risk as well as non-strategic areas of business. Our incentive now is to wind down the remaining Restructuring Unit portfolios just as carefully and quickly, and in a way that preserves value and takes pressure off the market.

Your results were, however, weighed down once again by the performance of the international maritime shipping business, for which you have further increased provisions. What prompted this move?
Major independent analysts revised their forecasts for the shipping markets at the end of 2013, substantially so in some cases. We had already anticipated the adjustments these downward revisions entailed in our 2013 annual financial statements. We did what we had to do without flinching. The year 2013 marks the peak of our allocations to loan loss provisions. Our planning for 2014 remains unchanged, meaning that we expect the loan loss provisioning requirement to fall for the first time. Based on our assessment, we are unlikely to experience any material improvement in the difficult situation on the shipping markets before 2015.

Constantin von Oesterreich

A number of challenges await you during 2014: being a systemically relevant bank, HSH Nordbank must undergo the European Central Bank's asset quality review and stress test. Moreover, the Basel III rules are due to be introduced. How relaxed do you feel about this prospect?
The regulatory changes scheduled for this year mean a lot of work and effort for the entire banking sector. We did our homework in 2013 and now feel well prepared to cope with these challenges. Furthermore, we have a team that has seen out many storms, in addition to the unconditional support of our shareholders, the states of Hamburg and Schleswig-Holstein.

"Together we shall tackle the challenges we face."

What role does the fact that the federal states of Hamburg and Schleswig-Holstein have raised their guarantee from € 7 billion to € 10 billion play in all this?
The replenishment is of key importance, for two principal reasons: first of all, our two main shareholders have thereby reaffirmed their confidence in and solidarity with HSH Nordbank. Secondly, the measure boosts our risk-weighted assets and thus our Tier 1 capital ratio. In accordance with the Basel 2.5 calculation method, which takes individual elements of the future capital standard Basel III into account, our common equity Tier 1 capital ratio in fact works out to 11.7 % plus a buffer of 5.2 percentage points as of 31 December 2013. This includes all guarantee fees of the state aid. This means that our Tier 1 capital ratio is not only above the 10 % required by the regulatory authorities but also on a par with that of other strong banks in Europe.

Replenishment of the guarantee has, however, also brought you another investigation by the EU Commission. How do things currently stand in this respect?
The talks with the Commission are very much focused on the issues at hand and extremely constructive. We do not, however, expect the proceedings to be concluded before the end of 2014 at the earliest. We expect the Commission to confirm that our business model is viable.

According to your current planning, around € 1.6 billion of the guarantee will be utilised until 2025 ...
… but until then by this date we will have paid back this amount as well as the capital increase dating from 2009 to the federal states via the guarantee fees from our current income. The state aid granted by the federal states to HSH Nordbank consists of the € 3 billion capital injection dating from 2009 and the losses incurred until the expiry of the guarantee, which are to be borne by the guarantor. Based on current planning, therefore, this works out to a total of € 4.6 billion. What is also clear, is that this constitutes a huge task for the Bank.

Do you mean that without the charges resulting from the guarantee, the 2013 results would have looked better?
Undoubtedly. The charges on our income statement resulting from the guarantee in 2013 alone are higher than our group loss of € – 814 million.

In the past year you took further measures to increase the Bank's efficiency while at the same time cutting costs. What exactly is your goal?
HSH Nordbank has been undergoing a process of fundamental change for many years now. To ensure that the Bank remains competitive on a sustained basis, it is of key importance to adjust the structures, processes and procedures to the Bank's future dimensions. This also includes a commensurate cost structure. We are aiming to save a further amount of around € 60 million in operating expenses. We plan to achieve part of these savings by eliminating existing duplicate structures in Hamburg and Kiel and reviewing our executives-to-staff ratios. This will help us to cut workplace costs and to become leaner, more flexible and faster within our organisation.

The number of senior managers and management levels will also be reduced ...
Correct. There will also be considerable cutbacks in the number of unit heads, department heads and team leader positions to enable us to reach our cost target. For example, we have reduced the number of unit heads considerably and implemented leaner structures. The right step to focus on our core areas of expertise means that our Bank has become smaller, and this fact must be reflected at all hierarchical levels.

What are your objectives for 2014?
Our objective for 2014 has been set: we plan to close out 2014 with a positive result and to return to profit territory. We will report a positive result already for the first quarter of this year. We want to deepen our business relationship with our clients even more and intensify our partnership with the savings banks. At the same time, we are continuing to reduce our legacy encumbrances. This eases the pressure on our capital and further strengthens the future-oriented Core Bank. All employees and the Management Board have joined forces to work together to achieve this objective.

ENTRE

PRENEURS

PROXIMITY TO THE CLIENT We know our clients. We know what they need. We understand their business – and have often done so for many years or even decades. With a market penetration more than 50 % we are the no. 1 financing partner of upper medium-sized companies in our region. We are the “Bank for entrepreneurs”.

NEW BUSINESS

EXPANSION We are steadily increasing our new business. We place emphasis not only on good margins but on the good quality of client relationships in a spirit of partnership. At the same time, the risk profile must be just right. In other words, we're growing with a sense of proportion.

EFFICIENCY.

OPTIMISATION We focus on lean processes, clear responsibilities and transparency. In this respect there is already much we have changed in the Bank. We are becoming faster and more efficient as a result. This is the way we'll get better.

GROWTH

PROFITABILITY We want profitable growth. Our success here is increasingly reflected in the Core Bank. This shows that our business model of a "Bank for entrepreneurs" is working. That's good. Nevertheless, we remain realistic and we know that there is still a lot of work to do.

LEGACY ENCUMBRANCES

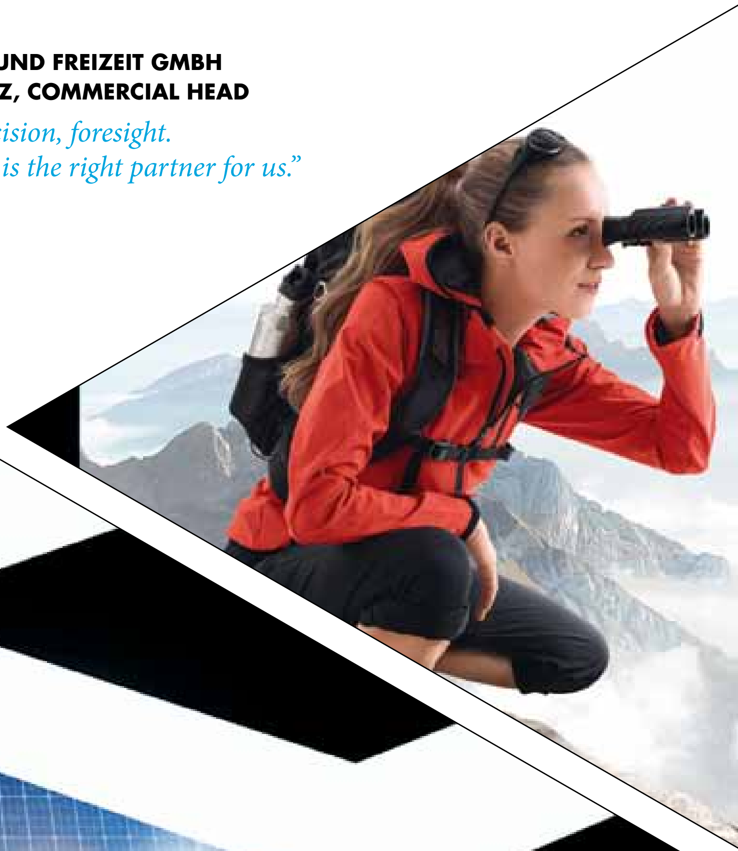
DEALING WITH THE PAST We are working very hard to reduce our legacy encumbrances. In this, we are progressing faster than planned. We are re-adjusting our balance sheet systematically, with minimum market disruption and in a way that maximises profit.

REGULATION

REQUIREMENTS The regulatory requirements for systemically relevant banks are steadily increasing. 2014 will be another challenging year in this respect. Our focus will be the introduction of Basel III, the European Central Bank's asset quality review and stress test, the transition of banking supervision from a national to a European level and the continuation of our EU audit proceedings. In 2013 we prepared for these changes in the best manner possible.

KILLTEC SPORT- UND FREIZEIT GMBH
THORSTEN BELITZ, COMMERCIAL HEAD

*"Innovation, precision, foresight.
HSH Nordbank is the right partner for us."*



GP JOULE GMBH,
ANDRÉ HIRSCH, CFO

"We esteem HSH Nordbank as a reliable partner of many years' standing in corporate and project finance."

STRONG FOR ENTREPRENEURS

CLOSED GMBH
HANS REDLEFSEN, CO-OWNER

"Right from the start, the Bank had a very great understanding of our brand, which meant that we received finance to suit our needs."

HSH Nordbank is the "Bank for entrepreneurs", now and in the future. We have provided assistance to our clients competently and reliably for their business – on a one-to-one basis and in many cases for decades. From this firm relationships that are rooted in trust have grown. We stand by our clients. And our clients stand by us.

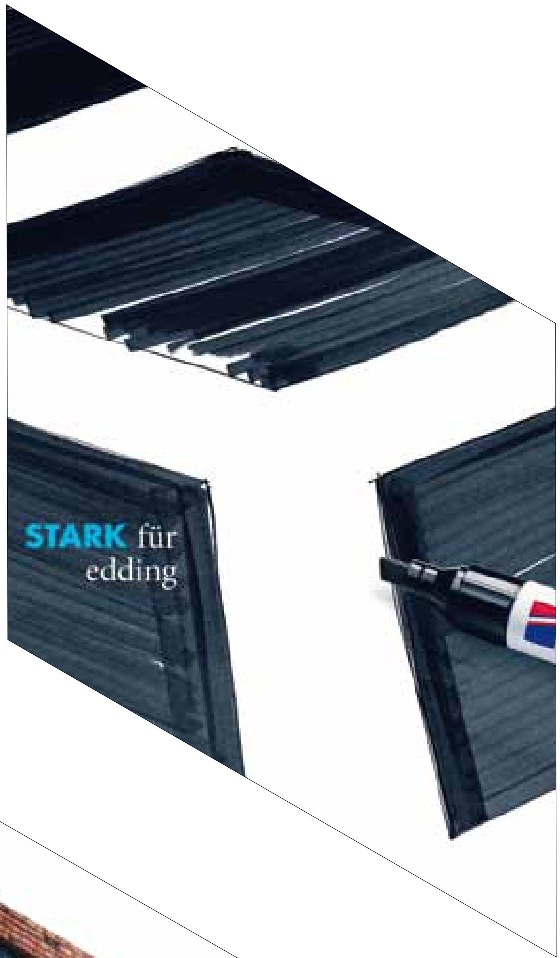
This collaboration is reflected, among other things, in our image campaign, which has been steadily expanded as an important element of the "Bank for entrepreneurs" since it was launched in 2012.

Both the Bank and the businesses benefit from the efficiency of the campaign, which ensures a high level of recognition through eye-catching motifs and targets the relevant decision-makers through focused roll-outs in the region. What is particularly important to us is to also express our proximity to our clients visually via the campaign – both internally to our employees and externally to the general public. We view the positive response we have received to our campaign as a confirmation of our work.

(**STARK** für = **STRONG** for)

EDDING AKTIENGESELLSCHAFT,
SÖNKE GOOSS, CFO

“HSH Nordbank for us is a partner that is reliable and who assists us with our projects.”

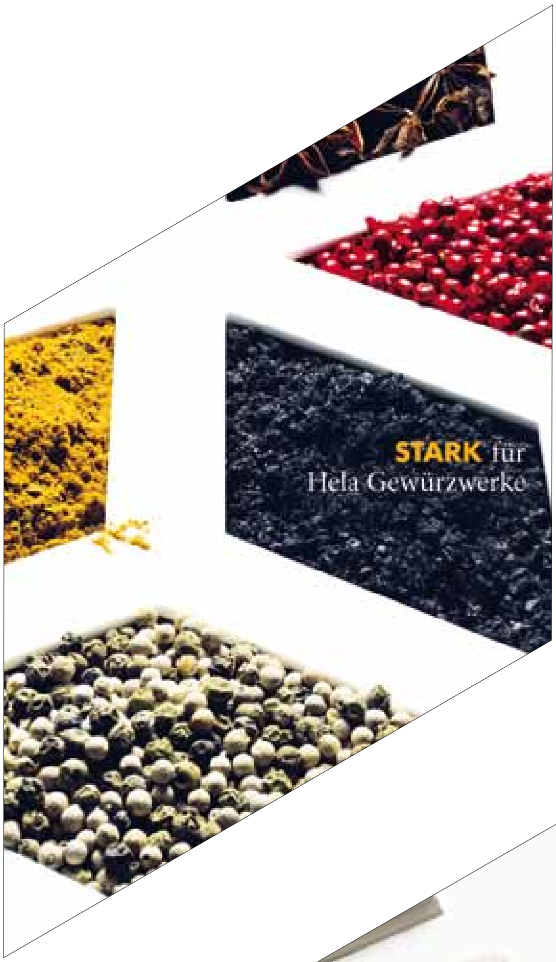


FRANK GROUP,
MARC SCHAUENBURG,
MANAGING PARTNER

“A solid foundation is a basic requirement for stability. Which can definitely be said of our collaboration with HSH Nordbank.”

SHIPPING COMPANY F. LAEISZ GMBH,
NIKOLAUS H. SCHÜES,
CHAIRMAN OF THE MANAGEMENT

“We enjoy a long and trusting partnership with HSH Nordbank.”



HELA GEWÜRZWERK HERMANN LAUE GMBH, BJÖRN LAUE, MANAGING DIRECTOR

"HSH Nordbank is the right partner for any company which places a real emphasis on quality."

STEINBEIS PAPIER GMBH & STEINBEIS ENERGIE GMBH, JÖRG WARNKE, MANAGING DIRECTOR

"We need a bank which supports us in our investments. HSH Nordbank is just right for us."

SCHWARTAUER WERKE GMBH & CO. KGAA, MAXIMILIAN DE MAIZIÈRE, CFO

"HSH Nordbank has stood by us for many years now."

(**STARK** für = **STRONG** for)

UNTERNEHMER POSITIONEN NORD

UP° UNTERNEHMER POSITIONEN NORD

“Determining positions – assuming positions” is the motto of the “Unternehmer Positionen Nord” initiative, UP° for short, which was launched specifically for medium-sized companies in 2012. This initiative by HSH Nordbank underscores the Bank’s position as a “Bank for entrepreneurs”. At the centre of the exclusive information platform in 2013 were key issues such as European politics and the new non-nuclear energy policy in Germany. Several hundreds of entrepreneurs and managers attended a total of five events in Hamburg, Kiel, Dusseldorf and Stuttgart to engage in discussion with high-calibre experts from the worlds of politics and business. One highlight of the series of events was the talk given by Germany’s former Foreign Minister, Joschka Fischer, who advocated a strong Europe and joint sovereignty of the eurozone countries. In November, Dr Frank Schirrmacher (editor of Frankfurter Allgemeine Zeitung, F.A.Z.), John Kornblum (former US ambassador to Germany), economist Professor Dr Heiner Flassbeck and others engaged in a debate on the position of Europe on the world markets and the trade relationship with the United States, which was marked by the commitment of the participants and a good deal of controversy.

The focus of “Unternehmer Positionen Nord” has been on megatrends and innovation. In the course of various events and publications it will illustrate the challenges and opportunities facing Germany’s medium-sized companies.

The collaborations with the Hamburgisches WeltWirtschaftsInstitut (HWWI), the Kiel Institut für Weltwirtschaft (IfW) and DIE WELT daily newspaper guarantee a profound offering of information. Business people and interested parties can find up-to-date business news, topic-specific studies and background information on the website, which lies at the heart of the initiative.

www.unternehmerpositionen.de

UP°

The new UP° app is now available for Apple and Android.

"Yes we can! How the United States influences the global economy" was the topic discussed by former US ambassador to Germany, John Kornblum, facilitator Dr Hajo Schumacher, chief correspondent Dr Melinda Crane (Deutsche Welle TV), F.A.Z. editor Dr Frank Schirrmacher and Rainer Schmückle, COO of Johnson Controls (from left to right; Professor Dr Heiner Flassbeck is not in the picture).

A passionate plea in favour of Europe and the euro. Former Foreign Minister and Vice-Chancellor of the Federal Republic of Germany, Joschka Fischer, issued.

FROM INSIDE THE COMPANY

We are a strong and long-standing partner of upper medium-sized companies and their owners. As a “Bank for entrepreneurs” we assist our clients competently and reliably in their business activities and their private wealth management. This applies not only to northern Germany, where we have our head offices in Hamburg and Kiel. We also provide our clients with customised products and solutions from offices in Hanover, Berlin, Dusseldorf, Stuttgart and Munich, with an additional office due to be opened shortly in Frankfurt am Main. On an international level, we are present at the main hubs for global shipping in Athens, Singapore, Hong Kong and New York.

We concentrate on our core fields of business: Corporates, Real Estate Clients, Shipping, Energy & Infrastructure Finance, Wealth Management and Savings Banks & Institutional Clients. In these areas we possess considerable experience and a great depth of knowledge, which benefits our clients. We understand the markets in these areas and are able to reliably assess developments. Starting from the loan as an anchor product, we develop customised solutions, e.g. for foreign trade finance or payment transactions, and provide hedging for currency, commodity and interest rate risks. In addition, we advise companies on takeovers and succession arrangements.

We have market penetration more than 50 % in our target group, the upper medium-sized companies segment of our home region. We are among the major providers of finance for renewable energy projects in Europe. In the area of residential and commercial real estate we are among the five top finance providers in Germany. In shipping we rank among the world’s leading banks. Moreover, we cultivate active business relationships with three-quarters of Germany’s savings banks.

We are focusing on our strengths which includes winding down portfolios and services that no longer fit into our business strategy. We are proceeding systematically – with caution and in a way that minimises losses – in the Restructuring Unit, which is separate from the Core Bank. In addition, we are improving our own structures and processes in order to operate more efficiently. After all, the effort to keep on improving forms part of how we perceive ourselves, as a “Bank for entrepreneurs”.

The Core Bank’s business model is working and is being well received by our clients, both in the North and in the rest of Germany. We are steadily expanding our new business, with good margins and attractive risk/return profiles. Our capital resources are among the well-capitalised in Germany and in the entire eurozone, thanks to the replenishment of the guarantee in mid-2013. We are striving to get the Bank ready for the future and to return to profit territory in 2014.

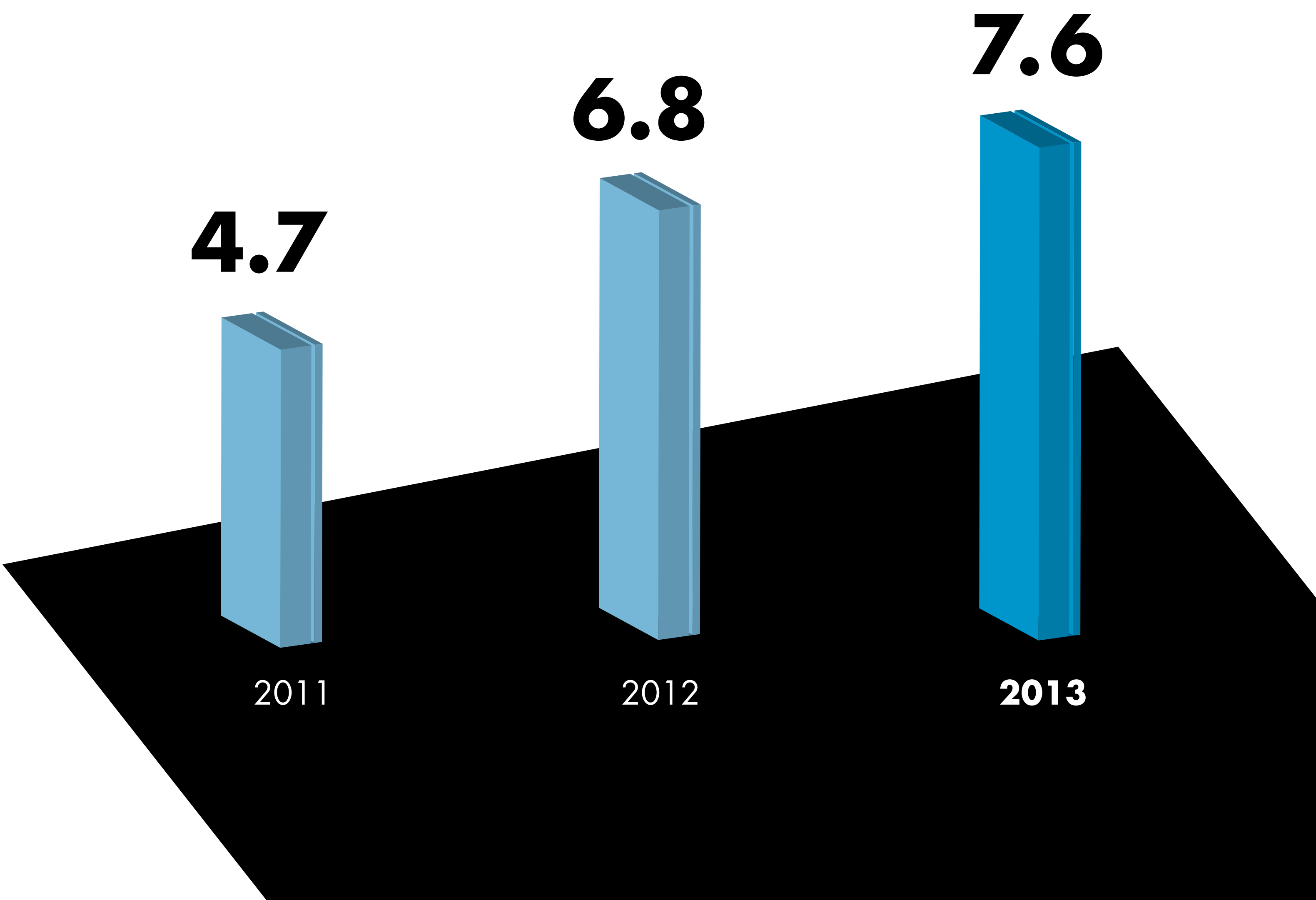
MORE THAN
50%
MARKET PENETRATION AMONG UPPER MEDIUM-SIZED COMPANIES IN NORTHERN GERMANY

ACTIVE BUSINESS RELATIONSHIPS WITH AROUND **3/4** **OF SAVINGS BANKS**

ASSISTING ALMOST **700** **FOUNDATIONS AND NON-PROFIT ORGANISATIONS**

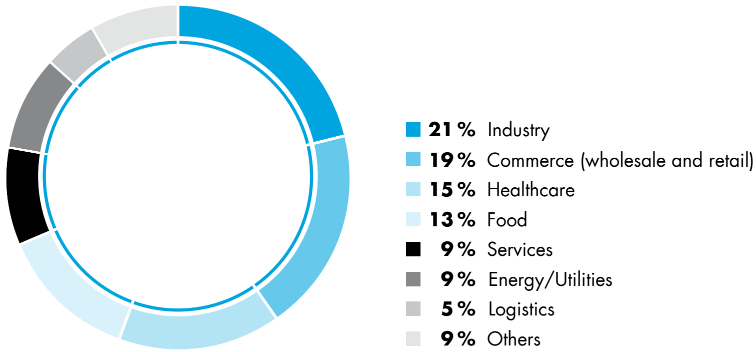
NEW BUSINESS OF THE CORE BANK

Chart 01
NEW BUSINESS
(in € bn)



CORPORATES IN THE CORE BANK

Chart 02
CORPORATES
Loan portfolio by sector (31.12.2013)



HSH Nordbank is a skilled and reliable banking partner for businesspeople. We focus mainly on upper medium-sized companies i.e. usually companies with annual revenues of more than € 50 million.

We have in-depth knowledge especially in trade, logistics, textiles, industry, services, food and healthcare. Using this know-how, we develop customised finance solutions for our clients.

Our strategy is the right one. This is demonstrated by our good results, which we generated under generally difficult underlying market conditions. Although 2013 was marked by falling loan demand from corporates, we increased our new lending business with corporate clients by more than 30 % to just under € 3 billion year on year. At the same time, we improved our lending margins as well the as the risk profiles of new loan exposures, resulting in an overall improvement in the quality of our loan portfolio. Even though we have expanded our sales efforts in Lower Saxony, North Rhine-Westphalia, Berlin, Bavaria and Baden-Württemberg, the main focus of our operations remains in our Northern German home region.

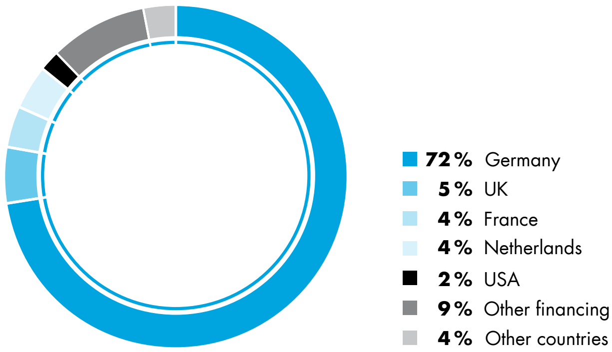
We are not only deeply rooted in Hamburg and Schleswig-Holstein but are also particularly successful here. Almost 40 % of our total finance volume of just over € 10 billion is granted to clients in our core region, where market penetration among our target clients is more than 50 %. In many cases we are a long-standing finance partner and reliable principal bank. All in all, our client base grew by more than 10 % in 2013. Long-standing clients include, for example, the Hamburg-based Marquard & Bahls Group, which is active in mineral oil trading, worldwide tank storage and aircraft fuelling, aluminium producer TRIMET and Trost, an automotive component manufacturer and supplier of car workshop equipment.

All in all, we have created a solid foundation to expand our new business further and increase business volume yet again in 2014.

▶ *For Hamburg-based Hansen & Rosenthal KG, a family-managed chemicals company, which has international operations, we structured and were lead arranger for inventory finance in the form of a club deal amounting to € 110 million. We ourselves took on a partial amount of € 40 million and are responsible for the documentation and implementation of the transaction.* ◀

REAL ESTATE CLIENTS IN THE CORE BANK

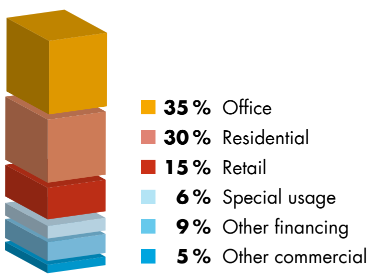
Chart 03
REAL ESTATE CLIENTS
Loan portfolio by region (31.12.2013)



In the Real Estate Clients division, we have consolidated our market position as one of the main providers of finance for residential and commercial real estate in Germany. On a highly competitive market with rising margin pressure, we are today among the five leading providers of real estate finance in Germany. Alongside its real estate expertise, HSH Nordbank's reliability, ability to deliver and competence in executing deals have contributed to this outstanding positioning. Our clients include investors and developers in the German real estate industry, as well as foreign investors doing business in Germany. What developers appreciate particularly is that we assist them throughout the entire life cycle of their properties and that we lay the foundations for successful project execution with our finance deals while at the same time supporting the regional economy.

Although the real estate business in Germany is generally in the hands of medium-sized companies, the way it works is very different in each region. A decisive factor is thus the availability of local experts who have the know-how and comprehensive network in the respective region. We are represented by knowledgeable real estate teams not only in Hamburg and Kiel, our home region, but also in Berlin, Dusseldorf, Stuttgart and Munich. Hence we are able to identify current trends on the local markets quickly and to react accordingly.

Chart 04
REAL ESTATE CLIENTS
Loan portfolio by property type (31.12.2013)



As specialists with long-standing experience, we offer our clients the entire range of services, from conventional mortgage finance through to the complex finance constructs required, for example, in portfolio transactions. Customised concepts for hedging interest rates and optimising risk/return profiles round off our offering.

After successfully increasing the amount of new business in the real estate segment more than twofold from 2011 to 2012, we made further progress in 2013 and – with a gain of around 8% – reached a level of nearly € 3 billion. At the same time, we improved both our margins and the quality of the finance deals. Starting from this point, we want to further increase the volume of our business in 2014. We aim to rank among the top three providers of real estate finance in Germany. Our offices in central and southern Germany are increasingly contributing to this and thus helping to diversify the risk profile of our portfolio, thereby optimising it further.

▶ *HSH Nordbank has provided syndicated finance for the project development of the UPPER WEST building complex in Berlin. The borrower is Atlas Tower GmbH & Co. KG, a subsidiary of project developer STRABAG Real Estate GmbH, one of Germany's leading project developers. The UPPER WEST building complex on Kurfürstendamm is one of its most important current projects. Just under 120 metres in height, it will be one of the tallest buildings in Berlin. All told, the UPPER WEST buildings will contain some 25,500 square metres of office space, 5,500 square metres of retail floor space and 21,000 square metres for hotel use. Completion is scheduled for 2016. The volume of the transaction is in the low nine-digit euro region.* ◀

SHIPPING IN THE CORE BANK

Chart 05
SEGMENT ASSETS
(in € bn (31.12.))

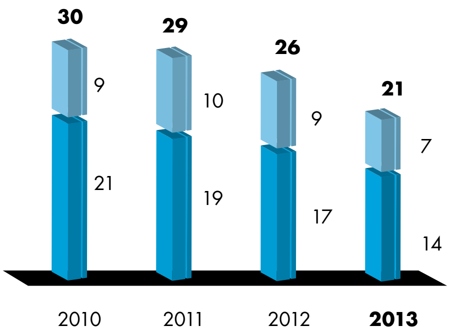
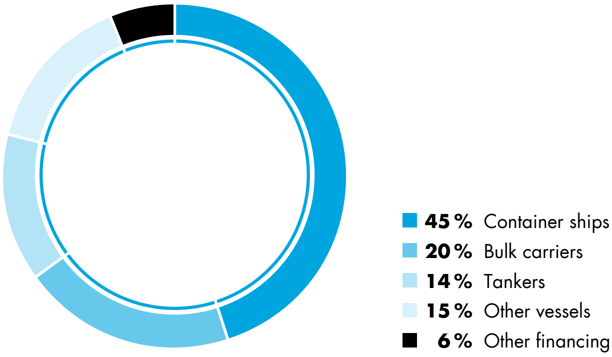


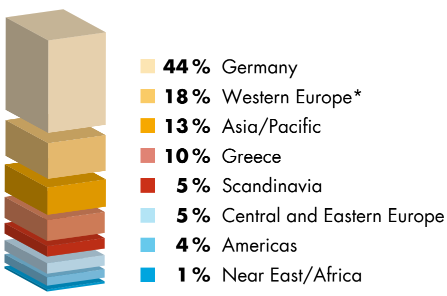
Chart 06
SHIPPING
Loan portfolio by segment (31.12.2013)



HSH Nordbank has been one of the world's leading partners of the maritime business for decades. Our clients around the globe esteem this established expertise. We operate for our shipping clients all over the world. In addition to our head offices in Hamburg and Kiel we are locally represented in Singapore, Hong Kong, Athens and New York. We offer structured finance solutions, long-term ship mortgage loans and construction period financing. When financing new builds we focus exclusively on ship types that are much in demand and suitable for use by third parties, from the following segments: container ships, bulk carriers, tankers and the growing market for offshore ships used for gas and oil production on the high seas. Despite the persistently difficult situation on the global shipping markets we are firmly convinced of the exceptional importance of shipping for global trade and the associated long-term opportunities it provides.

We contribute our expertise and develop hedging instruments in order to support our clients in the management of interest rate, foreign exchange and oil price risks. In addition, we offer to hedge container freight cost risks, which ensures planning and income reliability. Together with our colleagues from Corporate Finance we are a partner much in demand for providing assistance on corporate mergers and takeovers within the shipping sector. Such activity is growing in importance in the wake of market consolidation.

Chart 07
SHIPPING
Loan portfolio by region (31.12.2013)



*excl. Germany, Scandinavia and Greece.

In 2013, the fifth year of the shipping crisis, we assisted our clients with new business, loan renewals as well as deferrals. Since 2009 we have been able to reduce the size and thus also the risk in our shipping portfolios dramatically, i.e. by € 8 billion to € 21 billion within the Bank as a whole. Due to the tense situation, our demands with regard to transparency and quality have increased. Accordingly, we proceed selectively and with a high degree of risk awareness in new business.

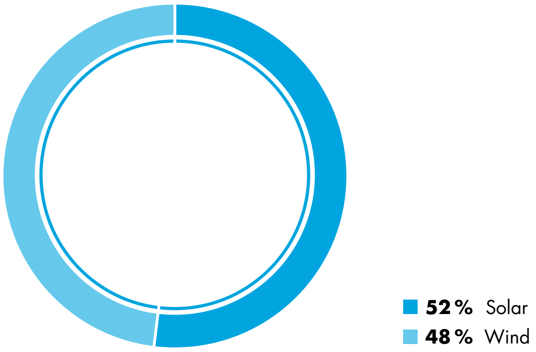
The quality of a transaction is more important to us than the size of new business. Adhering to this principle, in 2013 we generated new business amounting to around € 1 billion with market participants inside and outside Germany. In addition, we further expanded our expertise and offerings for liners through the "Global Liner and Container Finance" unit.

We expect the situation in the global shipping business to remain extremely tense in 2014. Nevertheless, we expect new business for this year to equal the previous year's level. Our approach to the market is the same as in 2013. Among other things, we see potential for high-quality new business in eco-shipping. In order to ensure that their operations are as fuel-efficient and cost-effective as possible, many shipping companies from inside and outside Germany are restructuring their fleets and focusing on new, particularly energy-efficient models or upgrading ships in their fleet. This also enables them to meet the stricter demands on emissions set by the International Maritime Organisation for certain emission control areas, which will apply from 2015.

▶ *In Germany we have gained a new client in MST Mineralien Schiffahrt Spedition und Transport GmbH and are assisting them in financing two handysize bulk carriers. For Höegh Autoliners Holdings AS, an Oslo-based client with international operations, we were the mandated lead arranger and bookrunner for fleet finance amounting to 1.4 billion US dollars (approx. € 1.08 billion) together with ten other international banks. We ourselves took on a partial amount of 130 million US dollars (approx. € 100 million).* ◀

ENERGY & INFRASTRUCTURE IN THE CORE BANK

Chart 08
RENEWABLE ENERGY
Loan portfolio by asset class (31.12.2013)



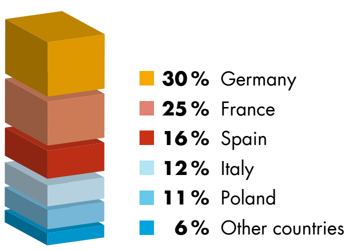
RENEWABLE ENERGY

Over the past 30 years or so we have amassed exceptional know-how and a great deal of experience in financing projects in the renewable energies segment – making us a pioneer and reliable partner in this field of business. The renewable energies segment, which is one of the Bank's well-established core fields of business, enjoys an excellent reputation.

Our clients include project developers as well as investors, energy utilities and operators of power transmission networks. Our focus is mainly on financing wind farms and solar parks in Europe. We also assist our clients in questions involving finance for other types of energy, for example the generation of electricity from hydroelectric power.

We added another chapter to our success story in 2013. Our portfolio grew by 25 wind farms and solar parks to more than 200 projects with a total volume of more than € 3 billion. In 2013, new business amounting to around € 750 million contributed to this success. We have thus positioned ourselves once again as one of five leading European providers of finance for wind and solar energy projects. Around 50 % of our portfolio consists of wind farms – many of them in Germany, both onshore and offshore.

Chart 09
RENEWABLE ENERGY
Loan portfolio by region (31.12.2013)

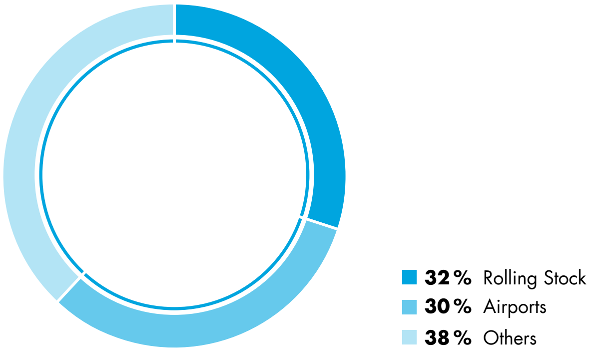


We are firmly anchored in the sector's regional networks and maintain good relationships with many companies from the wind and solar segments that are represented in the Northern German region. We are seeking collaboration with regional savings banks on project finance.

Our business pipeline shows that demand for project finance remains high in 2014. We are therefore confident of our ability to meet our new business targets once again.

▶ *We financed the Calau II wind farm in Brandenburg for our long-standing client, PNE Wind AG based in Cuxhaven. The long-term project finance deal amounts to more than € 85 million. The wind farm consists of 15 turbines with a nominal output of 45 megawatts (MW), most of which is already flowing into the power grid. In the solar segment we have assisted several large-area photovoltaic plants in France, which help diversify our portfolio.* ◀

Chart 10
INFRASTRUCTURE
Loan portfolio by asset class (31.12.2013)

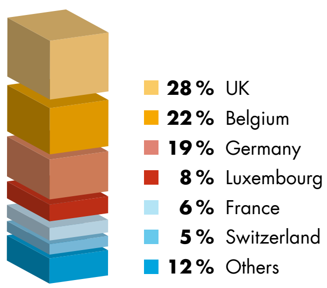


INFRASTRUCTURE

Our structured finance deals help shape Europe's future through a modern and competitive infrastructure. For more than ten years we have been successful as a sector specialist and a partner of private companies and the public sector. Our focus is on all major infrastructure sectors including airports, ports, rail and roads as well as grids and energy storage. Moreover, we have extended the products and services we provide to include the social, communications, utilities and waste management sectors.

Following the Bank's decision to focus on its lending business we reduced our remaining equity investments in the infrastructure segment with great success in 2013, for example by selling our 25 % stake in Northern Diabolo. The Bank financed the connection of Brussels Airport to the Belgian railway network in 2007 with loans but also with equity – thereby helping to execute one of the country's most important infrastructure projects. The newly designed railway station and rail link-up have been operating successfully since June 2012. The total volume of the project, which constitutes the first Belgian public-private partnership (PPP) in the railway sector, comes to around € 400 million.

Chart 11
INFRASTRUCTURE
Loan portfolio by region (31.12.2013)



Our reliability and experience as a structuring lender in the infrastructure and rail sectors also enable us to offer advisory services through our highly-skilled team.

We aim to increase our new business substantially in 2014. In this connection, collaboration with institutional investors will become increasingly important. Now that we have enhanced the size and scope of expertise of our team we are confident that we will once again reach all targets in this business.

▶ *We were the lead arranger of the exceptional "Thameslink Rolling Stock" project, which will enable the deployment of state-of-the-art rolling stock on railway routes in and around London. The total finance of this public-private partnership (PPP) project amounts to around 1.6 billion pounds (€ 1.9 billion) with a term of just over 22 years. The finance deal covers the purchase and operation of 1,140 carriages which Germany's Siemens Group will deliver and maintain in the long run as part of a licence model. The Thameslink programme will help to substantially improve services in central London thanks to longer trains that provide more capacity and higher service frequency.* ◀

WEALTH MANAGEMENT IN THE CORE BANK

As a “Bank for entrepreneurs” we assist our clients in all their financial affairs, both at a business and private level. Our wealth management now focuses exclusively on high net worth private individuals. In order to further improve wealth management services for our clients, we have been collaborating closely with the reputable private Swiss bank Lombard Odier since 2013. Our partner provides us with extensive analyses of the international stock markets and selected individual shares. In this way we ensure that our around 2,500 wealth management clients are looked after in the best possible way.

Alongside the preservation of wealth across generations, our clients are particularly interested in questions relating to succession arrangements in company management and ownership. Handing a life’s work over to the next generation is complex and far more than an emotional challenge. HSH Nordbank provides advice and support in these matters as well.

At the end of the consulting process, foundation solutions are often considered. Here, too, our clients rely on our expertise as we advise and look after almost 700 foundations and non-profit organisations across Germany. In many cases we are involved right from the establishment phase. Our advice also covers topics such as strategy, fund raising, public relations and management. In 2013, we set up a new initiative, “StiftungsZirkel” (foundation circle), an exclusive network for foundations. The online platform www.StiftungsZirkel.de gives foundations access to a unique specialist forum containing relevant information, references and opportunities for one-on-one exchanges. Other focal points include social investments and philanthropy.

We have earned our clients’ trust over many years. Looking after high net worth private individuals and foundations has been a long tradition at HSH Nordbank and is based on the idea that the client’s welfare is the key criterion. We naturally provide independent advice and therefore do not launch and sell our own funds for private clients.

When looking after large and complex assets, the Kontora Family Office, which provides strategic advice to family assets, rounds off our range of services. It paves the way for our clients to gain access to exclusive and international investor networks, private placements and equity holdings. Kontora received an award from the renowned Elite Report in 2013, as a result of which it was accepted into the top group of German family offices. It is considered to be leading family office in Germany.

The EU Commission’s decision in 2011 and the associated requirements prompted extensive changes within HSH Nordbank’s private client business. As a result of adjusting our strategic focus we decided, in 2013, to withdraw from conventional private client business. In mid-2013, therefore, we signed a cooperation agreement with Hamburger Sparkasse (Haspa) and Förde Sparkasse for around 10,000 clients who used this service to arrange for the transfer of these clients and continuation of the business relationship. Both banks, like HSH Nordbank, form part of the powerful association of the German Savings Bank Finance Group and thus ensure that the clients will receive optimal service. The high level of acceptance of this offer by our clients shows that we made a good choice. Most clients have been looked after by the savings banks since the end of 2013. We shall have withdrawn completely from this business by the end of 2014 and will then concentrate exclusively on wealth management.

www.StiftungsZirkel.de

SAVINGS BANKS & INSTITUTIONAL CLIENTS IN THE CORE BANK

In 2013 we pooled the responsibility for savings banks, banks, public-sector clients, insurance companies, pension funds and investment funds under one roof. The savings banks are of particular importance. Our partnership with them constitutes a main pillar of our business model. Around three-quarters of all savings banks in Germany maintain an active business relationship with us. We offer them customised solutions for their own investments, private client business and their corporate client operations. The fact that we look after all investors from a single source makes it easier for us to cater to the needs of each individual client. This ability is based on our excellent market expertise and the extensive knowledge of our clients we have gained over many years. At the same time, the savings banks are a major source of funding for HSH Nordbank.

Asset managers and capital investment companies appreciate our advisory services and product solutions as much as insurance companies, pension funds. Municipalities are increasingly taking advantage of the "Schuldscheine" (promissory notes) and bonds we have structured and placed on the market for their own refinancing.

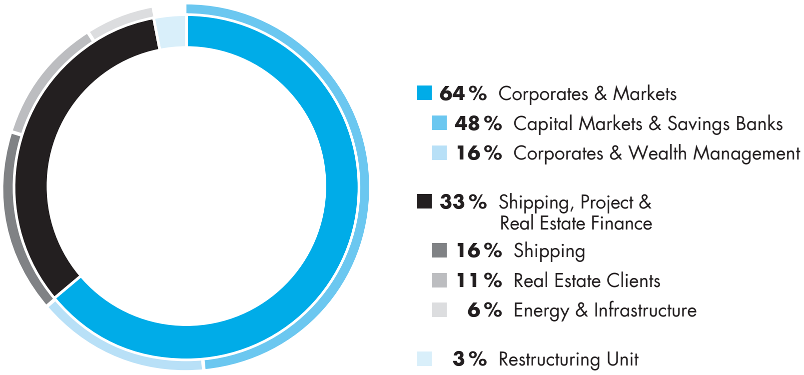
In 2013, we mainly focused on strengthening our retail funding by issuing bonds for our sales partners. We took account of the particular importance of the savings banks by establishing a research portal for our products, which can be integrated into the savings banks' investment process. As in previous years, in 2013 we supported the supply of medium-sized companies with loans through syndicate business with the savings banks. Medium-sized companies also benefit from hedging transactions which protect against fluctuation in interest rates, exchange rates and commodity prices, for example, and which we offer via savings banks.

In future, we aim to focus on asset-based issues. To this end, we have established a new funding platform. In 2013, we set up a team of our own to place long-term infrastructure projects, principally Internet broadband projects in Northern Germany, with institutional investors. In the wake of the regulatory challenges resulting from Solvency II and Basel III, which had a perceptible impact on the investment behaviour of German institutional investors in 2013, we see good growth prospects for us in this segment in 2014.

▶ *In 2013, we placed "Schuldscheine" (promissory notes) for two of our corporate clients, Deutsche Tamoil GmbH and pharmaceuticals producer Nordmark Arzneimittel GmbH & Co. KG, with savings banks, banks and insurance companies. For the first time we also issued promissory notes for public-sector clients, for example for Entsorgungsverband Saar and the City of Dortmund.* ◀

CAPITAL MARKETS & PRODUCTS IN THE CORE BANK

Chart 12
CAPITAL MARKET PRODUCTS
Income by segment (2013)



CAPITAL MARKETS

The Capital Markets division is responsible for the development, sales and cross-selling of capital market-oriented products. The emphasis here is on customised solutions for liquidity and risk management but also for the asset investments of our corporate and private clients. The main focus is on products that protect against interest rate and foreign exchange risks as well as products to hedge fluctuations in commodity prices and freight costs. Moreover, we issue certificates and structured bonds which are sold to retail clients via our partners, particularly savings banks and other banks as well as institutional clients.

Despite persistently low interest rates we were able to forge further ahead with the sale of cross-selling products in 2013 while at the same time strengthening our market position in retail funding.

We recorded a sharp rise in demand for our innovative instrument in 2013, which helps make freight cost risks in container shipping manageable. Our long-standing shipping expertise was incorporated into the development of this instrument. There is virtually no other market that displays such high volatility as the freight rates for containers. On the trading route between Asia and Europe the spot price for a 20 foot standard container underwent price premiums/discounts of between 50 % and 300 % within the space of only a few weeks between spring 2012 and the end of 2013.

The use of container forward freight agreements, i.e. forward agreements independent of the freight agreement, allows freight rates to be hedged in advance over a period of up to two years. This option benefits importers whose goods are carried in container ships, logistics companies and liners, in particular, and is enjoying increasing use.

Our aim is to remain the best interest rate and risk manager for our clients and sales & distribution partners in 2014 and to enhance our international standing in this area. The focus here is on the healthcare, logistics, transport and shipping sectors. Developing and implementing solutions to stabilise shipping companies and ship portfolios, resolving succession situations and advising upper medium-sized companies in strategic company acquisitions are all areas which will gain in importance.

▶ *The marked depreciation of the Japanese yen in the course of 2013 prompted us to develop exit strategies from loans denominated in Japanese yen with our corporate clients. Through a large number of restructuring deals we enabled our clients to redeem loans agreed in Japanese yen at extremely advantageous terms. This demonstrated once again that the close exchange of ideas with our clients leads to a strong result for both the client and the Bank.* ◀

PRODUCTS

Our experts in the Products division develop sophisticated, customised financing solutions to meet our clients' individual needs. This requires arranging complex large-sized transactions. Relationship managers from all divisions of the Bank use the expertise of our specialists to create added value for our clients by understanding their needs and developing the best solution for their individual requirements. The goal is not to sell standardised products, but to develop and provide solutions for our clients to meet their financing challenges.

The Corporate Advisory team has a unique expertise by having developed a quantitative risk analysis tool for corporates that can be customised for their respective business models. This enables clients to define their hedging requirements that are subsequently served by the product developing and sales experts.

The M & A consultants in our subsidiary HSH Corporate Finance GmbH have been successful in acquiring mandates from clients both on the buy/sell-side. We are currently working on the integration of this unit into our Products division to ensure that our clients get the most benefit from our solution-oriented approach that is supplemented by our product know-how.

The success of our Capital Structuring and Loan Syndication units in structuring and providing financing solutions to our clients has led to an increase in the Bank's underwriting activities. Two examples for our increasing success in this business are a real estate portfolio transaction in the amount of € 270 million, in which we acted as mandated lead arranger and bookrunner and secondly a syndicated loan of € 1.2 billion for one of Europe's biggest retailers. The growth of business in our division is also driven by our leveraged buy-out team. Their support for private equity investors has led to more than 20 transactions in leading positions, the main focus being acquisition finance, working capital finance and growth finance.

Moreover, we expanded the structuring of "Schuldscheine" (promissory notes) and have in some cases placed them jointly via our Savings Banks & Institutional Clients division. For a range of German municipalities, mainly in North Rhine-Westphalia, we also placed "Schuldscheine", e. g. for Hamburgische Investitions- und Förderbank, whose first transaction in this field we assisted as sole lead arranger.

Demand for our factoring solution "Smart Fact" was persistently high: This finance platform for trade receivables, established in 2012, eases the pressure on clients from our core target group of upper medium-sized companies, in particular. In our Transaction Banking unit – a growth area – we offer specialised services relating to payment transactions and foreign trade to clients of all our front office units. Due to the regional anchoring of all sales and processing units in Kiel and Hamburg, we have extremely flexible processes and streamlined structures with short decision-making channels in transaction processing. This enables us to implement even complex client requirements within very short periods of time and a high level of quality.

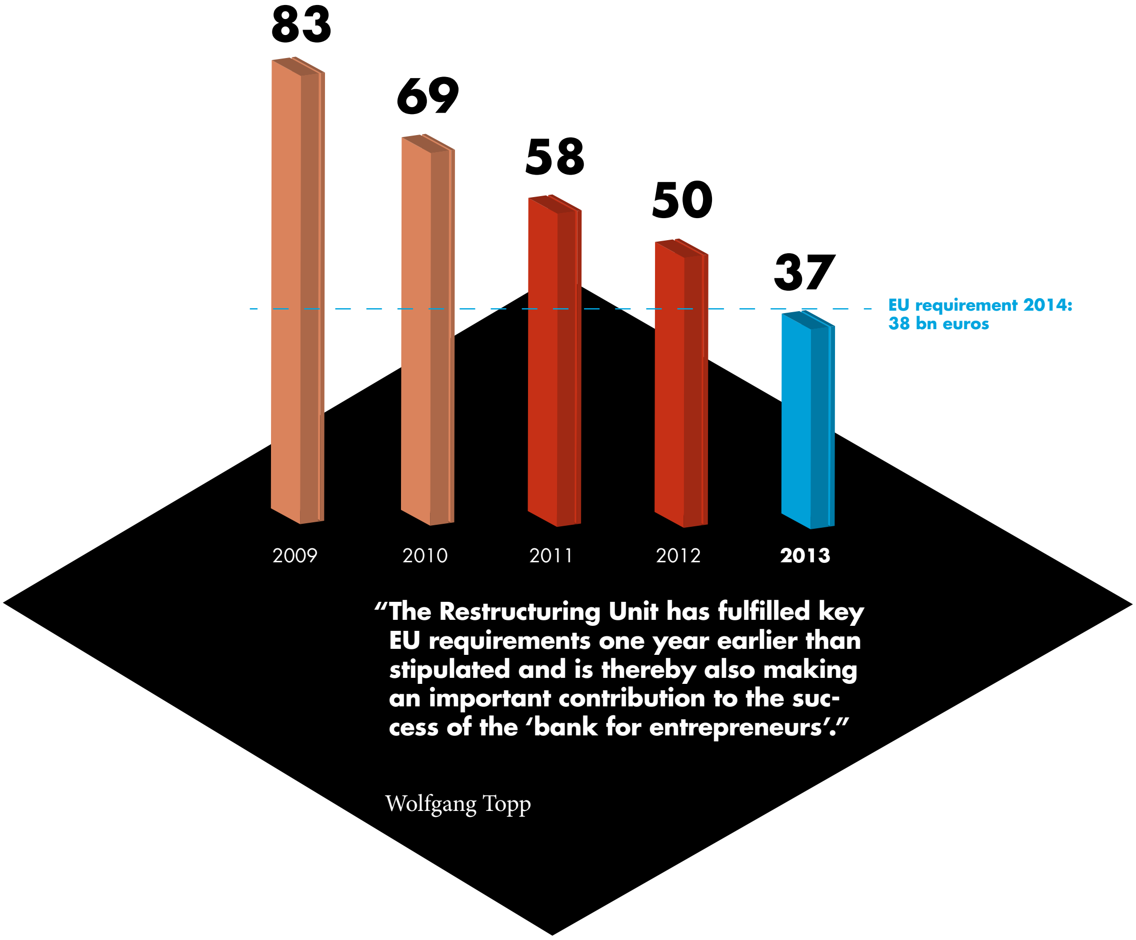
In an ever more contested payment transactions market we have thus increased our new business and income further. At the same time, we were able to gain new clients and expand existing business relationships. It is in particular thanks to the close links between Transaction Banking and all sales areas that we have continued the cross-selling successes recorded in specialist client segments, for example from Savings Banks & Institutional Clients and Shipping. Moreover, we visibly consolidated our position in structured export finance as a professional provider with a regional touch.

In 2013 the Transaction Banking unit was particularly affected by the intense assistance and advice required by our clients during the introduction of Single European Payments Area (SEPA) payment transactions. We will have completed this process well before the implementation deadline on 1 August 2014. This year we are seeking to broaden our client base especially in our growth regions in Central and Southern Germany. Among other things, we are focusing on our products for factoring and specialised finance deals in foreign trade.

We want to convince our clients to do business with us by rapidly developing customised and innovative solutions and thereby consolidate and extend our market position. For capital market transactions the main focus here is on absolutely reliable execution and reduced risk for our clients.

RESTRUCTURING UNIT

Chart 13
RESTRUCTURING UNIT
Segment assets 2009–2013
excluding consolidation items
(in € bn)



"The Restructuring Unit has fulfilled key EU requirements one year earlier than stipulated and is thereby also making an important contribution to the success of the 'bank for entrepreneurs'."

Wolfgang Topp

A CONVERSATION WITH WOLFGANG TOPP, HEAD OF THE RESTRUCTURING UNIT

Wolfgang Topp, 61, Generalbevollmächtigter, and since March 2012 responsible for the Restructuring Unit of HSH Nordbank.

The Restructuring Unit has been in existence for five years: What is its importance for HSH Nordbank now?
At the end of 2013 around 35 % of HSH Nordbank's total assets were pooled in the Restructuring Unit. In itself, this is a real success. If we compare: When the Restructuring Unit was established in December 2009 it accounted for around € 83 billion (incl. Aviation), that is, about half of the total assets of the Bank. However, the remaining € 37 billion at end-2013 still represent a substantial wind-down volume which we aim to reduce further speedily.

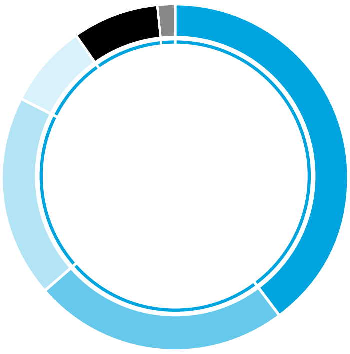
In 2013 the Restructuring Unit's total assets fell below the € 38 billion required by the EU Commission for the end of 2014.

Does this have an impact on the further wind-down process?
We have thus fulfilled a key requirement of the EU Commission one year earlier than stipulated. We aim to continue this wind-down process with all speed but, above all, in a way that eases the pressure on the markets and the guarantee and that maximises profit. In this way we are reducing the Bank's risk exposure and taking the pressure off our capital, while at the same time strengthening the forward-looking Core Bank. The Restructuring Unit is thus covering the Core Bank's back and making an important contribution to the success of the "Bank for entrepreneurs".

How has the work of the Restructuring Unit changed over the past five years?
In the first few years, wind-down successes were achieved quite rapidly through the divestment of fungible securities holdings and equity investments. Now, however, the focus is on the management of the loan portfolios that need to be wound down, many of which – particularly in shipping, but also in real estate – are problematic. We are constantly striving to develop new solutions to wind down this portfolio in order to forge ahead with the wind-down at a fast pace.

RESTRUCTURING UNIT

Chart 14
RESTRUCTURING UNIT
Segment assets by type of business (31.12.2013)



The Restructuring Unit, a legally constituent part of HSH Nordbank, continued to fulfil its clearly defined mandate both systematically and successfully in 2013: to wind down HSH Nordbank portfolios that are not in line with the strategy while safeguarding their value. In this way the divisions of the Restructuring Unit created further balance-sheet scope for profitable new business in the Core Bank over the past year and made a substantial contribution to the lasting stabilisation of HSH Nordbank.

In 2013 the Restructuring Unit successfully reduced its holdings of securities, loan exposures and equity holdings by a total of € 13 billion to € 37 billion. This means that the amount of € 38 billion required by the EU Commission for the Restructuring Unit had already been undershot by the end of 2013. The Bank also forged decisively ahead with the wind-down of equity holdings as agreed with the EU Commission, largely completing it in 2013. A significant share is attributable to numerous divestments carried out in 2013. The biggest wind-down successes in the loan portfolios of the Restructuring Unit were in the areas of international real estate, corporates and aviation. Despite the difficult market setting, the shipping portfolio of the Restructuring Unit was successfully further reduced by a respectable € 2 billion.

HSH Nordbank is working steadily to streamline and optimise its structures and processes. It is for this reason the Bank's restructuring know-how was pooled in the Restructuring Unit in mid-December 2013 by integrating the Core Bank's activities restructuring activities into the Restructuring Unit. The entire processing of HSH Nordbank's restructuring cases in the Restructuring Unit allows resources to be used more efficiently and processes to be simplified. Restructuring cases of the Core Bank will continue to be booked there. Also lending decision and responsibility for results for these cases will remain in the Core Bank.

Furthermore, a Credit Support unit has been set up in the Restructuring Unit. This unit supports the portfolio units by independently processing standardised and procedural issues in the implementation of loan analysis and assistance.

▶ *In 2013 we developed an innovative finance model for a portfolio of ten ships that were either insolvent or at serious risk of insolvency in conjunction with the internationally operating Navios Group. This enabled HSH Nordbank to reduce its total assets and risks while at the same time participating in any subsequent recovery on the shipping markets. According to the concept, the previous owners will hand over their ships to this large Greek shipping company; in return, the previous owners will be relieved of their loan obligations vis-à-vis HSH Nordbank. The new owners will repay a major portion of the previous owners' original loan amount owed to HSH Nordbank and ensure operation of the ships for the next few years. The remaining portion of the original loan amount will be converted into a participating loan in favour of HSH Nordbank. If the ships generate more than a contractually agreed return, the excess amount will be split between the new owners and HSH Nordbank, thereby reducing the amount of the participating loan.*

Following the successful conclusion of this transaction amounting to around 300 million US dollars (approx. € 231 million) we expect this construct to reduce more than € 1 billion of ship loans now carried in the balance sheet in the medium term. ◀

CORPORATE RESPONSIBILITY

EMPLOYEES

As a successful "Bank for entrepreneurs" HSH Nordbank needs well-qualified, flexible and motivated employees – both now and in the future. For this reason, we will continue to place great emphasis on the further development of our staff.

In 2013, the focus in the human resources field was on fostering our executives. Through the implementation of a Young Managers Programme and High Potential Programme we are training our young executives while at the same time qualifying our top executives for more senior tasks. Vacant executive positions can thus be filled quickly with persons who are extremely well-qualified and very familiar with the Company.

Of course, good human resources policy starts even earlier: in the recruitment of talented, motivated young people who are interested in the banking business. We have therefore launched a training offensive in order to raise awareness of the attractive training we offer. In 2013, a total of 19 trainees completed their training within the Bank; 12 of these were subsequently permanently employed by the Bank. In future, we want to recruit at least 20 new trainees each year for dual studies leading to a bachelors' degree in arts/science (business informatics) or bachelors' degree in science (business administration) or to a qualification as office manager.

A further key element of our personnel policy is to ensure better compatibility between work and family life. HSH Nordbank enables its staff to achieve a good work/life balance. To this end, we have developed more than 100 different part-time working hour models while at the same time raising the real awareness of this topic among our executives. In 2013, we again received the family-friendly company award which carries the "audit berufundfamilie" seal of the charitable Hertie Foundation in recognition of the successful implementation of this and other measures. Following 2007 and 2010, this is the third consecutive time we thereby commit ourselves to improve the high level of our family-friendly policies over the next three years. Among other things, we plan to look at the situation of fathers at the Bank as part of an initiative conducted with the "Fathers' Network". Together with other major companies we are offering presentations, workshops and activities for our male staff with children

Another main focus in 2013 was on healthcare management, which included a series of workshops on measures designed to improve staff health at the workplace, an analysis of stress situations within the company and one-to-one consultations.

Fostering women remains another important topic within the Bank. In the recently launched programs for employees with high potential and for junior executives we have achieved a women's quota of 50 % and during the proven mentoring programme a figure as high as 70 %. The challenge in 2014 will be to fill an increasing number of senior executive positions, in particular, with women. The equal opportunities officers and the Human Resources division launched a series of presentations aimed at illustrating further the topic of equal opportunity.

However, as part of the EU requirements dating from 2011 and the ensuing necessary restructuring we were also forced to cut jobs. By the end of 2013 we had almost reached the reduction target set for 31 December 2014. Since 2012 the number of full-time employees has thus been reduced by more than 1,100. The Management Board and the Human Resources division were very keen to find socially responsible solutions for all parties and to proceed with fairness and transparency, in line with our mission statement. In collaboration with the works council, we were able to achieve this goal.

COMPLIANCE

Integrity is for us an elementary part of responsible corporate behaviour. This includes, first of all, adherence to the laws and provisions of the countries in which we operate. Given the further tightening of the underlying regulatory conditions, this requires a high level of awareness from every financial services institution together with a willingness to adapt and change.

To meet our objective we established Compliance as an independent division in 2012 and further strengthened its operations in 2013.

The Compliance division monitors adherence to the strict behaviour guidelines for securities trading, financial transactions, the prevention of money laundering and financing of terrorism as well as the prevention of corruption. The behaviour guidelines applicable at HSH Nordbank have been compiled in a code of conduct. This code provides the Bank's staff and executives with a reliable orientation framework for responsible action which meets the statutory requirements as well as ethical and social norms.

The Compliance division focuses particularly on ten areas, which include monitoring clients and transactions, market and investor protection and the management of conflicts of interest. Hazard analyses are used by the Compliance division to check the Bank's risk profile on a regular basis and to examine the adequacy of the established management measures. Compulsory training sessions on the various compliance issues ensures that each staff member is aware of the statutory standards and behaviour guidelines that must be observed. Implementation of the applicable standards and requirements is regularly checked by the Compliance division by means of a risk-oriented monitoring plan in selected areas where the Bank operates.

HSH Nordbank has an external whistle-blowers' office which responds to anonymous tip-offs from Bank employees and, following a preliminary examination, forwards them to the Compliance division. In 2013, compliance breaches were investigated by the relevant units and corporate bodies of HSH Nordbank; in individual cases, they were supported by external law and auditing firms. Cases of suspected insider trading, market manipulation, money laundering and other criminal acts are reported to the relevant supervisory and criminal prosecution authorities.

In addition to the existing compliance processes the Management Board has established a new MaRisk – (Minimum Requirements for Risk Management of the German Financial Supervisory Authority) Compliance department within the Compliance division. In accordance with the 4th MaRisk amendment, this department counteracts risks that might result for the Bank from the failure to adhere to material legal provisions and requirements. The MaRisk Compliance department will be fully functional in 2014 and integrated into the existing processes of the Compliance division.

SOCIAL COMMITMENT

We at HSH Nordbank are aware of our corporate responsibility. This is why our social commitment has a long tradition.

One example of this is the HSH Nordbank Run, which in recent years has established itself as the biggest charity run in northern Germany. In 2013, the run through Hamburg's HafenCity attracted a total of 789 teams with 21,162 participants – all for a good cause. The € 135,000 raised went once again to "Kids in die Clubs", a charitable initiative set up by the association "Kinder helfen Kindern e.V." and Hamburger Sportjugend. Since 2004 the HSH Nordbank Run has raised more than € 1 million. Thanks to this, "Kids in die Clubs" has enabled more than 8,500 children and young people from financially disadvantaged families to join a sports club.

For the tenth year in succession HSH Nordbank was the premium partner of Kieler Woche, the world's largest sailing sport event, in 2013. As part of Kieler Woche we launched the charity appeal "Gut für Kids" ("Good for Kids") in 2011. In 2013 alone, the sale of the blue "Gut für Kids" bracelets raised more than € 26,000. The proceeds are also used to co-finance membership fees in sports clubs for children and young people from socially disadvantaged families living in Kiel.

Moreover, together with the German Savings Bank Finance Group we were once again one of the main sponsors of the Schleswig-Holstein Music Festival where, over a period of eight weeks, special venues provide an atmospheric backdrop to first-rate concerts in the north of Germany.

Another cultural project close to our heart: As part of the "Languages of the Land: literature in Schleswig-Holstein" project organised by the HSH Nordbank Arts Foundation with curator Professor Dr Heinrich Detering we published, in 2013, anthologies of poems and prose showing the literary riches resulting from the many languages and cultures existing in Schleswig-Holstein. In early 2014, we published a volume of Schleswig-Holstein texts by Hans Christian Andersen in collaboration with Günter Grass, who contributed a number of his lithographs.

REPORT BY THE SUPERVISORY BOARD

In 2013, HSH Nordbank made major headway with the implementation of its new business model. In a difficult setting it established itself as a "bank for entrepreneurs" and underpinned the positioning of its core units in the markets with lasting effect. It thus successfully increased its new business. At the same time, progress was made in winding down risk-prone exposures, particularly in legacy portfolios. The persistently tense situation in international shipping continued to exert strain. The management and wind-down of problem loans in the Bank's most important business field continues to be a key task for the Bank. The Bank received the necessary scope for action not least with the replenishment of the guarantee provided by the two federal states in mid-2013. Prior to the replenishment, the Supervisory Board discussed the possible options for action to improve capital ratios intensively with the Management Board and supported the decision to replenish the guarantee. The sustained strengthening on the capital side has also provided the Bank with a good basis for tackling the upcoming regulatory challenges.

In addition to the Bank's strategic orientation, which the Supervisory Board additionally discussed with the Management Board during a separate workshop, the Supervisory Board sought regular information on business and financial performance and corporate planning while at the same time advising the Management Board and monitoring its management. In the interests of constructive collaboration the Management Board kept the Supervisory Board informed of all relevant issues in a regular, timely and comprehensive manner. Deviations of the business performance from planning were explained to the Supervisory Board and reasons given. The Supervisory Board was involved in decisions of material importance for the Bank and – where necessary – granted its approval following extensive consultation and examination. Where decisions needed to be made between meetings, resolutions were passed in writing. The Chairman of the Supervisory Board and Chairpersons of the Risk Committee and Audit Committee were moreover kept informed by the Management Board of important topics and upcoming decisions, including those falling between scheduled meetings.

MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board met a total of seven times in the 2013 financial year, including two extraordinary meetings. All members participated in at least half of the meetings. One decision was taken as part of a written procedure.

During the five regular meetings the Supervisory Board was informed by the Management Board of the Bank's current business situation, business performance in the individual fields of business, the risk situation, the trend of capital ratios and the liquidity and funding situation. The quarterly results were discussed with the Management Board in the presence of the auditors. During a full-day workshop the Supervisory Board additionally deliberated in more depth with the Management Board on the Bank's business strategy and the upcoming challenges. Furthermore, the Management Board kept the Supervisory Board regularly informed of the status of the EU state aid proceedings and regularly provided it with the regular reports of the EU trustee on implementation of the commitments and requirements in accordance with the EU state aid decision.

The extraordinary meeting on 8 January 2013 was convened to reappoint Mr. Torsten Temp as Management Board member for a further term of office with effect from 1 May 2013. Furthermore, the Supervisory Board agreed to an amendment to the termination agreement signed with the former Chairman of the Management Board, Prof. Dr Nonnenmacher. This step was prompted by the launch of an investigation by the public prosecutor's office in Kiel against Prof. Dr Nonnenmacher. The termination agreement covers reimbursement of the payments made under the termination agreement including interest should Prof. Dr Nonnenmacher be subject to a criminal conviction.

The meeting on 6 February 2013 focused mainly on an intensive discussion of the financial, investment and personnel planning 2013-2015 submitted by the Management Board. In addition, the Management Board discussed its report on corporate governance and the declaration of conformity together with the report by the Supervisory Board for the 2012 financial year.

On 28 February 2013 the Supervisory Board convened an extraordinary meeting. Following the election of two substitutes for two departed Supervisory Board members by shareholders at the general meeting on the same day it elected a new Supervisory Board Chairman and decided on the committee appointments this necessitated. Before the general meeting the Supervisory Board voted by way of a written resolution procedure on nominations for the election of its membership to be presented to shareholders at the general meeting.

The meeting of the Supervisory Board held on 10 April 2013 was convened primarily in order to endorse the 2012 annual financial statements and consolidated financial statements following its own examination and previous discussion with the auditor at the recommendation of the Audit Committee, discussion of the report on relations with affiliated companies and the other resolutions usually to be adopted in this connection on the recommendations to shareholders at the annual general meeting. During the meeting the Supervisory Board held an in-depth discussion on the achievement of the Management Board's objectives for the 2012 financial year and set the objectives for the 2013 financial year. The Supervisory Board moreover discussed with the Management Board the annual report on equity holdings and agreed to the sale of HSH Real Estate GmbH, a wholly-owned subsidiary of the Bank, and the spin-off of trust limited partnership shares. The Supervisory Board issued a recommendation to that effect to shareholders at the annual general meeting for approval. Finally, the Management Board presented to the Supervisory Board the annual overview of its outside activities and of the donations made by the Bank in 2012. Following the amendment of MaRisk, new duties of information to the Supervisory Board were implemented, which were anchored in the Rules of Procedure of the Management Board.

At its meeting on 7 June 2013 the deliberations of the Supervisory Board focused mainly on the changes to the guarantee agreement with the federal states to replenish the guarantee to € 10 billion and notification of the EU Commission to that effect. Following in-depth discussion, the replenishment was approved.

At the following meeting on 29 August 2013 the Management Board informed the Supervisory Board of the business and financial situation as at the end of June 2013. The half-year results were discussed with the Management Board in the presence of the auditors of the financial statements. In addition, the Supervisory Board was informed of the funding situation and IT topics. The Supervisory Board also requested information on the status of the ongoing legal dispute with investment banks and previous Management Board members. During this meeting the Supervisory Board additionally recommended that at the annual general meeting shareholders approve an amendment to the Articles of Association and various contract transfer agreements for partial profit and loss transfer agreements. Furthermore, due to the change in the Supervisory Board, a special election in its committees had become necessary. Finally, the Supervisory Board discussed the results of its efficiency audit. Details can be found in the Corporate Governance report in this annual report.

On 28 November 2013 the Supervisory Board met again and formed the Nominating Committee in preparation for the upcoming re-election of this corporate body in 2014. The amendment of the German Banking Act (KWG) effective 1 January 2014 also necessitated a revision of the Rules of Procedure of the Supervisory Board. This meeting focused mainly on a discussion of the financial information as at 30 September 2013 and the Bank's general situation. In addition, the Supervisory Board discussed a reputation risk strategy with the Management Board. The Supervisory Board deliberated on the report by the Remuneration Committee concerning the appropriateness of the remuneration systems within the Bank and acknowledged the Bank's 2012/2013 Remuneration Report. Finally, the Supervisory Board appointed another member to the Advisory Board, Dr Arend Oetker.

Where individual members of the Supervisory Board were affected by decisions made by the Supervisory Board or in its committees, either in person or on account of their position, or where other potential conflicts of interest occurred, they did not participate in the deliberations and decisions in the corporate body concerned. For instance, Dr Klemmt-Nissen did not participate in the deliberations and decisions of the Risk Committee in connection with finance deals in which HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH was directly or indirectly involved. Dr Thomas Mirow furthermore informed the board that he had taken on supervisory board mandates at other companies – Rothschild GmbH, Frankfurt/Main and Baiterek, Kazakhstan. In addition, Mr. Oke Heuer announced his move to Lübeck savings bank, where he will be Generalbevollmächtigter with effect from 1 January 2014.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board formed five committees from among its members for support in its work.

The General Committee met six times last year. In accordance with the Rules of Procedure, the General Committee prepared the Supervisory Board resolutions for the Supervisory Board. In this context, it dealt with Management Board matters, in particular.

In its five meetings the Risk Committee discussed, in particular, the credit, liquidity, country, market and operational risks as well as reputation risks. The main focus here was on credit risks, especially against the backdrop of the persistent shipping crisis and the resultant increase in loan loss provisions. The deliberations were based on the Risk report, which is presented quarterly and which was discussed in depth with the Management Board. In this context, Risk reports on individual focus portfolios were submitted and discussed on a regular basis. In addition, at every meeting the committee requested and received a report on recent events and developments and their potential impact on the risk situation. The same applies to enquiries or audits by the banking supervisory authority with regard to the minimum requirements for risk management, on which the Management Board provided regular information. In addition, the Risk Committee deliberated on the Bank's risk management and the risk strategy presented by the Management Board including the relevant sub-strategies. Furthermore, the Risk Committee dealt with the required adjustments to the internal guidelines for the lending business. Finally, at its meetings the committee requested and received information on all exposures subject to mandatory reporting and gave its approval to business transactions requiring approval by law. In one case, the required approval was obtained in the context of a written procedure.

The Audit Committee was convened five times in 2013, including once for an extraordinary meeting. Representatives of the auditors took part in all meetings. During its first meeting, the members of the Audit Committee discussed with the auditors the Bank's annual financial statements and consolidated financial statements and audit reports for the year 2012. In this context the Audit Committee also discussed the report on relations with affiliated companies. The Audit Committee examined the independence of the auditors and prepared the appointment of KPMG as auditors for 2013. At the further meetings of the Audit Committee, the auditors presented their findings of the review of the interim reports and discussed them with the committee prior to their publication. Moreover, the initial results of the annual financial statements were discussed with the committee, and the Management Board provided information on particular developments with an impact on the annual financial statements. And furthermore, the Audit Committee received reports on commissioning the auditor with non-audit services. In one instance, the Audit Committee's approval was obtained as part of a written procedure. During the meetings the committee dealt in depth with the work of Internal Auditing, with compliance and accounting issues, with the special audits conducted by the regulatory authorities and the objections raised by them. The committee assured itself of the efficiency of the Internal Control System and of Internal Auditing. Furthermore, the committee received the results of the securities account audit and the audit of securities service business pursuant to the Securities Trading Act (WpHG) for information purposes.

No meetings of the Nominating Committee were required during the 2013 financial year because direct consultation with the Bank's shareholders had taken place prior to the resolution on nominations of shareholder representatives to the general meeting to fill vacancies.

During the year under report, a meeting of the Mediation Committee – to be formed according to the provisions of the Co-determination Act – was held on 8 January 2013 in preparation for the re-appointment of Mr. Temp for a further term of office effective 1 May 2013.

Another further committee, the Compensation Monitoring Committee, was established with effect from 1 January 2014. The committee did not begin its work during the reporting year.

The Chairpersons of the committees regularly reported to the Supervisory Board during the subsequent plenary sessions on the work and results of the committees' deliberations.

AUDIT AND ADOPTION OF THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2013

The auditors of the financial statements and consolidated financial statements elected by shareholders at the annual general meeting, KPMG AG Wirtschaftsprüfungsgesellschaft, audited the accounting and the annual and consolidated financial statements of HSH Nordbank AG including the two management reports for the 2013 financial year and granted an unqualified auditor's certificate in both cases.

The documentation underlying the financial statements and the audit reports together with all attachments were sent out to all Supervisory Board members in good time. At its meeting on 8 April 2014 the Audit Committee discussed the documents with the auditors in detail following a report by the auditors on the implementation and main findings of their audit. The Chairman of the Audit Committee gave a report on the results of the discussions in the Audit Committee before the Supervisory Board at its meeting on 9 April 2014. The auditors also took part in the Supervisory Board meeting and reported on their main findings. Following its own examination of the reports of the auditors and in-depth discussion, the Supervisory Board agreed with the findings of the audits on the recommendation of the Audit Committee and established that following the final result of its own inspections there were no objections to be raised. The Supervisory Board adopted the 2013 annual financial statements drawn up by the Management Board and approved the 2013 consolidated financial statements. Furthermore, it adopted the report of the Supervisory Board for the 2013 financial year.

In addition, the Management Board presented its own report on relations with affiliated companies (dependence report) in the 2013 financial year to the Supervisory Board and the statutory auditor on time. The statutory auditor reviewed the deSubordinate Status Report and issued the following unqualified auditor's certificate:

"Following our statutory examination and evaluation performed in accordance with professional standards, we hereby confirm that

1. the factual content of the report is correct,

2. the payments made by the Company in the transactions listed in the report were not inappropriately high."

The Audit Committee and the Supervisory Board have reviewed the Management Board's report on relations with affiliated companies and the statutory auditor's audit report and have held discussions with the Management Board and the statutory auditor in the context of the annual financial statements. The Supervisory Board agreed with the results of the statutory auditor's report because in its assessment no objections could be raised to the Management Board's statement on the report on relations with affiliated companies.

PERSONNEL ISSUES

Effective 28 February 2013 Messrs. Hilmar Kopper and Detlev Bremkamp resigned from the Supervisory Board. At their general meeting shareholders elected Dr Thomas Mirow and Thomas Losse-Müller as successors to Messrs. Kopper and Bremkamp. At its meeting on 28 February 2013 the Supervisory Board elected Dr Thomas Mirow as the new Chairman of the Supervisory Board. On 1 July 2013 Mr. Oliver Dircks, duly elected substitute member, took over the mandate of Mr. Jürgen Friedland, who resigned from the Supervisory Board effective midnight on 30 June 2013.

There were no changes to the Management Board in the reporting year 2013.

The Supervisory Board wishes to thank the Management Board and all employees for their work in connection with the Bank's realignment.

Hamburg/Kiel, 9 April 2014

The Supervisory Board

Dr Thomas Mirow
Chairman of the Supervisory Board of HSH Nordbank AG

CORPORATE GOVERNANCE

All information included in this Corporate Governance Report represents the status on 6 February 2014.

As an unlisted company, HSH Nordbank began recognising the German Corporate Governance Code (GCGC) voluntarily in 2005. The Management Board and the Supervisory Board of HSH Nordbank expressly support the recommendations and objectives of the GCGC. In addition to the GCGC, corporate governance at our Bank is principally based on the provisions of the German Stock Corporation Act as well as internal rules such as the Articles of Association, the Rules of Procedure of the Management Board and the Supervisory Board as well as the Code of Conduct of HSH Nordbank. By presenting our system of management and monitoring of the Bank and transparent reporting on conformity to the rules of the Code, we aim to enhance the confidence of investors, clients and employees as well as the public in general.

DECLARATION IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

In accordance with Section 161 of the German Stock Corporation Act, the Management Board and the Supervisory Board of listed companies are required to publish an annual declaration in which they indicate the extent to which their management and monitoring systems complies with or deviates from the recommendations of the German Corporate Governance Code. Our aim is to conform to the Code as fully as possible even as a non-listed company. In February 2014, the Management Board and the Supervisory Board of HSH Nordbank therefore voluntarily issued a declaration of conformity in which the deviations from the Code recommendations were disclosed.

DECLARATION OF CONFORMITY

Since publishing the last declaration of conformity on 6 February 2013, the Management Board and the Supervisory Board of HSH Nordbank declare that HSH Nordbank has conformed to the recommendations of the German Corporate Governance Code in the versions dated 15 May 2012 and 13 May 2013 in every respect save for the following exceptions stated below. Until the next declaration of conformity is submitted, HSH Nordbank will conform to each and every recommendation of the Code in the version dated 13 May 2013 save for the exceptions listed below.

Section 4.3.2 provides that remuneration of the Management Board shall comprise fixed and variable components.
According to the provisions of the EU state aid decision and the Bank's obligation under the guarantee provided by the states of Hamburg and Schleswig-Holstein, the current Management Board remuneration system does not stipulate any variable compensation for members of the Management Board.

According to section 4.2.3 (3), the Supervisory Board must set the targeted benefit level for benefit commitments and take into account the annual and long-term expenditure deriving from it.
For the members of HSH Nordbank's Management Board a defined contribution plan applies, which does not aim for a specific level of benefits.

Section 5.3.3 requires the Supervisory Board to form a Nominating Committee that is composed exclusively of shareholder representatives and proposes suitable candidates to the Supervisory Board for its voting proposals to shareholders at the annual general meeting.
At HSH Nordbank the voting proposals to the annual general meeting of the shareholder representatives on the Supervisory Board have in the past been agreed in advance with the shareholder representatives. At the meeting on 28 November 2013 a Nominating Committee was formed. This deviation therefore no longer applies.

Section 5.4.6 (2) requires that if variable compensation is offered to Supervisory Board members it be geared to sustainable corporate governance.
The current remuneration rules for the Supervisory Board of HSH Nordbank provide for performance-related remuneration for Board members that has a fixed ceiling and is paid only if the Bank pays a dividend for the financial year in question. Due to the ban on payouts imposed by the EU Commission in the context of its state aid decision, this provision does not apply at present.

Section 5.4.6 (3) provides that the remuneration paid to members of the Supervisory Board be reported separately for each individual and broken down by component in either the Notes or the Management Report.
The remuneration paid to the individual members of the Supervisory Board is not disclosed by HSH Nordbank. The shareholders receive sufficient information on the remuneration paid to the members of the Supervisory Board by virtue of the fact that this remuneration is determined by the shareholders themselves at the annual general meeting. HSH Nordbank considers this form of disclosure of the remuneration paid to the Supervisory Board to be sufficient for assessing its appropriateness.

According to Section 7.1.2 Sentence 4, the consolidated financial statements should be published within 90 days and the interim reports within 45 days of the end of the period to which they refer.
HSH Nordbank did not publish its consolidated financial statements for the 2012 and its interim reports for the 2013 financial year publicly within the prescribed period. The Bank will probably not publish either its 2013 consolidated financial statements or the 2014 interim reports within the recommended period. The Bank is endeavouring to ensure that the prescribed periods will be adhered to in future.

HSH Nordbank conformed to the Code's recommendations so far as they make sense for a non-listed public limited company.

Hamburg/Kiel, 6 February 2014

On behalf of the Management Board:	On behalf of the Supervisory Board:
Constantin von Oesterreich	Dr Thomas Mirow

All declarations of conformity previously published by HSH Nordbank are available in the "Investor Relations" section of HSH Nordbank's website.

SUPERVISORY BOARD

Composition

HSH Nordbank's Supervisory Board consists of 20 members, of whom – in accordance with the provisions of the German Co-Determination Act – half are shareholder representatives and half are employee representatives. The shareholders are represented on the Supervisory Board mainly by shareholders and by independent and renowned representatives of the business community who are independent of the Bank.

The term of office of the current Supervisory Board expires with effect from the end of the annual general meeting in May 2014. In accordance with the parameters set by the EU Commission, the newly appointed Supervisory Board will only have 16 members, half of whom will be representatives of the capital side and half representatives of the employee side.

Section 5.4.1 of the GCGC stipulates that the Supervisory Board is to state specific objectives regarding its composition which, while considering the specifics of the enterprise, take into account its international activities, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be specified for the members of the Supervisory Board and diversity. The latter objective particularly calls for an appropriate degree of representation by women.

The specific objectives of the Supervisory Board, originally adopted in 2011, are as follows:

1. HSH Nordbank will endeavour to have at least one international member on its Supervisory Board in the future as well.

2. When nominating new members to the Supervisory Board HSH Nordbank will endeavour to avoid potential conflicts of interest, while also taking the Rules of Procedure of the Supervisory Board into due consideration, in future as well.

3. HSH Nordbank will seek to adhere to the age limit of 68 years stipulated in the Rules of Procedure of the Supervisory Board as of the date of appointment in future as well.

4. HSH Nordbank will endeavour to maintain the proportion of representation by women at least at the current level of 20 %. The Supervisory Board considers a target quota of 30 % to be an appropriate percentage of women for the time being.

5. The Supervisory Board aims to ensure that at least half of its members on the shareholder side will be independent, as is the case at present. (Point 5 added in 2012).

There were three changes to the composition of the Supervisory Board during 2013. The percentage of women, which has now risen to 25 %, and the percentage of international members, has remained unchanged as a result of the new appointments. When nominating the new members, care was taken to avoid potential conflicts of interest in order to ensure the independence of members. The age limit of 68 years at the time of the appointment was not exceeded in any of the appointments.

Procedure

The Supervisory Board appoints, monitors and advises the Management Board and is involved in fundamental decisions made by the Bank. The Management Board informs the Supervisory Board regularly and in good time of the proposed business policy and other fundamental matters during the meetings and also orally, particularly in conversations between the Chairman of the Management Board and the Chairman of the Supervisory Board.

According to Section 5.6 of the German Corporate Governance Code, the Supervisory Board reviews the efficiency of its activities on a regular basis. Article 12 of the Rules of Procedure of the Supervisory Board provides for this to be done bi-annually. Following the last formal efficiency audit it carried out in mid-2011, the Supervisory Board carried out another audit of the efficiency of its operations in 2013. While the Supervisory Board was essentially satisfied with the efficiency of its work, measures to improve its efficiency were agreed on individual points (dispatch of submissions, presentations during meetings, information between meetings, further training).

Detailed information of the work of the Supervisory Board in 2013 is contained in the Supervisory Board Report.

Management Board

The Management Board is responsible for managing the Bank and works with HSH Nordbank's other corporate bodies and with the employees' representatives on a basis of mutual trust in the Bank's best interests. It defines the Bank's business strategy in consultation with the Supervisory Board. The Chairman of the Management Board represents the Management Board as a collegial body, presides over its meetings and coordinates its work. The Management Board mainly met once a week during the period under review. The members of the Management Board are jointly responsible for running the Bank's business. Their duties and responsibilities are laid down in the rules of procedure for the Management Board, as supplemented by the schedule of responsibility. More detailed information on the composition of the Management Board in 2013 can be found on page 254 of this Annual Report.

Details of the remuneration system for the Bank's Management Board can be found in the consolidated financial statements.

Shareholders, annual general meeting

The shareholders of HSH Nordbank exercise their rights at the annual general meeting. The annual general meeting is convened by the Management Board once a year, stating the agenda and including the requisite reports and documents.

In addition to the annual general meeting held in May 2013, a further two extraordinary shareholder meetings were held in 2013: The extraordinary general meeting in February 2013 decided on the election of two Supervisory Board members of the shareholder representatives. At the meeting in October 2013 there was discussion on changes to the Articles of Association of HSH Nordbank relating to the number of Supervisory Board members. Furthermore, at this meeting there was deliberation on corporate contracts (changes to partial profit and loss transfer agreements).

GROUP MANAGEMENT REPORT

BASIS OF THE GROUP

BUSINESS MODEL

HSH Nordbank AG was created in June 2003 by the merger of Hamburgische Landesbank – Girozentrale – with Landesbank Schleswig-Holstein Girozentrale (LB Kiel) and is managed in the form of a German public limited company (Aktiengesellschaft – AG). The headquarters of the Bank are located in Hamburg and Kiel.

HSH Nordbank is one of the leading banking partners for upper medium-sized enterprises in the core region of Northern Germany. HSH Nordbank is also active throughout Germany primarily in the corporate and real estate clients business. The Bank conducts business with shipping clients throughout the world while the focus of the Energy & Infrastructure segment is Europe. Based on classic loan financing HSH Nordbank offers a wide range of appropriate financing solutions for corporate clients, wealthy private clients, savings banks and institutional clients.

The strategic divisions are combined in the Core Bank. The segments of the Core Bank were reconfigured at the beginning of 2013 in light of the organisational changes made to the Management Board. Since then, the Shipping, Project & Real Estate Financing segment (former Corporate and Private Clients segment) includes the asset- and project-based business conducted with shipping clients, real estate clients and clients in the energy & infrastructure industry. Until the end of 2012 the Corporate and Private Clients segment was composed of our Corporate Clients, Real Estate Clients, Private Clients, Shipping Clients and Energy & Infrastructure divisions.

The Corporates & Markets segment (formerly Products, Capital Markets and Corporate Center) includes business conducted with corporate clients and wealthy private clients in the area of wealth management, which emerged from the Private Banking division following the decision taken to discontinue the classic private client business as at 1 July 2013. Since 1 June 2013 the relationship management of savings banks, banks, insurance companies and other institutional clients has been the responsibility of the newly formed Savings Banks & Institutional Clients division, which is also part of the Corporates & Markets segment. Furthermore, the Capital Markets and Products divisions remain assigned to this segment.

The administrative and service divisions as well as Overall Bank positions and equity holdings not assigned to segments are included in the Corporate Center segment.

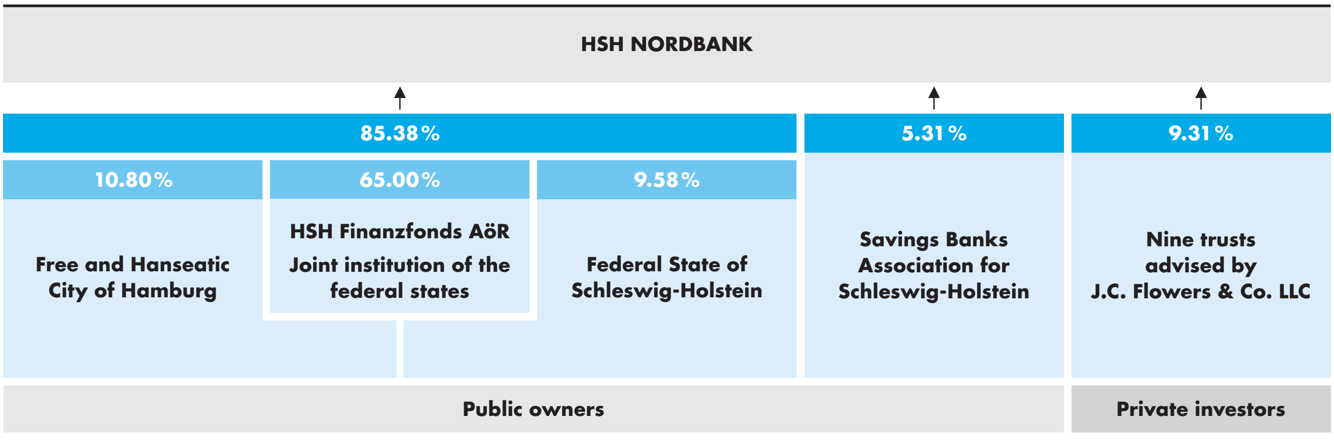
Since December 2009 the Restructuring Unit as an internal segment of the Bank has been managing the winding down of non-strategic lending and capital markets transactions that were separated in organisational terms as part of the strategic realignment of the Bank and are not continued in the Core Bank.

As part of the focusing of its business activities HSH Nordbank has significantly reduced its international network of locations over the past years and closed a number of branches and offices abroad – including most recently Copenhagen, London and Shanghai. HSH Nordbank will maintain its presence in Athens, Hong Kong, New York and Singapore in line with its international activities. The branch in Luxembourg primarily provides services for the Restructuring Unit. In Germany, HSH Nordbank continues to be represented in Berlin, Dusseldorf, Hanover, Munich and Stuttgart for its national business.

At the same time the Bank pressed ahead during the past year with the winding down of non-strategic equity holdings and subsidiaries. In this context the number of companies included in the scope of consolidation also decreased. The sale of all shares held in the real estate company, HSH Real Estate GmbH, at the end of August 2013 was a major contributory factor. A further 13 equity holdings indirectly held by HSH Real Estate GmbH up to this date were deconsolidated as a result of the sale of this intermediate holding company. A total overview of the changes in the scope of consolidation as at the end of the year 2013 is contained in Note 4 of the consolidated financial statements.

The principal owners of HSH Nordbank with a combined shareholding of over 85 % are the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein. 65 % of this shareholding is held by HSH Finanzfonds AöR, an institution under public law that is managed jointly by Hamburg and Schleswig-Holstein. Other owners are the Savings Banks Association for Schleswig-Holstein (Sparkassen- und Giroverband) as well as private investors advised by J.C. Flowers & Co. LLC.

Chart 15
OWNERSHIP STRUCTURE



The federal states of Hamburg and Schleswig-Holstein as the owners of the Bank have issued via HSH Finanzfonds AöR a guarantee in favour of HSH Nordbank that provides capital relief (second loss guarantee), under which defaults in a specified portfolio are hedged. It was already possible to reduce this portfolio consisting of the high-risk legacy portfolios (cut-off date: 31 March 2009) by more than 65 % in terms of value by the 2013 year end. First piece losses incurred in this portfolio are borne by HSH Nordbank itself up to an amount of € 3.2 billion. In order to strengthen the capital ratios of the Bank, the guarantee facility provided by Hamburg and Schleswig-Holstein was replenished from € 7 billion to the original facility of € 10 billion in 2013. Further information on the second loss guarantee is set out in the section "Business developments".

As a member of the German Savings Banks Finance Group HSH Nordbank AG is a member of the support fund of the Landesbanken and therefore is also affiliated to the joint liability scheme of the German savings banks organisation. This system secures the continued existence of the member institutions and guarantees their liquidity and solvency.

Key external factors influencing the business of HSH Nordbank include economic and financial markets developments, trends in the relevant industry sectors such as shipping (especially charter rates), movements in the US dollar exchange rate, regulatory requirements and external ratings.

Within its business organisation HSH Nordbank has defined processes that form the basis for operating and managing the Bank as well as for its internal control system. The main processes include strategy and planning, corporate management, customer management, financing, capital markets as well as support processes.

OBJECTIVES AND STRATEGY

The overriding objective of HSH Nordbank is to support the Northern German economy and to provide the upper end of medium-sized enterprises with an appropriate product portfolio with regard to all aspects of loan financing. This is in line with its mission statement as a Bank for Entrepreneurs and is in accordance with its importance for the core region of Northern Germany and beyond.

In order to implement the business model with a sustainable profitable focus as a Bank for Entrepreneurs HSH Nordbank is concentrating on strengthening the viable business areas of the Core Bank and, at the same time, on winding down the high-risk legacy portfolios, which are bundled in the Restructuring Unit and are no longer part of the core business.

In the Core Bank HSH Nordbank is seeking to continue to significantly expand its new business at risk-commensurate margins in the planning period until 2016 and thereby increase the total interest-bearing assets of the Core Bank. At the same time the sales and distribution of the entire range of services is being driven forward in order to exploit further business potential. In doing so, on the one hand business is being intensified in the core region, where the Bank has long-standing client relationships and a high level of market penetration. On the other hand, business activities outside Northern Germany are being expanded further in order to achieve the planned growth and to ensure a balanced portfolio structure. To this end, we are exploiting synergy effects from the combination of divisions that are aligned at a regional and sectoral level.

In contrast, the aim in the Restructuring Unit in the planning period until 2016 is the steady and significant reduction in the non-strategic loan and capital markets portfolios. This is being accomplished through principal repayments and active measures with due regard for strategic guidelines such as value optimisation, realisation of any potential reversals of impairment losses and efficient portfolio management.

The strategy is aimed at aligning HSH Nordbank on a sustained profitable basis. Following the recording of a large loss in the past year we expect to be able to disclose a positive net result for the Group for the financial year 2014. This takes into account the positive effect of the capital protection clause in accordance with the EU requirements, through which an appropriate common equity Tier 1 capital ratio is to be ensured (by the waiver on the part of the guarantor of the additional premium imposed by the EU Commission in return for a debtor warrant). The net income before taxes is in particular generated by the Core Bank, which will probably be able to close 2014 on a positive basis even without the special effect of the capital protection clause.

In implementing the business model HSH Nordbank has to comply with the agreements reached with the EU Commission that had been linked to the conclusion of the EU state aid proceedings in September 2011. For example, the Bank undertook to reduce the total assets of the Group to € 120 billion by 2014 (of which € 82 billion is in the Core Bank and € 38 billion in the Restructuring Unit), to discontinue individual segments (aircraft financing and international real estate financing), to limit the total assets of the Shipping division of the Core Bank to € 15 billion, to wind down non-strategic equity holdings and to significantly reduce administrative expenses. The implementation of the individual requirements is monitored by an independent trustee on behalf of the EU Commission. In the middle of 2013 the EU Commission initiated a new review procedure to investigate whether the replenishment of the guarantee is in accordance with state aid rules. Further information on this issue is set out in the section "Business developments".

The key objective of HSH Nordbank in this respect is to continue to successfully push ahead with the restructuring together with the winding down of the legacy portfolios and to be able to again reduce the guarantee facility by its first substantial amounts in the planning period until 2016 following the increase in the past year.

MANAGEMENT SYSTEM

The management system of the Bank is aimed at the management of the key value drivers – income, expense, capital, liquidity and risk –, the continuous review of compliance with the objectives of the Bank's plan, and the taking of targeted measures if required on a flexible basis and at an early stage. The Bank uses a central key indicator and ratio system that is able to ensure that the Overall Bank, Core Bank, Restructuring Unit and segments are managed in a uniform and effective manner.

Within the framework of management reporting the Bank focuses on the most important management indicators for the individual value drivers. On the one hand, the focus is placed on the change in these key indicators over the past year ("Economic report" section) and, on the other, on their expected development in 2014 ("Forecast, opportunities and risks report" section). Other key indicators and ratios used in the internal management processes are not addressed in detail in the Management Report.

The most important key indicators used for managing the earnings of the Bank are total income and new business volume. The Bank also uses other supporting key indicators such as the new business margin, cross-selling income and risk-adjusted contribution margins within the framework of the value-driven management. With regard to the cost side the report focuses on administrative expenses. The number of the value-driven management. With regard to the cost side the report focuses on administrative expenses. The number of employees (calculated as full-time equivalents, FTE) is also important as a key non-financial management indicator. Employee satisfaction, which is captured by surveying the employees, is another management tool used in this connection.

Income before taxes is a key measure of net earnings. In addition, within the framework of value-driven management return on equity and additionally the cost-income ratio were integrated into the Bank's management systems as key relative ratios. Return on equity is calculated as the ratio of income before taxes to average equity capital disclosed on the balance sheet and shows the return on capital invested (allocated on a risk-adjusted basis). The cost-income ratio represents the ratio of administrative expenses to total income and is used as a key indicator of cost efficiency.

The common equity Tier 1 capital ratio and risk-weighted assets (RWA) after taking the effect of the second loss guarantee into account are used as key ratios for managing regulatory capital. Another key ratio included in the management system is the leverage ratio, which must be disclosed from 2015. The leverage ratio is a key ratio that is not risk-weighted and compares the Tier 1 capital to a regulatory adjusted business volume. Other special key indicators and ratios are used to monitor the portfolio hedged by the second loss guarantee. These are, for example, loan loss provisions in the guaranteed portfolio, the risk weighting and the expected future drawdown of the guarantee.

The key regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation (LiqV). The liquidity ratio as defined in LiqV describes the relationship between expected cash inflows and expected cash outflows over the next 30 days. Furthermore, the funding and liquidity situation is measured based on the liquidity development report. In addition, the Basel III key ratios, the liquidity coverage ratio (LCR) and net stable funding ratio, which are to be reported to the supervisory authorities for the first time with effect from 2014, were integrated into the internal management processes in 2013. Details on the liquidity ratio and liquidity management are set out in the section “Liquidity risk” in the Risk report.

The focus of the Core Bank is sustained business growth. Accordingly, the most important key indicators for managing the earnings are total income and new business.

The success in winding down the high-risk portfolios is of paramount importance for the Restructuring Unit. In contrast to the Core Bank, the particular focus here is on the management parameters of total assets and loan loss provisions.

Details regarding the management of risk as a value driver are set out in the “Risk report” section.

A special factor is that HSH Nordbank must comply with the conditions imposed by the EU Commission regarding, amongst other things, the total assets of the Overall Bank, Core Bank, Restructuring Unit and the Shipping division. Accordingly, the utilisation of these volume limits as well as compliance with the other EU requirements is also monitored continuously.

The management of the key value drivers in the Bank is supported by central committees. Additional information on this issue may be found in the “Risk report” section under “Portfolio management by a central committee structure”.

REMUNERATION SYSTEMS AT HSH NORDBANK

The remuneration system for the members of the Management Board of the Bank meets all of the relevant, regulatory requirements. In addition, particular attention was paid to ensure that the remuneration system complied with the guarantee agreement of the federal states as well as the conditions imposed by the EU.

The limit on the fixed monetary remuneration of each board member of a maximum of € 500,000 per year as long as HSH Nordbank AG is not capable of making dividend distributions is implemented in the remuneration system.

The Supervisory Board decided on the basis of a communication of the European Commission dated 23 August 2012 to no longer grant any entitlement to variable remuneration for the 2012 financial year and subsequent years until the restructuring phase is completed. The provisions recognised up to and including the 2011 financial year for variable performance-related remuneration remain in force. This remuneration is subject to the precondition that the Bank is able to pay a dividend as at 31 December 2015 or at the latest as at 31 December 2016 and the European Commission has not instituted abuse proceedings. The Bank does not offer additional long-term incentives such as share option schemes. Further information on Management Board remuneration is set out in Note 61 of the consolidated financial statements.

In parallel to the new rules regarding Management Board remuneration the requirements of the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV), which entered into force in October 2010, were implemented for the variable remuneration system below the Management Board level. This is based on a total remuneration approach, reduces any significant dependence on variable remuneration and thereby prevents employees from taking excessively high-risks for the purposes of realising the variable remuneration potential. The amount of the total budget for the variable performance-related remuneration of employees is determined on the basis of the Bank’s performance, which is calculated using parameters that reflect the success of the Bank. In addition to achieving key financial ratios these parameters are also based on the Bank’s strategic objectives amongst other things. They take account of the concept of sustainability and are always tailored to the business model as well as the Overall Bank strategy and risk strategy.

The budget of the Overall Bank for variable performance-related remuneration of the employees is distributed to the employees taking into account the performance of the divisions based on the achievement of individual objectives. Fixed upper limits for ratio of variable to fixed remuneration are set for all employees of the Group in order to avoid disproportionately high variable remuneration.

Based on the specific requirements of the InstitutsVergV, HSH Nordbank defines a group of employees as so-called risk takers, who have a significant influence on the overall risk profile of the Bank by virtue of their function. In accordance with the InstitutsVergV parts of their variable remuneration are paid on a deferred basis and are dependent on the sustained performance of the Bank. Further details will be published in a separate remuneration report on the website of HSH Nordbank in line with the requirements of the regulation.

ECONOMIC REPORT

UNDERLYING ECONOMIC AND INDUSTRY CONDITIONS

ECONOMIC GROWTH GAINS MOMENTUM DURING THE YEAR

The weak growth in the global economy in the previous year continued in the first months of 2013. The main reason for this was the persistently weak economic activity in the eurozone. The global economy picked up noticeably during the course of the year. In the third quarter it grew at the highest rate since the end of 2010. A stronger expansion in the USA, a further upward trend in Japan due to economic policy stimuli as well as an increase in production in the eurozone after one and a half years of recession were contributory factors. There were also growing indications of an economic upswing in the second half of the year in emerging countries.

The German economy was not able to escape the weak environment at the beginning of 2013. However, it picked up again during the course of the year. This was initially predominantly due to catch-up effects and foreign trade stimuli, but the domestic economy has recently become much more of a contributory factor. The main driver of domestic growth was primarily robust consumer demand. However, investment activity of companies is still at a low level overall, but should increase in view of already high capacity utilisation.

TENSIONS EASE IN THE FINANCIAL MARKETS

The tensions in the financial markets eased considerably in the course of 2013. This was reflected in the decrease in risk premiums for bonds issued by euro periphery countries and in the healthy level of issues by private companies. The general level of interest rates still remained low due to the very expansive monetary policy of the large central banks. Yields on US government bonds increased significantly in the meantime after the tapering by the US Federal Reserve of its bond purchases was the subject of public debate in May. However, the upward trend in yields was broken in September, when the Federal Reserve promised a very cautious approach regarding tapering and has also implemented this in the meantime. Against this backdrop yields on ten-year German government bonds have only increased, moderately over the course of the year and were 1.93 % at the end of the year (US treasuries: 3.03 %).

The moderate increase in yields on German government bonds is closely linked to the two reductions in the base rate of the European Central Bank (ECB) to 0.25 % and its readiness to take further action in principle. At the same time the ECB announced that it would keep the base rates at the current low level for a longer period of time or in fact to reduce them even further. The expansive monetary policy of the central banks has also contributed to a significant increase in prices on equity markets in 2013.

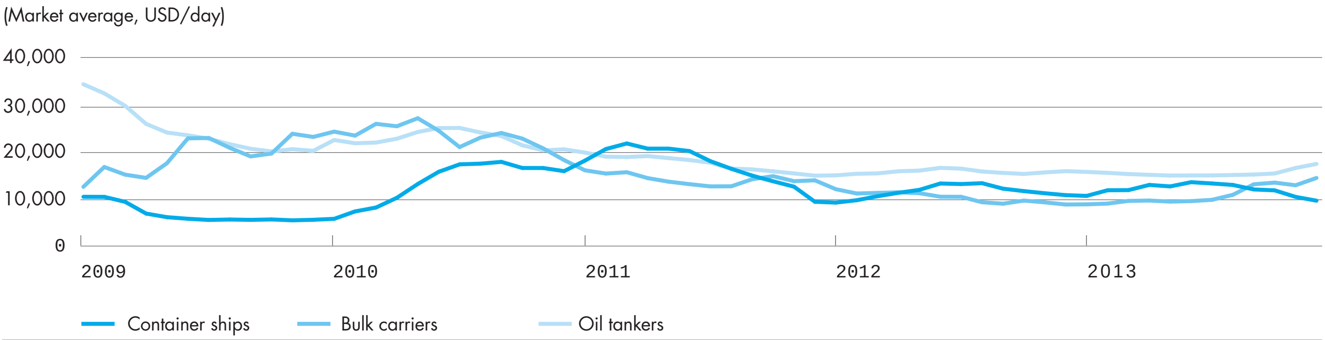
Against the backdrop of the above developments, the euro fluctuated against the US dollar in a range between 1.28 and 1.38 and closed the year at EUR/USD 1.38.

HETEROGENEOUS TRENDS IN MARKETS IMPORTANT FOR HSH NORDBANK

In addition to macroeconomic developments and events occurring in the financial markets, the situation in the following industry sectors is important for the financial position of and the outlook for HSH Nordbank.

The shipping markets showed signs of stabilising during 2013 at a still very low level. The demand for container ship transport has increased, but was more than offset by the delivery of new tonnage. Freight and charter rates as well as ship values thus remained under pressure. The demand for bulk carriers increased in recent quarters more strongly than the supply with the effect that freight rates for these ships were able to recover somewhat. All segments (container ships, bulk carriers,

Chart 16
TREND OF TIME CHARTER RATES IN THE SHIPPING INDUSTRY



oil tankers) continued to be adversely impacted by a large number of orders for new ships, which were placed primarily by institutional investors despite the difficult market situation. The financial situation of many German companies in the shipping industry remained strained in view of the low level of charter revenues.

The trends in the German real estate markets were predominantly positive in 2013. The residential real estate markets benefited from a sustained high demand for housing in large cities, due to higher employment, increases in income levels and the influx of migrants. The demand for space declined in the office real estate markets as the number of office employees grew more slowly. Nevertheless, vacancy rates fell as the number of office completions decreased even more sharply. The retail market also benefited from the higher employment and income situation as well as from the expansion of international chain stores. Modern retail space was still in demand, especially in prime locations in large cities. Overall, the growth in rents for office properties accelerated somewhat in the past year. Rents for retail properties only increased sharply in prime locations. The European real estate markets as a whole stabilised further over the past year. The US real estate markets also continued to recover.

The development of renewable energies made further progress in Europe, albeit at a markedly slower pace in 2013 than in previous years. The photovoltaic capacity only increased in the past year by just over 9 GW (previous year: 17 GW). The decrease in new installations in Germany, the largest photovoltaics market in Europe in 2013, was especially noticeable. This decrease was more pronounced for large-scale plants, as the subsidy programme for these ceased. The growth in wind energy capacity slowed down in Europe to just over 11 GW (previous year: 13 GW). Germany bucked this trend in Europe and saw an increase in the development of wind power plants. The volume of project financings in the transport infrastructure market increased in the past year, whereby road, port and airport projects were increasingly implemented.

The industry sectors relevant for the corporate clients business of HSH Nordbank showed a generally stable trend in the past year. In view of the subdued level of investment activity as well as the good liquidity position of many medium-sized enterprises the demand for financing and the drawing down of credit lines remained generally muted.

BANKS ARE FACING INCREASING REGULATORY REQUIREMENTS

In the light of the easing of tensions in the financial markets and a comparatively robust domestic economy, the underlying conditions for the German banking system improved over the past year. In this situation the larger German banks have been able to increase again their risk-bearing capacity by strengthening their capital base and further decreasing the debt equity ratio. Total assets have decreased primarily as a result of sales of activities not part of the core business and reducing exposure to the European periphery countries. With higher capital ratios the banks are preparing for the regulatory changes under Basel III, which will be introduced with effect from 2014 with gradually increasing requirements in subsequent years.

In addition to the introduction of Basel III, the banks will be subject to a “comprehensive assessment” by the ECB, which will be carried out in advance of the transfer to the common banking supervision in the eurozone planned as of 1 November 2014. The start of the common supervision together with a single supervisory mechanism (SSM) for the major banks is the first adopted cornerstone for establishing a common set of regulatory standards within the European Banking Union.

The review of the risks and balance sheets (asset quality review) started in the fourth quarter 2013 is aimed to create transparency in the banking market of the eurozone with regard to the material risks and quality of the assets. In addition to receivables from euro countries affected by the crisis focus will also be placed on higher credit risk in certain industries and sectors, in which some German banks are heavily involved. It is planned to complete the asset quality review by July 2014.

The review of the balance sheets will be followed by a stress test coordinated with the European Banking Authority (EBA), through which the resilience of the institutions is to be reviewed and any additional capital requirement identified. The overall results of all review components are to be published in October 2014.

The adoption of a single resolution mechanism (SRM) for banks classified as not viable is planned as the second pillar of the European Banking Union. At the end of 2013 the EU finance ministers were able to agree a common position regarding this. Accordingly, the SRM is to come into force on 1 January 2015. A new body, to which representatives of the member states belong, shall decide in principle on the resolution of a bank. At the beginning of 2016 more stringent regulations regarding the liability of owners and certain creditors shall come into force for future bank restructurings ("bail-in"). In addition, a single resolution fund (SRF) is to be built up through bank levies over a period of ten years, which is available, if the contributions of the shareholders and creditors are not sufficient to cover the restructuring or resolution costs. The European Parliament must still give their consent to the agreement reached by the EU finance ministers.

The earnings position of German banks was influenced by various factors in the past year. Trading and income from financial investments in particular had a positive effect against the backdrop of the improved environment in the financial markets. A comparatively low level of loan loss provisions also had a positive effect, provided that the banks were not affected by adverse developments in crisis-ridden markets such as shipping. The sustained low interest rate environment was a negative factor for many banks, as the interest margin tends to fall in periods of low interest rates and interest on deposits cannot be reduced any further. Furthermore, competition for clients that has been increasing for many years together with a subdued loan demand is putting pressure on the earnings of banks. At the same time the cost side is being adversely impacted by the constant increase in regulatory requirements and disclosure rules, which mean significant additional expense for institutions.

HSH NORDBANK'S BUSINESS IMPACTED BY UNDERLYING CONDITIONS

The business performance of HSH Nordbank was significantly impacted by the trend in the underlying conditions. The decrease in the spreads on high-risk debt instruments had a positive effect on the measurement of securities portfolios, especially with regard to the credit investment portfolio in the Restructuring Unit. The Bank was able to benefit from the recovery in the US as well as individual European real estate markets such as Great Britain. HSH Nordbank was successful in increasing new business at risk commensurate margins, although loan demand in the market was weak overall and competition was intense in the financing business. In light of the solid financial base of many companies loan principal repayments increased at the same time, which was partially offset by the positive effect of the increase in new business.

On the other hand, HSH Nordbank as one of the largest providers of finance to the shipping industry was significantly affected by the sustained crisis in this market. Loan loss provisions for problem loans had to be significantly increased in the 2013 annual financial statements, in order to take account of the increased risk. The ECB assessments that will continue until the autumn of 2014 prior to the launch of the Single Supervisory Mechanism also represent a significant challenge for HSH Nordbank against the backdrop of the associated use of resources. The second loss guarantee of the federal states of Hamburg and Schleswig-Holstein and the reduction in total assets, that is pushed ahead, will ensure that the increased capital requirements resulting from the transition to Basel III are met. The business performance is explained in detail in the following sections.

BUSINESS DEVELOPMENTS

SIGNIFICANT DEVELOPMENTS AND EVENTS IN THE 2013 REPORTING YEAR

Visible progress made in implementing the business model

HSH Nordbank made significant progress in 2013 in its strategic realignment as a Bank for Entrepreneurs and in dealing with troubled assets from the past. This was reflected in the improvements in key indicators such as new business growth and the amount of assets wound down in the Restructuring Unit. A good starting basis was also created for the upcoming challenges through the replenishment of the second loss guarantee by the principal owners and the associated strengthening of the capital ratios. Nevertheless, the predominant factors affecting the Group results for 2013 were the ongoing shipping crisis, higher guarantee expenses and negative special effects. At the end of 2013 HSH Nordbank initiated savings in operating expenses and made organisational changes, which will result in a more substantial reduction in administrative expenses.

Our new business with clients progressed satisfactorily in the year under review. We were able to successfully expand and again increase new lending business in the face of a fall in loan demand in the market. New business volume amounted to € 7.6 billion for the entire year compared to € 6.8 billion in the previous year and € 4.7 billion in 2011, when the realignment of the divisions was initiated following the conclusion of the EU state aid proceedings. There were also signs of a noticeable momentum over the course of 2013. The volume of new concluded commitments increased constantly from quarter to quarter and almost reached the target level for the entire year by the year end. The solid financial position of many corporate clients resulted at the same time in an increase in loan principal repayments, which was only partially offset by the positive effect of the new business increase on earnings.

Despite increased competition in the German banking market we were able to enter into transactions with a lower risk at higher margins. This had a positive effect both on earnings and the risk profile of the Core Bank. The regional spread of the new business is balanced and contributes to the further diversification of the portfolio. About 32 % of the new business transacted in the reporting year is attributable to our core region of Northern Germany. The remaining portion is accounted for by clients located in other regions of Germany (50 %) and abroad (18 %).

The good positioning of the core divisions in the markets and the high acceptance of the Bank by clients also outside the core region, where we have strengthened our presence as part of the realignment, are reflected in the figures on new business.

In view of the good start made in 2014 with regard to volumes, margins and the deal pipeline we expect to be able to further increase new business in line with the plan during the course of 2014.

Substantial expansion of new business, legacy portfolios significantly reduced

Chart 17
NEW BUSINESS OF THE CORE BANK

(€ bn)

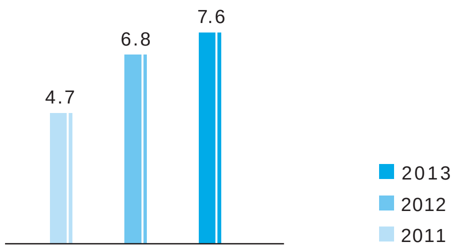
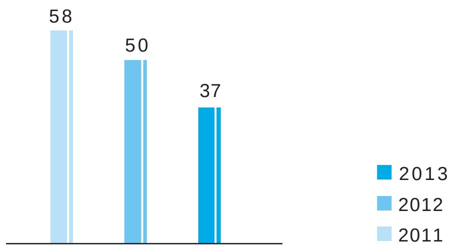


Chart 18
SEGMENT ASSETS OF THE RESTRUCTURING UNIT (EXCL. CONSOLIDATION EFFECTS)

(€ bn)



We also made good progress in the past year in winding down the high-risk legacy portfolios in the Restructuring Unit. Total assets of the Restructuring Unit, which is responsible for winding down the high-risk legacy portfolios of the Bank, were reduced ahead of plan to € 37 billion by the 2013 year end. This represents a further reduction of € 13 billion compared to the previous year. Total assets of the Restructuring Unit include reclassifications from the Core Bank totalling about € 8.1 billion since 2011, which were made in order to implement the winding down measures agreed with the EU Commission and as part of portfolio adjustments. Of the total volume, € 6.5 billion were reclassified in 2011 (aircraft and real estate loans), € 1.3 billion in 2012 (shipping, corporate and energy loans) and € 0.3 billion in 2013 (shipping loans).

Alternative portfolio solutions were pushed forward in the year under review with the involvement of strategic partners in order to accelerate the reduction in problem commitments and an initial transaction was successfully concluded in the Shipping division. In view of increased investor interest further transactions of this type are planned.

The disposal of non-strategic equity holdings in accordance with the EU conditions was – measured by the carrying amount of equity holdings – completed for the most part. Numerous sales in 2013 made a significant contribution in this regard. The disposal of the remaining equity holdings will be continued in 2014. In addition, the aim is to further reduce the high-risk assets in the Restructuring Unit beyond the extent agreed with the EU Commission.

The classic private clients business – a comparatively small division of HSH Nordbank – was mainly transferred to partner banks within the German Savings Banks Finance Group in order to focus on strategically important core divisions. Appropriate agreements were concluded in the year under review with Hamburger Sparkasse and Förde Sparkasse. In future, we will concentrate in our private client business solely on wealth management together with the providing of advice to wealthy individuals, foundations and non-profit organisations. We have been an established provider for many years in this business field in the North German market.

Solid Basel III common equity Tier 1 capital ratio following guarantee measure and total assets reduction

An important step taken in the past year was the replenishment of the second loss guarantee from € 7 billion to the original facility of € 10 billion by the federal states of Hamburg and Schleswig-Holstein. This was done against the backdrop of developments in the shipping markets that were significantly worse than expected, which resulted in a noticeable deterioration in the risk parameters of the Bank's portfolio. The replenishment of the guarantee that was executed in the middle of 2013 significantly strengthened the capital ratios by reducing the risk-weighted assets (RWA).

In addition to the replenishment of the guarantee, the increased reduction in risk positions ensured that the capital requirements under Basel III applicable from the beginning of 2014 can be met on a sustained basis and that the planned Basel III capital ratios for 2014 are significantly above the minimum thresholds set by the supervisory authorities. This applies to the capital ratios determined under the Basel III transitional arrangements as well as those on the anticipated full implementation of the Basel III requirements. The changeover from HGB to IFRS as the basis for determining regulatory capital for the Group that is mandatory from 2014 has been taken into account.

In the stress test planned by the ECB in coordination with the EBA a common equity Tier 1 capital ratio of 8 % is required in the base scenario and a corresponding ratio of 5.5 % is required in the stress scenario in accordance with the relevant Basel III transitional arrangements for the period 2014 to 2016. The common equity Tier 1 ratio calculated under the previous Basel II requirements reached 11.7 % (plus a buffer of 5.2 percentage points) as at the 2013 year end, which was significantly above the ratio of 9.9 % as at the 2012 year end as well as that planned for 2013 in the previous year. With this increased ratio we have created a good starting position for the upcoming challenges. Further information on the capital ratios of HSH Nordbank is set out in the "Earnings, net assets and financial position" section.

The EU Commission has given its provisional approval for the replenishment of the guarantee in June 2013. In the opinion of the Federal Republic of Germany, the federal states of Hamburg and Schleswig-Holstein and HSH Nordbank the guarantee measure falls within the framework of the provision of the guarantee facility approved by the EU Commission in 2011. The EU Commission regards the replenishment as another case of state aid, thereby requiring an assessment of the updated restructuring plan of the Bank. Discussions with the EU Commission on the replenishment of the guarantee have been initiated as planned.

Last but not least, we are confident due to the noticeable progress in implementing the business model that the replenishment of the guarantee will be finally approved and that we will be able to successfully continue the reorganisation of HSH Nordbank.

In order to reaffirm that the replenishment of the guarantee is in accordance with the EU state aid provisions, the Bank and the guarantors are put economically in a position as if the reduction in the guarantee facility in 2011 had not occurred. This involves a subsequent payment of the base premium for the replenishment in the amount of about € 275 million for the period of the reduced guarantee facility from 2011 until mid-2013, which is payable to the guarantors in addition to the higher current guarantee fee.

The subsequent payment of the base premium will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. An amount of about € 69 million of this is recognised as an expense in 2013. The remaining expenses will be amortised on a scheduled basis over the years 2014, 2015 and 2016.

Following the replenishment of the guarantee in the past year we will periodically review the possibility of reducing the guarantee during the planning period. We are creating the conditions for a gradual reduction through the progress made in restructuring the Bank.

Headcount reduction process on schedule

The alignment of the operating structures and processes to the focused business model of the Bank made good progress in the past year. A lean management programme helped in the past year to implement targeted process and quality improvements in the divisions. At the same time further cost savings were achieved. It was possible to decrease administrative expenses further primarily as a result of continued headcount reductions and lower depreciation to € – 732 million as at the year end, compared with € – 821 million in the previous year and € – 837 million at the end of 2011, when it was decided to cut back operating expenses and personnel expenses considerably.

NUMBER OF EMPLOYEES REDUCED

	31.12.2013	31.12.2012
Full-time equivalents (FTE) in the Group [1]	**2,834**	**3,123**
of which Women	1,083	1,226
Men	1,751	1,897
Employees in Germany	2,627	2,821
Employees abroad	207	302
Total number of employees in the Group [2]	3,389	3,750
New employees	197	132

[1] Total number of employees excluding trainees, temporary staff and interns.
[2] Headcount.

The ongoing reduction in headcount was pressed ahead as planned in the year 2013. Until 31 December 2013, the number of employees fell further to 2,834 compared to 3,123 as at the end of 2012 (calculated on a full-time equivalent basis, FTE). This means that the headcount reduction plan initiated in 2011 and to be completed by 2014 has already been largely implemented.

Exploiting further potential for savings to offset increasing cost pressure

In the fourth quarter 2013 we used the cost savings programme approved in 2011 as the basis for initiating new measures to further reduce costs. In this context, the focus is placed on savings in operating costs and changes in the organisational structure. The objective is to organise the Bank on a sustainable, efficient basis in view of the quicker than planned reduction in total assets and to counter the increased cost pressure. Substantial additional expense is also likely to be incurred, especially with regard to the constantly increasing regulatory requirements and disclosure rules for banks. Furthermore, the guarantee replenishment results in higher guarantee expense for HSH Nordbank, which was already noticeably felt in the net income for financial year 2013.

Following a detailed review of our cost base we identified a series of individual measures, the implementation of which will result in a significant reduction in administrative expenses as early as 2014. The planned savings relate to various cost types – including IT, projects and buildings. Furthermore, some currently open positions are cancelled and positions that become vacant will partly not be filled. This will enable positive effects on the cost side to be realised over the short-term.

The planned changes to the organisational structure include the optimisation of our location concept and the reduction in the number of managers. The new location concept involves the merging of units that are currently represented in both headquarters of the Bank. The measure will pool the expertise in one location and increase the efficiency of the collaboration. A reduction in the number of division and department heads and team leaders should also help to reduce costs. At the same time we want to simplify decision structures in this way and support an efficient communication process.

The Bank established a central Cost Management Board at the beginning of 2014 for the overall management of the cost budget. The Board monitors compliance with the budget and takes the measures necessary to achieve the cost objectives.

With the implementation of the initiated measures we will increase cost efficiency and improve the prospects for the planned return of the Bank to profitability in 2014.

EARNINGS, NET ASSETS AND FINANCIAL POSITION

OVERVIEW

Group net result was adversely impacted by loan loss provisions, guarantee fees and special effects

Despite the noticeable progress made in implementing the business model, HSH Nordbank disclosed as scheduled a significant net loss before taxes for the year ending 31 December 2013. It amounted to € – 563 million compared to a net loss before taxes for the previous year of € – 185 million.The net loss before taxes for the past year was mainly attributable to a high level of loan loss provisions recognised for shipping loans and – combined with the expectation triggered by this that the guarantee would be drawn down further – to an increase in the fee expense for the guarantee. These effects could only be partially offset by higher income and lower administrative expenses. The net income after taxes of € – 814 million was also adversely impacted by tax provisions recognised in connection with a revised risk assessment of tax issues. The net income before restructuring of HSH Nordbank (net income before taxes excluding the line items Result from restructuring and Expenses for government guarantees) of € – 93 million was significantly less negative than the net income before taxes (previous year: € 160 million).

The major portion of the loan loss provisions and guarantee fees is attributable to the Restructuring Unit, which therefore made a significant contribution to the Group net loss with a net loss before taxes of € – 457 million. The net income before taxes for the Core Bank amounted to € – 106 million for the past year. This net loss for the Core Bank is attributable to significantly increased loan loss provisions recognised on shipping loans in the fourth quarter. The Core Bank had been profitable for five quarters in a row until the third quarter 2013. Loan loss provision expense for the Shipping division of the Core Bank amounted to € – 478 million for the entire year (before taking the compensation effect of the guarantee into account). Excluding the loan loss provisions required for the restructuring area of the Shipping division in the Core Bank positive net income before taxes would have been disclosed for the Core Bank.

Total income increased in the year under review to € 1,499 million compared to € 1,446 million in the previous year. Net interest income benefited from the growth in new business at improved margins and loan prolongations and increased slightly after being adjusted for net income from hybrid financial instruments. The previous year's figure included a large positive special effect of a gain of € 631 million arising on the periodic revaluation of these hybrid financial instruments based on the reassessment of future cash flows.

Total income also clearly benefited from reversals of impairment losses and sales of debt instruments as well as lower valuation losses on interest rate/currency derivatives (EUR/USD basis swaps). Gains arising from the disposal of non-strategic equity holdings were lower than in the previous year.

Loan loss provisions are characterised by substantial additions in the shipping loan portfolios of the Restructuring Unit and the Core Bank. This reflects our revised market assessment that the shipping markets will recover more slowly than previously expected. The loan loss provisions had to be increased more sharply than planned as at the 2013 year end in order to take the associated credit risks into account.

This also affects the level of the planned long-term utilisation of the second loss guarantee. We are still assuming that the payment defaults in the portfolio hedged by the guarantee will exceed the amount retained by the Bank of € 3.2 billion starting from 2019 and result in actual payments being made under the second loss guarantee. Based on our new assessment these will total € 1.6 billion up to 2025 after deducting the first loss piece of the Bank. The total default amount therefore increases over the long term by € 0.3 billion compared to the previous year's plan as a result of developments in the shipping industry. This means that additionally the future expected fee payments for the guarantee have to be taken into account in the loan loss provisions in accordance with the EU requirements, which reduces the compensation effect of the guarantee.

The Bank discloses loan loss provision expense of € – 882 million (previous year: € – 656 million) after taking the partial compensation effect of the guarantee into account, where € – 487 million out of these relate to the Restructuring Unit and € – 395 million to the Core Bank. The increase in the additions to loan loss provisions for shipping loans contributes to the high-risk hedging of the problem legacy portfolios.

In addition to the increase in income, the reduction in administrative expenses had a positive impact on the Group net result. It was possible to reduce these further to € – 732 million thanks to lower personnel costs and lower depreciation (previous year: € – 821 million). The continued reduction in the number of employees made a significant contribution in this regard.

On the other hand, the replenishment of the guarantee from € 7 billion to € 10 billion which took place in the middle of 2013 results in higher costs. Guarantee premiums disclosed under the Expenses for government guarantees line item increased to € – 414 million in the course of the past year. This amount comprises the increased current premium and the subsequent payment of the base premium recognised through profit or loss on a pro rata basis (details on the subsequent payment of the base premium are set out under "Business developments"). The previous year amount of € – 302 million includes fees of € – 18 million for guarantees of the Financial Market Stabilisation Fund (SoFFin), which the Bank fully repaid in the previous year. Additional expense for the base and additional premiums amounting to € – 483 million had to be recognised in the loan loss provisions in accordance with EU requirements. The total amount of guarantee fees charged for the past year was therefore € – 897 million. Further details on this are set out in the following “Earnings situation” section.

The Bank’s capital ratios benefited from the increase in the guarantee in the middle of 2013 and the reduction in RWA. The net loss for the year, a reinstated claim of the guarantors under the additional premium for the guarantee and deterioration in the risk parameters in Shipping had an opposite effect on the ratio.

The classic Tier 1 capital ratio improved to 15.3 % from 12.3 % in the previous year. The common equity Tier 1 capital ratio increased to 11.7 % and is therefore clearly above the banking supervision requirements as at the 2013 year end. Furthermore, there is a buffer for the ratio of about 5.2 percentage points resulting from the claim of the guarantors, which can be converted into a debtor warrant, relating to the additional premium. The claim would be deferred again in return for a debtor warrant if this were to result in the reduction of the common equity Tier 1 capital ratio to below 10 % (capital protection clause).

An amendment made to the guarantee agreement with the federal states of Hamburg and Schleswig-Holstein as part of the replenishment of the guarantee ensures that the capital protection clause, which is in accordance with the EU requirements, also remains effective from 2014 following the changeover to determining capital under IFRS.

The high Tier 1 capital ratio provides a sustainable basis for the upcoming regulatory challenges and planned business growth in the Core Bank.

The substantial reduction in risk positions is reflected in the Bank’s total assets as at the year end. Compared to the 2012 year end, these decreased significantly by € 22 billion to € 109 billion, of which € 12 billion is accounted for by the Restructuring Unit (including consolidation items), whereby its percentage of the Overall Bank has decreased further.

EARNINGS SITUATION

INCOME STATEMENT

(€ m)	**2013**	2012	Change in %
Interest income	6,105	8,601	–29
Interest expense	–5,022	–7,549	–33
Net income from hybrid financial instruments	–147	468	>–100
Net interest income	**936**	**1,520**	**–38**
Net commission income	104	119	–13
Result from hedging	9	6	50
Net trading income	189	–238	>100
Net income from financial investments	276	53	>100
Net income from financial investments accounted for under the equity method	–15	–14	–7
Total income	**1,499**	**1,446**	**4**
Loan loss provisions	–882	–656	34
Administrative expenses	–732	–821	–11
Other operating income	22	191	–88
Net income before restructuring	**–93**	**160**	**>–100**
Result from restructuring	–56	–43	–30
Expenses for government guarantees	–414	–302	37
Net income before taxes	**–563**	**–185**	**>–100**
Income taxes	–251	61	>–100
Group net loss	**–814**	**–124**	**>–100**
Group net income attributable to non-controlling interests	–2	–4	50
Group net income attributable to HSH Nordbank shareholders	–812	–120	>–100

Total income increased

The individual income items were characterised by the following developments in the reporting year:

In the year under review net interest income amounted to € 936 million compared to € 1,520 million in the previous year. Adjusted for net income from hybrid financial instruments, net interest income increased slightly by € 31 million despite the significant decrease in interest-bearing balance sheet items. It benefited from the growth of new business in the Core Bank, loan prolongations and the good margin trend, which offset the impact of the reduction in assets on earnings. Gains of € 631 million arising on the remeasurement of hybrid financial instruments recognised as part of a changed assessment of the future interest and principal cash flows, which resulted in net income from hybrid financial instruments of € 468 million in 2012, had a positive effect in the previous year. Net income from hybrid financial instruments amounted to € – 147 million as at the 2013 year end due to, amongst other things, compounding effects resulting from the shortened residual maturities of the hybrid financial instruments.

Net commission income of € 104 million fell short of the previous year's amount of € 119 million. The lack of commission income generally reflected the focus of the Bank being placed on core businesses. Accordingly, a large proportion of the reduction was accounted for by the Restructuring Unit. At the product level the sale of derivatives was adversely affected by the low level of interest rates in particular. Costs relating to capital markets transactions executed were also higher than in the previous year.

Net trading income improved significantly to € 189 million compared to € – 238 million in the previous year. A decrease in the adverse impact resulting from the measurement of interest rate/currency derivatives (EUR/USD basis swaps) used to refinance foreign currency transactions and a positive effect from the reduction of counterparty risk in the derivatives business made a major contribution to this. The adverse impact of the valuation of own liabilities measured at fair value also decreased.

Furthermore, the high-risk securities positions benefited from the improved environment in the financial markets. Lower risk premiums were accompanied by positive measurement effects, especially in the credit investment portfolio (CIP), which is managed by the Restructuring Unit. The effects in the CIP were reflected in both net trading income and net income from financial investments.

Net income from financial investments also improved significantly to € 276 million compared to € 53 million in the previous year. These results mainly reflect reversals of impairment losses on debt instruments. These were largely attributable to the CIP, which was positively affected by the recovery in the US residential real estate markets, among other things. In addition to realised and measurement results from securities positions, disposals of individual equity holdings made a positive contribution to earnings. However, this contribution was lower than in the previous year.

Measurement gains in the credit investment portfolio in net trading income and net income from financial investments totalling € 257 million were offset by charges of € – 86 million under the second loss guarantee. This leaves net income for the CIP of a total of € 171 million (allocated to the Restructuring Unit). The compensation effects under the guarantee are disclosed under loan loss provision expense.

Overall, total income increased in the year under review to € 1,499 million (previous year: € 1,446 million).

Other operating income of € 22 million (previous year: € 191 million) is characterised by various one-off effects. The planned sale of buildings as part of the streamlining of the Bank together with earnings contributions arising on the deconsolidation of companies amongst other things had a positive effect. The contributions to the restructuring fund (bank levy) recorded under other operating income amounted to € – 1 million in the reporting year (allocated to administrative expenses in the previous year). The previous year income included one-off income arising from the repurchase of subordinated bonds (€ +261 million).

Loan loss provisions mirror the shipping industry crisis

The Bank reports a result of € – 882 million in the loan loss provisions item for the year 2013 compared to € – 656 million in the previous year. These higher provisions for shipping loans could only be partially offset by an overall lower level of additions in the other core and non-strategic portfolios of the Bank. Total gross additions to valuation allowances and provisions in the lending business amounted to € 2,774 million, of which just over 70 % is attributable to additions in the shipping portfolios, out of which about 40 % relates to shipping loans directly in the Core Bank and about 60 % to shipping loans in the Restructuring Unit. Direct write-downs of € 106 million were also recognised (gross loan loss provisions). After taking into account income from the reversal of impairment losses of € 1,014 million, recoveries on loans previously written down (€ 102 million) and the foreign currency translation of the loan loss provisions (€ 138 million), net loan loss provision expense amounted to € 1,626 million (before compensation effect of the guarantee).

LOAN LOSS PROVISIONS BEFORE AND AFTER EFFECT OF THE GUARANTEE

(€ m)	2013	2012
Loan loss provisions before compensation (net)	**–1,626**	**–1,223**
of which Core Bank	–648	–411
Restructuring Unit	–978	–812
Loan loss provisions after compensation (net)	**–882**	**–656**
of which Core Bank	–395	–312
Restructuring Unit	–487	–344

In our updated loan loss provision plan the higher loan loss provisions for the year 2013 result in the long-term in an increase in the drawdown of the guarantee for the years 2019 to 2025 by € 0.3 billion. Therefore, additional provisions have to be recognised through profit or loss for future expected fees for the guarantee in accordance with the EU requirements. The expected fees for the base premium and the additional premium imposed by the EU Commission for the second loss guarantee amounted to € – 145 million. The additional premium for the past reporting period to be processed in addition amounted to € – 338 million. Total premiums recorded in the loan loss provisions amounted therefore to € – 483 million. This was offset by a positive interest effect resulting from the calculation of the present value of the provisions, which is disclosed under net interest income.

The claim of the guarantors under the additional premium that was deferred in the year 2012 (debt waiver) against the granting of a debtor warrant was revived in full in the year 2013 due to the increase of the common equity Tier 1 capital ratio (capital protection clause). The amounts recognised in the previous year in respect of the debt waiver and debtor warrant were accordingly reversed again. This resulted in an only minor impact on earnings in the amount of € – 5 million at the end of the year 2013.

The compensation effect of the second loss guarantee relating to the portfolios hedged by the guarantee amounted to a gross € 1,232 million. This includes the reversal of impairment losses on securities positions hedged by the guarantee, which reduced the compensation effect by € – 86 million. Income resulting from the valuation of these securities is included under net income from financial investments and net trading income. The compensation effect decreased to a net € 744 million after deducting the premium expense recognised in loan loss provisions and the earnings impact of the capital protection clause. Loan loss provisions decreased to the amount disclosed of € – 882 million after taking these effects into account.

The hedging effect did not result in any cash outflow to the guarantors as at 31 December 2013. The first loss piece of the Bank was utilised by actual payment defaults in the amount of € 778 million (previous year: € 332 million) as at the 2013 year end (losses submitted for invoicing).

Administrative expenses reduced

Administrative expenses were reduced by a further 11 % in the past year. Personnel expenses, which decreased from € – 357 million to € – 327 million, were mainly affected by the reduced number of employees. Compared to the end of 2012, headcount within the Group continued to decline by 289 to 2,834 (calculated on a full-time equivalent (FTE) basis). On the other hand, operating expenses (excluding depreciation) increased from € – 313 million to € – 331 million. This reflects, amongst other things, higher project and consultancy costs in connection with the increased regulatory requirements.

Depreciation of property, plant and equipment and amortisation of intangible assets clearly decreased to € – 74 million (previous year: € – 151 million). This includes unscheduled depreciation in consolidated companies. Higher unscheduled depreciation on properties held by the HSH Real Estate Group, and sold in 2013, was recognised in the previous year. Administrative expenses include costs of € – 19 million incurred on behalf of customers (e.g. legal opinions). These are offset by the corresponding reimbursements from customers that are recorded under other operating income.

Administrative expenses declined in total from € – 821 million to € – 732 million. Operating and personnel expenses (excluding depreciation) were reduced in total from € – 670 million to € – 658 million.

Restructuring expenses increased

The result from restructuring amounted to € – 56 million (previous year: € – 43 million). This reflects expenses incurred as part of the lean management programme and the cost savings measures initiated in the fourth quarter 2013.

Guarantee expenses increased

In addition to premium expense of € – 483 million recorded in loan loss provisions a higher expense of € – 414 million (previous year: € – 302 million) was incurred for the base premium, which is disclosed under the expenses for government guarantees line item. € – 294 million out of these are attributable to the Restructuring Unit and € – 120 million to the Core Bank. The reasons underlying the increase are the higher ongoing guarantee remuneration payable resulting from the replenishment of the guarantee facility from € 7 billion to € 10 billion and the portion of about € – 69 million of the subsequent payment agreed for the base premium attributable to the second half of 2013. The subsequent payment will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. The remaining subsequent payment expense totalling about € – 206 million will be spread across the years 2014, 2015 and 2016 according to plan.

The previous year amount of € – 302 million includes fees in the amount of € – 18 million relating to the SoFFin guarantees, which the Bank had fully returned by 2012.

Expenses recorded to date for the second loss guarantee

Since April 2009 the Bank has recorded premium expenses totalling approx. € – 3,549 million for the provision of the second loss guarantee in the income statement, of which approximately € – 1,724 million is attributable to base premiums for previous periods. € – 500 million is attributable to a one-off payment required by the EU Commission in 2011, which were reinjected into the Bank as part of a capital increase, and approximately € – 1,325 million to base and additional premiums recognised in other line items of the income statement, in particular in loan loss provisions.

HSH Nordbank is thus making a substantial contribution to compensating support measures of its shareholders Hamburg and Schleswig-Holstein at an early stage in the restructuring phase and at the same time recognises the associated expenses in the income statement.

Net income for the year negative as expected

A net loss before taxes of € – 563 million was recorded in the financial year 2013 (previous year: € – 185 million) as a result of the operating performance, restructuring and guarantee costs as well as special effects. The forecasted net loss before taxes was also used as the basis for the decision-making process regarding the replenishment of the guarantee and thereby for the medium-term capital planning of the Bank.

The negative tax result of € – 251 million (previous year: € +61 million) mainly reflects the provisions recognised for tax risks resulting from a changed risk assessment.

The Bank recognised in the income taxes line item provisions for potential tax reimbursement claims of € – 194 million, € – 112 million of this loss is attributable to possible unjustified withholding tax credits relating to share arbitrage transactions over the dividend record date (so-called cum-/ex-trades). Furthermore, provisions of € – 40 million were recognised for tax risks in connection with structured transactions and € – 42 million for other tax issues. In addition, provisions were recognised for accrued interest on potential tax reimbursement claims as well as for legal uncertainties relating to the determination of the VAT reimbursement. The expenses for interest and VAT are disclosed under Other operating income. Further information on existing tax risk is set out in the "Legal risk" section in the Risk report.

Furthermore, deferred tax assets recognised on loss carryforwards had to be written down and deferred tax assets on temporary differences reversed due to the updated bank planning. The total effect relating to deferred taxes amounted to € – 53 million.

Overall, a Group net loss of € – 814 million (previous year: € – 124 million) remains, which is higher than planned due to the high tax expense.

The return on equity for the Group calculated on the basis of the net income before taxes is – 11 % (previous year: – 4 %). The cost-income ratio improved to 49 % at the Group level (previous year: 57 %).

NET ASSETS AND FINANCIAL POSITION

MATERIAL ITEMS IN THE STATEMENT OF FINANCIAL POSITION

(€ m)	2013	2012	Change in %
Assets			
Cash reserve	4,851	6,745	–28
Loans and advances to banks	5,156	8,353	–38
Loans and advances to customers	69,079	80,570	–14
Loan loss provisions	–3,804	–3,581	6
Trading assets	9,049	11,817	–23
Financial investments	21,255	22,067	–4
Other assets	3,436	4,635	–26
Total assets	**109,022**	**130,606**	**–17**
Liabilities			
Liabilities to banks	18,212	29,934	–39
Liabilities to customers	40,697	41,308	–1
Securitised liabilities	28,561	31,459	–9
Trading liabilities	7,102	11,450	–38
Subordinated capital	5,288	5,391	–2
Equity	4,524	5,272	–14
Other liabilities	4,638	5,792	–20
Total equity and liabilities	**109,022**	**130,606**	**–17**

Significant reduction in total assets

Over the course of the year 2013, total assets clearly declined to € 109,022 million (31 December 2012: € 130,606 million). This reflects the significant reduction in risk positions, particularly as the result of the increased winding down of portfolios in the Restructuring Unit. The depreciation of the USD against the euro compared to the previous year also had a noticeable effect.

The decrease in total assets can be clearly seen on the asset side in loans and advances to customers, which fell to € 69,079 million (31 December 2012: € 80,570 million). Active winding down measures in the loan portfolios of the Restructuring Unit as well as a high level of principal repayments in the customer departments of the Core Bank were partially offset by the increase in new business in the Core Bank. Loans and advances to banks decreased to € 5,156 million compared to the previous year (31 December 2012: € 8,353 million). Collateralised money market transactions as well as promissory notes entered into with other banks decreased. The cash reserve was reduced to € 4,851 million as part of the liquidity management (31 December 2012: € 6,745 million).

Loan loss provisions increased to € – 3,804 million (31 December 2012: € – 3,581 million). This includes the balance sheet hedging effect of the second loss guarantee (compensation), which increased significantly. Excluding the compensation loan loss provisions increased more sharply from € – 5,505 million to € – 6,518 million.

Trading assets decreased in the course of the year to € 9,049 million (31 December 2012: € 11,817 million). Whereas interest-bearing securities held in the trading portfolio increased slightly, the positive market values of derivatives held in the trading portfolio recorded a significant decrease. Portfolio changes were largely responsible for this. Financial investments decreased slightly to € 21,255 million (31 December 2012: € 22,067 million). The further reduction of the securities and equity holdings portfolio had a noticeable impact in this regard.

Liabilities to banks decreased significantly as at the end of the year 2013 to € 18,212 million (31 December 2012: € 29,934 million). This was mainly attributable to a lower refinancing volume with central banks and fewer repo transactions. Liabilities to customers declined only slightly and amounted to € 40,697 million (31 December 2012: € 41,308 million). Whilst repurchase agreements with customers increased slightly, the savings deposit business declined due to the discontinuation of the classic private clients business. Securitised liabilities totalled € 28,561 million (31 December 2012: € 31,459 million). The decrease is primarily attributable to a higher level of maturities and a lower volume of new issues due to the reduction in total assets.

Trading liabilities composed of negative fair values of derivatives in the trading portfolio have decreased significantly in line with trading assets.

Subordinated capital was almost unchanged compared to the previous year end and amounted to € 5,288 million (31 December 2012: € 5,391 million). Equity capital decreased to € 4,524 million (31 December 2012: € 5,272 million). This decrease was mainly attributable to the Group net loss of € – 812 million, offset by a positive change in the revaluation reserve.

Decrease in business volume

Business volume decreased to € 118,640 million compared to the previous year end (31 December 2012: € 138,515 million) mainly due to the reduction of major balance sheet items. Guarantees and warrantee agreements also decreased slightly to € 2,707 million (31 December 2012: € 2,917 million), while irrevocable loan commitments increased significantly to € 6,911 million (31 December 2012: € 4,992 million) due to the acceleration in new business.

Capital and funding

REGULATORY CAPITAL RATIOS (TAKING THE 2013 FINANCIAL STATEMENTS INTO ACCOUNT)

%	**31.12.2013**	31.12.2012
Equity ratio (solvency coefficient)	26.8	20.1
Total ratio/regulatory capital ratio	23.8	19.1
Tier 1 capital ratio	17.5	13.2
Tier 1 capital ratio (including market risk positions)	15.3	12.3
Common equity Tier 1 capital ratio (including market risk positions) (plus buffer from additional premium)	11.7 (+5.2 pps)	9.9

REGULATORY CAPITAL RATIOS (NOT TAKING THE 2013 FINANCIAL STATEMENTS INTO ACCOUNT [1])

%	**31.12.2013**	31.12.2012
Equity ratio (solvency coefficient)	27.5	18.6
Total ratio/regulatory capital ratio	24.2	17.8
Tier 1 capital ratio	18.1	12.2
Tier 1 capital ratio (including market risk positions)	15.9	11.4
Common equity Tier 1 capital ratio (including market risk positions)	11.8	8.8

[1] Report pursuant to the German Solvency Regulation (SolvV).

ELIGIBLE CAPITAL (NOT TAKING THE 2013 FINANCIAL STATEMENTS INTO ACCOUNT)[1)]

(€ bn)	**31.12.2013**	31.12.2012
Regulatory capital pursuant to SolvV	8.6	10.8
of which Tier 1 capital for solvency purposes	5.6	7.0
Total risk assets (including market risks and operational risk)	35.6	61.0
of which Risk assets counterparty default risk	28.4	53.1

[1)] Report pursuant to the German Solvency Regulation (SolvV).

Common equity Tier 1 capital ratio rises to 11.7 % (plus 5.2 percentage points buffer)

The reported capital ratios of HSH Nordbank are solid as at 31 December 2013. The common equity Tier 1 capital ratio increased clearly to 11.7 % as at 31 December. Furthermore, there is a buffer of 5.2 percentage points resulting from the claim of the guarantors relating to the additional premium, which can be converted into a debtor warrant. The ratio is significantly above the banking supervisory minimum requirements and at the same time clearly above the value of 9.9 % at the 2012 year end. The other capital ratios also increased compared to the 2012 year end. The Tier 1 capital ratio (including market risk positions) amounted to 15.3 % (31 December 2012: 12.3 %), the regulatory capital ratio reached 23.8 % (31 December 2012: 19.1 %). The figures take into account the 2013 annual financial statements.

Thanks to the relieving effect of the second loss guarantee on the risk assets we are well prepared for the Basel III framework valid from 2014 and the conversion of the determination of the capital ratios from HGB to IFRS and are complying with the stricter requirements concerning capital ratios. At the same time we have a sound basis for meeting further challenges.

The capital ratios of the Bank benefited from the replenishment in the first half of the year of the guarantee facility by the federal states of Hamburg and Schleswig-Holstein, which resulted in a clear decrease in the default risk determined on the amount of risk assets. The reduction in risk positions, which was considerably stepped up in the past year and is also reflected in the decrease in risk assets, also had a positive effect. The somewhat stronger euro against the US dollar compared to the 2012 year end (EUR/USD 1.38 as at 31 December 2013 vs. EUR/USD 1.32 as at 31 December 2012) also had a slightly positive effect on the ratios.

The claim of the guarantors under the additional premium for the guarantee was fully reinstated as a result of the increase in the Tier 1 capital ratio. This was reflected in a reduction of Tier 1 capital and regulatory capital in accordance with regulatory requirements. The net loss for the year and risk parameters in the shipping area also had a negative impact.

Including the guarantee effect risk assets of the Bank decreased to € 35.6 billion (31 December 2012: € 61.0 billion). In this regard, the regulatory minimum risk weight of 20 % is applied to the senior tranche of the second loss guarantee. Arithmetically, the risk weight of the senior tranche is less than 1 % as at 31 December 2013 due to the guarantee increase (31 December 2012: 43 %). This creates an additional considerable stabilising buffer for the capital ratios, as a potential increase in the risk content in the portfolio hedged by the guarantee would not affect the capital ratios until the minimum threshold of 20 % is reached.

Refinancing activities expanded

We were able to secure the refinancing of the customer business and at the same time to structurally strengthen the liquidity position of the Bank for the year 2013 and beyond, through the funding activities carried out in the past year.

A key focus of these activities was the issuing of Pfandbriefe (covered bonds) on the capital markets. As at the end of the first quarter we issued a public Pfandbrief in the amount of € 500 million with a term of three years, which was increased in April to € 750 million due to the high demand from investors in Germany and abroad. We were also able to place a mortgage Pfandbrief in the markets in Germany and abroad with a volume of € 500 million in the third quarter which had a term of five years. We issued further Pfandbriefe as private placements, some of which in foreign currencies.

The distribution of bearer debentures within the Sparkassenverbund (Savings Banks Association) again made a significant contribution to the refinancing of our business. Product sales to other banks and institutional investors were developed further at the same time. In total, a volume of around € 4.1 billion of uncovered bond products were placed in the past year.

We have also further expanded our asset-based funding (ABF). We attach great importance to this instrument particularly with regard to the refinancing of our foreign currency business. In the past year the “Ocean Funding 2013” transaction with a volume of approximately 661 million USD was executed together with Citigroup. The transaction is collateralised by a portfolio of shipping loans of HSH Nordbank. It is planned to execute further transactions of this type – also based on other asset classes.

By means of the ABF issues we are able to expand the refinancing of US dollar transactions through the use of primary transactions and at the same time reduce the use of EUR/USD basis swaps for derivative foreign currency financing. The proportion of primary US dollar refinancing for the Core Bank was substantially above the target of 50 % as at the 2013 year end. At the same time a high proportion still had to be refinanced via derivatives.

In addition to the continuous issuing activities a stable deposit base of corporate clients, financial institutions and other institutional investors contributed to a stable liquidity position of HSH Nordbank as at the reporting date. Furthermore, the Bank holds liquidity reserves in the form of highly liquid collateral eligible for refinancing at central banks and credit balances at central banks, which it can access as and when required. The longer maturities of the newly taken up funding and the significant asset reduction in the reporting year also had a positive impact on the liquidity profile. This enabled sustainable structural progress to be achieved with regard to the longer-term challenges that exist in the funding area, which result from a significant volume of maturities of issues between 2014 and 2016 against the backdrop of the expiry of the guarantor liability at the end of 2015. Bonds covered by the guarantor liability totalling about € 23 billion will fall due in this entire period in addition to the expiry of other issues.

The liquidity ratio of the Liquidity Regulation (LiqV), which is the key parameter for liquidity risk, moved between 1.69 and 2.36 during the reporting year, but was at all times above the regulatory minimum of 1.0; it was 2.30 at the year end. Detailed information on the liquidity risk of HSH Nordbank is set out in the Risk report in this Management Report.

In July 2013 the rating agencies Moody's and Fitch issued statements on the Bank. Both agencies acknowledged the replenishment of the second loss guarantee in particular. Fitch has confirmed the long-term rating of the Bank – which is important for capital market funding – as A- with stable outlook on the basis of the support provided by the federal state owners and the savings banks. Moody's has downgraded the long-term rating of HSH Nordbank by one notch to Baa3 and the short-term rating by one notch to Prime-3 on the basis of, amongst other things, the still outstanding final approval of the EU Commission for the guarantee replenishment. At the same time Moody's confirmed the status of HSH Nordbank as investment grade and issued the ratings with a stable outlook. These rating actions did not have a material impact on the refinancing and the position of the Bank.

FINAL ASSESSMENT OF THE POSITION AND COMPARISON WITH THE FORECAST OF THE PREVIOUS YEAR

Operating progress more than offset by a high level of charges in the 2013 reporting year

The progress made in implementing the business model can be seen in the earnings, net assets and financial position in the 2013 reporting year. The substantial expansion in new business – as forecasted in the previous year –, which had a positive impact on the Bank's earnings due to the improved margins, is particularly significant. The loss of earnings associated with the winding down of the Restructuring Unit portfolio ahead of schedule was offset by this development. At the same time new business transacted as well as the reduction in high-risk loans had a positive effect on the Bank's risk profile. Against the backdrop of increasing cost pressure we are also on the right course as a whole with the reduction in administrative expenses ahead of schedule – due to the quicker than expected reduction in headcount amongst other things. We also benefited in the past year from reversals of impairment losses as a result of the easing of tensions in the financial markets.

However, the earnings impact of successes in the customer business and in the reorganisation of the Bank were overshadowed by special effects (including tax provisions) and the need to recognise loan loss provisions, in particular for the shipping portfolio. Despite the progress made we were not able to achieve all key financial objectives in the reporting year due to these high charges. The overall unsatisfactory performance is reflected in the high net loss for the year at the Group level. This had been forecasted in the previous year on the basis of an expected high requirement for loan loss provisions for 2013, although this turned out to be even higher than planned. Whereas the net loss before taxes was at about the level planned in the previous year, the net loss after taxes was higher than expected due to the provisions for tax risks. The progress made in the Core Bank is demonstrated by the development of new business. Increase in volumes and margins show that we are well positioned in our target markets.

We have further improved the prerequisites for a sustained positive performance through the measures implemented and initiated in the past year. The replenishment of the guarantee facility to € 10 billion against the backdrop of the ongoing shipping crisis resulted in a higher than planned increase in the common equity Tier 1 capital ratio to 11.7 % plus a buffer of 5.2 percentage points. This provides us with the leeway necessary to deal with the high-risk assets on the balance sheet of the Restructuring Unit, to comply with the increasing regulatory requirements and to expand the core business. It is planned to gradually reduce the guarantee facility again following an in-depth review carried out as part of the ongoing restructuring.

The short- and mid-term liquidity position of the Bank was stable as at the 2013 year end. Structural progress was made in the past year regarding the longer-term challenges posed by the expiry of the guarantor liability, through which the liquidity position was strengthened in order to take into account the substantial funding requirements in the coming years.

SEGMENT REPORTING

NEW BUSINESS SUCCESSFULLY EXPANDED

The expansion of new business with customers was the focus of the Core Bank in the past year. The business divisions bundled in the Core Bank were able to successfully increase their new business in the face of a declining loan demand. The new business volume increased overall by 12 % to € 7.6 billion compared to € 6.8 billion in the previous year.

The Core Bank disclosed a positive net income before restructuring of € 55 million as at the 2013 year end, which remained below the net income of € 629 million (including consolidation effects in both years) generated in the previous year. The previous year's result was characterised by special effects (repurchase of subordinated bonds, revaluation of hybrid financial instruments). The results for the past year were affected by a high level of loan loss provision expense of € – 478 million for existing shipping commitments of the Core Bank (before compensation) and loan repayments in the Shipping division amongst others. At the same time the increase in new business at higher margins had a positive effect.

Total assets of the Core Bank decreased to € 69 billion as at the year end compared to € 79 billion as at the end of 2012. The decrease reflects sales of securities portfolios and a reduction in the derivatives portfolio in addition to loan principal repayments. Total assets were also impacted by the lower US dollar exchange rate compared to the previous year. Further information is contained in the explanatory comments on the individual segments.

SEGMENT OVERVIEW

(€ m) **2013**		Shipping, Project & Real Estate Financing	Corporates & Markets	Corporate Center	Consolidation Core Bank	**Total Core Bank**	Restructuring Unit	Consolidation Restructuring Unit	**Total Restructuring Unit**
Total income	**2013**	**727**	**370**	**-56**	**-145**	**896**	**664**	**-61**	**603**
	2012	690	388	460	-407	1,131	668	-353	315
Loan loss provisions	**2013**	**-609**	**-39**	**-2**	**255**	**-395**	**-978**	**491**	**-487**
	2012	-401	-8	-12	109	-312	-812	468	-344
Net income before restructuring	**2013**	**-123**	**112**	**-50**	**116**	**55**	**-578**	**430**	**-148**
	2012	75	136	726	-308	629	-584	115	-469

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

The Shipping, Project & Real Estate Financing segment covered the business conducted with shipping clients, real estate clients and clients in the energy & infrastructure industry as at 31 December 2013.

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

(€ m)		Shipping, Project & Real Estate Financing	Shipping	Energy & Infrastructure	Real Estate Clients
	2013	**727**	**391**	**160**	**176**
Total income	2012	690	385	142	163
	2013	**-609**	**-478**	**-110**	**-21**
Loan loss provisions (before compensation)	2012	–401	–401	–1	1
	2013	**-253**	**-122**	**-61**	**-70**
Administrative expenses	2012	–234	–125	–48	–61
	2013	**12**	**3**	**10**	**-1**
Other operating income	2012	20	4	8	8
	2013	**-123**	**-206**	**-1**	**84**
Net income before restructuring	2012	75	–137	101	111
	31.12.2013	**28**	**14**	**5**	**9**
Segment assets (€ bn)	31.12.2012	32	17	5	10

In the past year the divisions within the Shipping, Project & Real Estate Financing segment have successfully driven forward their new business with customers. New business of € 4.7 billion was concluded in total. The Real Estate Clients division was able to contribute the largest percentage of the volume through successful transactions in the core region and metropolitan regions. In doing so, Real Estate Clients consolidated its position of HSH Nordbank as one of the largest providers of real estate financing in Germany. Despite the very difficult market environment Shipping was also able to generate attractive new business to a limited extent on a case by case basis. The main focus was on international commitments, which contribute to the diversification of the portfolio. In the past year Energy & Infrastructure financed numerous wind and solar projects, primarily in Germany and France, as well as individual infrastructure projects. Several equity holdings were also successfully sold.

Income of the Shipping, Project & Real Estate Financing segment benefited from the new business concluded in the reporting year at improved margins, from prolongations of existing loans as well as from sales of equity holdings. Lending fees were increased in the cross-selling business. On the other hand, a lower demand for interest rate derivatives was discernible, which can be attributed to the low interest rate environment. Existing business was affected by the reduction in shipping transactions and further loan principal repayments. As a result, the interest-bearing loan volume fell below the previous year's level despite the extensive new business. Total income of the Shipping, Project & Real Estate Financing segment increased nevertheless to € 727 million compared to € 690 million in the previous year.

It was possible to further improve the risk structure of the segment portfolio by the conclusion of lower risk new business in forward-looking market segments. However, a significantly higher level of loan loss provisions had to be recognised for existing shipping commitments in order to reflect the increased risk resulting from the expected slower market recovery in the shipping industry. Loan loss provision expense for shipping loans was increased in total to € 478 million in this division (before the compensation effect of the guarantee). Loan loss provisions only had to be recognised to a limited extent in the Real Estate Clients core division in light of the positive developments in the German real estate markets (€ – 21 million), whereas additions in the Energy & Infrastructure division were increased net to € – 110 million on account of some problem individual commitments. Loan loss provision expense in the Shipping, Project & Real Estate Financing segment increased in total to € – 609 million (previous year: € – 401 million). The loan loss provisions recognised were partially compensated by the guarantee. The guarantee effect in the Core Bank amounted in total to € 253 million (disclosed in the consolidation column).

As a result of the clearly higher loan loss provisions in Shipping net income of € – 123 million for the Shipping, Project & Real Estate Financing segment remained below the previous year level of € 75 million. Excluding the increased loan loss provisions in the Shipping and Energy & Infrastructure divisions a positive result would have been disclosed for this segment.

CORPORATES & MARKETS SEGMENT

In the Corporates & Markets division we combine, on the one hand, business transacted with corporates and wealth management (until 30 June 2013 Private Banking) with a focus on entrepreneurs, foundations and non-profit organisations. On the other hand, development, sales and trading of financial products (Capital Markets) and special financing and consultancy solutions (Products) as well as the servicing of savings banks, banks and insurance companies are allocated to this segment, for which the newly formed Savings Banks & Institutional Clients division has been responsible since 1 June 2013.

CORPORATES & MARKETS SEGMENT

(€ m)		**Corporates & Markets**	Capital Markets, Products, Savings Banks & Institutional Clients	Corporate and Private Clients
Total income	**2013**	**370**	**118**	**252**
	2012	388	141	247
Loan loss provisions (before compensation)	**2013**	**–39**	**–2**	**–37**
	2012	–8	–	–8
Administrative expenses	**2013**	**–230**	**–105**	**–125**
	2012	–251	–137	–114
Other operating income	**2013**	**11**	**1**	**10**
	2012	7	–2	9
Net income before restructuring	**2013**	**112**	**12**	**100**
	2012	136	2	134
Segment assets (€ bn)	**31.12.2013**	**24**	**16**	**8**
	31.12.2012	29	21	8

The Corporates division increased its new business in the reporting year by more than one-third to € 2.8 billion. This growth is remarkable given the generally subdued loan demand in the past year and the strong bank competition for medium-sized enterprises. The drivers behind this positive trend were individually structured financing solutions, which are tailored to the needs of the clients, and an increased commitment across Germany. However, the drawdown ratio relating to the new loan commitments remained below that of the previous year due to the solid internal financing capability of many corporate clients.

Furthermore, the Corporates division benefited from the trend towards forms of financing not tied to any bank (e.g. promissory notes) and established a good position in this area through its involvement in several transactions. The Corporates division made a noticeable contribution to the income of the segment due to its successful activities. Loan loss provisions were increased slightly based on the very low level of the previous year.

Following the decision to discontinue the classic private client business Wealth Management focused on entrepreneurs, foundations and non-profit organisations. Additional clients were acquired in 2013 with a mandate to provide advice and support in respect of business and personal financial affairs. The extremely low level of interest rates represented a significant challenge in the past year.

The Capital Markets division concentrated on the optimisation and sales of the capital-markets-oriented product range, primarily interest rate, currency and commodity hedging as well as investment products. Thanks to this strategy, the Bank was able to strengthen its position as a preferred partner for risk management, although there was overall a discernible, subdued customer demand. There was less demand for interest rate derivatives in particular due to the low level of interest rates. Especially, the management of the liquidity position and measurement and realisation results of fixed-income securities portfolios had an effect on income.

Products supported the client divisions successfully with its range of innovative financing solutions. Several promissory note transactions were placed for companies and municipalities and syndication activities were increased. Payment transaction products and foreign trade finance also helped to expand existing customer relationships and acquire new customers.

The new Savings Banks & Institutional Clients division formed with effect from 1 June 2013 has focused on securing and developing cooperation of the Bank further within the Savings Banks Association as well as with insurance companies and public-sector clients. Appropriate solutions were the focus for the proprietary investments of our clients and their private and corporate clients business. The placement of bonds, structured issues and Pfandbriefe made an important contribution to the Bank's funding.

The Corporates & Markets segment generated total income of € 370 million (previous year: € 388 million). The overall very low level of market interest rates had a noticeable impact. Net income of the segment amounted to € 112 million (previous year: € 136 million).

The substantial reduction in segment assets to € 24 billion (31 December 2012: € 29 billion) is primarily attributable to a reduction in the portfolio of derivative financial instruments.

CORPORATE CENTER SEGMENT

The Corporate Center segment maps positions of the Overall Bank and equity holdings not allocated to the divisions. Net income of the Corporate Center segment amounted to € – 50 million in 2013 (previous year: € 726 million). Net income from hybrid financial instruments for the previous year included the large positive impact of the gain of € 631 million arising on the revaluation of these instruments. Furthermore, the repurchase of publicly placed subordinated bonds in 2012 had a positive effect generating income of € 261 million. This result was boosted in the reporting year by income realised on the sale of securities held in central portfolios.

Net income for the Core Bank takes consolidation effects into account

The consolidation position of the Core Bank includes lower losses compared to the previous year on EUR/USD basis swaps as well as a positive compensation effect due to the hedging effect of the second loss guarantee. Net income before restructuring of the Core Bank, including consolidation effects, reached € 55 million (previous year: € 629 million).

The net income before taxes of the Core Bank is € – 106 million after deducting the result from the restructuring and expenses for government guarantees. This gives a negative return on equity of – 5 % for the Core Bank. The cost-income ratio was 50 %.

RESTRUCTURING UNIT SEGMENT

The Restructuring Unit is responsible for winding down credit and capital market business that is not continued as core business of HSH Nordbank.

RESTRUCTURING UNIT SEGMENT

(€ m)

Total income	**2013**	**664**
	2012	668
Loan loss provisions (before compensation)	**2013**	**–978**
	2012	–812
Administrative expenses	**2013**	**–286**
	2012	–354
Other operating income	**2013**	**22**
	2012	–86
Net income before restructuring	**2013**	**–578**
	2012	–584
Segment assets (€ bn)	**31.12.2013**	**37**
	31.12.2012	50

Significant progress was made in winding down the portfolio in the 2013 financial year. Segment assets (excluding consolidation items such as the compensation item from the second loss guarantee) decreased compared to the 2012 year end to € 37 billion (31 December 2012: € 50 billion). As at the 2013 year end € 15 billion of the segment assets is attributable to the capital markets portfolio and € 22 billion to the loan portfolio of the Restructuring Unit.

Net income before restructuring of the Restructuring Unit amounted to € – 578 million, which was at almost the level of the previous year (€ – 584 million). The higher loan loss provisions for shipping commitments had an adverse impact in the past year. The income side was also affected by the gradual winding down of interest-bearing positions. On the other hand, reversals of impairment losses in the credit investment portfolio as well as sales of securities and non-strategic equity holdings had a positive impact.

An improved net income before restructuring of € – 148 million (previous year: € – 469 million) remained for the Restructuring Unit, including positive consolidation effects in the year 2013, in particular as a result of the hedging effect of the second loss guarantee. The net income before taxes of the Restructuring Unit is € – 457 million after deducting the result from restructuring and expenses for government guarantees line items. The Restructuring Unit is therefore largely responsible for the net loss for the Group before taxes.

The operating restructuring units of HSH Nordbank were integrated into the Restructuring Unit at the end of 2013 as part of the Bank-wide optimisation of structures. In this process, the Restructuring Unit has also assumed the responsibility for managing and analysing the restructuring portfolios still remaining in the Core Bank.

Increases in loan loss provisions

For the material loan portfolios of the Restructuring Unit – international real estate loans, ship loans and corporate clients/leveraged buy-out business (LBO) – the following developments were key:

The European real estate markets as a whole stabilised further over the past year. Due to the existing risks in the individual regional markets and property-specific criteria, additional loan loss provisions for European real estate loans were recognised. On the other hand, it was possible to reduce the loan loss provision expense for North American real estate loans. The recovery of the North American real estate markets was largely responsible for this. Overall, loan loss provision expense for real estate loans was reduced compared to the previous year.

The trend in the shipping portfolio of the Restructuring Unit is characterised by the extremely difficult situation in the shipping market which led to additional restructuring and workout cases in the portfolio in 2013. Loan loss provisions were significantly increased by € 817 million (before compensation) in the portfolio of the Restructuring Unit concerned, as the market in the shipping industry is expected to recover more slowly than before.

The Bank is increasingly investigating options for alternative portfolio solutions with the involvement of strategic partners to further reduce the portfolio and stabilise the problem shipping commitments. In the past year HSH Nordbank transferred ten ship financings to an investor. The Bank's loan volume was reduced by the transaction. Further transactions of this type are planned in view of the increased investor interest. A further approach is to merge non-performing shipping lines into healthy market participants within the framework of an investor process. This approach, which can preserve the value-added potential of the ships, is to be pursued in 2014 in order to contribute to a market consolidation.

The credit environment for the foreign corporate clients/leveraged buy-out business (LBO) with structured financings has slightly improved albeit from a difficult position in the previous year. Against this backdrop it was possible to significantly reduce the loan volume in the Restructuring Unit, primarily by means of early termination by other lenders. The situation has nevertheless worsened considerably in individual sectors. This trend was taken into account through the recognition of appropriate loan loss provisions, which, however, were lower in this area than in the previous year.

Positive fair value trend in capital markets portfolios

The capital market portfolios consolidated in the Restructuring Unit primarily include the public sector financing business, the cover pool portfolios for Pfandbrief issues and the credit investment portfolio that mainly contains ABS structures as well as government bonds and bank bonds of individual issuers.

The improved market sentiment resulted in reductions in risk premiums on high-risk debt instruments held in portfolio. The credit investment portfolio, which declined further to € 6 billion in the year 2013 (2008: € 22 billion), in particular benefited from this. It was possible to record significant reversals of impairment losses in the ABS portfolio as a result of the effect of the recovery of the US residential housing market and other asset classes with a US link. However, the positive income effect was compensated by the second loss guarantee in the case of reversals of impairment losses on positions covered by the guarantee. European government and bank securities also recovered at the end of the financial year 2013 and contributed to the reversal of impairment losses in the capital markets portfolio.

The development of commitments in the government financing portfolio, which comprises debt instruments of German local authorities amongst others, was generally stable. Instruments of German public sector issuers were regarded by investors as safe investments and were accordingly in heavy demand. The comparatively manageable portfolio of debt instruments issued by euro periphery countries benefited from positive developments in the sovereign debt crisis.

Segment income affected by asset reductions and measurement effects

In addition to the positive measurement effects income from sales of securities and equity holdings was realised again in the year 2013, but to a lesser extent than in the previous year. The reduction in counterparty risk in the derivative area also had a positive effect. Overall, segment income of € 664 million remained slightly below the previous year's level of € 668 million despite the substantial winding down of the portfolio and the amortisation of goodwill. Furthermore, various one-off effects had to be recorded under other operating income, including income arising on the deconsolidation of individual companies.

Loan loss provision expense for the segment (before compensation by the guarantee) is characterised by high additions in the shipping portfolio and amounted to € –978 million compared to € –812 million for the same period in the previous year. After taking the reduction in administrative expenses into account net income for the Restructuring Unit amounted to € –578 million (previous year: € –584 million).

REPORT ON EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the 2013 reporting year.

FORECAST, OPPORTUNITIES AND RISKS REPORT

FORECAST REPORT INCLUDING OPPORTUNITIES AND RISKS

The following section should be read in conjunction with the other sections in this Management Report. The forward-looking statements contained in this forecast report are based on assumptions and conclusions based on information currently available to us. The statements are based on a series of assumptions that relate to future events and are incorporated in our corporate plan. The occurrence of future events is subject to uncertainty, risks and other factors, a great many of which are outside our control. Therefore actual results may differ materially from the following forward-looking statements. In this forecast report we describe in greater detail the assumptions made by us in the planning process.

Our estimates regarding the long-term trend in loan loss provisions as well as the planning for payment defaults and, consequently, the actual drawdown of the second loss guarantee are subject to significant uncertainty due to the very long planning horizon, which can influence the future development of the Bank to a greater degree than expected. These uncertainty factors result, for example, from the movement in key market parameters such as freight and charter rates as well as the US dollar exchange rate. Developments over the past years have also shown that the ability to make forecasts in a volatile environment is limited. For example, the crisis in the shipping industry is lasting longer than expected.

In this section we will address in detail the material opportunities and risks of the forecasts for the key management parameters as well as the going-concern assumptions. Opportunities are defined as possible future developments or events that may give rise to a positive divergence from the forecast or an objective for HSH Nordbank. In contrast, as part of the forecast risks are defined as possible future developments or events that may give rise to a negative divergence from the forecast or an objective for HSH Nordbank. The bank-specific risk types are then separately explained in the "risk report" chapter.

ANTICIPATED UNDERLYING CONDITIONS

Unless otherwise stated, statements made regarding the underlying conditions are based on internal assessments and estimates.

Continued recovery in the economic environment expected

Global economic growth is expected to accelerate in 2014. The USA and the eurozone in particular will be the drivers behind this growth. Economic growth in China should stabilise at a somewhat lower level, whereas economic activity should revive somewhat in most other emerging economies. The turbulence in the financial markets of individual emerging countries is not expected to have a sustained negative impact on the growth of the global economy. Germany will benefit from the recovery of its main trading partners. Following a long period of restraint on the part of German companies we are expecting a higher level of investment activity this year. At the same time private consumption will continue to boost the economy.

The US Federal Reserve should continue its tapering of the bond purchases that was started in January, as long as the economy expands moderately as expected. We do not expect the ECB to ease its monetary policy even further at the present point in time, although the central bank is continuing to keep this option open. Yields on long-term German government bonds and US treasuries should increase moderately in 2014. The US dollar should tend to appreciate slightly as a consequence of the central bank policy. Our plan for 2014 is based on an exchange rate of EUR/USD 1.30.

Crisis in the shipping industry persists

We still do not expect an imminent recovery of the international shipping industry. We must assume that the crisis will be overcome more slowly than expected in the previous year. Growth in demand in the container shipping industry will, in all likelihood, not be sufficient in 2014 to reduce the existing excess supply. We are expecting a declining delivery volume in 2014 for bulk carriers that could result in the start of a slow recovery, whereas oil tankers should continue to suffer from a relatively weak demand trend. In 2013 we observed in all segments an increase in the level of investment in newbuilds. We use a weighted average of our own and independent, external forecasts of the leading market research institutions, Marsoft and MSI, for our assessment of future developments in the shipping industry.

The performance of the real estate markets in Germany should be largely positive in 2014. The excess demand in residential markets in large cities will continue to grow thanks to the continued high influx of migrants and despite the appreciable increase in newbuilds. The retail sector will continue to benefit from the positive consumer sentiment. Vacancy rates in the office property markets will stagnate on a marked increase in the number of office completions resulting in the office rents remaining stable. Growth in rents for retail and residential properties will slow slightly.

Following a moderate level of development in 2013 the outlook for the expansion of renewable energies in Europe is cautious for 2014. In many countries subsidy measures even for renewable energies are being reviewed. There is great uncertainty in Germany regarding the future shape of the turnaround in energy policy. Overall, we do not expect any appreciable increase in photovoltaic installations in Germany in 2014. In the wind energy sector completions in 2014 are expected to be slightly below the previous year's level. The economic recovery in Germany and Europe should provide a stimulus to the transport infrastructure sector and boost demand again for transport services.

Increasing regulatory requirements for banks

The environment for banks will remain characterised by significant challenges in 2014. A central theme is the assessment of risks, balance sheets and resilience of institutions carried out by the ECB in advance of the establishment of the European Banking Union as part of a stress test (comprehensive assessment). In view of the increasingly more demanding regulatory environment and stiff competition in the German banking market, institutions are also required to continuously update their business models to the changing underlying conditions.

EXPECTED BUSINESS DEVELOPMENT OF HSH NORDBANK

Focus placed on sustainably profitable core areas

In 2014 we will continue to concentrate on the implementation of the business model in order to align the Bank together with its viable business divisions in the Core Bank on a sustainably stable and profitable basis. The conditions for the long-term successful future of the Bank were further improved by the visible progress made in the past year and the additional measures initiated at the end of 2013, although there are still major challenges to be tackled.

Earnings forecast

In the Core Bank we want to build on the successes achieved in the past year and to again significantly expand new business with customers. Increase in volumes and margins in the new business of the past year show that we are well positioned in our target markets. Based on this we also want to strengthen the sales of our entire product range. We are assuming a slight increase in the volume of interest-bearing loans in the Core Bank taking into account principal repayments and loan loss provisions to be expected for 2014. Overall, we expect income of the Core Bank to increase moderately in 2014 compared to 2013.

We will continue to quickly wind down the portfolio in the Restructuring Unit, which will result in a further significant reduction in the total assets of the Restructuring Unit. Following an initial successful transaction concluded last year, we are concentrating on alternative portfolio solutions involving strategic investors for the purposes of further reducing risk in the Shipping portfolios. Furthermore, we want to actively contribute to a market consolidation and in this way preserve the value added potential of the ships. Income in the Restructuring Unit will continue to decrease significantly as planned in 2014 and beyond through the continuous winding down of the portfolio. We also do not expect – in contrast to last year – that in 2014 there will be significant reversals of impairment losses recognised on debt instruments.

The progressive increase in new business in the Core Bank and stronger product sales will also be reflected positively in total income at the Group level in the year 2014. However, we expect a substantial reduction in total income for the Group compared to 2013 due to the probable lower level of reversals of impairment losses and the continuous portfolio reduction in the Restructuring Unit.

Opportunities and risks in the earnings forecast

A lower reduction in income than forecasted may arise where new business with customers increases at an even faster rate than expected, for example as a result of higher margins achieved in the market, stronger than planned product sales or an unexpectedly high loan demand. On the other hand, it cannot be ruled out that developments on the financial markets will result in larger losses being incurred on debt instruments held in the portfolio, for example as a consequence of renewed tensions in the sovereign debt crisis. This would be reflected in the trading and financial investment results and in a more pronounced reduction in total income. At the same time the demand for loan financing may be worse than assumed due to, for example, a worsening of the economic environment.

Forecast for administrative expenses

On the cost side we are assuming that measures initiated at the end of 2013 to offset the increasing cost pressure, for example as a result of the increasing regulatory requirements, will have an impact and that administrative expenses can be substantially reduced in 2014. Tangible savings in operating expenses as well as the optimisation of our location concept for both headquarters and the reduction in the number of managers (details are set out in "Business developments") are the focus of this series of measures.

The number of employees will continue to decrease moderately in 2014. We also anticipate that the 2011 headcount reduction plan that has been largely implemented will be successfully concluded. Not filling some open positions and positions that become vacant should contribute to the reduction in the number of employees.

Opportunities and risks in the forecast for administrative expenses

We are confident that the savings targets set will be achieved. These targets may also be exceeded if the measures are implemented consistently and additional savings are identified. At the same time it cannot be ruled out that some costs cannot be reduced to the extent desired or not as quickly as planned. Cost reductions achieved in other areas could be offset by unexpected cost increases in individual areas, for example as a result of a greater need for consultancy services relating to regulatory requirements and the ongoing EU proceedings. It is currently not possible to make a final assessment of the external costs, which will be invoiced to banks by the ECB for the comprehensive assessment. This could result in risks relating to the change in operating expenses compared to the plan.

We are assuming with the expected reduction in the number of employees that measures initiated to reduce costs will be implemented successfully. The composition of the series of planned measures may be changed as a result of the negotiations with the works council that are still ongoing at the beginning of 2014, which could also impact the planned cost reductions. Irrespective of the need to cut costs there remains the important task of retaining qualified staff at HSH Nordbank and motivating them in order to retain key competences and limit operational risk.

Forecast for loan loss provisions

The high level of loan loss provisions in the 2013 consolidated financial statements took account of all risks identifiable at the reporting date. In so doing, we anticipated a slower recovery in the shipping industry, based on a market forecast updated in the fourth quarter 2013. In 2014 we expect that the capital protection clause in accordance with the EU requirements will apply and the claim of the federal states under the additional premium will be deferred again in return for a debtor warrant. Following the amendment to the guarantee agreement to safeguard the effectiveness of the capital protection clause this is expected to result for the first time in a high compensation effect in the loan loss provisions in 2014.

Based on the high level in 2013 the developments result in an increase in the reduction of loan loss provisions as expected. We expect a sharper reduction in loan loss provision expense in the Restructuring Unit.

In our long-term risk provisions we are still assuming that the payment defaults in the portfolio covered by the second loss guarantee will exceed the amount retained by the Bank of € 3.2 billion starting from 2019 and will then result in actual payments being made under the second loss guarantee. Based on our current assessment these will total € 1.6 billion up to 2025 after deducting the first loss piece of the Bank. The total default amount therefore increases over the long-term by € 0.3 billion compared to the previous year's plan. This is due to the higher than planned loan loss provisions in the past year, which reflect the less favourable forecast for the shipping industry. The largest share of the expected payment defaults is attributable to the Restructuring Unit's portfolios.

Our loan loss provision plan is based on valuation models that also take into account the regulatory environment, risk parameters over time as well as the Bank's empirical values in critical situations in addition to portfolio developments and key macroeconomic data. Details on the loan loss provision plan and expected payment defaults are set out in the "Default risk" section ("Planning for loan loss provisions and losses") in the Risk report.

Risks and opportunities in the forecast for loan loss provisions

There is still significant uncertainty particularly in relation to the estimate of loan loss provisions over the long-term. In particular the estimates regarding the long-term trend in loan loss provisions as well as loss planning and, consequently, the final drawdown of the second loss guarantee are subject to significant uncertainty due to the very long planning horizon. For example, this applies to the movement in the US dollar exchange rate and key market parameters in the shipping industry such as freight and charter rates, which are key factors for determining the loan loss provisions. In view of the ongoing overcapacity in the shipping markets it cannot be ruled out that the extent and timing of the market recovery will not be achieved in the planning period as was assumed in the loan loss provision plan.

Furthermore, it cannot be ruled out for the future that the euro sovereign debt crisis in Europe will flare up again, which could lead to a weakening of the markets and the euro. This in turn could result in additional impairment losses having to be recognised in the Bank's high-risk portfolios. Market turbulence in emerging countries as well as geopolitical risks, such as those related to the crisis concerning the Ukraine, could have a negative impact. A lower than planned reduction in the loan loss provisions would result if the capital protection clause does not apply or to a lesser extent than expected.

A lower need for loan loss provisions could be expected, if the relevant market parameters and the macroeconomic environment developed more favourably than assumed. It is conceivable that the economy could grow more strongly in 2014 than forecasted, which in turn could support a gradual recovery of the shipping markets. A further acceleration in the winding down of the loan portfolios in the Restructuring Unit would also reduce loan loss provisions in the future to a greater extent than expected.

Capital and RWA forecast

A sustainable starting point for the increasingly stringent regulatory environment was created by the strengthening of the capital ratios in the past year. As a result of the guarantee replenishment in the middle of 2013, which has been provisionally approved by the EU Commission, and the continued reduction in risk the Basel III capital requirements applicable in 2014 can be met and a ratio significantly above the minimum threshold set by the supervisory authorities can be achieved. After we closed 2013 with a common equity Tier 1 capital ratio of 11.7 % (plus a buffer of 5.2 percentage points) calculated in accordance with the former Basel II framework, we plan to disclose in 2014 a Basel III common equity Tier 1 capital ratio of at least 10 % after taking the capital protection clause into account.

We expect that in 2014 the increase in new business will be reflected more strongly in the RWA development after taking the guarantee effect into account than the further reduction in risk. Overall, we therefore expect a slight increase in RWA calculated in accordance with Basel III.

The provisional approval of the guarantee increase is valid until a final decision is issued by the EU Commission, which we expect at the earliest in the second half of 2014 following the conclusion of the formal investigation. In the opinion of the Federal Republic of Germany, the federal states of Hamburg and Schleswig-Holstein and HSH Nordbank the guarantee measure falls within the framework of the provision of the guarantee facility approved by the EU Commission in 2011. The EU Commission regards the replenishment as another case of state aid, thereby requiring an assessment of the updated restructuring plan of the Bank. Discussions with the EU Commission on the replenishment of the guarantee already performed have been initiated as planned.

Last but not least, we are confident due to the noticeable progress in implementing the business model that the replenishment of the guarantee will be finally approved and that we will be able to successfully continue the reorganisation of HSH Nordbank.

Opportunities and risks in the capital and RWA forecast

Opportunities and risks for the capital ratios and RWA result in particular from future portfolio run-off trends, growth in new business, market and risk parameters, the final decision of the EU Commission regarding the guarantee replenishment as well as the regulatory environment (e.g. questions concerning interpretation under Basel III, regulatory consolidation under IFRS 10 with regard to large exposure limits). It also cannot be ruled out that the external investigation being carried out as part of the comprehensive assessment of banks, including HSH Nordbank as well, may result in additional capital requirements. The forecast of the medium-term common equity Tier 1 capital ratio is also based on the assumption that the operation of the guarantee structure remains unchanged under the regulations currently applicable to securitisations.

In view of the high costs relating to the provision of the guarantee facility by the federal state owners we plan to make the first significant reductions in the guarantee in the planning period up to 2016. We will carry out a periodic review taking into account the progress made in reducing the high-risk legacy portfolios to determine to what extent the reduction of the guarantee would be reasonable. Should the risk situation become worse than expected, the reductions could be deferred to a later date.

Funding plan

We will continue to implement our diversified funding strategy in 2014 for the refinancing of our customer business. The focus will remain on the proven and established business relationship with the Sparkassenverbund (Savings Bank Association), which enables funds to be raised largely independently of events in the capital markets through the sale and distribution of tailored bond products. At the same time the sale of products to other financial institutions and institutional investors and deposit business with corporate customers of the Bank is driven forward.

As in the previous year, another focus is on the issuing of covered bonds (Pfandbriefe) and uncovered bonds aimed at institutional investor groups – as private placements as well as on the public sector capital market, to the extent permitted by market conditions. Additional forms of potential funding are loan-based transactions, to which we attach great importance especially with regard to the refinancing of the US dollar asset business. A funding platform created last year is used as the basis for this, through which we want to execute further loan-based transactions following a successful initial US dollar transaction at the end of 2013 (“Ocean Funding 2013” with a volume of USD 661 million).

Longer-term and structural challenges will result from the expiry of the guarantor liability at the end of 2015. Issues falling due that are covered by the guarantor liability shall be refinanced as planned by new funding measures on the one hand and offset by the further asset reduction of the Restructuring Unit on the other.

Based on a high level as at the 2013 year end we expect the regulatory liquidity ratio as defined in the Liquidity Regulation (LiqV) to decrease moderately in the year 2014 as part of the liquidity management process.

Opportunities and risks in the funding plan

The fulfilment of the funding plan is mainly influenced by external factors. For example, a positive capital markets environment would in principle make it easier to issue bonds on the market. The reverse applies in that tensions in the financial markets, which cannot be ruled out based on the experience of recent years, can make obtaining funding more difficult. Despite the further progress made in the past year, access to the capital markets is still not unrestricted so that future refinancing continues to represent a major challenge. The refinancing options are also influenced by the monetary policy of central banks. Whereas a sustained expansive monetary policy facilitates funding, a more restrictive monetary policy would restrict access to funding sources.

Furthermore, changes in the rating of the Bank also have a decisive influence on access to the capital markets. A continued confirmed rating as investment grade would significantly underpin the implementation of the funding targets. On the other hand, rating downgrades make it more difficult to raise funds via the capital markets and increase funding costs. Against this backdrop stable access to the Sparkassenverbund (Savings Banks Association) as well as to collateralised refinancing sources such as Pfandbriefe and asset-based funding is very important. The latter is also important to securing primary US dollar refinancing.

Derivatives (basis swaps) also used for US dollar funding are subject to market price fluctuations, which are determined by the basis swap spread and are reflected in the income statement through revaluation gains and losses. In this regard, changes in the US dollar exchange rate also affect the amount of liquidity provided as collateral (cash collateral). An appreciation in the US dollar results in an increase in the cash collateral required and therefore in pressure on the liquidity situation, whereas cash collateral decreases on a depreciation in the US dollar result in an improvement in the liquidity situation.

It is essential that new funding be obtained and that the balance sheet can be further reduced as planned in order to offset the issues covered under the guarantor liability that are falling due. In the worst-case scenario balance sheet assets would have to be reduced further resulting in possible unscheduled losses. However, such additional measures would not have to be taken if business performance progressed as planned.

Opportunities and risks relating to the regulatory liquidity ratio result, for example, from changes in the short-term deposit volume.

Further information on liquidity risk is set out in the risk report chapter.

Net income forecast

Despite the upcoming challenges and the increased costs for the second loss guarantee we expect to be able to disclose significantly improved positive Group earnings before and after taxes for the 2014 financial year, taking account of the capital protection clause.

As expected, the appreciable reduction in the loan loss provisions compared to the previous year, including the positive effect of the capital protection clause, as well as the growth in new business and reduction in administrative expenses will be the key contributory factors. The result will be mainly generated by the Core Bank, which will probably be able to close the year 2014 on a positive basis even without the special effect of the capital protection clause.

Based on these planned earnings before taxes, return on equity will be positive for the Group, showing a great improvement over the significantly negative return on equity disclosed for 2013. For 2014 we expect the cost-income ratio to increase moderately compared to the value that decreased in 2013.

We still expect that a loss will have to be disclosed for 2014 under the accounting principles of the German Commercial Code (HGB). Based on current estimates, the results for 2015, 2016 and in part 2017 will be needed in order to replenish the hybrid capital decreased by accumulated loss participations. Against this backdrop it is expected that coupon payments on silent participations and profit participation capital will be paid again for the 2017 financial year.

Despite the noticeable progress made in implementing the business model further considerable efforts are required to deal with the existing challenges. We must expect further losses particularly as a result of the persistent crisis in the shipping industry. Nevertheless, we expect loan loss provision expense to decrease in 2014 compared to the high level of expense recognised in the 2013 annual financial statements. The reduction in risk in the Restructuring Unit, which we will continue to drive forward quickly, will also make a contribution to this in addition to the capital protection clause. At the same time we will counter the increasing cost pressure by implementing additional savings in operating expenses and further efficiency gains in the organisation in 2014.

In the forward-looking divisions of the Core Bank we want to build on the successes of the past year, appreciably expand new business and the sales and distribution of additional products and thereby also strengthen the income side. Increase in volumes and margins in the new business in 2013 show that we are well positioned in our target markets. With the expected common equity Tier 1 capital ratio under Basel III significantly above the minimum requirements we have created a good basis for the planned business expansion in the Core Bank as well as for meeting the regulatory challenges. Based on the visible progress made in implementing the business model we are assuming that the replenishment of the guarantee will be finally approved and the restructuring of the Bank can be successfully continued. There are material uncertainties regarding the future in particular because of the changing regulatory requirements and a difficult market environment. From today’s perspective, HSH Nordbank is properly prepared for the stress test planned by the ECB in coordination with the EBA through its comprehensive hedging of the legacy assets under the guarantee issued by the federal states and a solid capital base under Basel III.

Overall, we are confident that we will align HSH Nordbank on a sustainably stable and profitable basis. The conditions for dealing with the upcoming challenges and for positive developments in the future have been clearly improved through the successful core activities, the accelerated reduction in risk and the strengthened capital ratio.

Going-concern

Accounting and measurement are carried out on the basis of the assumption of a going-concern. This assumption is based on the EU Commission granting final clearance to the replenishment of the guarantee that provides capital relief and to the amendment of the guarantee agreement following the preliminary approval given in June 2013, and such clearance will only be tied to conditions that can be implemented within a sustainable corporate plan. It is also necessary that the acceptance by market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank’s business model be preserved.

Details on the bank-specific risk types are explained in the risk report.

RISK REPORT

RISK MANAGEMENT SYSTEM

Principles of risk management

Active risk management represents a core component of the Overall Bank management at HSH Nordbank. Against this backdrop the Bank has developed the risk culture and the methods and procedures applied in risk management further on a systematic basis. The current version of the "Minimum Requirements for Risk Management" (MaRisk) laid down by the Supervisory Authorities serves as the main framework for the design of our risk management system.

HSH Nordbank defines risk as the threat that unfavourable future developments may adversely affect the Bank's assets, earnings or financial position. Material risks within the meaning of MaRisk are default risk, market risk, operational risk, liquidity risk, strategic risk and reputation risk. The individual elements of risk management constitute a system in their entirety to identify, analyse, evaluate, manage, continuously monitor and report on risks.

There are clear rules in the Bank concerning risk management responsibilities. The overall responsibility for risk management in the Bank lies with the Management Board. This also includes the methods and procedures employed for purposes of risk measurement, management and monitoring.

In order to identify material risks as defined by MaRisk, HSH Nordbank conducts an annual risk inventory. This includes a review of the existing quantitative and qualitative criteria for determining materiality taking due account of the Bank's risk tolerance and if necessary such criteria are amended. Among the material risk types at HSH Nordbank that can be quantified are default risk, market risk, liquidity maturity transformation risk as a type of liquidity risk as well as operational risk, which also includes legal and compliance risks. These risk types are taken into account in the calculation of the risk-bearing capacity. In addition to the risk of insolvency as a second type of liquidity risk other material risk types of the Bank also include strategic risk and reputation risk that are managed using stringent procedural rules.

Risk management objectives and the measures used to achieve these objectives are defined in the risk strategy and sub-risk strategies on the basis of the planned development of the main business activities. The main focus is on ensuring the risk-bearing capacity and liquidity of the Bank. Specifically, this involves the allocation of scarce resources such as risk coverage potential and long-term liquidity taking into account risk tolerance, strategic business goals, the market environment and the existing portfolio.

A significant objective of the risk strategy and its implementation at the operational level in addition to the necessity of effective risk management for business purposes, is also the satisfaction of relevant regulatory requirements, as they are, in particular, set out in the German Banking Act (KWG) and MaRisk.

The risk strategy is supplemented by guidelines for granting loans ("Credit Standards") and Investment Guidelines which contain detailed rules and regulations concerning the individual business areas of the Bank.

The major rules on the methods, processes and internal organisation used for risk management are documented in the Credit Manual of HSH Nordbank, in separate process descriptions for the individual risk types as well as in individual illustrations of the internal organisation and are published throughout the Bank. The Management Board and the Risk Committee are informed of the risk situation of the Group by means of a comprehensive quarterly risk report. As an internal winding down unit, the Restructuring Unit is fully integrated into the Group's risk management process. The risk methods and processes of the Core Bank apply to the Restructuring Unit accordingly.

The risk management system is designed to identify, make transparent and manage risks arising from future developments. An opportunity management system comparable to the risk management system does not exist at HSH Nordbank. Instead, the Bank's management system is generally aimed at optimising the risk-reward profile of the Bank.

Organisation of risk management

The organisation of risk management at HSH Nordbank is aligned to the requirements of the business model while at the same time taking regulatory requirements into account.

The Management Board adopts the risk strategy of the Group on an annual basis as part of its overall responsibilities. As a member of the Management Board, the Chief Risk Officer (CRO) is responsible for risk controlling, including risk monitoring, as well as for the back office functions of the Core Bank. In this context, he is responsible for the divisions Group Risk Management, Credit Risk Management as well as Loan and Collateral Management. The divisions Compliance, Legal and Internal Audit are the responsibility of the Chief Executive Officer.

Group Risk Management develops the methods and procedures for measuring, managing and monitoring risks and is responsible for a significant number of tasks of operative portfolio management. In so doing, it ensures that the material risks of the Group are transparent and manageable. The methods and procedures applied as well as the key ratios determined are periodically reviewed by Group Risk Management for appropriateness and plausibility.

Among the tasks of Credit Risk Management are the preparation of the risk analysis, including the determination of the internal rating and the drawing up of the credit applications for Core Bank business as well as the structuring of the processes and regulations for the lending business of the whole Bank. Loan and Collateral Management is responsible in particular for the settlement and administration of the lending business as well as for loan collateral. The tasks of the Restructuring division were transferred to other divisions of the Bank in December 2013. A separate department within Credit Risk Management is responsible now for decisions on and management of restructuring cases of the Core Bank, while operative restructuring activities are carried out in the Restructuring Unit.

Trading transactions are settled and controlled in the Operations and Group Risk Management divisions.

The Restructuring Unit (RU), which is established as a back office department in terms of organisational and operational structure, is responsible for the positions of the non-strategic business areas and for specific risk positions. Central responsibility for the risk-oriented and loss-minimising winding down of the credit investment portfolio is also included among its tasks. The Restructuring Unit independently takes all decisions necessary in respect of the positions transferred to it. This responsibility includes normal, intensive-care, restructuring and workout cases of the Restructuring Unit. The Restructuring Unit is also responsible for the processing of restructuring and workout cases of the Core Bank.

Similar to the Core Bank, risk reporting for the Restructuring Unit is generally carried out by means of the management and reporting systems of the Group Risk Management division. The CRO and the board member responsible for the Restructuring Unit make decisions independently of the members of the Management Board responsible for the market or trading divisions. In this way the separation of functions required under the regulatory rules between the market and trading divisions on the one hand and risk controlling, settlement and control as well as back office on the other is taken into account at all levels of the Bank from an organisational perspective. The CRO provides the Management Board as well as the Risk Committee with information on the risk situation of the Group.

The market and trading divisions are directly responsible for risks and income within the scope of their business activities and thereby make an active contribution to risk management in the Core Bank.

The Finance division is responsible for the Overall Bank management process including planning activities for the Overall Bank.

The Compliance division monitors adherence to the requirements of the Bank with respect to the issues securities compliance, anti-money-laundering, financial sanctions/financing terrorism and prevention of other offences under Section 25c of the German Banking Act (KWG).

With the fourth amendment to MaRisk it became necessary to establish a so-called MaRisk compliance function, which is likewise established in the Compliance division. Compliance reports to the Management Board and to the Audit Committee as the responsible body of the Supervisory Board in particular on the results of its control and monitoring activities on an annual basis.

The Legal division monitors the legal risks of the Bank as an independent department and is the contact point for all legal questions. It provides the Management Board with information on material legal risks and legal disputes on a regular basis.

Internal Audit reviews the effectiveness and appropriateness of risk management and the internal control system from a risk-oriented and process-independent perspective as well as the correctness in principle of all activities and processes. It includes the Core Bank, the Restructuring Unit, outsourcing and equity holdings in its review. It plays an accompanying role in important projects while maintaining its independence and avoiding any conflicts of interest.

Business areas are managed in line with uniform Group standards on the basis of a global head principle. Based on this, the heads of the individual market and/or risk divisions as the respective Global Heads are responsible on a worldwide basis for the strategy of the business areas assigned to them. The Global Heads are supported by the heads of the respective foreign branches (General Managers), who are responsible for all corporate and service functions on-site. The global head principle also applies to risk controlling to ensure that a Group-wide coordinated risk controlling process is in place.

The Bank has stipulated rules according to the specifications of MaRisk under which formalised audit processes are gone through prior to entering into transactions in new products or new markets. This should ensure that the products are properly considered under risk aspects in the relevant systems and reflected in the relevant processes and that transactions in new products or new markets are only entered into with the approval of the Management Board.

We use an "economic scope of consolidation" as the basis for the group-wide risk management. The population of this scope of consolidation consists of the set union of all entities required to be consolidated under regulatory and IFRS rules. Those companies that are to be specifically monitored at the Group level due to material risks are selected from this population. Other companies not to be consolidated under either of these sets of rules but which nevertheless make a relevant risk contribution in a risk type identified by HSH Nordbank as material are also included in the scope of consolidation where necessary. The risks of other companies not included in the "economic scope of consolidation" are fully taken into account at the aggregate level (e.g. in the form of equity holding risks in the default risk management process).

Portfolio management by a central committee structure

Among the tasks of the Asset Liability Committee (ALCO) are the management of liquidity/funding, the balance sheet structure, capital, RWA and economic capital as well as the limitation of risk concentrations. Furthermore, the ALCO monitors compliance with the restructuring and early warning indicators introduced in the middle of the year 2013 in order to implement the Minimum Requirements for the Design of Recovery Plans (in short: MaSan). The ALCO is composed of the Management Board as well as the heads of divisions Strategic Treasury (in charge of administration), Group Risk Management, Finance, Capital Markets and Strategy. The basis for decision-making are, among other things, the current and expected business development of the Bank, the current utilisation of the relevant management limits as well as the liquidity development report, which is prepared in a manner consistent with the Bank's business planning and is updated periodically. This places the Bank in the position to react flexibly to market trends and to allocate resources as needed.

The Transaction Committee (TC) is a sub-committee of the ALCO. Within the framework of its weekly meetings the TC decides on new business applications that fulfil certain qualitative and quantitative relevance criteria. The aim is an operative management of the use of the resources liquidity, balance sheet capacity as well as economic and regulatory capital geared towards the objectives of the Overall Bank. Other key objectives are the continuous improvement in the portfolio quality through active portfolio management, compliance with the requirements of the "Reputation Risk Strategy" for the purposes of avoiding reputational risks, as well as ensuring compliance with commitments to the European Commission in regards to new transactions and prolongations. In individual cases, transactions together with a corresponding risk assessment are forwarded to the ALCO for a decision. The risk assessment of the TC does not replace the risk assessment of the transaction performed as part of the lending decision process as well as the actual loan decision.

Business area analyses regularly performed by Group Risk Management form an important basis for the central credit portfolio management at HSH Nordbank. Detailed expectations regarding the possible movement in individual asset classes and sub-portfolios are developed on the basis of thorough analyses of past trends and forward-looking market and portfolio assessments. In this context, particular importance is attached to risk concentrations. The recommended course of action derived from the results of the analyses is submitted to the Board for a decision. Implementation of these recommendations supports the achievement of the Bank's business objectives. The implementation of the decisions is backed up by appropriate controlling procedures.

The central early warning system used to identify adverse trends for the Bank on a timely basis is another component of portfolio management. This early warning system was enhanced during the reporting period both in terms of procedure and content. For example, it was possible to further improve the management of the relevant loan portfolio by means of the implementation of additional early warning signals.

Since 2012 the so-called Business Review Meeting, chaired by the Chairman of Management Board and with the involvement of the other Board members as well as members of the management of the Bank, has been monitoring on a quarterly basis the achievement of targets by the divisions with regard to new business, income and costs as well as compliance with the EU requirements. The analysis is used as a basis for identifying any plan variances and initiating any possible measures at an early stage, such as the strategic reallocation of resources.

The objective of the Group Risk Committee (GRC), created in mid-2013, is the monitoring and management of all significant risks to HSH Nordbank, in order to secure the risk-bearing capacity at all times, on the basis of the risk appetite determined by the Bank. To implement this objective the GRC under the chair of the CRO deals with, among other things, segment analyses, the methodical further development of the risk steering models as well as monthly reports on market price and liquidity risk. Other points of focus are the stress test results, risk strategies, loan loss provision planning, risk inventory and forecasts of the panel of experts for risk parameterisation and the Overall Bank planning.

Internal control system

Bank-wide internal control system

The Management Board of HSH Nordbank bears the overall responsibility for ensuring that a proper business organisation is in place at the HSH Nordbank Group, including an appropriate and effective internal control system (ICS).

The ICS of HSH Nordbank is based on a bank-wide main and sub-process structure (process map), which also includes the domestic and foreign branches. A person responsible for the process is designated for all main processes. Furthermore, a so-called ICS cycle was implemented, which is regularly gone through and includes the following levels:

- prioritisation of processes to be revised (annually);
- updating of the process, risk and control documentation;
- assessment of the appropriateness of the controls;
- assessment of the effectiveness of the controls (testing);
- determination of measures to be taken with regard to weaknesses identified in the controls;
- final assessment after implementation of the measure (re-testing).

The top priority of this ICS assessment is the structured and systematic examination of potential or known weaknesses in processes together with the definition of and the decision on measures to be taken to eliminate them. The ICS cycle also ensures that the ICS is continuously enhanced with respect to its correctness and functionality. Central responsibility for the management and monitoring of the ICS lies with the ICS office of the Corporate Office division.

Clear roles and responsibilities are defined within the ICS cycle to ensure that the tasks are performed in a proper manner. These are, in particular, the members of staff responsible for the process, members of staff with line responsibility and the ICS office. Based on the results of the risk assessment the members of staff responsible for the process define the overall process objectives and checks to be observed by the members of staff with line responsibility involved and monitor adherence to these. The members of staff with line responsibility design the process stage in their organisational unit in accordance with the specifications and agreements and provide evidence with regard to the appropriateness and effectiveness of the ICS in the respective process stage within the framework of a self-assessment. The ICS office is responsible jointly with the process advisers for the individual operational departments for the steps to be taken in connection with the control cycle on the basis of a milestone plan. It performs a process-independent quality assurance in particular of the testing and centrally defines the ICS methodology to be used. The ICS Office also ensures proper reporting to the Management Board and Supervisory Board.

In order to ensure that the system is functioning on a sustained basis, the process is closely monitored by means of continuous communication and governance throughout the Bank. The ICS expertise in the operational departments is built up through a series of training measures so that the tools for process management and ICS can be applied on an independent basis in the individual divisions of the Bank.

The bank prioritises the processes for running the control cycle annually based on their risk and their last cycle run. Approximately 62 % of the processes were prioritised for a run of the control cycle in 2013. It was possible to remedy all control weaknesses identified for these processes. All main processes not yet taken into account were integrated into the Bank's ICS procedures during the 2013 reporting year. The management of the outsourcing of material functions to external service providers by the ICS is reported to the Management Board on an annual basis. All defects reported as at 31 December 2012 in this regard were remedied on a timely basis, except for one longer-term measure, the implementation of which is on schedule.

Furthermore, subsidiaries of HSH Nordbank are classified annually as to the materiality of their respective processes for the Bank's ICS. The majority of subsidiaries were classified as immaterial. A further material subsidiary was integrated into the ICS management processes in 2013. It is planned to complete in 2014 the ongoing integration of the relevant processes of subsidiaries in the highest materiality category into the ICS management processes of the Bank.

Internal control system with regard to the accounting process

The Finance division is responsible for the process of preparing the consolidated and single-entity financial statements and the correctness of the Group accounting methods. The internal control system for the accounting process should ensure compliance with the rules to be applied and the generally accepted accounting principles. This should maintain a quality standard that ensures a true and fair view of earnings, net assets and the financial position. Furthermore, the ICS makes a significant contribution to the effectiveness of the accounting process by specifying uniform rules. The written rules including all internal instructions and regulations form the essential basis of the ICS.

The accounting process is reviewed on a regular basis by the responsible member of staff in charge of the process and adjusted to the current framework conditions and requirements. The focus is on the identification of material risks and the implementation of measures to prevent these. In addition the accounting process is audited by the Internal Audit division from a process-independent perspective. The documentation of the processes was extended in the reporting year. Additional measures were also implemented to reduce risk; for example, manual controls were replaced by automated, technical processes.

Due to the fact that different IT systems are used in the process, data flows and system functionalities are of particular importance. The working steps performed manually are secured under the dual control principle as a matter of principle.

The organisational structure of the Finance division supports the internal control system. A comprehensive quality assurance by another organisational unit is performed for the separate functions responsible for the accounting of lending transactions and capital market transactions in Germany and the transactions in subsidiaries and foreign branches. Among other things, it is the responsibility of this organisational unit to combine the accounting information and to prepare the annual and consolidated financial statements. Another unit centrally monitors amendments to legislation concerning financial statements, in order to ensure uniform application of the law.

Regulatory requirements

HSH Nordbank determines the amount of regulatory capital backing required for default, market and operational risks on the basis of the German Solvency Regulation (SolvV). In this context the so-called IRB Advanced Approach is applied for default risk, for which the supervisory authority has issued the relevant authorisation to the Bank. This means that the Bank takes consistent parameters into account for regulatory reporting and internal default risk management purposes. The amounts allocated to market risk positions are determined in accordance with the predefined or optional standard procedures. We take account of operational risk under the standard approach.

Regulatory figures are set out in section "Net assets and financial position". The future requirements resulting from the Basel III rules and regulations, in particular the Capital Requirements Directive (CRD) IV and the Capital Requirements Regulation (CRR) are implemented within the framework of projects. For example, the implementation of new liquidity ratios was driven forward in the reporting year.

In accordance with the requirements of Section 26a of the German Banking Act (KWG) and the German Solvency Regulation respectively, we have been publishing material qualitative and quantitative information on equity capital, risks incurred, risk measurement procedures and risk management in a separate disclosure report. As an institution that uses the IRB Advanced Approach, particular requirements apply to HSH Nordbank. The document provides more information than statements made in this Annual Report on the basis of the accounting principles applied, as it provides a comprehensive insight into the regulatory framework and the current risk situation of the Bank based on regulatory figures. The Disclosure Report is available on our website, www.hsh-nordbank.de. With its publication HSH Nordbank complies with the third pillar of Basel II (market discipline).

HSH Nordbank maintains a central data storage system, which takes into account requirements of the German Solvency Regulation, for the purposes of analysing, monitoring and reporting risks. In particular this includes the providing of data and information for the regulatory reporting and disclosure under Basel II and Basel III in future.

MaSan recovery plan

In November 2011 the G-20 countries endorsed an international standard that governs the key attributes of national resolution regimes. Amongst other things, the key attributes provide that recovery and resolution plans be drawn up by, at the very least, global systemically important financial institutions as the basis for resolving crisis situations. In November 2012 the Federal Financial Supervisory Authority (BaFin) published a draft on the "Minimum Requirements for the Design of Recovery Plans" (MaSan) regarding the implementation of these requirements, which have to be complied with by all systemically important institutions in Germany.

HSH Nordbank has prepared a draft of the recovery plan in accordance with the MaSan requirements and submitted it to the supervisory authorities in June 2013 for consultation. HSH Nordbank received comments on this draft from the supervisory authorities in November 2013 and January 2014, which are currently being processed. The revised draft of the recovery plan is scheduled to be submitted to the supervisory authorities by the end of April 2014.

In addition to a strategic analysis of the business activities and intragroup as well as external interconnections the recovery plan contains several serious stress scenarios that assume deterioration in the company-specific and/or market-wide underlying conditions. Specific options for action that enable HSH Nordbank to overcome the crisis situation that has arisen using its own resources were determined for all stress scenarios.

In order to be able to react to significant risks in due time, HSH Nordbank has specified a range of recovery indicators including a threshold in each case, which, when reached, triggers an information and escalation process. The recovery indicators are based on, amongst other things, the capital situation, risk-bearing capacity and liquidity situation of HSH Nordbank as well as the movement in external factors and are monitored regularly as part of a reporting of the recovery indicators. This warning system therefore supplements the existing processes for the ongoing monitoring and reporting of risks.

Risk-bearing capacity

HSH has integrated a capital adequacy process (ICAAP) into its risk management pursuant to MaRisk in order to monitor and safeguard its risk-bearing capacity on a sustained basis. Risk-bearing capacity is managed in conjunction with equity capital and the contribution margin.

As part of the monitoring of our risk-bearing capacity we regularly compare the total economic capital required to cover all major quantifiable types of risk (overall risk) to the available amount of economic risk coverage potential. This comparison is made within an integrated limit system that forms the basis of Group-wide economic limits on all types of risk material for the Bank. HSH Nordbank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its annual planning process.

The primary management process for our calculation of risk-bearing capacity is a liquidation approach which focuses on protection of creditors (so-called gone-concern approach). In addition to equity capital modified for economic purposes the risk coverage potential takes into account, amongst other things, unrealised gains and losses arising on securities, equity holdings and the lending business as well as effects from the second loss guarantee provided by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein. The risk coverage potential has been reduced by the second loss guarantee by the amount retained by HSH Nordbank of € 3.2 billion.

As at 31 December 2013, risk coverage potential amounted to € 8.7 billion (31 December 2012: € 10.1 billion). This reduction is mainly caused by a methodology adjustment agreed with the supervisory authorities that was made to the risk-bearing capacity management as well as the annual net loss reported in the financial statements prepared in accordance with the German Commercial Code (HGB) for the 2013 financial year.

The risk tolerance as a measure of HSH Nordbank's risk appetite is determined as part of the annual preparation of the risk strategy and the Bank's planning process. Amongst other things this includes the level of the buffer between the risk coverage potential and the maximum accepted overall risk (global limit). The buffer serves to cover any potential increase in the capital required in the event of adverse developments for the Bank as well as any non-quantified risks. Limits for the individual risk types are derived from this global limit.

The overall risk takes into account default risk, market risk, operational risk as well as the liquidity maturity transformation risk as an element of liquidity risk. Economic capital required as an expression of unexpected losses is determined monthly for default, liquidity and market risks in a methodical consistent manner with a confidence level of 99.9 % and a risk horizon of one year. The economic capital requirements for the individual risk types are aggregated to an overall economic risk. In doing so, no risk-reducing correlations are utilised.

In the case of losses arising from default risk, we make a distinction between the expected and unexpected loss. The expected loss is equivalent to the default which is expected within one year on a given probability of default (PD), loss given default (LGD) and exposure at default (EaD) for a borrower. The exposure at default (EaD) corresponds to the loan amount outstanding taking into account credit conversion factors (CCF) with respect to contingent liabilities and commitments. The maximum amount, by which an actual loss can exceed the expected loss with a specified probability (99.9 %) within a specified time period (one year) is described as the unexpected loss. HSH Nordbank uses a modified IRBA approach to determine the unexpected loss, which is based, for example, on the analysis of the individual positions of subsidiaries classified as economically important and which waives the grandfathering provision regarding equity holdings. PD, LGD and EaD are also relevant risk parameters in this context. Economic capital required is determined for internal steering purposes on the basis of the calculation of the equity capital backing in accordance with SolvV taking due account of any adjustments that are justified on economic grounds, e.g. commitments classified as being in default. In addition, institution-specific asset correlations, granularity surcharges for covering existing risk concentrations as well as surcharges for the risk of valuation adjustments on OTC derivatives caused by credit considerations (Credit Valuation Adjustments) are taken into account in determining the economic capital required for default risks. The economic capital required for default risk as at the reporting date amounted to € 1.5 billion (31 December 2012: € 2.6 billion). This decrease mainly results from the replenishment of the second loss guarantee from € 7 billion to € 10 billion concluded with effect from 30 June 2013 and the portfolio reduction continued in 2013.

As part of the risk-bearing capacity concept, market risk (value-at-risk), which is determined on a daily basis at a confidence level of 99.0 % and a one day holding period, is scaled up to show economic capital required for market risk positions for purposes of managing risk-bearing capacity with a confidence level of 99.9 % and a risk horizon of one year. The economic capital required for market risk as at the reporting date 31 December 2013 amounted to € 0.7 billion (31 December 2012: € 0.9 billion).

HSH Nordbank uses a value-at-risk approach for quantifying liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the danger of increased refinancing costs on the open liquidity positions. The liquidity value-at-risk (LVaR) as a measurement of economic capital required for liquidity risk amounted to € 0.5 billion as at the end of the year 2013 (31 December 2012: € 0.3 billion). Besides methodology enhancements the increase is attributable to a reduction in the secured funding potential available for the issue of Pfandbriefe securities and the regular exclusion of historical scenarios in determining the LVaR. Insolvency risk, which is in principle the more important aspect of liquidity risk as compared with the liquidity maturity transformation risk, is backed by a buffer of liquid funds. Information on managing the insolvency risk, among other things, is included in the section "Liquidity risk".

Operational risks are determined in accordance with the regulatory Standardised Approach. The corresponding economic capital required amounted to € 0.2 billion as at 31 December 2013 (31 December 2012: € 0.3 billion). The reason for the decrease in the capital required is the decline in the gross income of the Bank.

As a result of the effects described above, overall economic risk decreased by € 1.3 billion compared to the end of 2012 and amounted to € 2.9 billion as at the reporting date (31 December 2012: € 4.2 billion). The utilisation of risk coverage potential amounted to 33 % as at the reporting date. The risk-bearing capacity was secured at all times during the period under review.

The following table shows the economic risk coverage potential of the HSH Nordbank Group, the economic capital required for the individual risk types, the remaining risk coverage potential buffer and the utilisation of risk coverage potential. Minor differences can arise on the calculation of totals and percentages due to rounding.

RISK-BEARING CAPACITY OF THE GROUP

(€ bn)	**31.12.2013**	31.12.2012
Economic risk coverage potential [1]	**8.7**	**10.1**
Economic capital required	**2.9**	**4.2**
of which for default risks [2]	1.5	2.6
for market risks	0.7	0.9
for liquidity risks	0.5	0.3
for operational risks	0.2	0.3
Risk coverage potential buffer	**5.9**	**5.9**
Utilisation of risk coverage potential (in %)	**33**	**42**

[1] After deduction of the amount retained under the second loss guarantee of the federal states of Hamburg and Schleswig-Holstein of € 3.2 billion.
[2] Taking the second loss guarantee into account.

In addition to the assessment of the utilisation of the risk coverage potential as at the reporting date, we regularly conduct risk-type-specific stress tests as well as stress tests across all risk types in order to be in a better position to estimate the effects of potential crises on the overall risk position of HSH Nordbank. This involves carrying out a review applying uniform macroeconomic scenarios (e.g. severe economic downturn) and historical scenarios (deepening of the 2008/2009 financial crisis) to determine whether sufficient risk coverage potential is maintained to compensate for effects from stress scenarios. The forecasting quality of the macroeconomic scenarios was improved in 2013 by making other components of the risk-bearing capacity more dynamic (primarily the risk coverage potential). In addition, inverse stress tests are carried out at least once a year to identify scenarios which could endanger the Bank's ability to survive. The results of the stress tests are supplemented by scenario-specific valuations and recommendations for actions. This information is incorporated quarterly into the Bank's internal reporting and used by the Management Board of HSH Nordbank as a benchmark in the actual/plan analysis in the course of the fiscal year and to consider and decide upon any action required to ensure the risk-bearing capacity of the Bank.

DEFAULT RISK

HSH Nordbank breaks down its default risk into credit, country, equity holding and settlement risk. In addition to the traditional credit risk, credit risk also includes counterparty and issuer risk. A counterparty default risk exists in the case of derivatives and refers to the risk that a counterparty defaults during the term of a transaction and the Bank must cover the shortfall for the residual term by means of a new contract on the market at the price prevailing at that time which might be less favourable. Issuer risk denotes the risk that a loss is incurred on a financial transaction as a result of the default or deterioration in the creditworthiness of the issuer. Settlement risk consists of clearing risk and advance performance risk. Clearing risk arises in the case of possible loss of value if delivery or acceptance claims pertaining to a transaction that is already due, have not been met by both parties. Advance performance risk arises where the Bank has performed its contractual obligations but consideration from the contracting party is still outstanding. All elements of default risk referred to are taken into account within the context of equity capital management. For risk concentrations and equity holding risks additional management measures are in place.

The organisation of and methods applied in default risk management are being constantly improved in order to reflect changes in market conditions and new regulatory requirements.

Organisation of default risk management

The organisational structure of HSH Nordbank reflects the functional separation of duties in the lending business between market and back office departments and/or risk controlling, also at Management Board level.

The Credit Risk Management division is responsible for the risk analysis for the lending business of the Core Bank including the preparation and setting of the internal rating and drafting of the credit applications. This does not include the risk analysis for the structured new business which is performed by the respective market department – closely supported by back office departments. Furthermore, the organisation of the bodies of rules for the lending business, including the related processes, is the responsibility of the Credit Risk Management division. The Loan and Collateral Management division is responsible in particular for the settlement of new lending business, the administration of the existing portfolio as well as the valuation and monitoring of collateral. The trading lines for counterparty and issuer risk are managed by Group Risk Management. As part of trading line monitoring the potential future exposure on currency, interest rate and commodities derivatives is recalculated daily for each client on the basis of a 95 % quantile and compared to the respective trading limit.

Lending decisions in the Core Bank are made jointly by the respective market department and back office. A decision cannot be made without back office approval. A separate department within Credit Risk Management (Core Bank) is responsible for decisions on and management of restructuring cases of the Core Bank, while operative restructuring activities are carried out in the Restructuring Unit. The Restructuring Unit independently takes all decisions necessary in respect of the positions transferred to it. As a matter of principle, the competence levels are based on nominal amounts and the internal rating category.

HSH Nordbank makes use of the option to dispense with the involvement of the back office departments within the meaning of the MaRisk opening clause for lending transactions in certain types of business and below certain amounts classified as not material in terms of risk.

The Group Risk Management division is responsible for the independent analysis and monitoring of risks at the portfolio level, independent reporting and the management of country risk for both the Core Bank and the Restructuring Unit. The Portfolio Management unit ensures portfolio transparency and is responsible for the independent business area analysis (including scenario simulations) and the operation of an early warning system for identifying loan exposures on a timely basis that are beginning to show signs of increased risk.

The principles and regulations contained in the Credit Manual of HSH Nordbank, in particular on lending competencies, the determination of the rating, the treatment of collateral and loan monitoring, form the basis for the operating activities within the lending business. Thereby, credit risks, which fall under the broader definition as set out in Section 19 (1) of the German Banking Act (KWG) are considered and treated differently based on collateral, loan type, rating category and type of credit risk. The basis is HSH Nordbank Group's aggregate exposure per borrower unit in accordance with Section 19 (2) of the KWG, whereby the bearer of the economic risk is always to be regarded as the relevant borrower.

The Bank has defined valuable collateral in order to differentiate between collateralised and non-collateralised loans. The focus is placed on meeting the requirements of the German Solvency Regulation (e.g. availability of a market value, ability to realize the collateral, no correlation to the collateralised loan, legal enforceability, maturity match). The range of approved collateral can be expanded following an assessment carried out by a team independent of the market divisions consisting of specialists from the Credit Risk Management, Group Risk Management and Legal divisions.

Credit risk management for single risks is supplemented in particular by instructions on loan monitoring and early identification of risks.

Default risk management

Default risks account for the major part of the risk potential of HSH Nordbank. The Bank has developed an advanced range of instruments for their analysis, assessment and proactive management.

There is a significant reduction in the economic capital required for default risk after taking into account the second loss guarantee made available by the federal states of Hamburg and Schleswig-Holstein. HSH Nordbank manages both the guaranteed and non-guaranteed portfolio in accordance with regulatory and economic principles.

Default risk exposure

The loan amount outstanding corresponds to the volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance sheet transactions (before taking credit conversion factors into account), such as irrevocable, undrawn loan commitments, that is at risk. The total loan amount outstanding was € 121,275 million as at 31 December 2013.

The loan amount outstanding broken down by internal rating categories is presented in the following table. The loan amount outstanding with an investment grade rating (rating category 1 [AAAA] to 5) at Group level accounts for € 66,555 million or 55 % of the total exposure (previous year: € 74,208 million or 54 %). The loan amount outstanding for investment grade exposures amounts to € 49,916 million or 65 % (previous year: € 51,516 million or 64 %) for the Core Bank and € 16,639 million or 38 % (previous year: € 22,692 million or 40 %) for the Restructuring Unit. 52 % of the Overall Bank portfolio is covered by the second loss guarantee (previous year: 59 %). The guarantee coverage is particularly high in the worse rating categories.

DEFAULT RISK STRUCTURE BY RATING CATEGORY [1)]

(€ m)	2013				2012			
	Core Bank	Restructuring Unit	**Total**	of which guaranteed (in %)	Core Bank	Restructuring Unit	Total	of which guaranteed (in %)
1 (AAAA) to 1 (AA+)	19,158	7,791	26,949	30	18,559	10,539	29,098	41
1 (AA) to 1 (A–)	12,846	3,349	16,195	32	13,741	5,137	18,878	40
2 to 5	17,912	5,499	23,411	42	19,216	7,016	26,232	54
6 to 9	15,866	5,286	21,152	53	15,697	8,069	23,766	64
10 to 12	2,584	2,016	4,600	76	3,839	3,107	6,946	78
13 to 15	2,396	5,420	7,816	86	3,385	6,686	10,071	86
16 to 18 (default categories)	5,819	14,048	19,867	91	4,494	15,909	20,403	91
Other[2)]	612	673	1,285	–	1,226	384	1,610	–
Total	**77,193**	**44,082**	**121,275**	**52**	**80,157**	**56,847**	**137,004**	**59**

[1)] Mean default probabilities (as %): 1 (AAAA) to 1 (AA+): 0.00–0.02; 1 (AA) to 1 (A–): 0.03–0.09; 2 to 5: 0.12–0.39; 6 to 9: 0.59–1.98; 10 to 12: 2.96–6.67; 13 to 15: 10.00–20.00; 16 to 18: 100.00.

[2)] Transactions, for which there are no internal or external ratings available, are reflected in the "Other" line item, such as receivables from third parties of our consolidated equity holdings, for example.

The loan amount outstanding broken down by sectors important for the Bank is presented in the following table.

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)	2013			2012		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Industry	9,798	2,378	12,176	9,296	3,486	12,782
Shipping	15,202	9,355	24,557	17,722	10,909	28,631
Trade and transportation	5,789	2,583	8,372	5,637	3,746	9,383
Credit institutions	9,795	2,505	12,300	11,026	4,306	15,332
Other financial institutions	2,940	7,743	10,683	2,528	9,761	12,289
Land and buildings	8,974	8,380	17,354	8,639	11,379	20,018
Other services	6,646	3,416	10,062	8,082	4,510	12,592
Public sector	16,286	6,754	23,040	15,537	7,572	23,109
Private households	1,762	968	2,730	1,648	1,175	2,823
Other	1	–	1	42	3	45
Total	**77,193**	**44,082**	**121,275**	**80,157**	**56,847**	**137,004**

The following table shows the loan amount outstanding broken down by residual maturities.

DEFAULT RISK STRUCTURE BY RESIDUAL MATURITIES

(€ m)	2013			2012		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Up to 3 months	10,294	3,602	13,896	12,620	5,273	17,893
> 3 months to 6 months	3,001	1,450	4,451	3,434	1,214	4,648
> 6 months to 1 year	4,858	2,647	7,505	5,154	3,207	8,361
> 1 year to 5 years	33,282	19,000	52,282	32,453	24,878	57,331
> 5 years to 10 years	17,106	8,078	25,184	16,684	10,929	27,613
> 10 years	8,652	9,305	17,957	9,812	11,346	21,158
Total	**77,193**	**44,082**	**121,275**	**80,157**	**56,847**	**137,004**

Rating procedure/LGD

HSH Nordbank collaborates intensively with other banks in the further development and ongoing validation of various internal rating modules. This is done in the association of Landesbanken via RSU Rating Service Unit GmbH & Co. KG (RSU) and in cooperation with Sparkassen Rating und Risikosysteme GmbH (S Rating), a subsidiary of the German Savings Banks Association (DSGV).

The RSU is responsible for new development, consistent validation and further development of the rating systems in accordance with the regulatory quality requirements and for the operation of the rating modules in a standard IT environment. The RSU is supported in methodology and expertise by specialists from the participating banks. In addition to the rating modules supported by the RSU, HSH Nordbank also uses rating systems that are provided, maintained and enhanced by S Rating. HSH Nordbank is in charge of the shipping and leveraged finance rating modules. It is also jointly responsible for the international real estate as well as the country and transfer risk rating modules.

In order to determine the expected drawdown for contingent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically and applied. The loan amount outstanding weighted by CCF is described as exposure at default (EaD). HSH Nordbank uses a differentiated LGD methodology for all rating procedures to forecast loss given default (LGD). Item-specific collateral recovery rates and borrower-specific recovery rates are estimated based on historic loss information. The respective default amount expected is determined from the EaD using the LGD.

As part of the annual validation process the predictive accuracy of the rating modules was reviewed in the reporting year with regard to the predicted probabilities of default using anonymous, aggregated data. In addition the LGD and CCF methods were also reviewed and are being continually refined.

The bank, corporate clients, international sub-sovereigns, country and transfer risk, insurance companies, leveraged finance, leasing and funds rating modules used by HSH Nordbank, as well as the standard rating used for smaller domestic corporate clients, are based on the so-called scorecard methods. Within the framework of different scorecard approaches, quantitative and qualitative characteristics and factors are identified to assign borrowers to different rating categories. The scorecard approach can be used only if there is a sufficient number of relatively homogenous borrowers.

As this precondition is often not met with regard to special financing, simulation techniques are primarily used in this case. For example, special financings in the shipping, real estate, projects and aircraft areas are assessed with the help of cash flow simulation models. Revenues from the object financed represent the primary source for reducing the liability. The cash flow of the object is simulated using scenarios with different macroeconomic and industry-specific conditions that simulate the future development of factors such as rents, vacancies and charter rates. The result is a probability of default (PD) for each borrower and hence an allocation to a concrete rating category.

The Bank uses an identical rating master scale for all modules which not only allows comparison of differing portfolio segments but also mapping with external ratings.

Management of default risk in ex-ante calculation and actual costing

HSH Nordbank applies a uniform method across the Bank for the ex-ante calculation of lending transactions through calculating the present value of the expected and unexpected losses arising on default risk positions taking into account, where necessary, any currency transfer risk. In addition to liquidity and standard processing costs, the rating, LGD and CCF risk parameters determined internally on an individual transaction basis are incorporated in the ex-ante calculation. In the same way, an actual costing (profit centre accounting) is made for all transactions on a monthly basis. Based on the current risk parameters of the individual transactions, standard risk costs and the resulting contribution margins are determined. Furthermore, utilisation of the economic and regulatory default risk limits set as part of the Bank's annual plan is determined regularly at the division level for the purposes of managing default risk. When a limit is overdrawn, new transactions and prolongations from € 20 million must be approved by ALCO. The objective of this dual limit system is to ensure that both the risk-bearing capacity and regulatory ratios are adhered to.

Risk concentrations

Within the framework of regular business segment analyses potential risk concentrations regarding regions, industrial sectors and borrower units for example and their systematic reduction are monitored among other things. At the end of 2013 the material risk concentrations of HSH Nordbank were in the shipping portfolios of the Core Bank and Restructuring Unit which accounted for 21 % of the overall portfolio as well as in the US dollar business which accounted for 32 %. Additional information on business segment analyses may be found in the section "Portfolio management by a central committee structure".

Risk concentrations at the counterparty level are limited under supervisory law within the framework of large exposures in accordance with Section 13a and 13b KWG. The regulatory limits for borrower and risk units are monitored in accordance with Section 19 (2) KWG by the internal large risk management, which also includes internal lines in addition to drawdowns and external commitments outstanding.

In the year under review, the Management Board was informed within the framework of the internal quarterly risk report of all cases where the limit was exceeded at the level of borrower units and of the status of the key measures introduced.

The limitation of risk concentrations at the country level is discussed in the following "Country risk" section.

Country risk

HSH Nordbank understands country risk as the risk that agreed payments are not made or only made in part or delayed due to government imposed restrictions on cross-border payments (transfer risk). The risk is not related to the debtor's credit rating.

Country risk limitation is an additional management dimension within the management of risk concentrations. Main parameters for recording country risk are the rating and the LGD of the transfer risk-relevant country. Country ratings and country LGDs are based on a methodology that was developed by the RSU as part of the joint project of the Landesbanken.

Country limits are set for country risk concentrations at the Group level. Utilisation of the limits is monitored continuously and centrally by the country risk management. In the event that a limit is fully utilised the decision regarding each new business transaction rests with the Management Board.

The following table provides an overview of the foreign exposure by region, which reached € 60,717 million as at 31 December 2013 (previous year: € 70,147 million).

FOREIGN EXPOSURE BY REGION

Loan amount outstanding (€ m)	**2013**			2012		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Western Europe	16,493	19,672	36,165	19,767	21,215	40,982
of which eurozone countries	9,920	11,779	21,699	12,294	11,431	23,725
Central and Eastern Europe	568	1,173	1,741	1,467	840	2,307
of which eurozone countries	45	143	188	91	161	252
Africa	548	620	1,168	918	406	1,324
North America	6,857	6,130	12,987	6,594	8,768	15,362
Latin America	508	861	1,369	901	935	1,836
Middle East	94	879	973	83	1,119	1,202
Asia-Pacific region	2,109	3,259	5,368	3,095	3,206	6,301
International organisations	922	23	945	784	23	807
Other[1)]	0	1	1	3	23	26
Total	**28,099**	**32,618**	**60,717**	**33,612**	**36,535**	**70,147**

[1)] The item "Other" includes, for example, ABS and funds that cannot be clearly allocated to a country or region.

The basis for the allocation of the transactions to the regions is the country of the customer relevant for country risk taking account of any collateral relevant for the transfer risk. At customer level, it is the country from where HSH Nordbank receives the cash flows. If this cannot be unambiguously assigned at customer level, the place of business where management is exercised is applied.

Due to their unfavourable fiscal and economic data, a number of European countries are subject to increased monitoring. These include in particular Portugal, Ireland, Italy, Greece, Spain, Slovenia, Hungary and Cyprus. The Bank's total exposure to these countries was reduced by 14 % in the 2013 financial year.

The following table shows the loan amounts outstanding of the exposures in the EU countries stated. The loan amount outstanding for these countries totalled € 7,775 million as at 31 December 2013.

LOAN AMOUNT OUTSTANDING IN SELECTED EUROPEAN COUNTRIES

(€ m)	Country		Banks		Corporates/Other		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Greece	6	7	–	–	1,301	1,780	1,307	1,787
Ireland	–	–	62	158	327	411	389	569
Italy	529	565	136	122	726	821	1,391	1,508
Portugal	280	280	5	5	58	68	343	353
Spain	222	228	494	1,332	1,662	1,394	2,378	2,954
Slovenia	90	90	–	–	18	23	108	113
Hungary	17	37	1	5	81	86	99	128
Cyprus	–	–	–	–	1,760	1,671	1,760	1,671
Total	**1,144**	**1,207**	**698**	**1,622**	**5,933**	**6,254**	**7,775**	**9,083**

Note 54 includes more information on the selected European countries.

Equity holding risk

The equity holding risk is the danger of financial loss due to the impairment of equity holdings.

The regulatory authorities state that equity holdings must be consolidated, deducted from equity or backed with equity capital in the receivable class "equity holdings". In this context, regulatory law considers equity holding risk to be a sub-category of the default risk. The risks and rewards associated with an equity holding are analysed extensively prior to the conclusion of the transaction. Equity holdings are only acquired if they meet the strategic objectives of the Bank.

A regular company valuation represents an important instrument for monitoring and managing equity holding risk. At least once a year, impairment tests are performed on all direct equity holdings of HSH Nordbank. Important equity holdings are subject to a more detailed analysis in this context.

Furthermore, all direct equity holdings in the portfolio are analysed once a year. The identification of risks in the individual companies is the focus of this analysis. Measures are derived from the analysis in order to be able to actively counter the identified risks.

The articles of association are formulated so as to ensure that the most intensive management possible can be exercised for the benefit of HSH Nordbank.

Loan loss provisions

Within the framework of risk management, the Bank pays the most attention to default risk. The credit risk relating to a borrower is shielded through the creation of individual valuation allowances for loans and advances or provisions for contingent liabilities in the amount of the potential loss in accordance with Group-wide standards. The Bank also creates portfolio valuation allowances for groups of financial assets with a comparable risk profile. Default risk, which has already been incurred at the reporting date but is not yet known to the Bank, is thereby covered having regard to the Basel II criteria.

All restructuring and workout commitments are subject to a two-step, comprehensive review process every quarter. In a first step, a review is carried out on the basis of objective criteria (so-called trigger events) to determine whether the receivable could be impaired (impairment identification). If this is the case, the loans identified are reviewed in a second step to determine whether a loan loss provision is actually required and the amount thereof (impairment measurement). The amount of the loan loss provision is calculated by deducting the present value of all expected future incoming payments from the IFRS carrying amount of the receivable. The expected incoming payments comprise in particular all expected interest and redemption payments, as well as payments from the liquidation of collateral. The appropriateness of the loan loss provision is monitored continuously as part of the problem loan processing.

The loan loss provisions to be expected for the financial year are determined on an ongoing basis and reported to the Management Board at the end of each quarter. Major loan loss provision cases as well as any anticipated changes and additions to the loan loss provisions are addressed in the monthly Provisioning Meeting, which the CRO, the Chief Representative responsible for the Restructuring Unit, the Heads of Group Risk Management, Finance and Credit Risk Management as well as representatives of the restructuring divisions and the Head of CRM Problem Loans responsible for the loan loss provision process currently attend.

The item "Loan loss provisions" amounted to € – 882 million at the end of 2013 compared to € – 656 million in the previous year. This includes a reduction in the loan loss provisions resulting from the balance sheet hedging effect of the second loss guarantee (compensation item). The following table provides an overview by segments. For reasons of comparability, the values for the 2012 financial year have been adjusted in accordance with the changes in the segment structure implemented at the beginning of 2013.

CHANGES IN LOAN LOSS PROVISIONS

(€ m)	1.1.–31.12.2013				
	Individual valuation allowances/ provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	**Total**
Shipping, Project & Real Estate Clients	–630	–29	50	–	–609
Corporates & Markets	–37	–2	–	–	–39
Corporate Center	–	–	–2	–	–2
Consolidation Core Bank	4	1	–3	253	255
Total Core Bank	**–663**	**–30**	**45**	**253**	**–395**
Restructuring Unit	–1,227	156	93	–	–978
Consolidation Restructuring Unit	–	–	–	491	491
Total Restructuring Unit	**–1,227**	**156**	**93**	**491**	**–487**
Group	**–1,890**	**126**	**138**	**744**	**–882**

CHANGES IN LOAN LOSS PROVISIONS

(€ m)	1.1.–31.12.2012				
	Individual valuation allowances/ provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	Total
Shipping, Project & Real Estate Clients	–378	–52	29	–	–401
Corporates & Markets	–9	1	–	–	–8
Corporate Center	–11	–	–1	–	–12
Consolidation Core Bank	9	1	–	99	109
Total Core Bank	**–389**	**–50**	**28**	**99**	**–312**
Restructuring Unit	–953	112	29	–	–812
Consolidation Restructuring Unit	–	–	–	468	468
Total Restructuring Unit	**–953**	**112**	**29**	**468**	**–344**
Group	**–1,342**	**62**	**57**	**567**	**–656**

The significant increase compared to the previous year reflects our assessment that the crisis in the shipping industry will be resolved more slowly than previously expected. The loan loss provisions in the shipping portfolios were increased by € 1,295 million to take appropriate account of the resultant risks of which € 478 million related to the Core Bank and € 817 million to the Restructuring Unit (including the gain/loss on foreign exchange and before compensation in both cases).

Detailed information on the development of loan loss provisions in the individual divisions is set out in the "Segment reporting" section.

The individual elements of loan loss provisions are shown in the table below:

TOTAL LOAN LOSS PROVISIONS

(€ m)	**2013**	2012
Loans and advances to customers	69,079	80,570
Loans and advances to banks	5,156	8,353
Volume of impaired loans	14,383	13,191
Individual valuation allowances for loans and advances to customers	–6,032	–4,867
Portfolio valuation allowances for loans and advances to customers	–360	–504
Individual valuation allowances for loans and advances to banks	–125	–133
Portfolio valuation allowances for loans and advances to banks	–1	–1
Total loan loss provisions for balance sheet items	**–6,518**	**–5,505**
Provisions for individual risks in the lending business	–89	–398
Provisions for portfolio risks in the lending business	–56	–57
Total loan loss provisions for off-balance sheet items	**–145**	**–455**
Total loan loss provisions (before compensation item)	**–6,663**	**–5,960**
Compensation item	2,714	1,924
Total loan loss provisions (including compensation item)	**–3,949**	**–4,036**

The loss rate in the Group amounted to 0.68 % in the reporting year (previous year: 0.36 %). The loss rate is calculated based on the actually realised defaults as a ratio of the credit risk exposure. The total amount of actually realised defaults in 2013 was € 776 million (previous year: € 484 million) and the credit risk exposure € 114,042 million (previous year: € 134,451 million). The credit risk exposure includes all balance sheet and off-balance sheet assets, taking account of the individual and portfolio valuation allowances for loans and advances to customers and banks that are subject to default risk. Total loan loss provisions (including compensation item) for the Group amounted to € –3,949 million as at 31 December 2013 (previous year: € –4,036 million).

Total specific loan loss provisions amounted to € –6,246 million (previous year: € –5,398 million), comprising individual valuation allowances of € –6,157 million (previous year: € –5,000 million) for loans and advances to banks and customers, € –75 million (previous year: € –385 million) for contingent liabilities and irrevocable loan commitments, and € –14 million (previous year: € –13 million) for other off-balance sheet transactions.

The portfolio valuation allowances totalled € –417 million (previous year: € –562 million) and were composed of portfolio valuation allowances of € –361 million (previous year: € –505 million) for loans and advances to banks and customers and € –56 million (previous year: € –57 million) for contingent liabilities and irrevocable loan commitments.

Details regarding the total loan loss provisions are presented in Notes 13, 24 and 40.

Planning for loan loss provisions and losses

Loan loss provisions are planned as part of the annual Bank plan under the plan assumptions specified therein. The planning includes the annual changes in the amounts of the individual and portfolio valuation allowances, broken down by the amounts covered by and not covered by the second loss guarantee and including new business. Other components of the plan are the change in the utilisation of the second loss guarantee as well as the actual losses invoiced and the total loss to be expected from the second loss guarantee.

The plan is drawn up with the aid of models that take account of the change in risk parameters based on macroeconomic forecasts and expected portfolio growth, the statistical analysis of historical loan loss provision and loss data as well as the extensive experience gained in processing problem loans, the quarterly loan loss provision process and restructurings and liquidations that have been carried out.

In planning additions to the individual valuation allowances a methodological distinction is made between commitments classified as in default and not in default.

The so-called expected loss resulting from the probability of default and loss given default in the event of a loan default is simulated for non-default exposures over the planning period at the individual transaction level using transaction-specific parameters. Forecasts of future economic developments are also incorporated as part of the scenario analyses and thus in the assumed risk parameter trends. The amount of the allocations to the loan loss provisions is determined based on the historical relationship of the individual valuation allowances and portfolio valuation allowances to the expected loss. The expected required level of loan loss provisions for new business is determined on the basis of the new business volume plan as well as on historically observed risk parameters or those stipulated as part of the new business strategy (rating, loss given default).

The loan loss provisions determined as part of the quarterly loan loss provision process are applied to exposures classified as being in default. In the case of exposures in default, for which a portfolio valuation allowance has been recognised, the probability of a change from a portfolio to an individual valuation allowance or classification as a non-default exposure is determined on the basis of historical empirical values. The Bank assumes in the case of commitments on which an individual valuation allowance has been recognised, that the material risks have been identified and included in the loan loss provisions in light of the stabilisation of the macroeconomic environment and several years of experience in processing the problem loans. The main exception to this is the Shipping portfolio, where, in the opinion of the Bank, individual customers could also get into liquidity difficulties in 2014 regardless of general market developments, which seriously jeopardise a going-concern strategy and may therefore require a higher loan loss provision.

Accordingly, the planned additions result over the medium-term primarily from the migration of commitments from the non-defaulted portfolio to the default categories or from the initial recognition of a specific loan loss provision on commitments already in default.

Utilisation and reversals of loan loss provisions are planned based on analyses of the past years, taking the overall economic scenario on which the plan is based into account.

In addition to the amount of the specific loan loss provisions as described above that is recognised on the guaranteed portfolio less any individually retained amounts the plan for the guarantee utilisation (without effects from premiums) includes the actual losses invoiced under the second loss guarantee as well as amounts utilised in the past but not yet invoiced (less individually retained amounts), impairment losses on securities (less individually retained amounts) as well as any portfolio valuation allowances on the guaranteed portfolio.

On this basis the losses expected until the planned expiry of the guaranteed portfolio amount to a total of € 4.8 billion as the end of the year 2013, of which a first loss piece of € 3.2 billion remains with HSH Nordbank. Further details on the second loss guarantee can be found in Note 2 to the consolidated financial statements.

The long-term planning of loan loss provisions is associated to uncertainties which are described in the “Forecast report including opportunities and risks” section.

MARKET RISK

Market risk represents the potential loss that can arise as a result of adverse changes in market values on positions held in our trading and banking book. Market movements relevant to the Bank are changes in interest rates and credit spreads (interest rate risk), exchange rates (foreign exchange risk), stock prices, indices and fund prices (equity risk) as well as commodity prices (commodity risk) including their volatilities.

Organisation of market risk management

The Management Board determines the methods and processes for measuring, limiting and steering market risk, and budgets an overall global limit percentage for market risks. Against the background of this upper loss limit, the risks of all transactions bearing market risk are limited by a dynamic system of loss and risk limits.

Market risk was actively managed in the Capital Markets division in the year under review. The Asset Liability Committee (ALCO) is responsible for selected strategic positions exposed to market risk. Daily market risk reports regularly keep the Management Board and the trading divisions informed on the extent of existing market risks and current utilisation of limits.

An organisational separation between market risk controlling, settlement and control on the one hand and the trading divisions responsible for positions on the other is ensured at all levels in accordance with MaRisk. All major methodological and operative tasks for risk measurement and monitoring are consolidated in the Group Risk Management division.

Settlement and control, financial controlling and risk controlling for the Core Bank and the Restructuring Unit are managed by the corresponding divisions of the Overall Bank. The Restructuring Unit processes, amongst others, the positions allocated to it from the capital markets and credit investment businesses.

Market risk management

Market risk measurement and limitation

Our system for measuring and managing market risk is based, on the one hand, on the economic daily profit and loss and, on the other, on a value-at-risk approach. The economic profit and loss is calculated from the change in present values compared to the end of the previous year. The market risk of a position represents the loss in value (in euros) which will not be exceeded until the position is hedged or realised within a predetermined period with a predetermined probability.

The value-at-risk (VaR) is determined by the Bank using the historical simulation method. It is calculated for the entire Group based on a confidence level of 99.0 % and a holding period of one day for a historical observation period of 250 equally weighted trading days.

The main market risks at HSH Nordbank are interest rate risk (including credit spread risk) and foreign exchange risk. In addition to these risk types, the VaR of HSH Nordbank also covers equity and commodity risk for both the trading book and the banking book. The basis risk is also taken into account in determining the VaR. The basis risk constitutes the risk of a potential loss or profit resulting from changes in the proportion of prices or interest rates on similar financial products within a portfolio. The individual market risk types are not restricted by separate limits. Limitation is applied within the VaR limit for the overall market risk of the Bank. Limits are set for the VaR for the different reporting units for the purposes of managing market risk, whereas losses incurred are restricted through stop loss limits. There are clearly defined processes for limit adjustments and breaches.

Where necessary, HSH Nordbank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements (e.g. with regard to interest rates, exchange rates) on its own positions. Derivative financial instruments in particular, such as interest rate and cross-currency swaps for example, are used as hedging instruments. Further information on this and the type and categories of the hedging instruments and hedging relationships entered into by HSH Nordbank as well as the type of risks hedged is presented in the Notes. In particular we refer to Section I. F) of Note 6 "Accounting policies", Note 9 "Result from hedging", Note 25 "Positive fair values of hedging derivatives", Note 38 "Negative fair values of hedging derivatives" and Note 57 "Report on business in derivatives".

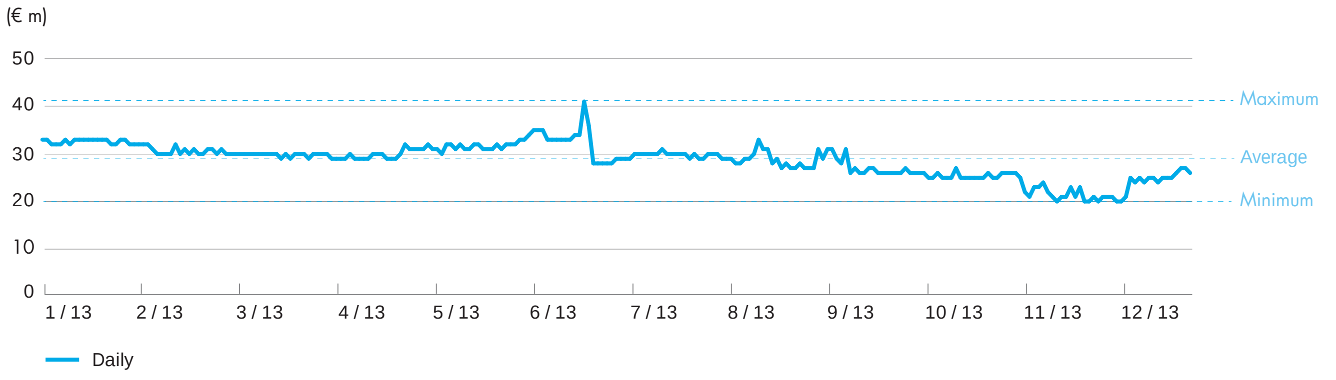
Market risks arising from the lending business and liabilities of the Bank are transferred to the trading divisions and taken into account in the corresponding risk positions. They are managed as part of a proactive portfolio management process and hedged through external transactions.

The VaR model used and continuously enhanced by the Bank contains all of the Bank's significant market risks in an adequate form.

Daily value-at-risk during the year under review

The following chart illustrates the movement in the daily VaR for the total trading and banking book positions of HSH Nordbank over the course of 2013. The market risk fluctuated between € 20 million and € 41 million with the VaR of the trading book positions amounting to € 2 million as at 31 December 2013, while that of the banking book transactions amounted to € 25 million. On the last trading day in 2013, the total VaR of the Bank amounted to € 26 million, while the VaR limit for restricting market risk amounted to € 65 million. The utilisation of the limit was therefore 40 %. As part of the risk-bearing capacity management, the VaR is scaled up to the amount of € 0.7 billion in the framework of aggregating the individual risk types to the overall risk.

Chart 19
DAILY VALUE-AT-RISK IN THE COURSE OF 2013



The total VaR decreased to € 26 million in the course of 2013. The decrease could be observed primarily in relation to interest rate and credit spread risk. In addition to the normal elimination of volatile trading days in 2012 from the historical simulation the methodological enhancements made to the market risk measurement were also principal reasons for this development.

In the first half of 2013 the integration of the credit spread risk on third party issues held in certain valuation units into the daily market risk measurement was pushed forward and finalised for the most part. This led to a reduction in the overall risk at the Group level of about € 5 million as a result of portfolio diversification effects.

As a result of the improved mapping of loans in the risk system all interest rate and currency basis risks for these transactions have also been fully included in the VaR since December 2013. This resulted in a reduction in the interest rate risk of about € 16 million and an increase in the currency risk of about € 8 million. The measurement of collateralised derivatives was also changed over to OIS curves in 2013 and thereby completed the mapping of interest rate basis risks.

The "Daily value-at-risk of the Group" table shows the VaR for the entire trading and banking book positions. The maximum and minimum represent the range over which the respective risk amount moved in the course of the year under review. The overall risk is determined by aggregating the individual types of market risk. The market risk of the Group is determined in full in HSH Nordbank AG, taking account of the Group-wide correlations. Market risk arising on derivative transactions is included in the amounts disclosed. The volatility risk arising on the option positions is also included here.

DAILY VALUE-AT-RISK OF THE GROUP

(€ m)	Interest rate risk [1]		Credit spread risk [1]		Foreign exchange risk		Equity risk		Commodity risk		Total [2]	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Average	30.6	33.2	31.5	53.0	7.2	18.2	3.2	2.0	0.2	0.5	28.8	51.9
Maximum	47.3	46.9	45.4	71.3	16.0	27.6	5.4	3.9	0.6	1.5	40.8	65.0
Minimum	7.4	5.7	19.0	37.6	2.2	1.4	1.3	0.8	0.1	0.2	19.9	35.1
Period end amount	7.4	38.0	19.2	44.6	12.2	1.4	4.3	3.4	0.2	0.3	26.0	37.6
of which Core Bank	16.0	35.8	5.3	8.3	13.8	4.9	0.3	0.5	0.2	0.3	17.5	34.3
of which Restructuring Unit	6.8	9.3	20.0	39.7	1.4	4.5	4.5	3.1	0.0	0.0	19.3	48.7

[1] Credit spread risk is a sub-type of interest rate risk. It is not disclosed as part of interest rate risk but as a separate item due to its significance to HSH Nordbank.
[2] Due to correlations the VaR does not result from adding up individual values.

The market risk of the Core Bank is primarily characterised by interest rate, credit spread and foreign exchange risk arising from the lending business, funding and the trading book, which predominantly contains positions resulting from trading in interest rate and currency derivatives with customers and bond trading. There is only a small amount of equity and commodity risk.

The market risk of the Restructuring Unit arises predominantly from the credit investment business or the credit investment portfolio in the banking book. Accordingly credit spread risk is the dominant factor.

The market risk that results on derivative positions from the change in the market's assessment of the creditworthiness of the counterparties amounted to € 8.3 million as at the reporting date. This risk is not included in the VaR amounts disclosed for the Group.

Backtesting

We perform regular backtests to verify the appropriateness of our VaR forecasts. On the assumption of unchanged positions, the daily profit and loss achieved in theory due to the market developments observed are compared with the VaR values of the previous day, which were forecasted using historical simulation. Based on the assumption of the confidence level of 99 % applied by the Bank, up to four outliers indicate that the forecasting quality for market risks is satisfactory. In 2013 less than four outliers were recorded at the HSH Nordbank Group level at all times resulting in the Bank's market risk model being confirmed.

Stress tests

In addition to the limit-based management of the daily VaR, at least weekly stress tests are performed that analyse the effects of unusual market fluctuations on the net present value of the Bank's positions.

When it comes to market risk, we make a distinction between standardised, historical and hypothetical stress scenarios. Whereas standardised scenarios are defined for specific risk types (e.g. shift in or rotation of the interest rate curve), historical and hypothetical stress tests apply to several market risk factors at the same time. In this regard historical scenarios actually map correlations between risk factors that occurred in the past, whereas hypothetical scenarios are based on fictitious changes in risk factors. With regard to the hypothetical scenarios it is also distinguished between economic scenarios that simulate a downturn in the macroeconomic environment and portfolio-specific scenarios that can represent a potential threat for the value of individual sub-portfolios of the Bank. The hypothetical scenarios are periodically adjusted depending on changes in the market environment.

Furthermore, the market risks in the reporting year were also part of the stress tests across risk types and the inverse stress tests on a regular basis.

LIQUIDITY RISK

HSH Nordbank divides its liquidity risk into risk of insolvency and liquidity maturity transformation risk.

The risk of insolvency refers to the risk that present or future payment obligations cannot be met in part or in full. This is referred to as liquidity risk in the narrower sense. The key driver of this liquidity risk is the cash flow structure in the liquidity development report which is determined by the assets (maturity/currency structure) and liabilities (funding structure by maturity/currency/investor). In this regard the market liquidity risk, i.e. the danger, that transactions cannot be sold or only at unfavourable conditions because of a lack of market depth, is reflected in the liquidity development report as a component of the insolvency risk. Another component of insolvency risk is the refinancing risk, i.e. the danger of not being able to obtain liquidity or not at the expected conditions if required. The refinancing risk is determined by the refinancing structure. Information on the refinancing structure can be found in Note 51 "Residual maturity breakdown of financial instruments" to the consolidated financial statements.

Liquidity maturity transformation risk refers to the risk that a loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity maturity transformation position, and from the change in the Bank's refinancing surcharge. Liquidity maturity transformation risk is also a component of our risk-bearing capacity concept and is discussed in the section "Risk-bearing capacity".

Organisation of liquidity risk management

Strategic liquidity management is the responsibility of the Strategic Treasury division. The objective of liquidity management is to ensure the solvency of the Bank at all times, at all locations and in all currencies, to adhere to the regulatory liquidity ratios, to manage the marketability of the liquid assets of the liquidity buffer and to avoid concentration risks in the refinancing structure. The Capital Markets division is responsible for funding and marketing.

The Group Risk Management division is responsible for the methods used to measure and limit liquidity risk within the Group. In addition it measures risk and monitors limits as part of the daily reporting of liquidity risk. This supports Strategic Treasury in managing liquidity for all time buckets and enables it to counter possible risks at an early stage.

The Asset Liability Committee is responsible for the strategic management of the resources liquidity/funding, balance sheet structure, capital, RWA and economic capital. In addition, resources are allocated by the Transaction Committee to individual transactions within certain volume limits in the sense of an active portfolio management.

The Bank has a liquidity contingency plan which contains a catalogue of measures and regulated procedures and responsibilities should a liquidity crisis occur. Institution-specific, market-specific and regulatory early warning indicators are also taken into account as part of the contingency process in order to avert a liquidity emergency.

Liquidity risk management

Measurement of liquidity risk

The transactions of the Bank impacting liquidity are presented as cash flows and the resultant inflows and outflows allocated to time buckets (liquidity development report) for the purposes of measuring the risk of insolvency or funding requirements. The difference between inflows and outflows represents a liquidity surplus or deficit (gap) in the relevant time buckets. The gaps are presented accumulated from day 1 to 12 months in order to map future liquidity requirements. They are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual time buckets and consequently represents the respective limit for insolvency risk. Utilisation of the limits is monitored on a daily basis. The net liquidity position, which shows the extent of the insolvency risk, is determined as the net amount from the gaps and the respective liquidity potential.

Liquidity development reports are prepared daily at the level of the Group, the overall Bank, the foreign branches and for HSH Nordbank Securities S.A. In addition to all on-balance sheet business, loan commitments already granted, guarantees, transactions with forward value dates and other off-balance sheet transactions are incorporated in the report. Maturity scenarios are used for a number of positions to map economic maturities more effectively. In doing so any possible minimum levels of deposits as well as the liquidation periods and realisation amounts of assets, for example, are modelled conservatively as a matter of principle. The liquidity development reports reflect the current market situation as a base scenario (normal case assessment). In addition to calculating the liquidity development report in euro equivalents, a separate liquidity development report is prepared monthly for all US dollar transactions. In this way we support adequate management of our US dollar position.

In addition to the normal case liquidity development report, which is compiled on the assumption of business developments in a normal market environment, the Bank also compiles the results of a market liquidity stress test on a daily basis in the form of a stressed liquidity development report (stress case assessment) in order to reflect critical market developments. The stress case includes, for example, difficult refinancing conditions and additional cash flows under stress assumptions.

HSH Nordbank quantifies its liquidity maturity transformation risk by means of a VaR approach. The liquidity-value-at-risk (LVaR) is calculated through historical simulation (confidence level 99.9 %) of the liquidity spread and its present value effect on transactions, which would be necessary theoretically in order to immediately close the current maturity transformation position. In doing so, it is assumed that these hypothetical close-out transactions could actually be effected in the market and that full funding is therefore possible.

Limiting and monitoring liquidity risk

Limits are set for the cumulative gaps for numerous maturity bands up to 12 months for the purposes of managing insolvency risks.

Insolvency risk is in principle limited by the ability of HSH Nordbank to exhaust its total liquidity potential. This liquidity potential comprises different elements, the total of which represents the total limit. The liquidity potential (limit) represents the respective ceiling for cumulative gaps of individual maturities and is composed of a securities portfolio held as a crisis precaution measure (liquidity buffer), further highly liquid and liquid securities, according to how liquid they are, unsecured funding options, secured funding potential from the issue of Pfandbriefe and industrial loans eligible for refinancing with central banks. In addition, the long-term funding potential from illiquid assets used as collateral is also taken into account. Most of the portfolio of securities and promissory notes is invested in liquid markets and can be liquidated via the refinancing channels, namely central banks, Eurex repo market, bilateral repo market or the cash market.

The components of the liquidity potential – such as the liquidity buffer required under MaRisk for example – are monitored continuously and validated in accordance with internal and external minimum requirements. Safety buffers and risk discounts are incorporated into the limits in order to keep the probability of full utilisation or overdrawing the limits as low as possible. These discounts are, for example, haircuts or other safety margins that reflect the uncertainty about the future development of the respective limit component. Market access to the funding sources relevant for the Bank is also monitored on a regular basis. This is achieved firstly through the ongoing market observation of all funding sources by the Bank's market departments. Secondly, Group Risk Management reviews daily the funding potential based on the expected prolongation ratios for customer deposits, and Strategic Treasury also prepares actual/plan analyses regarding long-term funding.

Group Risk Management calculates and monitors limit utilisation daily and reports the results to the Management Board and responsible divisions. In the event that limits are exceeded ALCO determines appropriate measures as proposed by Strategic Treasury that are implemented by the Capital Markets division. Implementation of the measures is monitored by Group Risk Management.

The LVaR for the liquidity maturity transformation risk is determined each month by Group Risk Management and reported to the Management Board and management responsible for it. Limits are set at Group level and are part of the risk-bearing capacity concept.

Group Risk Management provides the Management Board and the responsible divisions on a monthly basis in aggregate form with an overall assessment of the liquidity position of the Group. In addition to analyses on limit utilisations in the normal case, in the stress case and in the other stress scenarios (insolvency risk) this report contains analyses on risk concentrations and the liquidity maturity transformation risk as well as on liquidity risks resulting from USD positions.

Liquidity management

The Bank prepares a long-term liquidity plan for the strategic long-term management of the liquidity resource on a quarterly basis and a liquidity plan for the USD, a major currency of the Bank, on a monthly basis. The short-term liquidity base and the regulatory liquidity ratios are operationally managed by the Capital Markets division based on general parameters specified by the Strategic Treasury division. In addition to the regulatory requirements the liquidity development reports are relevant amongst other things to determine these general parameters. Any setting of or change to the individual parameters or the framework requirements is decided by the ALCO. This places the Bank in the position to react flexibly to market developments.

The collateral pool of HSH Nordbank consisting of cash balances, securities and loan receivables that are eligible for funding is coordinated by Strategic Treasury in order to be able to utilise the potential for secured funding in the best possible manner.

Backtesting and enhancement

In our backtesting we review the modelling of products with stochastic cash flows in the liquidity development report on the basis of statistical evaluations of historical cash flows. The selection of the relevant products is based on the product volume and its risk content in terms of uncertainty in previous modelling.

In the reporting year we carried out, amongst other things, a backtesting of the modelled loan portfolios, irrevocable loan commitments, liquidity potential in securities as well as the equity holding portfolio. The modelling of deposits with cancellation rights was enhanced. Furthermore, we have subjected the modelling assumptions applied to products and limits for the stress scenarios “rating downgrade by one notch” and “rating downgrade by one notch in severe economic downturn” to another backtest following the downgrade made by Moody’s in July 2013.

Stress tests

Our regular stress tests for insolvency risk include unusual scenarios and their impact on the liquidity situation of the Group in the risk assessment. When determining these scenarios, the risk and significant parameters were identified for all types of transactions included in the liquidity development report, which change the cash flow profile in the respective stress case. For example, inflows may be lower or occur later or outflows may be higher or occur earlier than expected.

The selection of our stress tests is the result of an analysis of historical events and hypothetical scenarios. The selection is reviewed on an annual basis and adapted to current developments where necessary.

As part of the ongoing enhancement process the knowledge obtained on the rating downgrade of HSH Nordbank in July 2013 was also incorporated into the modelling and/or the definition of parameters in the reporting year. Within the different stress modelling market specific scenarios (e.g. severe economic downturn), institution-specific scenarios (e.g. rating downgrade of HSH Nordbank AG) as well as a combined scenario (severe economic downturn and rating downgrade) are assessed on the basis of current market developments. In each of these scenarios it is assumed, for example, that new lending business will continue to some extent and that loans and advances to customers maturing must be extended and refinanced on an increasing basis while the rollover of liabilities is partially cut back or is quite impossible and as a result a financing gap is created. Furthermore, increased drawdowns on loan commitments issued and the early redemption of own issues and securitised liabilities among other things are incorporated in the modelling. The stress test results are reported to the Management Board and the responsible divisions on at least a monthly basis.

In addition, the Bank performs a monthly US dollar stress test which is based on the normal case liquidity development report and simulates an immediate as well as a gradual appreciation in the US dollar affecting the US dollar cash flows and the cash collateral for US dollar derivatives. The stress factor for the appreciation is determined based on an analysis of the historical movement of the EUR/USD exchange rate.

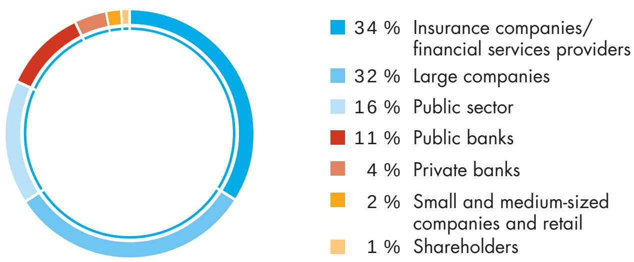
Within the framework of a stress test for the liquidity maturity transformation risk we analyse how the LVaR moves on increasing liquidity spreads. The scenario parameters are determined using a macroeconomic approach, under which the relevant stress volatilities are derived from economic forecasts. The stress LVaR serves as an indicator for the sensitivity of the LVaR to an increase in the spread/liquidity costs and constitutes an additional piece of management information.

Furthermore, events that could have a critical impact on the Bank's solvency were analysed in the reporting year within the framework of the periodic implementation of inverse stress tests.

Risk concentrations

Risk concentrations occur in liquidity risk in several ways. Concentrations of both asset and liability products can increase liquidity risk. In addition to the existing management system for concentrations of asset instruments HSH Nordbank has therefore established a monitoring system for concentrations of liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors), maturities (original and residual maturities) and deposit drain risk.

Chart 20
Depositor structure as at 31 December 2013
(%)



Compared to the previous year the proportion of insurance companies, financial services providers and large companies has increased (previous year: insurance companies/financial services providers 29 %, large companies 25 %), while the proportion of banks decreased (previous year: public banks 17 %; private banks 8 %).

Various quantitative measures (e.g. concentration curve, Herfindahl index and relationship ratios) are calculated for the purposes of analysing risk concentrations. Furthermore, an analysis is performed not only on the structure but especially on the risk content in order to be able to derive control impulses from the quantitative measures in combination with a qualitative discussion.

In addition to the analysis of the depositor structure, liquidity concentrations are examined with regard to macroeconomic factors. This shows a dependency of the liquidity situation on the movement in the US dollar, which has decreased slightly compared to the previous year, but is still to be regarded as significant. This is due to the large amount of US dollar assets that are refinanced through cross-currency swaps among other things. A decrease in the EUR/USD exchange rate will increase the cash collateral to be provided on foreign currency derivatives, representing a burden on liquidity. For the purposes of analysing the dependency on the US dollar, sensitivity analyses are therefore performed regularly for cash collateral. In addition a US dollar stress test of the liquidity development report is performed.

Stable liquidity situation in an improved market environment

Tensions on the financial markets have eased considerably during the course of 2013. The improvement in the economic situation in the eurozone contributed to this. The gross domestic product in the eurozone has increased again since the second quarter 2013. This development was also supported by the continued expansive monetary policy of the ECB and the US Federal Reserve. Given the low interest rate policy of the ECB yields on ten year German government bonds only increased slightly despite the economic revival during the course of the year. The improved economic situation in the USA as well, together with the announcement by the US Federal Reserve of the tapering of the bond purchase programme with effect from January 2014, resulted in a more significant increase in the yields on US government bonds. Risk premiums for the periphery countries in the eurozone have fallen again during the course of the year, although the adjustment processes have not yet been completed with respect to the high unemployment and high levels of private and public debt.

It was possible to further stabilise the Bank's liquidity position in the area of short- and medium-term maturities. The measures focused on increased efforts to obtain new deposits and funding. For example, we successfully placed a five-year mortgage Pfandbrief and a three-year public Pfandbrief in the year under review in the amount of € 500 million each within the framework of two benchmark issues. The public sector Pfandbrief was increased to € 750 million due to the good domestic and international demand. We have also further expanded our asset-based funding. Further information on the funding measures are set out in the "Earnings, net assets and financial position" section of this Group Management Report.

The following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 31 December 2013 as well as at the end of 2012. Utilisation represents the share of the cumulative gap in total liquidity potential, which also includes the liquidity buffer required under supervisory law.

LIMIT ON CUMULATIVE LIQUIDITY GAPS

Utilisation of liquidity potential (%)	Normal case		Stress case	
	31.12.2013	31.12.2012	**31.12.2013**	31.12.2012
1st day	12	7	16	11
7th day	26	–	36	2
14th day	30	1	40	10
3rd week	35	11	47	23
4th week	36	15	50	30
2nd month	51	46	71	68
3rd month	55	71	79	95
6th month	63	76	95	111
9th month	71	79	110	125
12th month	78	81	126	134

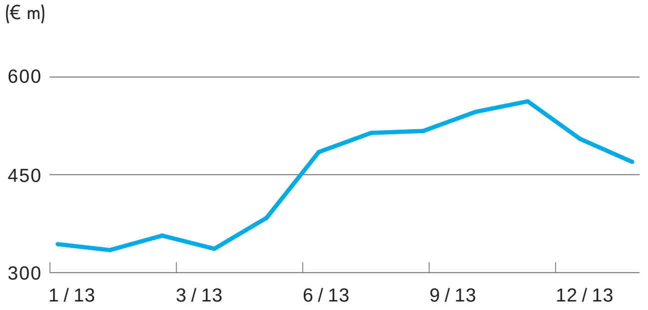
Risk tolerance of the Bank with regard to liquidity risk is reflected, among other things, in the definition of a minimum survival period, which describes how long a utilisation of a liquidity potential under 100 % is to be maintained under the normal and stress cases for insolvency risk.

In the normal case assessment the liquidity potential had a peak utilisation of 78 % in the 12th month as at the reporting date. All limits within the minimum survival period of twelve months defined by the Bank were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was also not exceeded within the minimum survival period of one month established taking Minimum Requirements for Risk Management (MaRisk) into account. In fact, the limits as at the end of 2013 are even adhered to for a period of six months. The utilisation levels tended to decrease compared to the end of 2012, which signified an improvement in the liquidity situation. Critical limit utilisation levels were recorded neither in the normal case nor in the stress case liquidity development report in the course of the period under review.

The results of the market-specific and Bank-specific stress scenarios and the combined scenario determined in addition to the stress case liquidity development report show that as at December 2013 the liquidity requirement of HSH Nordbank was covered for two months up to twelve months despite the strict worst case assumptions for each scenario. A minimum survival period of one month is thereby maintained in all scenarios. The results show that the Bank is suitably prepared for the crisis scenarios assessed.

In the year under review, the LVaR as an expression of the liquidity maturity transformation risk moved on a monthly basis between € 336 million and € 562 million. It amounted to € 471 million as at 31 December 2013.

Chart 21
LIQUIDITY-VALUE-AT-RISK IN THE COURSE OF 2013



The long-term liquidity position of HSH Nordbank has improved in the course of the year. The Bank continued to implement its issuance plan in the reporting year accompanied by a stable development of the depositor base. Despite this success, access to the capital markets remains limited so that the future funding and rating continue to represent some of the significant challenges facing the Bank. The section "Earnings, net assets and financial position" contains further information on the Bank's funding situation.

Liquidity ratio of HSH Nordbank AG

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.69 and 2.36, our liquidity ratio remained above the regulatory minimum value of 1.0 at all times throughout the reporting period. The average value for 2013 was 2.06 (previous year: 1.79).

LIQUIDITY RATIO (LIQV)

Month-end figures	**2013**	2012
January	1.69	1.75
February	1.76	1.86
March	2.01	1.82
April	1.92	2.14
May	2.09	1.81
June	1.96	1.65
July	2.04	1.76
August	2.13	1.77
September	2.36	1.65
October	2.24	1.69
November	2.28	1.68
December	2.30	1.89

OPERATIONAL RISK

HSH Nordbank defines operational risk (OpRisk) as the risk of direct or indirect losses caused by the inappropriateness or failure of the internal infrastructure, internal procedures or staff or as a result of external factors (risk categories). This definition includes legal risk and compliance risk.

Organisation of operational risk management

The management of operational risk at HSH Nordbank is organised in a decentralised manner. The risks are identified and managed directly in the individual organisational units of the Bank. Accordingly, the division heads are responsible for the management of operational risk and the quality of such management in their respective areas of responsibility. The operational implementation is supported by decentralised OpRisk officers in the individual divisions.

The OpRisk Controlling department in the Group Risk Management division defines the basic principles of operational risk management applicable throughout the Bank and develops the central methods and instruments to be used in the identification, measurement, management and monitoring of operational risk.

A Bank-wide steering committee dealing with operational and other risks in the Group, the OpRisk Committee convenes every quarter. It provides support to the Management Board in the implementation of the OpRisk Strategy under the chairmanship of the CRO. The objective of the interdisciplinary OpRisk Committee is to promote dialogue between the persons involved at all hierarchy levels and to determine appropriate measures for reducing operational risk.

Operational risk is closely linked to the Internal Control System (ICS) of HSH Nordbank. A major objective of the ICS is to optimise the internal bank processes in order to avoid losses that may arise as a result of, for example, processing errors. Detailed information on the ICS is set out in the "Risk management system" section.

Operational risk management

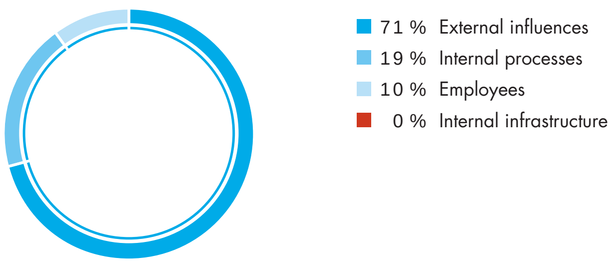
The identification, analysis, evaluation and monitoring of operational risk and the promotion of a corresponding risk culture in the Group represents an important success factor for HSH Nordbank. Different procedures and instruments are used in this process.

Loss event database

The loss events arising from operational risk are consolidated into a central loss event database for the Bank and relevant subsidiaries. The loss events are recorded locally by the divisions affected and forwarded to central risk controlling. The results of the analyses of actual loss events provide a starting point to eliminate existing weaknesses. The OpRisk Committee is informed on a quarterly basis regarding loss events and measures undertaken related thereto. The Management Board is immediately informed of material operational risk events.

The loss event database includes all loss events with a gross loss of at least € 2,500 and all material near-loss events.

Chart 22
SHARE OF RISK CATEGORIES IN GROSS OPERATIONAL LOSSES 2013
(%)



HSH Nordbank participates in the exchange of operational loss event data as part of the Operational Risk Data Pool (DakOR). Thus, HSH Nordbank obtains a more comprehensive data base for the evaluation of risk scenarios and external comparisons.

Risk inventory

HSH Nordbank performs a risk inventory each year for the whole Group. Information about the risk situation of the divisions gained from this inventory supplement the reporting of operational risk and encourage the preventive management and monitoring of operational risk. The Bank performs the risk inventory based on defined scenarios, which take into account both own as well as external loss event data, and derives the loss potential from this.

The 2013 risk inventory was also performed against the backdrop of the strategic realignment of the Bank and the reduction in staff associated with it. In order to counter the resultant operational risk, the Bank has introduced measures which, on the one hand, retain important know-how carriers of the Bank and on the other hand ensure a proper implementation of the restructuring process.

Control of measures

Based on an analysis of the causes of significant loss events and the results of the risk inventory, suitable measures are established in order to avoid future losses as far as possible. The measures identified are to be appropriate under cost-benefit aspects. In doing this, the instruments of risk mitigation consist above all of a large number of organisational safeguarding and control measures which are also applied in the context of the internal control system. The central risk controlling function monitors the actual implementation of the measures determined using the measures controlling procedures.

Risk indicators

Risk indicators are collected on a quarterly basis and incorporated in the OpRisk reporting. The indicators are selected based on the estimated risk situation and are periodically reviewed to ensure that they are up-to-date. The aim is to identify risks at an early stage and prevent their causes by the use of an ongoing and comparative analysis of loss events and risk indicators.

IT risk management

The primary objective of IT risk management for which the IT division is responsible is to avert potential losses resulting from an inadequate IT infrastructure. For this purpose, IT-specific risk instruments are used to ensure early identification, analysis and evaluation of IT risks, and to initiate economically worthwhile measures to minimise risk.

Legal risk

In accordance with the German Solvency Regulation (SolvV), legal risk also falls under operational risk. Legal risk includes economic risks arising as a result of non-compliance or incomplete compliance with regulations or with the framework defined by case law, in particular commercial law, tax law and company law. Tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted in specific cases may only be known after several years due to the long period between tax audits. The tax audits have not yet been finalised for the years starting from 2003. The Legal and Taxes divisions are responsible for managing these risks. In order to reduce, limit or prevent risk all divisions are given comprehensive legal advice by regularly trained staff and external consultants. A structured process with clear requirements and responsibilities serves to ensure that the Bank's contracts and agreements are kept up-to-date.

In the reporting year HSH Nordbank appointed a law firm to carry out an independent investigation of possible unjustified investment income tax credits in connection with share arbitrage transactions over the dividend record date (so-called cum-/ex trades). The interim findings submitted in 2013 identified suspicious transactions, which are currently subject to an in-depth investigation. Due to a revised risk assessment concerning the cum-/ex-trades and tax-driven structured transactions and due to VAT reimbursements HSH Nordbank has increased its tax provisions. Provisions for potential tax reimbursement claims totalling € 194 million were recognised in the 2013 tax result in particular for these issues.

Until final completion of the investigations it cannot be ruled out for the future that new findings will lead to additional expenses.

Compliance risk

Compliance risk comprises legal and regulatory sanctions or financial losses caused by non-compliance with certain laws, regulations and guidelines as well as organisational standards and codes of conduct.

The Compliance division is responsible for compliance risk management. Compliance with the different standards is also ensured by the respective divisions concerned.

The Code of Conduct summarises all behavioural requirements for compliance, which are set out in detail in internal instructions. It applies to all employees, managers as well as the Management Board of HSH Nordbank AG and is a mandatory part of the target agreements.

Staff and managers of the Bank are regularly trained in compliance-relevant topics. The objective of the training is to firmly anchor compliance as a corporate culture, to disseminate relevant standards and changes thereto and to enable new staff to quickly become familiar with corporate practices in order to ensure compliance with such standards.

The Bank receives notification of suspicious cases of misconduct via internal reporting channels and the so-called “whistleblowing office” and forwards these to the responsible internal and external bodies. The whistleblowing office is staffed by independent ombudsmen from BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and enables anonymous reporting of suspicious cases.

OTHER MATERIAL RISKS

Among other material risks of HSH Nordbank are strategic risk and reputation risk.

Strategic risk

Strategic risk is the risk of a financial loss being incurred as a result of long-term decisions which are erroneous or based on incorrect assumptions, particularly with respect to the performance of individual areas of business or the banking sector as a whole.

The strategic realignment of HSH Nordbank was successfully continued during the reporting year. The strategic risk of the Bank was further reduced in the year under review through concentrating on the core business areas, the separation and active winding down of risk-bearing and non-strategic portfolios in the Restructuring Unit, the consolidation of the international network of locations and with the sale of numerous equity holdings in line with the conditions imposed and the commitments of the Bank.

The second loss guarantee was replenished to the original amount of € 10 billion as at 30 June 2013 following a partial cancellation in 2011 in order to comply with the increasingly strict regulatory conditions and the requirements of the capital markets concerning capital ratios in a sustainable manner. As the replenishment of the guarantee constitutes a case relevant under state aid law, the European Commission instituted new state aid proceedings. It is not expected that a decision will be reached until the second half of 2014 at the earliest.

Reputation risk

Reputation risk is the risk of direct or indirect loss caused by damage to the Bank’s reputation and related opportunity costs. Damage to reputation means a public loss of confidence in the Bank or a loss of esteem of the Bank from the viewpoint of individual stakeholder groups (e.g. capital markets, clients, shareholders, investors, the general public, employees).

Firstly, damage to reputation can be directly caused by the behaviour of internal staff, external stakeholders or by the social environment as a whole. This can give rise to further negative repercussions for the Bank. Secondly, reputation risk in terms of a consequential risk can arise indirectly as a result of the occurrence of a loss in another risk type.

HSH Nordbank manages reputation risk particularly by means of preventive measures via the review of specific transactions on the one hand and via process-related rules on the other in order to prevent the occurrence of reputational damage if possible. A reputation risk strategy that defines the bank-wide principles for managing reputation risk was adopted in 2013 as a supplement to the already existing regulations and instructions, such as the Code of Conduct.

SUMMARY AND OUTLOOK

The 2013 financial year was characterised by the continuing winding down of high-risk, non-strategic lending and capital markets transactions held in the Restructuring Unit portfolio as well as by the progress made in implementing the new "Bank for Entrepreneurs" business model.

The risk-bearing capacity of HSH Nordbank was maintained at all times during the year under review with a maximum utilisation of the risk coverage potential of 39 %. The replenishment of the guarantee facility in June 2013 to the original amount of € 10 billion as well as the ongoing winding down of risk positions as part of the implementation of the EU conditions made a positive contribution in this regard. There are still some challenges facing the Bank, in particular with regard to risk concentrations in the shipping portfolios and the US dollar business of the Bank. The overcapacity in large parts of the shipping markets is having a particularly negative impact in this regard.

A central committee for monitoring and managing all material risks of HSH Nordbank, the so-called Group Risk Committee, was established in the reporting year. Furthermore, the Bank has submitted a draft of the recovery plan in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan) issued by the Federal Financial Supervisory Authority in June 2013. HSH Nordbank received comments on this draft from the supervisory authorities in November 2013 and January 2014, which are currently processed. The revised draft of the recovery plan is scheduled to be submitted to the supervisory authorities by the end of April 2014. In addition to options for action that enable the Bank to overcome crisis situations using its own resources the plan contains recovery indicators that are regularly monitored and thereby supplement the existing processes for the ongoing monitoring and reporting of risks.

Since the first quarter 2014 HSH Nordbank, as is the case for many other German and European banks, has been subject to a special audit ("comprehensive assessment") conducted by the supervisory authorities. This is linked to the transfer of banking supervision to the ECB planned for 1 November 2014. A key component of the comprehensive assessment is an audit of the asset side of bank balance sheets (asset quality review) including the valuation of loan commitments and trading portfolios in risk portfolios defined by the ECB. Directly following the asset quality review, it is planned that a stress test will be performed jointly by the ECB and EBA. The results are expected to be available by October 2014 and may in principle also lead to adjustments in the income statement.

The implementation of the new supervisory requirements will continue to be a focus of our activities in 2014. The requirements resulting from the Basel III set of rules and gradually entering into force from 2014 will be implemented within the framework of projects.

The risk and bank management systems described in this report are aligned to take account of risk on a systematic basis. This also applies to our expectations regarding future market and business developments. We believe that we have appropriately presented the opportunities and risks inherent in the future development of our business activities, among others in the "Forecast report including opportunities and risks" and in this Risk report. Accordingly, we assume that the risk-bearing capacity and solvency of HSH Nordbank will also be maintained on a sustained basis in the future based on the measures already initiated.

Hamburg/Kiel, 25 March 2014

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg

GROUP FINANCIAL STATEMENTS

GROUP STATEMENT OF INCOME
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2013

STATEMENT OF INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2013

(€ m)	Note	**2013**	2012	Change in %
Interest income		6,105	8,601	–29
Interest expenses		–5,022	–7,549	–33
Net income from hybrid financial instruments		–147	468	>–100
Net interest income	(7)	**936**	**1,520**	**–38**
Net commission income	(8)	104	119	–13
Result from hedging	(9)	9	6	50
Net trading income	(10)	189	–238	>100
Net income from financial investments	(11)	276	53	>100
Net income from financial investments accounted for under the equity method	(12)	–15	–14	–7
Total income		**1,499**	**1,446**	**4**
Loan loss provisions	(13)	–882	–656	34
Administrative expenses	(14)	–732	–821	–11
Other operating income	(15)	22	191	–88
Net income before restructuring		**–93**	**160**	**>–100**
Result from restructuring	(16)	–56	–43	–30
Expenses for government guarantees	(17)	–414	–302	37
Net income before taxes		**–563**	**–185**	**>–100**
Income tax expenses (–)/income (+)	(18)	–251	61	>–100
Group net result		**–814**	**–124**	**>–100**
Group net result attributable to non-controlling interests		–2	–4	50
Group net result attributable to HSH Nordbank shareholders		–812	–120	>–100

EARNINGS PER SHARE

(€)	Note	**2013**	2012
Undiluted	(20)	–2.69	–0.40
Diluted	(20)	–2.69	–0.40
Number of shares (millions)		**302**	**297**

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2013

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

(€ m)	**2013**	2012
Group net result	–814	–124
Income and expense that will be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	104	305
of which from exchange rate effects	–7	–2
Income taxes recognised	–15	–81
of which from exchange rate effects	1	–
	89	**224**
Currency conversion reserve	–5	–10
	–5	**–10**
Changes in other net income from financial investments accounted for under the equity method	3	–
	3	**–**
Changes in non-current assets held for sale and disposal groups	3	–
	3	**–**
Subtotal	**90**	**214**
Income and expense that will not be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	–47	–24
Income taxes recognised	16	–23
	–31	**–47**
Actuarial gains/losses (before taxes)	15	–156
Income taxes recognised	–5	51
	10	**–105**
Subtotal	**–21**	**–152**
Other comprehensive income for the period	**69**	**62**
Total comprehensive income	**–745**	**–62**
Total comprehensive income attributable to non-controlling interests	–2	–4
Total comprehensive income attributable to HSH Nordbank shareholders	–743	–58

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

ASSETS

(€ m)	Note	**2013**	2012	Change in %
Cash reserve	(21)	4,851	6,745	–28
Loans and advances to banks	(22)	5,156	8,353	–38
Loans and advances to customers	(23)	69,079	80,570	–14
Loan loss provisions	(24)	–3,804	–3,581	6
Positive fair values of hedging derivatives	(25)	1,287	2,170	–41
Positive adjustment item from portfolio fair value hedges		151	403	–63
Trading assets	(26)	9,049	11,817	–23
Financial investments	(27)	21,255	22,067	–4
Financial investments accounted for under the equity method	(28)	–	–	–
Intangible assets	(29)	45	65	–31
Property, plant and equipment	(30)	215	260	–17
Investment property	(30)	68	39	74
Non-current assets held for sale and disposal groups	(31)	25	186	–87
Current tax assets	(32)	59	105	–44
Deferred tax assets	(33)	1,222	1,267	–4
Other assets	(34)	364	140	>100
Total assets		**109,022**	**130,606**	**–17**

LIABILITIES

(€ m)	Note	**2013**	2012	Change in %
Liabilities to banks	(35)	18,212	29,934	–39
Liabilities to customers	(36)	40,697	41,308	–1
Securitised liabilities	(37)	28,561	31,459	–9
Negative fair values of hedging derivatives	(38)	934	943	–1
Negative adjustment item from portfolio fair value hedge		961	1,545	–38
Trading liabilities	(39)	7,102	11,450	–38
Provisions	(40)	1,360	1,664	–18
Liabilities relating to disposal groups	(42)	–	183	–100
Current tax liabilities	(43)	202	108	87
Deferred tax liabilities	(44)	27	14	93
Other liabilities	(45)	1,154	1,335	–14
Subordinated capital	(46)	5,288	5,391	–2
Equity	(47)	4,524	5,272	–14
Share capital		3,018	3,018	–
Capital reserve		594	594	–
Retained earnings		1,768	1,876	–6
Revaluation reserve		27	–31	>–100
Currency conversion reserve		–64	–59	8
Other net income from financial investments accounted for under the equity method		3	–	–
Other net income from non-current assets held for sale and disposal groups		3	–	–
Group net result		–812	–120	>100
Total before non-controlling interests		4,537	5,278	–14
Non-controlling interests		–13	–6	>100
Total equity and liabilities		**109,022**	**130,606**	**–17**

GROUP STATEMENT OF CHANGES IN EQUITY

GROUP STATEMENT OF CHANGES IN EQUITY

(€ m)

	Note	Share capital	Capital reserve	Retained earnings	
					of which actuarial gains/losses acc. to IAS 19
As at 1 January 2012		**2,635**	**809**	**1,904**	**104**
Group net loss		–	–	–	–
Changes not recognised in the income statement		–	–	–105	–105
Changes recognised in the income statement		–	–	–	–
Comprehensive income as at 31 December 2012		**–**	**–**	**–105**	**–105**
Dividend payments and distributions		–	–	–	–
Capital increases [1]		383	116	–	–
Transfer of Group net loss for the previous year		–	–	–264	–
Change in the capital reserve		–	–331	331	–
Changes in the scope of consolidation		–	–	–	–
As at 31 December 2012		**3,018**	**594**	**1,876**	**–1**
As at 1 January 2013		**3,018**	**594**	**1,876**	**–1**
Changes in the scope of consolidation		–	–	–7	–
Adjusted as at 1 January 2013		**3,018**	**594**	**1,869**	**–1**
Changes not recognised in the income statement		–	–	10	10
Changes recognised in the income statement		–	–	–	–
Exchange rate changes		–	–	–	–
Comprehensive income as at 31 December 2013		**–**	**–**	**10**	**10**
Changes in retained earnings		–	–	9	1
Transfer of Group net loss for the previous year		–	–	–120	–
Changes in the scope of consolidation		–	–	–	–
As at 31 December 2013	(47)	**3,018**	**594**	**1,768**	**10**

[1] The capital increase in cash and in kind amounts to € 500 million before deducting transaction costs incurred on the capital increase.

Currency conversion reserve	Revaluation reserve	Financial investments accounted for under the equity method	From non-current assets held for sale and disposal groups	Accumulated other comprehensive income	Group net profit/loss	Total before non-controlling interests	Non-controlling interests	**Total**
–57	**–208**	**–**	**–**	**–161**	**–264**	**4,819**	**–3**	**4,816**
–	–	–	–	–	–120	–120	–4	**–124**
–	185	–	–	80	–	80	–	**80**
–	–9	–	–	–9	–	–9	–	**–9**
–10	**177**	**–**	**–**	**62**	**–120**	**–58**	**–4**	**–62**
–	–	–	–	–	–	–	–1	**–1**
–	–	–	–	–	–	499	–	**499**
–	–	–	–	–	264	–	2	**2**
–	–	–	–	–	–	–	–	**–**
8	–	–	–	8	–	8	–	**8**
–59	**–31**	**–**	**–**	**–91**	**–120**	**5,278**	**–6**	**5,272**
–59	**–31**	**–**	**–**	**–91**	**–120**	**5,278**	**–6**	**5,272**
–	–	–	–	–	–	–7	–	**–7**
–59	**–31**	**–**	**–**	**–91**	**–120**	**5,271**	**–6**	**5,265**
–	101	3	3	117	–	117	–	**117**
–	–37	–	–	–37	–	–37	–	**–37**
–5	–6	–	–	–11	–	–11	–	**–11**
–5	**58**	**3**	**3**	**69**	**–812**	**–743**	**–2**	**–745**
–	–	–	–	1	–	9	–	**9**
–	–	–	–	–	120	–	–	**–**
–	–	–	–	–	–	–	–5	**–5**
–64	**27**	**3**	**3**	**–21**	**–812**	**4,537**	**–13**	**4,524**

GROUP CASH FLOW STATEMENT

CASH FLOW STATEMENT

(€ m)	2013		2012	
Net result for the period		–814		–124
Reconciliation with cash flow from operating activities				
Depreciation, impairments and write-ups on loans and advances, property, plant and equipment, financial investments, intangible assets and investment property		2,071		1,723
a) Loans and advances to customers and banks	2,050		1,399	
b) Financial investments	–83		173	
c) Property, plant and equipment/intangible assets/investment property	104		151	
Changes in provisions		–127		230
Other non-cash expenses/income		–639		–76
Profit/loss from disposal of financial investments and property, plant and equipment/investment property		–203		–48
a) Financial investments	–194		–53	
b) Property, plant and equipment/investment property	–9		5	
Other adjustments		–712		–1,596
Subtotal		**–424**		**109**
Changes in loans and advances		14,049		8,939
a) to banks	3,280		–576	
b) to customers	10,769		9,515	
Changes in trading assets		3,418		–597
Changes in other assets from continuing operations		–259		35
Changes in liabilities		–12,295		6,480
a) to banks	–11,740		5,332	
b) to customers	–555		1,148	
Changes in securitised liabilities		–2,841		–7,653
Changes in trading liabilities		–4,729		–886
Changes in other liabilities from continuing operations		–408		–622
Interest and dividends received		6,320		8,647
Interest paid		–5,503		–7,889
Income tax payments		–111		171
Cash flow from operating activities		**–2,783**		**6,734**
Receipts from disposals of		5,900		4,961
a) securities	5,735		4,942	
b) interests in affiliated companies and equity holdings	64		173	
c) property, plant and equipment	101		–154	
Purchases of		–4,867		–4,752
a) securities	–4,708		–4,749	
b) interests in affiliated companies and equity holdings	–113		37	
c) property, plant and equipment	–46		–40	
Cash flow from investing activities		**1,033**		**209**

CASH FLOW STATEMENT

(€ m)	2013	2012
Payments received from allocations to equity	–	498
Payments received (+) from subordinated capital	–	–
Payments made (–) from subordinated capital	–77	–2,550
Payments received (+) from silent participations	–	–
Payments made (–) from silent participations	–78	–
Distributions on equity	–1	–21
Cash flow from financing activities	**–156**	**–2,073**
Cash and cash equivalents at the beginning of the period	**6,745**	**1,866**
Cash flow from operating activities	–2,783	6,734
Cash flow from investing activities	1,033	209
Cash flow from financing activities	–156	–2,073
Changes in cash and cash equivalents due to exchange rate fluctuations	12	9
Cash and cash equivalents at the end of the period	**4,851**	**6,745**

Cash and cash equivalents are equivalent to the Cash reserve item in the statement of financial position and comprise cash on hand, balances at central banks, treasury bills, discounted treasury notes and similar debt instruments issued by public-sector bodies and bills of exchange.

The cash flow from operating activities is calculated using the indirect method, whereby the Group net income/loss for the year is adjusted for non-cash expenses (increased) and non-cash income (reduced) and for cash changes in assets and liabilities used in operating activities.

The following cash flows resulted from the obtaining or loss of control over subsidiaries during the financial year:

SUBSIDIARIES

(€ m)	Obtaining control	Loss of control
Consideration paid/received	–	4.5
of which cash and cash equivalents	–	4.5
Amount of cash and cash equivalents	3.6	219.4

Assets and liabilities of subsidiaries, over which control was obtained or lost during the financial year, comprise the following:

ASSETS

(€ m)	Obtaining control	Loss of control
Financial investments	0.2	50.0
Property, plant and equipment	44.6	–
Investment property	42.4	–
Non-current assets held for sale and disposal groups	–	126.1
Other assets	16.4	1.6

LIABILITIES

(€ m)	Obtaining control	Loss of control
Liabilities to customers	–	1.5
Provisions	13.5	3.6
Liabilities relating to disposal groups	–	212.2
Other liabilities	34.8	27.0
Equity	72.8	152.8

GROUP EXPLANATORY NOTES

GENERAL INFORMATION

1. ACCOUNTING PRINCIPLES

HSH Nordbank has issued debt instruments as defined in Section 2 (1) sentence 1 of the German Securities Trading Act (WpHG) on an organised market as defined in Section 2 (5) WpHG and is thus obliged, as a publicly traded company as defined in Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 in conjunction with Section 315a (1) of the German Commercial Code (HGB), to draw up its consolidated financial statements in accordance with International Accounting Standards (IFRS/IAS). International accounting standards, hereafter IFRS or standards, refer to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) and the associated interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), published by the International Accounting Standards Board (IASB) and adopted under the IAS Regulation as part of the EU endorsement.

The supplementary provisions of Section 315a HGB are taken into account and are shown individually in Note 65.

The consolidated financial statements are prepared in accordance with IFRS as published by the IASB and adopted as European law by the European Union (EU).

During the current financial year, the following accounting standards need to be applied for the first time as a matter of principle:

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income

This amendment has changed the presentation of Other comprehensive income in the statement of comprehensive income. The items of Other comprehensive income which are subsequently reclassified to the income statement under certain conditions (“recycling”) are now presented separately from the items of Other comprehensive income which are never reclassified. To the extent the items are stated as a gross figure, that is without netting with effects of deferred taxes, deferred taxes are no longer stated in total but rather are allocated to both groups of items.

HSH Nordbank has complied with the changed disclosure requirements regarding the statement of comprehensive income. Comparative figures were adjusted accordingly.

Amendments to IAS 12 – Recovery of Underlying Assets

In the case of investment property it is often difficult to assess whether existing temporary tax differences will be reversed in the course of continued use or in the case of a disposition. The amendment to IAS 12 clarifies that deferred taxes must be measured on the basis of the rebuttable presumption that they will be reversed as a result of a disposition.

The change did not have any material impact for HSH Nordbank.

Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities

This amendment to IFRS 7 expands the note disclosures regarding financial instruments that are to be offset and can be offset.

It did not have a material impact for HSH Nordbank. HSH Nordbank has complied with the expanded disclosure requirements in Note 52.

IAS 19 – Employee Benefits (revised 2011)

The most material change resulting from the revision of IAS 19 (revised 2011) relates to the accounting for pension obligations under defined benefit plans.

Up to now there existed an option regarding the manner in which so-called actuarial gains and losses can be recognised. It was possible to recognise these either (a) in the income statement, (b) in Other comprehensive income (OCI), or (c) on a deferred basis by means of the so-called corridor method. Under the revised IAS 19 this option has been abolished in favour of a more transparent and comparable presentation so that only immediate and full recognition in the year in which such gains or losses arise is now permitted. These must be recognised in Other comprehensive income. Past service cost is also now directly recognised through profit or loss in the year in which it is incurred.

Furthermore, the expected rate of return on plan assets has been determined up to now at the beginning of the accounting period on the basis of the management’s expectations with regard to the performance of the investment portfolio. The application of IAS 19 (revised 2011) now only permits the standardised rate of return on the plan assets equal to the amount of the discount rate applicable to the pension obligations at the beginning of the period.

In addition to the change in accounting treatment the note disclosures have also been changed, e.g. in the form of sensitivity analyses.

IAS 19 (revised 2011) does not entail any changes to the accounting treatment applied by HSH Nordbank to pension obligations with regard to the recognition of actuarial gains and losses as these had also been previously recognised in equity in OCI. Standardisation of the expected interest income earned on plan assets using the discount rate, which is to be applied now, does not have a material impact on the consolidated financial statements.

The changed definition of benefits triggered by the termination of the employment contract (termination benefits) affects the accounting treatment for top-up commitments agreed under partial retirement arrangements. Up to now the top-up amounts were classified as benefits triggered by the termination of the employment contract and were consequently provided for in their full amount at the time the partial retirement arrangement was agreed. As a result of the change in the definition of benefits triggered by the termination of the employment contract the top-up amounts no longer meet the conditions for the existence of benefits triggered by the termination of the employment contract when applying IAS 19 (revised 2011).

In essence, these constitute other long-term employee benefits, which are to be accrued rateably over the respective term of service of the employee. This also did not have a material impact for HSH Nordbank.

Previous year figures were not adjusted as the effects as described above are not material. For this reason information on the effects arising from the application of IAS 19 (revised 2011) was also not disclosed for 2013 in the form of a "what-if" calculation.

IFRS 13 – Fair Value Measurement

This standard imposes uniform rules on fair value measurement in IFRS financial statements. All fair value measurements required under other standards must comply now with the uniform guidelines of IFRS 13; additional, specific rules only continue to apply in the case of IAS 17 and IFRS 2. The standard replaces and also expands the disclosure requirements regarding measurement at fair value in other IFRS standards.

Fair value under IFRS 13 is defined as the exit price that is the price that would be realised upon the sale of an asset/the price that would need to be paid in order to transfer a liability. As already known from the fair value measurement of financial assets, a three-level hierarchy is established based on the dependence on observable market prices.

HSH Nordbank has prospectively applied the new rules regarding measurement at fair value in accordance with the transitional arrangements of IFRS 13 and not provided any comparable figures for the previous year for the new disclosures. Irrespective of this the change would not have had any material impact on the measurement of the assets and liabilities of the Group.

HSH Nordbank has complied with the expanded disclosure obligations in Note 52.

Improvements to IFRS 2009–2011

Amendments to five standards were made as part of the annual improvement project. Amendments to the wording of the individual IFRS should serve to clarify the existing rules. In addition, there were changes that affected recognition, the accounting approach, measurement as well as note disclosures. IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1 are affected by this.

These amendments do not have any material impact on HSH Nordbank.

The rules to be applied in future are set out below broken down by those already transposed into EU law (endorsed) and those not yet transposed into EU law.

Already endorsed by the EU:

IFRS 10 – Consolidated Financial Statements

This standard includes a new, comprehensive definition of the term "control". If an entity controls another entity, the parent company must include the subsidiary in its consolidated financial statements. According to the new definition of control, control exists if the potential parent has decision-making authority with respect to the potential subsidiary by means of voting or other rights, it has exposure to positive or negative variable returns from the subsidiary and it has the ability to use its power over the subsidiary to affect the amount of the returns. The new standard is to be applied by entities reporting under the IFRS for the first time in financial years starting on or after 1 January 2014. With specific exceptions, IFRS 10 is to be applied retrospectively. HSH Nordbank has been preparing for the initial application of IRFS 10, as part of a project, since April 2012. The meaning of classic loan collateralisation rights in the relationship between the Bank and loan customers, within the new IFRS 10 definition of control, is the subject of still ongoing and at times controversial discussions among professional experts internationally. For example, a task force at the Institute of Public Auditors in Germany – IDW is currently analysing questions in relation to this issue. HSH Nordbank has closely followed the expert discussions and has also participated in them. The Bank has enhanced its functional specification reflecting the last available status of these discussions and is assuming on this basis that the number of entities to be included in its consolidated financial statements will increase on the initial application of IFRS 10. Subject to developments in the specialist discussions referred to above in relation to the classic lending business, the following information is disclosed in order to assess any potential impact:

It is expected that in addition to the existing scope of consolidation, 11 entities (borrowers) will now meet the requirements of a subsidiary in accordance with IFRS 10. This is because financial and legal relationships with these entities already existing as at 1 January 2014 now require that these be classified as controlling interests under the new IFRS 10 regulations. It is unlikely that there will be entities for which full consolidation ceases to apply due to the first-time adoption of IFRS 10.

The entities to be newly included in the consolidated financial statements are borrowers from the Aviation and Real Estate divisions, whose main business purpose is to hold an object, aircraft or properties. These objects are accounted for in the consolidated statement of financial position under property, plant and equipment or as investment property. The major effects that could be reflected in the Group income statement in 2014 are depreciation of property, plant and equipment, which is recorded under administrative expenses or other operating income. Furthermore, initial consolidation is likely to result in a reduction in loan loss provisions and interest income. The reason for this is that the companies to be consolidated are borrowers. Full consolidation of these entities will only have a minimal impact on the total assets of the Group (less than 1 %). We anticipate that initial consolidation will result in a drop in Group equity by approximately 2 %.

HSH Nordbank is closely monitoring the course of the technical discussions in relation to the potential control of lending customers due to loan collateralisation. At the moment it is not possible to make any reliable statement whether and if so what other effects may ensue, other than those expectations outlined above.

IFRS 11 – Joint Arrangements

IFRS 11 imposes new rules on accounting for joint arrangements. On the basis of the new rules, a decision must be made as to whether a joint operation or a joint venture is involved. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The individual rights and obligations are accounted for in the consolidated financial statements on a pro rata basis. By contrast, a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. This right is presented in the consolidated financial statements using the equity method thereby eliminating the option of including it in the consolidated financial statements on a pro rata basis.

The new standard is to be applied for the first time in financial years which start on or after 1 January 2014. Specific guidelines are applicable during the transition, for example, from pro rata consolidation to the use of the equity method.

IFRS 12 – Disclosure of Interests in Other Entities

This standard governs disclosure obligations related to investments in other entities. The information required to be disclosed is significantly more comprehensive than has previously been the case under IAS 27, IAS 28 and IAS 31.

The new standard is to be applied for the first time in financial years which start on or after 1 January 2014.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance

The amendments include clarification and rules making transition to IFRS 10, IFRS 11 and IFRS 12 easier. Adjusted comparative information is only required for the preceding comparative period now. In connection with the note disclosures on non-consolidated structured entities the obligation to provide comparative information for periods before the period in which IFRS 12 is applied for the first time is also removed.

The amendments of IFRS 10, IFRS 11 and IFRS 12 are to be applied for the first time in financial years which start on or after 1 January 2014.

Amendments to IAS 27 – Separate Financial Statements

As part of the adoption of IFRS 10 Consolidated Financial Statements, the rules for the control concept and the requirements for the preparation of consolidated financial statements are being removed from IAS 27 and finally addressed in IFRS 10 (see comments on IFRS 10). As a result, IAS 27 will in future only contain rules related to accounting for subsidiaries, joint ventures and associates in IFRS single-entity financial statements.

The amendment is to be applied for the first time in financial years which start on or after 1 January 2014.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

Amendments were also made to IAS 28 as part of the adoption of IFRS 11 Joint Arrangements. IAS 28 continues to govern the application of the equity method. However, the scope of application has been considerably expanded through the adoption of IFRS 11, as not only investments in associates but also in joint ventures (see IFRS 11) have to be measured using the equity method. The use of proportionate consolidation for joint ventures is therefore no longer permitted. The amendments do not have any material impact for HSH Nordbank.

A further change relates to the accounting treatment under IFRS 5, if only a portion of an investment in an associate or a joint venture is held for sale. IFRS 5 is to be applied to the portion held for sale until it is sold, if the other portion (to be retained) continues to be accounted for under the equity method.

The amendment is to be applied for the first time in financial years which start on or after 1 January 2014.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

This addition to IAS 32 clarifies the requirements for offsetting financial instruments. It addresses the significance of the current legally enforceable right of offset and clarifies which methods including a gross offset may be deemed to be a net offset within the meaning of the standard.

The amendment of IAS 32 is to be applied for the first time in financial years which start on or after 1 January 2014.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

As part of a subsequent amendment to IFRS 13 Fair Value Measurement a new disclosure requirement was introduced for the goodwill impairment test as defined under IAS 36: the recoverable amount of the cash-generating units is to be disclosed regardless of whether an impairment loss was actually recognised. As this note disclosure was introduced unintentionally, it is deleted again under this amendment from May 2013.

On the other hand, this amendment contains additional disclosures if an impairment loss was actually recognised and the recoverable amount was determined on the basis of a fair value.

The amendment is to be applied for the first time in financial years starting on or after 1 January 2014.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

As a result of this amendment derivatives continue to be designated under certain conditions as hedging instruments in existing hedging relationships despite novation of a hedging instrument to a central counterparty as a consequence of legal requirements.

The amendment is to be applied for the first time in financial years starting on or after 1 January 2014.

HSH Nordbank does not expect the provisions mentioned above to materially affect the consolidated financial statements, unless otherwise explicitly stated.

EU endorsement still pending:

IFRS 9 – Financial Instruments

The accounting treatment of financial instruments in accordance with IFRS 9 will replace IAS 39.

In future, financial assets are only to be classified and measured in two groups: at amortised cost and at fair value. The group of financial assets accounted for at amortised cost consists of those financial assets which provide for the payment of principal and interest payments only at set intervals and, in addition, are held as part of a business model the goal of which is the holding of assets. All other financial assets fall under the fair value group. Under certain conditions, financial assets within the first category may – as has been the case to date – be designated as at fair value (fair value option).

As a matter of principle, changes in value with respect to financial instruments within the fair value category must be recognised in profit or loss. However, in the case of certain equity instruments, an option may be exercised to recognise changes in value in OCI. Claims to dividends from such assets must, however, be recognised in profit or loss.

The guidelines applicable to financial liabilities have been generally adopted from IAS 39. The most important difference relates to the recognition of changes in value in financial liabilities measured at fair value. In future they must be allocated as follows: the portion allocated to a company's own credit risk must be recognised in Other comprehensive income, the remaining portion of the change in value needs to be reported directly in income or loss.

The effective date of the initial application of IFRS 9 is currently still open. The IASB has only issued passed a resolution to set 1 January 2018 as the date for initial application.

IFRS 9 – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39

The objective of the new hedge accounting model under IFRS 9 is to create a closer link between the risk management system and the balance sheet treatment. The types of hedging relationships still permitted are "cash flow hedge accounting", "fair value hedge accounting" and the "hedge of a net investment in a foreign operation".

The range of eligible hedged items and hedging instruments was expanded in each case. In particular, groups of hedged items, provided that the hedged items are individually eligible for hedge accounting, as well as net positions and net zero positions, can now be designated for hedge accounting. Any financial instrument, which is accounted for at fair value, is suitable in principle as a hedging instrument. Exceptions to this under the Phase I rules are liabilities, for which the fair value option was exercised, as well as equity instruments recognised under the FVOCI option ("fair value through other comprehensive income").

Under IFRS 9 the bright line thresholds of 80 % to 125 % required under IAS 39 for hedge effectiveness testing cease to apply, with the effect that retrospective effectiveness testing no longer has to be performed. Effectiveness testing is still required to be performed on a prospective basis and any ineffectiveness recognised through profit or loss.

A hedging relationship may only be terminated if the applicable criteria are met, this means that the hedging relationships must be continued if the risk management objective has not changed.

Additional disclosures are to be made with regard to the risk management strategy, the impact of risk management on future cash flows and the impact of hedge accounting on the financial statements.

In addition, own default risks for financial liabilities at FVO ("fair value option") may now be recognised through other comprehensive income on an isolated basis, i.e. without applying the remaining requirements of IFRS 9.

The initial application of the new hedge accounting rules follows the rules for the initial application of IFRS 9. Hedging relationships are not to be terminated due to the transition from IAS 39 to IFRS 9, provided that the requirements and qualitative characteristics are still met. The existing rules under IAS 39 may still be optionally applied under IFRS 9.

Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures

The amendments allow previous year figures not to be restated on the initial application of IFRS 9. This relief was originally only possible on an early application of IFRS 9 before 1 January 2012.

The relief entails additional note disclosures in accordance with IFRS 7 at the time of transition.

As is the case for IFRS 9 rules, the effective date of the initial application of these amendments is currently still open, but is not expected to be before 1 January 2018.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

The amendments clarify the rules relating to the allocation of employer contributions or contributions from third parties to service periods, if the contributions are linked to the service period. Furthermore, exemptions are granted if the contributions are not dependent on the number of completed years of service.

These amendments – subject to their transposition into EU law – have to be applied for the first time in financial years beginning on or after 1 July 2014.

IFRIC 21 – Levies

IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The question as to when does a present obligation arise on levies collected by public authorities and when is a provision or liability to be recognised is clarified in particular. The Interpretation does not apply in particular to fines and penalties resulting under public law contracts or to levies that fall within the scope of other IFRS standards, e.g. IAS 12 Income Taxes. Under IFRIC 21 a liability is to be recognised for levies when the event that triggers payment of the levy occurs. This obligating event is in turn based on the wording in the underlying standard, the formulation of which is critical for the accounting treatment in this respect.

These amendments – subject to their transposition into EU law – have to be applied for the first time in financial years beginning on or after 1 January 2014.

Improvements to IFRS 2010–2012

Amendments to seven standards were made as part of the annual improvement project. Amendments to the wording of the individual IFRS should serve to clarify the existing rules. There are also amendments that affect the note disclosures. The standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 are affected by this.

These amendments – subject to their transposition into EU law – have to be applied for the first time in financial years beginning on or after 1 July 2014 and the amendment to IFRS 2 is to be applied for the first time to share-based payments granted on or after 1 July 2014.

Improvements to IFRS 2011–2013

Amendments to four standards were made as part of the annual improvement project. Amendments to the wording of the individual IFRS should serve to clarify the existing rules. The standards IFRS 1, IFRS 3, IFRS 13 and IAS 40 are affected by this.

Subject to the still-pending adoption into EU law, the amendments need to be applied for the first time in financial years which start on or after 1 July 2014.

The consolidated financial statements of HSH Nordbank are prepared in line with IAS 27.24 according to uniform Group-wide accounting policies. The consolidated financial statements include the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the notes, including segment reporting. In addition to the consolidated financial statements a Group management report in accordance with Section 315 of the German Commercial Code was prepared.

Accounting and measurement are based on the assumption that the Bank is a going-concern. The Bank's corporate planning forms the basis for the going-concern assumption. Assessments, which form the basis for the corporate planning and in particular the planning for the movement in loan loss provisions over the long-term, the payment default plan and the resultant actual drawdown of the second loss guarantee, take information available to us at this point in time into account. These assessments are dependent on factors that are mostly outside the control of the Bank and are therefore subject to a significant degree of uncertainty. This applies, for example, to expectations regarding macroeconomic trends, exchange rates, freight and charter rates or changes in the regulatory framework. Furthermore, the very long planning horizon for the long-term loan loss provision planning is causing significant uncertainty.

The assumption of the Bank as a going-concern is based on the EU Commission granting final clearance to the replenishment of the guarantee that provides capital relief and to the amendment of the guarantee agreement following the preliminary approval given in June 2013 and such clearance will only be tied to conditions that can be implemented within a sustainable corporate plan. It is also necessary that the acceptance by market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank AG's business model be preserved.

Group income and expenses are accrued on a pro rata temporis basis in the Group. They are recorded and reported in the period to which they must be assigned economically. Accounting for assets, liabilities, income and expenses takes place on a consistent basis. Deviations are only made in justified exceptional cases which are explained separately in the Notes on the relevant items in the HSH Nordbank consolidated financial statements.

Unless explicitly stated otherwise, all amounts are in millions of euros (€ m).

The reporting year corresponds to the calendar year.

IFRS 7.31 et seq. contains rules on presenting risks arising from financial instruments. In this regard, IFRS 7.B6 allows for the possibility of disclosing risk in a suitable medium separate from the consolidated financial statements. Availing itself of this option, HSH Nordbank has published disclosures about financial instruments as permitted by IFRS 7.31 et seq. predominantly in the Group Risk report within the Group Management Report. Specifically, this relates to the overall qualitative and quantitative risk information disclosed under IFRS 7.33 et seq. and the total market Risk reporting under IFRS 7.40–42 as well as the description of how liquidity risk is managed as required by IFRS 7.39 (c).

In addition, as part of the supplementary German commercial regulations the Group observed the following German Accounting Standards (GAS) in preparing these consolidated financial statements and this Group Management Report:

- GAS 20 Management Reporting
- GAS 17 Reporting on the Remuneration of Members of Governing Bodies.

2. PROVISION OF A GUARANTEE FACILITY

Basics of the effect of the second loss guarantee

On 2 June 2009 the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee facility in the amount of € 10 billion via the HSH Finanzfonds AöR as the guarantor in order to secure the future of the Bank. This agreement on the provision of a guarantee facility as well as a related recapitalisation of the Bank are subject to approval by the European Commission in accordance with the law regarding state aid. The EU Commission concluded these state aid proceedings at the end of September 2011 and entered into an agreement on commitments with all the parties involved and imposed conditions. The conditions include a prohibition on the payment of dividends until the financial year 2014 (including the financial year ending on 31 December 2014). The guarantee of the federal states is split into two partial guarantees for financial reporting purposes. Partial guarantee 1 relates to structured financial instruments, in particular those that are full or partial derivatives in nature and equity instruments. Partial guarantee 1 is recognised in the consolidated financial statements as a financial guarantee contract in accordance with IAS 39.9. Partial guarantee 2 is recognised as a credit derivative.

The guarantor guarantees actual rating-related defaults on financial instruments selected based on certain defined criteria that form part of the assets of HSH Nordbank AG.

The amount of default on a specific commitment is determined by the amount outstanding, taking into account the specific loan loss provision existing as at 31 March 2009. The amount outstanding is at the most the amount repayable as at 31 March 2009, plus all interest owed and other ancillary payments. Losses may only be allocated under the guarantee once the guarantee case has been examined and approved by the guarantor.

The guarantee expires when it is returned to the guarantor after the last reference commitment in the hedged portfolio has been met irrevocably and in full or has resulted in a guarantee case for the full amount. HSH Nordbank AG may reduce the guarantee to € 4 billion between 1 January 2010 and the end of 2013 through partial cancellations of no more than € 3 billion per year. The guarantee may be cancelled in full from 2014 onwards.

In 2011 the guarantee was reduced by a total of € 3 billion to € 7 billion. The guarantee facility was replenished as at 30 June 2013 by € 3 billion to the original amount of € 10 billion. The guarantee agreement was adjusted by way of an appropriate amendment agreement. Under this agreement the fee provisions for the replenished guarantee remain essentially unchanged. A one-off payment of € 275 million becomes payable, however, on the coming into force of the amendment agreement. Through this the guarantor is put in a position as if the guarantee had never been reduced. The one-off payment represents a fee for a time-related service and is amortised over the period of the expected benefit in accordance with IAS 18. In 2013 € 69 million has been recognised through profit or loss in the Expenses for government guarantees line item. The EU Commission provisionally approved the replenishment of the guarantee and at the same time initiated a formal review process, which will probably be concluded in 2014.

In exchange for the guarantee HSH Nordbank AG pays a contractually agreed base premium of 4 % p.a. on the guarantee volume outstanding at the time. Drawdowns do not reduce the calculation basis of the premium. The recurring base premium payable is recognised through profit or loss on an accrual basis in the Expenses for government guarantees line item.

As long as and insofar as a the cash drawdown of the guarantee is not yet made through the invoicing of losses that in total exceed the first loss piece of € 3.2 billion to be borne by the Bank, a claim for compensation against HSH Finanzfonds AöR cannot be recognised. Against this background the hedging effect of the guarantee recognised in the balance sheet is accounted for on a net basis. The Bank initially determines specific and general loan loss provisions without taking the hedging effect of the second loss guarantee into account and then records the balance sheet hedging effect through the use of a compensation item that reduces the loan loss provision amount disclosed on the balance sheet accordingly. The actual individual and general loan loss provisions recognised are not changed by the accounting applied to hedging effect.

The compensation item is reduced by the additional premium imposed by the EU Commission in the amount of 3.85 % p.a. This additional premium is only paid to HSH Finanzfonds AöR in the case of an actual drawdown of the guarantee. The additional premium is payable at the latest until 31 December 2019 and ceases to apply retroactively in the event that the guarantee is not drawn down. For the compensation item deduction the Bank calculates the additional premium (ex post) on the actual balance sheet hedging effect (compensation item). The additional premium also results in the recognition of a contingent liability in equity with a corresponding recourse claim against HSH Finanzfonds AöR, as the latter may only use the funds on an actual drawdown of the guarantee. The contingent liability resulting from this additional premium is calculated based on the outstanding guarantee facility not yet cancelled. This calculation has been performed since 1 April 2009.

If it is more likely than not that the guarantee will be drawn down, the premiums to be paid in the future also need to be recognised (on a present value basis) as loan collateral expense, as, according to the guarantee agreement, drawdowns do not reduce the basis for calculating the guarantee premiums. The future premiums result in a reduction of the compensation item as does the additional premium. The present value calculation gives rise to an interest effect, which is disclosed under net interest income.

Insofar as the obligation to pay the additional premium would have the effect of decreasing the Tier 1 capital ratio (both from an ex post and ex ante perspective) excluding hybrid capital (common equity ratio) of HSH Nordbank to below 10 % (minimum common equity ratio) or of increasing an already existing shortfall, the guarantor is obliged to waive the portion of the entitlement that would result in the ratio falling below the minimum common equity ratio against the issue of a debtor warrant (so-called capital protection clause).

If, during the restructuring and workout programme, measures consistent with the guarantee are implemented in respect of hedged commitments that conflict with recognition of the hedging instrument in the financial statements as a financial guarantee under IAS 39.9, commitments may be transferred to the partial guarantee 2 under the framework agreement that falls under the definition of a credit derivative under IFRS, subject to approval from the trustee appointed by the guarantor. The maximum guarantee amount is not altered by the revival of partial guarantee 2, as the sum of the individual amounts remains the same. The hedging effect of the partial guarantee 2 amounted to € 3.4 million as at 31 December 2013. An additional premium in the amount of € 1.7 million was allocated to this amount.

In 2011 HSH Nordbank AG was obliged to make a one-off payment in the amount of € 500 million to the guarantor of the second loss guarantee that had to be raised by means of a contribution in kind. The Annual General Meeting in an extraordinary meeting held on 18 January 2012 resolved to increase capital by means of a mixture of cash and non-cash contributions. This increase became effective on the entry of the capital increase in the commercial registers on 20 February 2012.

Accounting impact of the second loss guarantee in the 2013 financial year

The hedging effect of the guarantee facility granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR, which was reported on the face of the balance sheet for the first time as at 31 December 2010, amounted to € 4,039 million as at 31 December 2013 (previous year: € 2,807 million).

We are assuming that the expected payment defaults in the lending business portfolio covered by the guarantee will exceed the amount retained by the Bank of € 3.2 billion. Future expected fees (base and additional premium) for the second loss guarantee were recognised for the first time starting in the 2012 reporting year in loan loss provisions on the basis of this. These amounted to € 568 million at the end of the 2013 financial year and are offset against the compensation item. An amount of € 328 million is attributable to the future additional premium (ex ante additional premium) and € 240 million to future basic premium (ex ante basic premium).

The common equity ratio has increased above the benchmark of 10 % during the 2013 financial year with the effect that the amounts recognised in 2012 under the debt waiver (income in 2012: € 718 million) and the debtor warrant (expense in 2012: € 713 million) were reversed through profit or loss (GuV-Auswirkung im Jahr 2013: – 5 Mio. €).

Amount of € 4,039 million was initially offset in the loan loss provisions line item as at 31 December 2013. An additional premium of 3.85 % p.a. was calculated on this amount for the period between 1 April 2009 to 31 December 2013 and an amount of € 750 million recognised as an expense in loan loss provisions (€ 338 million of which is attributable to the financial year 2013). In addition a claim for compensation of interest of € 7 million was calculated. The future premiums of € 568 million (of which € 95 million is attributable to the 2013 financial year) were also determined. As settlement would be made on a net basis with HSH Finanzfonds AöR in the event of an actual drawdown of the guarantee, the compensation item and the attributable additional postings under the additional premium (ex post and ex ante), the claim for compensation of interest, the base premium (ex ante) as well as the debt waiver and the debtor warrant are netted. After taking into account all components to be offset under the agreement the compensation item in the loan loss provisions on the balance sheet is € 2,714 million (previous year: € 1,924 million). The corresponding compensation effect in loan loss provisions in the income statement amounts to € 744 million (previous year: € 567 million).

HEDGING EFFECT OF THE GUARANTEE

(€ m)	**2013**	2012	**2013**		2012	
	Balance sheet	Balance sheet	Income statement		Income statement	
	Loan loss provisions	Loan loss provisions	Loan loss provisions	Net interest income	Loan loss provisions	Net interest income
Hedging effect before guarantee costs	4,039	2,807	1,232	–	1,282	–
Additional premium ex post	–750	–412	–338	–	–247	–
Debt waiver	–	718	–718	–	715	3
Debtor warrant	–	–713	713	–	–710	–3
Base and additional premium ex ante	–568	–473	–145	50	–473	–
Claim for compensation of interest	–7	–3	–	–4	–	–3
Compensation under the second loss guarantee	**2,714**	**1,924**	**744**	**46**	**567**	**–3**

Since the 2009 reporting year the Bank has recorded premium expense totalling approx. € 3,549 million for the provision of the second loss guarantee, € 2,328 million has been paid to date, of which € 1,553 million is attributable to the current base premium and € 775 million to one-off payments.

3. CONSOLIDATION PRINCIPLES

The consolidated financial statements present the parent company HSH Nordbank AG together with the consolidated subsidiaries, including special purpose entities (SPEs), as an economic unit.

Special purpose entities and specific funds included thereunder are included in the scope of consolidation if they are subsidiaries and if they are material for the presentation of HSH Nordbank's net assets, financial position and earnings. All special purpose entities affected in the year under review were required to be fully consolidated, some of them on the basis of SIC-12.

Wherever possible, the financial statements of consolidated subsidiaries used to draw up the consolidated financial statements use the same reporting date as the parent company. The purchase method was used to consolidate subsidiaries, in accordance with IAS 27.18 in conjunction with IFRS 3.

Shares held by third parties in the equity of subsidiaries are shown as non-controlling interests in Group equity, provided these are not shares of external shareholders in consolidated commercial partnerships. Non-controlling interests are that part of the net results for the period and net assets of a subsidiary related to shares not directly held by the parent company or by a Group subsidiary. Shares of external shareholders in consolidated commercial partnerships constitute puttable financial instruments, which are classified as liabilities in the consolidated financial statements under IAS 32 AG29A and disclosed under Other liabilities. Changes in value are recognised in Other operating income/expenses in the consolidated income statement.

In accordance with IAS 27.20, intra-Group receivables, liabilities, expenses and income are eliminated within the framework of debt and/or expense and income consolidation for the purpose of the consolidated financial statements. Expenses and gains arising from the transfer of assets within the Group are eliminated in accordance with IAS 27.21.

Shares in subsidiaries which were not consolidated because of their subordinate importance are accounted for as available for sale (AfS) financial instruments using the reporting and measurement guidelines of IAS 39.

Joint ventures are based on contractual agreements under which two or more partners establish an economic activity under shared management. Associates are companies where HSH Nordbank AG can exercise a significant but not controlling influence directly or indirectly via subsidiaries.

Interests in joint ventures and associates that are material to the proper presentation of the Group's net assets, financial position and results of operations are consolidated under the equity method. In doing so, the Group's interest in a joint venture/share in an associate is initially measured at cost of acquisition and thereafter increased or decreased depending on the Group's share in the joint venture's/associate's profit or loss. The HSH Nordbank Group's share of other comprehensive income (OCI) of associates and joint ventures accounted for under the equity method are recognised directly in equity in other comprehensive income (OCI) in these consolidated financial statements. Following the application of the equity method the shares are reviewed in accordance with the measurement rules of IAS 39 (cf. Note 6) to determine whether an additional impairment loss is required. The relevant shares are stated in the statement of financial position under a separate line item.

Interest in joint ventures and associates, respectively, which were not consolidated under the equity method because of their subordinate importance have been stated in the statement of financial position as available for sale instruments using the reporting and measurement guidelines of IAS 39 and are reported under Financial investments. Where HSH Nordbank has no information as of the reporting date which would allow for the fair value of these interests to be reliably determined, measurement is based on acquisition cost analogously to the practice for non-consolidated subsidiaries.

Due to agreements ceding control and ongoing insolvency proceedings, HSH Nordbank holds in part voting rights in companies exceeding 50 % which do not result in a corresponding degree of control. In such cases, for purposes of defining the scope of consolidation as well as for purposes of preparing the list of shareholdings, the voting rights ratios were adjusted to the extent deemed reasonable under the special circumstances described above.

Please refer to Note 64 with regard to actual voting rights.

4. SCOPE OF CONSOLIDATION

In addition to the parent company HSH Nordbank AG, Hamburg/Kiel, 59 companies (previous year: 75) have been consolidated. This includes eight (previous year: six) special purpose entities which only need to be consolidated due to the requirements of SIC-12.

The following subsidiaries or special purpose entities are included in the consolidated financial statements of HSH Nordbank AG:

FULLY CONSOLIDATED COMPANIES

		Registered office	**2013** Share of equity capital in %	2012 Share of equity capital in %
1.	Adessa Grundstücksverwaltungsgesellschaft mbH & Co Vermietungs KG	Wiesbaden	0.0	0.0
2.	AGV Irish Equipment Leasing No. 1 unlimited	Dublin	99.6	99.6
3.	AGV Irish Equipment Leasing No. 4 Limited	Dublin	15.1	15.1
4.	Anthracite Rated Investments (Jersey) Ltd.	St. Helier	0.0	0.0
5.	Avia Management S.à.r.l. (former: Amentum Lux S.à.r.l.)	Luxembourg	100.0	100.0
6.	Bu Wi Beteiligungsholding GmbH	Hamburg	100.0	100.0
7.	Capcellence Private Equity Beteiligungen GmbH & Co. KG [6)]	Hamburg	100.0	100.0
8.	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG [2)]	Hamburg	83.3	83.3
9.	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG [2)]	Hamburg	83.3	83.3
10.	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG [2)]	Hamburg	83.3	83.3
11.	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG [2)]	Hamburg	83.3	83.3
12.	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG [2)]	Hamburg	83.3	83.3
13.	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG [2)]	Hamburg	83.3	83.3
14.	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG [2)]	Hamburg	83.3	0.0
15.	CHIOS GmbH	Hamburg	100.0	100.0
16.	CPM Luxembourg S.A. [5)]	Luxembourg	3.2	3.2
17.	CPM Securitisation Fonds S.A. [5)]	Luxembourg	3.2	3.2
18.	DEERS Green Power Development Company S.L. [8)]	Zaragoza	99.0	99.0
19.	DMS Beteiligungs GmbH [1)]	Radolfzell	100.0	100.0
20.	DMS Dynamic Micro Systems Semiconductor Equipment GmbH [3)]	Radolfzell	100.0	100.0
21.	Feronia GmbH	Hamburg	100.0	100.0
22.	GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG	Hamburg	100.0	100.0
23.	GODAN GmbH	Hamburg	100.0	100.0
24.	HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0	100.0
25.	HSH Care+Clean GmbH [4)]	Hamburg	51.0	51.0
26.	HSH Corporate Finance GmbH	Hamburg	100.0	100.0
27.	HSH Debt Advisory ApS	Copenhagen	100.0	100.0
28.	HSH Facility Management GmbH	Hamburg	100.0	100.0
29.	HSH Gastro+Event GmbH [4)]	Hamburg	100.0	100.0
30.	HSH Kunden- und Kontenservice GmbH	Hamburg	100.0	100.0
31.	HSH Move+More GmbH [4)]	Kiel	51.0	51.0
32.	HSH N Finance (Guernsey) Limited	St. Peter Port	100.0	100.0
33.	HSH N Financial Securities LLC	Wilmington	100.0	100.0
34.	HSH N Funding I	George Town	66.3	66.3
35.	HSH N Funding II	George Town	56.3	56.3
36.	HSH Nordbank Securities S.A.	Luxembourg	100.0	100.0
37.	HSH N Residual Value Ltd.	Hamilton	100.0	100.0
38.	HSH Private Equity GmbH	Hamburg	100.0	100.0
39.	HSH Restructuring Advisory ApS	Copenhagen	100.0	100.0
40.	HSH Security GmbH	Kiel	100.0	100.0
41.	ISM Agency, LLC [7)]	New York	100.0	0.0
42.	Kontora Family Office GmbH	Hamburg	75.0	75.0
43.	K/S Angered	Hellerup	0.0	0.0
44.	Life Insurance Fund Elite LLC	New York	0.0	0.0
45.	Life Insurance Fund Elite Trust	New York	0.0	0.0
46.	Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
47.	Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0	100.0

FULLY CONSOLIDATED COMPANIES

		Registered office	**2013** Share of equity capital in %	2012 Share of equity capital in %
48.	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie. S.e.c.s.	Luxembourg	100.0	100.0
49.	Next Generation Aircraft Finance 2 S.à.r.l.	Munsbach	49.0	49.0
50.	Next Generation Aircraft Finance 3 S.à.r.l.	Munsbach	49.0	49.0
51.	RESPARCS Funding Limited Partnership I	Hong Kong	0.0	0.0
52.	RESPARCS Funding II Limited Partnership	St. Helier	0.0	0.0
53.	Senior Assured Investment S.A.	Luxembourg	0.0	0.0
54.	Senior Preferred Investments S.A.	Luxembourg	0.0	0.0
55.	Solar Holdings S.à.r.l.	Luxembourg	100.0	100.0
56.	Sotis S.à.r.l. [5]	Luxembourg	100.0	100.0
57.	Teukros GmbH	Hamburg	100.0	100.0
58.	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0	100.0
59.	2200 Victory LLC	Dover	100.0	100.0

[1] Subsidiary of Bu Wi Beteiligungsholding GmbH
[2] Subsidiaries of Capcellence Private Equity Beteiligungen GmbH & Co. KG
[3] Subsidiary of DMS Beteiligungs GmbH
[4] Subsidiaries of HSH Facility Management GmbH
[5] Subsidiaries of HSH Nordbank Securities S.A.
[6] Subsidiary of HSH Private Equity GmbH
[7] Subsidiary of Life Insurance Fund Elite LLC
[8] Subsidiary of Solar Holdings S.à.r.l.

The companies RESPARCS Funding Limited Partnership I and RESPARCS Funding II Limited Partnership are consolidated under the provisions of IAS 27 based on the majority of voting rights.

An overview of the consolidated companies that are to be classified as subsidiaries solely on the basis of SIC-12 is provided in the list of shareholdings (see Note 64).

In the first half of 2013 AGV Irish Equipment Leasing No. 4 Limited was split from an economic perspective into two cross-liability ring-fenced transactions (silos within the meaning of IAS SIC-12) due to contractual arrangements. In this connection a portion of the assets and liabilities of the company were economically attributed to HSH Nordbank AG (silo 1), whereas another portion is to be economically attributed to another bank (silo 2). The silo of the other bank was therefore already deconsolidated in the interim Group financial statements as at 30 June 2013. An income of € 16 million resulted from the deconsolidation, which is included in Other operating income.

Control over Anthracite Rated Investments (Jersey) Ltd. is based on contractual agreements in accordance with IAS 27.13 (b) and only relates to a silo identifiable within the company and attributable to HSH Nordbank AG. The Bank has the contractual authority to issue instructions regarding the silo assets; HSH Nordbank AG does not hold a majority of the voting rights in the company.

The following companies are fully consolidated for the first time in the reporting period:

- CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg
- ISM Agency, LLC, New York
- K/S Angered, Hellerup
- Life Insurance Fund Elite LLC, New York
- Life Insurance Fund Elite Trust, New York
- Next Generation Aircraft Finance 2 S.à.r.l., Munsbach
- Next Generation Aircraft Finance 3 S.à.r.l., Munsbach

The following companies included in the scope of consolidation as at 31 December 2012 are no longer consolidated:

- AVUS Fondsbesitz und Management GmbH, Berlin
- AVUS Grundstücksverwaltungs-GmbH, Berlin
- Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg
- EALING INVESTMENTS LIMITED, London
- Einkaufs-Center Plovdiv GmbH & Co. KG, Hamburg
- Enders Holdings LLC, Dover
- Endor 9. Beteiligungs GmbH & Co. KG, Hamburg
- Grundstücksgesellschaft Barstraße GbR (GEHAG-Fonds 18), Berlin

- Grundstücksgesellschaft Rudow-Süd/Straße 633 GbR (GEHAG Fonds 20), Berlin
- HGA Capital Grundbesitz und Anlage GmbH, Hamburg
- HGA Fondsbeteiligung GmbH, Hamburg
- HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg
- HSH Real Estate GmbH, Hamburg
- HSH Real Estate US Invest, LLC, Wilmington
- International Fund Services & Asset Management S.A., Munsbach
- Jantar GmbH, Hamburg
- KAPLON GmbH & Co. KG, Hamburg
- Kipper Corporation, Wilmington
- Löddeköpinge Handel AB, Stockholm
- SBF II, LLC, Wilmington
- Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG, Hamburg
- TERRANUM "die Zweite" GmbH & Co. KG, Hamburg
- Turis 1. Beteiligungs GmbH & Co. KG, Hamburg

As a result of a partial repayment of a compulsory capital contribution under a shareholders' resolution dated 8 March 2013 Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG is no longer a subsidiary of HSH Nordbank AG and is therefore no longer fully consolidated. The deconsolidation does not give rise to any income effect.

EALING INVESTMENTS LIMITED was dissolved with effect from 29 January 2013. Enders Holdings LLC was also dissolved with effect from 27 September 2013. Income effects of € 0 and €k –66, respectively, were recognised on the deconsolidation of these companies, which are disclosed under Other operating income.

The Bank sold all shares in International Fund Services & Asset Management S.A. with effect from 12 December 2013. A loss in the amount of € 2 million results from the deconsolidation due to the loss of control, which is presented under Other operating income.

With effect from 15 April 2013 HSH Nordbank AG sold its shares in Löddeköpinge Handel AB. A loss of € 19,000 resulted from the deconsolidation due to the loss of control, which is included in Other operating income.

Kipper Corporation and SBF II, LLC were dissolved as at 18 December 2013. This resulted in income on deconsolidation of € 4 million that is disclosed under Other operating income.

With economic effect from 16 June 2013 the shares in Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG passed to Jantar GmbH by way of accretion. Jantar GmbH was subsequently merged with economic effect from 1 January 2013 into the similarly fully consolidated subsidiary, HSH Auffang- und Holdinggesellschaft mbH & Co. KG.

The non-inclusion of the other above-mentioned companies as at 31 December 2013 resulted from the sale of all shares in HSH Real Estate GmbH on 31 August 2013. HSH Nordbank AG lost control of a total of 14 companies through the sale of this intermediate holding company, via which numerous indirect equity holdings had been held up to that date. A gain of € 13 million was generated as a result of the deconsolidation, which is disclosed under Other operating income.

As at the 31 December 2013 reporting date, the following shares in associates or joint ventures are included in the consolidated financial statements using the equity method:

COMPANIES CONSOLIDATED AT EQUITY

		Registered office	**2013** Share of equity capital in %	2012 Share of equity capital in %
1.	Amentum Aircraft Leasing No. Five Limited	Dublin	49.0	49.0
2.	Amentum Aircraft Leasing No. Six Limited	Dublin	49.0	49.0
3.	Amentum Aircraft Leasing No. Three Limited	Dublin	49.0	49.0
4.	Amentum Aircraft Leasing No. Two Limited [1)]	Dublin	49.0	49.0
5.	Belgravia Shipping Ltd.	London	33.3	33.3
6.	PRIME 2006-1 Funding Limited Partnership	St. Helier	47.5	47.5
7.	Relacom Management AB [2)]	Stockholm	21.17	19.3
8.	SITUS NORDIC SERVICES ApS	Copenhagen	40.0	40.0

1) The company was consolidated under the equity method in 2013 for the first time.
2) The company was again included under the equity method in 2013 after it did not have to be included in the meantime.

Although HSH Nordbank does not hold any voting rights in PRIME 2006-1 Funding Limited Partnership, St. Helier, joint control is exercised in this case with other shareholders, because important decisions have to be made explicitly on a unanimous basis.

NOBIS Asset Management S.A., Luxembourg was included for the first time in the consolidated financial statements in the financial year 2013 using the equity method for reasons of materiality. However, based on the intent to sell in the short-term, the shares were reclassified to the held for sale category on 26 November 2013. The shares are disclosed as at the reporting date under the Non-current assets and disposal groups held for sale line item in accordance with IFRS 5.

The shares in Railpool Holding GmbH & Co. KG previously accounted for under the equity method are classified as held for sale as at 31 December 2013 due to the intention to sell these shares in the short term and are disclosed separately in accordance with IFRS 5.

Additional information on companies to be consolidated under the equity method may be found under Notes 12 and 28.

Through the realisation of collateral HSH Nordbank AG, Luxembourg Branch, acquired in January 2013 the controlling interest as defined in IAS 27 in Life Insurance Fund Elite LLC, its wholly owned subsidiary, ISM Agency LLC, as well as Life Insurance Fund Elite Trust (hereinafter: Life Insurance Group) based on contractual agreements. The Life Insurance Group holds a portfolio of US life insurance policies, which was financed by HSH Nordbank.

The table below provides an overview of the fair values at the time of acquisition of the identifiable assets and liabilities of the Life Insurance Group which were used for the initial consolidation:

(€ m)	Carrying amount prior to acquisition	Pre-existing relationship	Fair value
Assets			
Other assets	16	–	16
	16	**–**	**16**
Liabilities			
Liabilities to banks	42	– 42	–
	42	**– 42**	**–**
Net assets at the date of acquisition	**– 26**	**42**	**16**
Total consideration			**17**
Balance			**– 1**

The consideration shown in the above overview results from the fair value of the loan relationship existing prior to the business combination. Consideration was not paid in cash for the acquisition of the collateral. The positive difference of € 1 million arising on the purchase price allocation of the shares acquired as defined under IFRS 3 is recognised as goodwill and assigned to the cash-generating unit Restructuring Unit.

The business combination ended prior business relationships disclosed in Loans and advances to customers as well as Loan loss provisions for loans and advances to customers prior to the acquisition. No additional expenses for the period resulted from the termination of this previous business relationship.

The cumulative gains and losses of the company that are shown in the consolidated financial statements as of 31 December 2013 amount to € 5 million. The company contributed € 5 million to Other operating income.

Furthermore, the Luxembourg branch of HSH Nordbank AG exercises control over the similarly non-performing loan commitment granted to K/S Angered. HSH Nordbank is providing the financing for the real estate property held by the company, which is secured by the shares in the company which are pledged to HSH Nordbank. Because of problems with the debt servicing HSH Nordbank has the option on all voting shares of the company that can be exercised at any time and therefore holds control within the meaning of IAS 27 due to potential voting rights. The purpose of K/S Angered is to hold and manage a property.

The company was included in the consolidated financial statements of HSH Nordbank using the anticipated acquisition method. An impairment loss of € 10 million was recognised on the property and an impairment loss of € 1 million was recognised on an equity holding as part of the remeasurement at fair value of the assets and liabilities acquired as at the acquisition date. The measurement of liabilities to banks, all of which are due to HSH Nordbank, was adjusted by € 6 million to fair value. The fair values were determined in accordance with the statements made in Note 6.

The table below provides an overview of the fair values of the assets and liabilities of K/S Angered identified which were used for the initial consolidation as at 1 January 2013 following remeasurement:

(€ m)	Carrying amount prior to acquisition	Pre-existing relationship	Adjustment	Fair value
Assets				
Investment property	52		–10	42
Financial investments	1		–1	–
Loans and advances to banks	4		–	4
Other assets	–		–	–
	57		**–11**	**46**
Liabilities				
Liabilities to banks	49	–43	–6	–
Other liabilities	33		–	33
	82	**–43**	**–6**	**33**
Net assets at the date of acquisition	**–25**		**–5**	**13**
Total consideration				**42**
Balance				**–29**

The consideration shown in the above overview results from the fair value of the loan relationship existing prior to the business combination. The positive difference of € 29 million arising on the purchase price allocation of the shares acquired as defined under IFRS 3 is recognised as goodwill and also assigned to the cash-generating unit Restructuring Unit.

The business combination ended prior business relationships disclosed in Loans and advances to customers as well as Loan loss provisions for loans and advances to customers prior to the acquisition. No additional expenses for the period resulted from the termination of this previous business relationship.

The cumulative gains and losses of the company that are shown in the consolidated financial statements as of 31 December 2013 amount to € – 4 million.

Consequent on the assignment of the goodwill arising from both business combinations together with the above-mentioned non-performing loan commitment to the cash-generating unit Restructuring Unit in the 2013 financial year, an unscheduled impairment test was carried out for the Restructuring Unit in accordance with IAS 36 based on the measurement of the value in use. The goodwill is assigned as part of the initial retrospective consolidation of the two bail-out purchases for K/S Angered and Life Insurance Fund Elite as at 1 and 13 January 2013, respectively. The impairment test was therefore also performed on a retrospective basis. As a result of this impairment test the allocated goodwill (€ 30 million) is fully written off and the amortisation is disclosed under Other operating income.

5. MANAGEMENT ESTIMATES AND DISCRETIONARY DECISIONS

As permitted, estimates and assumptions for the measurement of assets and liabilities have been incorporated into the consolidated financial statements of HSH Nordbank. All estimates and judgments necessary for accounting and measurement according to IFRS were undertaken in accordance with the appropriate standard in each case, are continuously reassessed and are based on past experience and other factors including expectations of future events which appear reasonable under the circumstances. Specifically, the determination of the loan loss provisions taking into account the effects of the guarantee (see Note 6.I.C), future cash flows of hybrid financial instruments (see Note 6.I.E.), deferred taxes (see Note 6.III.6), determination of fair values (see Note 6.I.D.), provisions and pensions and similar obligations (see Note 6.III.5), as well as other provisions and goodwill (see Note 6.III.1) are affected by uncertainty. Where estimates were necessary on a large scale, the underlying assumptions are presented in greater detail in the relevant note.

With the exception of estimates, major discretionary decisions by management in the application of accounting and measurement methods include:

- use of the fair value option for financial instruments (see Note 6.I.A);
- not classifying financial instruments as held to maturity (HtM);
- applying the current reclassification rules under IAS 39 (see Note 50);
- determining fair values for certain financial instruments, including a judgement regarding the existence of an active or inactive market.

6. ACCOUNTING POLICIES

I. FINANCIAL INSTRUMENTS

A) Categorisation of financial assets and liabilities
A financial instrument is an agreement which simultaneously creates a financial asset for one company and a financial liability or equity instrument for the other company. Under IAS 39 all financial assets and liabilities including financial derivatives must be stated in the statement of financial position and measured according to the category to which they are assigned.

Financial assets and liabilities are stated in the statement of financial position if HSH Nordbank is counterparty under the contract for the corresponding financial instrument. Expected future transactions or contracts are not recognised.

Pending transactions in the form of derivatives must always be stated in the statement of financial position as financial assets or liabilities and measured at fair value on the trading date. Spot transactions in non-derivative financial assets (so-called "regular way contracts") are recognised as of the settlement date. The change in fair value between the trading date and settlement date is recognised according to the measurement rules for the category of asset. This means that changes in value of financial instruments in the category "available for sale" must be recognised in the revaluation reserve, while changes in value for the categories "designated at fair value" and "held for trading" are recognised in the income statement in Net trading income.

Other non-derivative financial assets which do not result from spot transactions, for example loans granted, are recognised as of the settlement date.

Non-derivative financial liabilities are recognised if one of the two parties to the contract has fulfilled the contract (settlement date).

Initial recognition is measured at fair value, which generally corresponds to the acquisition cost of the financial instrument.

Derecognition of a financial asset takes place on the settlement date. In the case of derivatives, derecognition takes place on the trading date.

Subsequent measurement of financial assets and liabilities depends on which IAS 39 category they were assigned to at the time of acquisition. The following distinctions are made here:

1. Financial assets and liabilities which are financial instruments at fair value recognised in profit or loss include both instruments held for trading (HfT) as well as instruments which are voluntarily and irrevocably designated at fair value (DFV) at the time of first recognition:

   a. All financial instruments held for trading and derivatives which are not part of a hedge accounting transaction are classified as held for trading (HfT).

      They are initially and subsequently measured at fair value. Transaction costs are recognised through profit or loss on acquisition date. In accordance with IAS 39.43, transaction costs are only included in the initial recognition in the case of financial assets or liabilities not measured at fair value and recognised in profit or loss. Where a market price exists in the form of an exchange quotation, this is used for the purposes of measurement. In other cases, the market price of comparable instruments or recognised measurement models, especially net present value methods and option pricing models, are used to determine fair value.

      These trading instruments and derivatives are stated under trading assets or trading liabilities on the statement of financial position. Ongoing measurement gains and losses and realised gains and losses on these financial instruments are incorporated into net trading income. Interest income and expenses as well as dividends arising from HfT transactions are recorded under net interest income.

b. In addition, certain complex structures arising from issued instruments and assets that contain derivatives requiring separation, as well as certain financial instruments which are a component of an economic hedge without satisfying the requirements of IAS 39 for hedge accounting, are also classified as designated at fair value (DFV). Furthermore, the fair value option is applied at HSH Nordbank to portfolios whose management and performance measurement is done on a fair value basis in accordance with the documented risk management strategy. This is possible, for example, with special funds and similar assets to be consolidated.

The designation at HSH Nordbank serves to avoid or reduce accounting mismatches from securities and loans hedged with interest rate derivatives. In addition, the fair value option is generally applied to any structures otherwise required to be segregated.

Financial assets designated as DFV primarily relate to positions in the credit investment portfolio (asset-backed securities, synthetic collateralised debt obligations, credit-linked notes) and convertible bonds. Financial liabilities designated as DFV specifically comprise structured registered and bearer instruments with imbedded interest, currency, equity and other risks.

Financial instruments in the fair value option are stated at fair value. These financial instruments are stated under Loans and advances to banks, Loans and advances to customers, Financial investments and Liabilities to banks, Liabilities to customers, Securitised liabilities and Subordinated capital. Gains or losses arising from ongoing measurement and realised gains or losses are stated under Net trading income. Interest income and expenses for these financial instruments are stated under Net interest income. To the extent dividend income is received, it is disclosed under Net interest income.

2. Loans and receivables, which are stated in the statement of financial position at amortised cost:

Non-derivative financial assets with fixed or determinable payments not traded on an active market when first recognised are shown under IAS 39.9 as loans and receivables (LaR). Exceptionally, this category also includes financial instruments which have been reclassified from the HfT and AfS categories in accordance with the changes in IAS 39 (rev. 2008) because there was no longer any active market and there is an intention and ability to hold the financial asset for the foreseeable future or to maturity.

An active market exists when quoted prices are regularly provided, e.g. by an exchange or a broker, and these prices are representative of actual transactions between arms-length third parties.

Financial instruments in this category are stated at cost of acquisition, equivalent to fair value at the time of initial recognition and taking transaction costs into account. They are measured subsequently at amortised cost; whereby premiums or discounts are amortised according to the effective interest method over the term and recognised in Net interest income. Financial instruments in the LAR category are shown under Cash reserves, Loans and advances to banks and Loans and advances to customers, Financial investments, Non-current assets held for sale and disposal groups or Other assets.

3. Financial assets available for sale (AfS) recognised at fair value under OCI and not taken through the income statement:

The category available for sale (AfS) encompasses all non-derivative assets which cannot be assigned to any of the other categories. The Group's AfS holdings relate primarily to marketable fixed income securities, investment fund units and equity instruments such as interests in affiliated companies and equity holdings which are recognised in accordance with IAS 39. They are recognised under cash reserves, loans and advances to banks, loans and advances to customers, financial investments, non-current assets held for sale and disposal groups or other assets.

The initial measurement of financial assets available for sale is at the fair value at the time of acquisition plus transaction costs. Fair value at the time of acquisition generally corresponds to the transaction price. Subsequently, financial instruments AfS are measured at fair value in accordance with IAS 39.46, to the extent that this can be reliably determined. Particularly for equity securities which are not listed and whose fair value cannot be determined reliably by other methods, subsequent measurement takes place at cost in accordance with IAS 39.46 (c) in conjunction with IAS 39 A81. These are primarily equity instruments of unlisted companies for which no active market exists and realistic estimates of the parameters determining market value are not possible because future expectations are difficult to forecast.

Changes in value to AfS instruments stated at fair value are not attributable to impairment, they are recorded in the revaluation surplus under Other comprehensive income (OCI) in equity (after allowing for deferred taxes), without affecting net income. By contrast, where hedged AfS instruments are concerned, the fluctuation relating to the hedged risk is recognised in the income statement under Net income from hedges and is separately disclosed as an adjustment item arising from the portfolio fair value hedge.

When an asset is sold and impaired the revaluation surplus is released and recognised as income or expense, so the gain or loss arising from the disposal is reflected in profit or loss. Any write-ups required after impairment are recognised directly in equity in Other comprehensive income (OCI) for equity securities and recognised in profit or loss for debt securities.

Amortisation of the difference between costs of acquisition and repayment amount for interest-bearing securities is stated under Net interest income, using the effective interest method.

4. Other liabilities (LIA):

Other liabilities (LIA) include liabilities which are neither part of the trading portfolio nor classified as DFV.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs. Fair value at the time of acquisition generally corresponds to the transaction price. In subsequent periods, they are measured at amortised cost using the effective interest method.

B) Classification of financial instruments

The classification of financial instruments required for reporting by IFRS 7.6 is similar to the categorisation of financial instruments according to IAS 39 for the items in the statement of financial position, in order to ensure a uniform and clear picture of the financial position and performance. The table below shows the classes of financial instruments at HSH Nordbank:

Measurement method	**Classes** IAS 39 category	Statement of financial position item/sub-item
Financial instruments measured at amortised cost	Loans and Receivables (LaR)	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
	Other liabilities (LIA)	Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
		Other liabilities
Financial instruments measured at cost	Available for Sale (AfS)	Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
Financial instruments measured at fair value	Held for Trading (HfT)	Trading assets
		Non-current assets held for sale and disposal groups
		Trading liabilities
		Liabilities relating to disposal groups
	Designated at Fair Value (DFV)	Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
	Available for Sale (AfS)	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
	n/a	Positive fair values of hedging derivatives
		Negative fair values of hedging derivatives
Financial instruments measured on the basis of other standards	n/a	Receivables under finance leases
Off-balance-sheet transactions	n/a	Contingent liabilities
		Irrevocable loan commitments
		Other obligations

The 2013 classification for disclosures under IFRS 13 relating to the previous year is the same as that presented above.

In addition to the holding categories a distinction is made with regard to the substance, characteristics and risk of the financial instruments for the classification of balance sheet line items and sub-items as listed above that fall within the scope of IFRS 13 for disclosures under IFRS 13 relating to the reporting year. These are defined in each case for non-derivative instruments and derivatives and comprise the following:

Non-derivative financial instruments	Debt instruments
	Contractually linked instruments
	Equity or quasi-equity instruments
	Other trading portfolios
Derivatives	Interest rate derivatives
	Cross-currency interest rate derivatives
	Currency derivatives
	Credit derivatives
	Structured derivatives
	Other derivatives

Debt instruments are classified as follows for quantitative disclosures under IFRS 13 relating to financial instruments classified as loans and receivables in the Loans and advances to banks and Loans and advances to customers balance sheet line items.

Statement of financial position item/sub-item	IAS 39 category	Classes
Loans and advances to banks	Loans and Receivables (LaR)	Debt instruments Payable on demand
		Debt instruments Other loans and advances
Loans and advances to customers	Loans and Receivables (LaR)	Debt instruments
		Retail customers
		Corporate clients
		Public authorities

C) Loan loss provision and impairment of financial instruments

At every reporting date, a check is performed to establish whether there is objective evidence for the impairment of a financial asset which is not measured at fair value recognised in profit or loss.

An impairment test is performed if, after initial recognition of a financial instrument, there is objective evidence of an impairment which would have an impact on the anticipated future cash flows from the financial instrument.

Criteria for impairment are essentially major financial difficulties for the borrower and indications that, based on current information, interest payments cannot be made and an improvement in the financial situation cannot be demonstrated. These also particularly include deferrals of interest and/or principal payments, concessions such as the granting of restructuring loans in particular for the purposes of supporting the liquidity of the borrower as well as the threat of insolvency.

In the case of securities, an initial check is performed as to whether the market value has decreased in the last twelve months, either permanently by at least 10 % or once in the last six months by 20 % below the cost of acquisition. This applies to both equity and debt instruments. If an equity instrument is involved, it must be written down to fair value in such a case.

However, if debt instruments meet either of these criteria, they are checked as part of a multi-step risk assessment process to see if there are any indicators for impairment. An indicator for an impairment of a security is, for example, a downgrade to non-investment grade. Where a security is already non-investment grade and the rating deteriorates by another three categories, this would be another indicator. Asset-backed security (ABS) transactions are checked to see if the over-collateralisation mechanisms have seen a significant deterioration since purchase or issue. For collateralised debt obligations (CDOs) the nominal value and interest cover tests can normally be used, for example.

Individual valuation allowances for fixed income are generally recognised in the amount of the difference between acquisition cost and fair value.

Identifiable risks from the lending business are dealt with by making individual valuation allowances of the loan or advance in question. To calculate the amount of the individual valuation allowance, the net present value of the anticipated cash flows arising from the loan or advance – that is achievable amount – is compared to its carrying amount. The anticipated cash flows may comprise capital repayments, interest payments or the proceeds from disposal of collateral less liquidation costs. If the carrying amount is greater than the realisable amount, an individual valuation allowance is created in the amount of the difference.

Assessments as to the need for loan loss provisions are frequently made on the basis of information which is partly provisional in nature (e.g. planned restructuring of borrowers, draft reorganisation reports) or are subject to increased volatility (e.g. collateral value of real estate and ships). This results in increased uncertainty regarding estimates of key parameters of loan loss provisions. In such cases the large degree of uncertainty is mainly due to the assessment of expected cash flows which are dependent on borrowers, industries, the assessment of the overall economy and other factors. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions, where necessary.

With respect to risks which have already occurred but have not yet been identified, portfolio valuation allowances are created for groups of assets which are comparable on the basis of their default risk. When determining the portfolio valuation allowance, current developments in the economic environment are taken into account through parameters from an expected loss approach. The portfolio valuation allowances are determined as of the reporting date on the basis of risk parameters derived from the determination of internal economic counterparty default risk. For the calculation the parameters probability of default (PD), loss given default (LGD) and for off-balance-sheet items the credit conversion factor (CCF) are used. The loss identification period (LIP) in the calculation represents the interval between the occurrence of a default event and its announcement, transforming the expected loss approach to an incurred loss approach.

As key risk parameters respond with a time lag to developments in the real economy, this time lag is assessed to determine whether a collateral premium is to be recognised on the general loan loss provisions ("management adjustment").

Risks of uncertainties in assessment for the hedged portfolio are assumed by the guarantor under the second loss guarantee.

As the posting of the valuation allowance depends on the category of financial assets, the following distinctions must be made with regard to measurement:

a. Financial instruments belonging to the category LaR which are measured at amortised cost

Impairments to loans and advances to banks and customers are recorded in separate valuation allowance accounts under the item Loan loss provisions. Loan loss provisions thus created are used at the time when the amount of the actual default of the receivable is determined or the receivable defaults. Irrecoverable receivables for which no individual valuation allowance existed are written off directly as well as losses in the case of impaired receivables which exceed the recorded loan loss provisions. Impairments to LaR securities are recorded by means of direct write-downs to the securities. Recoveries on receivables written-off are recognised in profit or loss.

b. Financial instruments belonging to the AfS category which are measured at fair value in OCI and not recognised in the income statement

In the case of permanent or significant impairment to an AfS equity financial instrument, a direct write-down is recognised in profit or loss. In the process, the cumulative gains taken through the income statement and recognised as equity are rebooked to net income from financial investments. This approach is used for AfS debt instruments accordingly. In the case of debt securities only, if the reasons for impairment no longer apply a write-up to the maximum of amortised cost is made in profit or loss. Amounts beyond this and write-ups to equity securities are recognised directly in the revaluation reserve in OCI.

c. Equity securities belonging to the AfS category not quoted on an active market and measured at the cost of acquisition as their fair value cannot be reliably determined

In the case of impairment to an AfS financial instrument measured at acquisition cost depreciation to the financial instrument is made, which is recognised in profit or loss.

Individual and portfolio valuation allowances are also made for off-balance-sheet transactions and carried in the statement of financial position as provisions in the lending business.

The individual and portfolio valuation allowances are determined at first without taking the hedging effect of the second loss guarantee into account. The hedging effect is then mapped in the balance sheet through the recognition of a compensation item, which directly reduces loan loss provisions (see Note 2).

D) Determining fair value

Under IFRS 13 the fair value represents 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. The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or if this is not possible on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model). Irrespective of whether and to what extent the inputs applied in determining the fair value are observable in the market, financial instruments are assigned to one of the three fair value hierarchy levels as defined in IFRS 13.

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be entered into or has been entered into for a similar financial instrument as at the measurement date. This is generally the case for securities and derivatives traded on liquid markets. Such an unadjusted market price at the measurement date for the identical instrument is classified as level 1 of the valuation hierarchy under IFRS 13.

If such a market price is not available for the identical instrument, the measurement is carried out using valuation techniques or models.

1. Valuation techniques and models

When using valuation techniques the market approach is the preferable method for determining the fair value. The fair value is determined to the extent possible on the basis of prices that come from transactions executed on the measurement date. If the fair value cannot be determined from market or transaction prices for the identical financial instrument, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary (mark-to-matrix method). The fair value is assigned to level 2 of the fair value hierarchy if the adjustment to the prices or parameters observable in the market is not material. However, if the adjustment is material and affects non-observable input parameters, the fair value is assigned to level 3.

The fair value is determined based on an income approach using an appropriate model (e.g. option price model, discounted cash flow method, collateralised debt obligation model (Gauss-Copula)), if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market as well as quality assured market data from appropriate pricing agencies or also validated prices from market partners (arrangers) are also used as a primary source for model valuations. Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to level 2 of the fair value hierarchy. Observable market data are usually available for liquid securities and simple OTC derivatives traded on liquid markets (for example interest rate swaps, forward foreign exchange transactions and foreign exchange options in certain currencies as well as derivatives of certain listed equities or indices). If the fair values determined using valuation models are based to a significant extent on unobservable inputs, they are assigned to level 3 of the fair value hierarchy. Valuation models that are based on non-observable market data, and which therefore require assumptions concerning the relevant parameters, are often necessary for structured securities – or more generally for securities whose markets are illiquid and for complex OTC derivatives.

The fair value of receivables and liabilities measured at amortised cost is determined by discounting the cash flows of the loans. In the case of receivables with a default rating, the fair values are determined based on the still to be expected future cash flows.

A portion of the liabilities measured at fair value comes under the guarantee obligation (Gewährträgerhaftung) (credit enhancements). Lower credit spreads are applied in determining the fair values for such liabilities than is the case for liabilities for which similar obligations of third parties do not exist.

The following section gives an overview of the parameters and assumptions used and the valuation procedures they are based on.

2. Parameters used in valuation techniques and models

The following are the parameters used to determine the fair value for each class of financial assets and liabilities. We refer to the information set out in Note 52 regarding the quantitative disclosures on significant, non-observable parameters.

a. Trading assets/trading liabilities (HfT)

Securities in the trading portfolio are valued using quoted market prices and prices from the liquid OTC market to a large extent. If a current price from a liquid market is not available, interest-bearing securities are valued using mixed prices of pricing services or the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

Exchange-traded derivatives are also valued using market prices. If no current price is available, recognised valuation models (such as Black-Scholes for European options) that are based on non-observable parameters to an insignificant extent at most are used.

OTC derivatives are valued using valuation techniques and models. A distinction is drawn between plain vanilla derivatives traded in liquid markets, such as interest rate swaps, cross-currency interest rate swaps, FX forwards, FX options, single-name and index credit default swaps and complex derivatives where markets are illiquid. The former are valued using recognised techniques and models that are based on non-observable market parameters to an insignificant extent at most, while the latter require a significant number of judgements to be made with regard to the selection of both the model and the parameter estimates.

The financial crisis has resulted in derivatives being increasingly concluded on a secured basis in the interbank market (under a collateral agreement, e.g. CSA). At the same time the collateral is also explicitly taken into account in the valuation of OTC derivatives.

b. Positive/negative fair values of hedging derivatives

This class contains exclusively plain vanilla interest rate and cross-currency interest rate swaps which can be measured using recognised techniques and models that use non-observable market parameters to an insignificant extent, if at all.

c. Financial investments (AfS)

HSH Nordbank's financial investments comprise mainly fixed income securities. Substantial parts are valued using liquid market prices, such as prices from the liquid OTC market. If a current price from a liquid market is not available, interest-bearing securities are valued using mixed prices of pricing services or the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

The financial investments also include ABS as partial holdings in the credit investment business. These are valued using the pricing hierarchy described previously.

Fair value is not calculated for unlisted equity instruments (holdings in affiliated companies and equity holdings treated under IAS 39 or IFRS 5) as there is no active market for them and the necessary estimates cannot be made within an acceptable range of variation and suitable probability of occurrence. Therefore these financial instruments are recognised at cost of acquisition.

d. Assets/liabilities designated at fair value (DFV)

Assets designated at fair value carried under financial investments and loans and advances to customers or banks primarily comprise holdings in the credit investment business (ABS, synthetic CDOs, CLNs). For measuring CDOs, a standard market model (Gauss-Copula) is used which includes both observable and non-observable market parameters. The pricing hierarchy described previously is used for the other products.

DFV liabilities disclosed under securitised liabilities, liabilities to customers or banks and subordinated capital include complex structured registered and bearer securities with embedded interest, currency, equity and other risks, which are mainly directly hedged by corresponding derivatives (so-called back-to-back transactions), so that there are offsetting positions with respect to model risk and parameter uncertainty. Where current market prices or OTC market prices are available for securitised liabilities on liquid markets, these are used. However, the vast majority of DFV liabilities are measured using valuation techniques and models. These make extensive use of complex techniques and models which also use market parameters which are not directly observable.

The components of the change in fair value of the DFV positions attributable to the credit rating are separately determined on the basis of the spreads ascertainable in the market for instruments in the respective rating category. For liabilities categorised as DFV, a distinction is made in assigning an appropriate spread between instruments with and without guarantee obligation (Gewährträgerhaftung).

e. Assets not measured at fair value on the balance sheet (LaR)

Cash flows are discounted using the discounted cash flow method to determine the fair value of loans and advances to customers and loans and advances to banks. Sectoral-dependent market interest rate curves, rating-dependent credit spreads as well as loss given defaults (LGD) are used as significant parameters in this regard.

Financial instruments in the LaR category disclosed under financial investments are mainly interest-bearing securities. If a stock exchange price or a price from the liquid OTC market is not available, prices obtained from pricing services are used or the discounted cash flow method is applied, whereby rating- and sector-dependent interest rate curves derived from market data for interest-bearing securities are used as parameters for discounting the cash flows.

For short-term receivables (e.g. current accounts) the carrying amount is taken as the fair value. This also applies to most of the cash reserve, as this comprises credit balances at central banks.

f. Liabilities not measured at fair value on the balance sheet (LIA)

The majority of financial instruments disclosed under the Liabilities to banks, Liabilities to customers, Securitised liabilities, Other liabilities and Subordinated capital balance sheet line items is allocated to the LIA category. These mainly comprise non-complex structured loan notes and bearer bonds as well as deposits. If a liquid stock exchange price or a price from the liquid OTC market is not available, mixed prices obtained from pricing services are used or the discounted cash flow method is applied, in order to determine the fair value. The spreads used for this are derived from the type of collateral and the ranking of the financial instrument in relation to other liabilities of the Bank. Any existing cancellation options are also taken into account.

For short-term liabilities (e.g. current accounts) the carrying amount is shown as fair value.

3. Value adjustments

If the value of a financial instrument as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads, closing costs, liquidity, model risks and credit or counterparty default risks, the Bank makes corresponding valuation adjustments, which a purchaser of similar positions would also take into account. The methods applied for this draw to some extent on non-observable market parameters in the form of estimates.

The value adjustment for credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in IFS 13.49 for a portfolio-based measurement are met.

The portfolio-based valuation adjustment is allocated to assets or liabilities in proportion to the fair value of the assets or liabilities before taking the valuation adjustment into account. This is only allocated to the assets or liabilities depending on whether there is an excess of assets or liabilities (so-called "relative fair value approach" – net approach).

4. Day One Profit and Loss

The use of a valuation model may give rise to differences between the transaction price and the fair value determined using such a valuation model on the initial recognition date. If the applicable market on which the determination of the fair value is to be based differs from the market, in which the transaction was concluded and the valuation model is not based to any great extent on observable parameters, such differences (so-called day one profits and losses) are accrued to day one profit and loss reserve. This reserve is reversed over the term.

5. Measurement processes

The Bank has implemented various processes and controls for the purpose of determining the fair values of financial instruments and has embedded principles regarding the use of measurement methods in a guideline in the written rules of procedure. These measures also ensure that financial instruments to be assigned to level 3 of the fair value hierarchy are measured in accordance with IFRS 13. The Group Risk Management division, which is independent from the Bank's market departments, is responsible for ensuring that the measurement methods applied are in accordance with external accounting requirements. Information available on the methods applied by other market participants is also taken into account in this regard.

Fair values of financial instruments assigned to level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. Where available, observable market information such as transaction prices or attributes of valuation parameters are also used in the internal price validation. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation.

Information purchased from pricing service companies is also used. Where possible, the prices and procedures of these service companies are periodically checked for plausibility and reviewed in order to assess the quality of the information provided.

The measurement procedures and models as well as the estimation technique used to determine the level 3 inputs and their parameterisation are periodically reviewed and, if applicable, developed further, recalibrated or replaced by new measurement procedures or models. Any deficits and weaknesses identified are reported monthly to the Management Board.

E) Hybrid financial instruments

IAS 39 A8 states that for financial instruments, not to be measured at fair value, the carrying amount of financial assets and liabilities must be adjusted and recognised in profit or loss if the estimated future cash flows associated with the instrument change. The new carrying amount is given by the present value of the newly estimated future cash flows using the financial instrument's original effective interest rate for discounting. In subsequent years the discount effect reduces with constant effective interest rate, leading to a write-up for financial liabilities which is recognised in Net interest income.

Application of IAS 39 A8 had an effect in the year under review on valuation of the hybrid financial instruments issued by HSH Nordbank, as the estimated future cash flows differ from the contractual cash flows.

The term "hybrid financial instruments" covers silent participations, profit participations and bonds issued by consolidated subsidiaries measured at amortised acquisition cost. A key common feature of these instruments is that their interest depends on profit and they participate in an annual net loss of the Bank.

The future cash flows whose amount and payment dates have to be estimated are payments of interest and principal which take into account:

- participations in loss by investors, where these will probably not be made up by the expected redemption date of an instrument;
- any contractually agreed retrospective coupon payments.

The loss situation of the reporting period is not viewed in isolation on the measurement of hybrid instruments in accordance with IAS 39 A8. Specifically, it involves more than assigning the prorated loss in the period under review. In addition, the possible effects of possible future assignment of loss and the cancellation or postponement of future interest payments must be recognised in profit or loss in the period in which the estimate is changed. This can mean that in future loss-making periods it is not possible to recognise any further loss participations in profit or loss, if these future losses correspond to the estimates made previously. The loss participation recognised in profit or loss is accordingly anticipated, rather than being left to the period in which the loss arises. Future loss-related reductions in interest also do not result in full relief to interest expenses, if the reduction in interest has already been taken into account in the estimate. Instead, the reversal of the effect of discounting applied in the year the estimate was changed is recognised in expenses (write-up of the liability due to the passage of time).

The estimation of future cash flows from hybrid financial instruments required in applying IAS 39 A8 requires material assumptions which are associated with uncertainties. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary. Among the key sources of uncertainty in estimation are the future income of HSH Nordbank, which depends specifically on the development of the economy. Assumptions are also required about the exercise of termination or extension options associated with the individual transactions. Based on the degree of knowledge about uncertainties at the time financial statements are drawn up, the possibility cannot be excluded that changing information in subsequent periods will require departure from previous assumptions, which would require new adjustments to the carrying value of hybrid financial instruments recognised in profit or loss. In the case of declining expectations of loss, the participation in loss of investors would also decrease, which would be associated with an increase in our repayment obligations recognised in expenses. The same considerations apply to the reverse case.

Net income from hybrid financial instruments is shown as a separate item under net interest income, and in addition to current interest expenses it includes the effects of applying IAS 39 A8 (see Note 7). Deferred taxes arise because of the difference between valuation for tax purposes and measurement in the consolidated financial statements. The associated effects on net income are recognised under income taxes. Hybrid financial instruments are shown either as securitised liabilities or as subordinated capital (see Notes 37 and 46 respectively).

F) Hedge accounting

Under IFRS, changes in value of items in IAS 39 categories AfS, LaR and LIA are not recognised in profit or loss. Changes in the value of derivatives are always recognised in profit or loss. If underlying transactions in IAS 39 category AfS, LaR or LIA are hedged with derivatives, the result is to distort the income statement so that it does not correspond to the economic reality. One possibility to avoid these distortions is to use fair value hedge accounting. In fair value hedge accounting the changes in value of hedged items, which are attributable to the hedged risk, are recognised in profit or loss.

HSH Nordbank uses derivatives to hedge market risks resulting from loans, issues and securities portfolios. Individual loans, issues and securities items as well as entire portfolios of such financial instruments are hedged in this way.

Micro and portfolio fair value hedge accounting are used to avoid distortions in the income statement. Currently only hedges of fair value against interest rate risk are taken into account. Fixed-interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only interest rate and interest rate currency swaps are designated as hedging instruments.

Where individual lending, issuing or securities transactions are hedged by derivatives with non-Group counterparties and this hedging arrangement satisfies the requirements of IAS 39, micro fair value hedge accounting is applied. Where portfolios of hedged items are hedged, the hedging of these items with matching external derivatives is shown under portfolio fair value hedge accounting to the extent that this meets the requirements of IAS 39.

In the case of a micro fair value hedge, the carrying value of the underlying transaction is adjusted through the income statement for the fair value change attributable to the hedged risk. The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IAS 39 category.

In the case of portfolio fair value hedge for interest rate change risks, portfolios of assets and liabilities hedged for interest rate change risks are taken into account. This involves an iterative procedure. At the start of a hedging period, the financial instruments in the portfolios are allocated to maturity ranges on the basis of their anticipated maturity or interest adjustment dates, and the hedged amount is then determined for each maturity range. The hedging transactions are also allocated at the start of the hedging period. At the end of the hedging period, the hedge is recognised and measured and a new hedge is designated. The changes in the fair value of the hedged amounts of the underlying transactions due to the hedged risk are recognised in a separate item in the statement of financial position (asset or liability reconciling items from the portfolio fair value hedge). The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IAS 39 category.

Using fair value hedge accounting requires a series of conditions to be met. These principally relate to the documentation of the hedge and its effectiveness. HSH Nordbank documents all hedging relationships in accordance with the requirements of IAS 39, including the hedging instrument, the hedged item (underlying transaction), the hedged risk and the result and method of measuring effectiveness.

Future changes in value of underlying and hedging transactions are simulated using a regression model within the framework of the prospective effectiveness test. Any actual changes in value are used in retrospective effectiveness testing. The results of retrospective and prospective effectiveness measurement in micro fair value hedge accounting are analysed using regression analyses. In portfolio fair value hedge accounting, HSH Nordbank uses the dollar offset method to measure effectiveness retrospectively. This tests whether the relationship between the changes in value of underlying and hedging transactions lies within an interval of 80 % to 125 %.

Changes in value of underlyings and hedging transactions in effective hedges which are attributable to the hedged risk are recognised in the Result from hedging.

Income and expenses from the depreciation of reconciling items for the fair value hedge portfolio and proceeds from the closing of the underlying transactions which contributed to reconciliation items are reported as part of the Net interest income.

G) Derecognition

A financial asset is derecognised when all material risks and opportunities associated with ownership of the asset have been transferred, i.e. when contractual claims on cash flows from the asset have been extinguished. Where not all risks and opportunities are transferred, HSH Nordbank carries out a control test to ensure that no continuing involvement due to opportunities and risks retained prevents it from being derecognised. Financial assets are also derecognised if the contractual rights to cash flows have expired. Financial liabilities are derecognised when they are repaid, i.e. when the associated liability is settled or lifted, or when due respectively.

H) Repurchase agreements and securities lending transactions

HSH Nordbank only enters into genuine repo transactions. Genuine repo transactions, repo agreements or sell-and-buy-back transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being the same in both cases.

For genuine repo transactions with assets sold under repurchase agreements, the securities continue to be recognised by HSH Nordbank, as the interest, credit rating and other material risks associated with the securities continue to be borne by HSH Nordbank. According to counterparty, the inflow of liquidity from the repo transaction is shown in the statement of financial position as a liability either to banks or customers. Interest payments are recognised under interest expense over the term of the transaction. Outflows of liquidity caused by reverse repos are reported as loans and advances to banks or customers. Correspondingly, the securities bought under repurchase agreements are not carried or measured in the statement of financial position. Agreed interest payments are booked as interest income over the term of the transaction. Receivables arising from repos are not netted against liabilities from repos involving the same counterparty, since the criteria for netting are not met.

The emphasis in repo transactions is on bonds from German public sector issuers and from bank issuers and the Bank's own bonds. Securities lending transactions are carried on the statement of financial position in a similar way to genuine repurchase agreements. Lent securities remain in the securities portfolio, while borrowed securities are not capitalised on the statement of financial position. Cash collateral furnished for securities lending transactions is shown as a receivable, while collateral received is shown as a liability. Repo and securities lending transactions are carried out in equities with the emphasis being on bonds.

l) Financial guarantee contracts
Pursuant to IAS 39.9, a financial guarantee is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for the loss that the holder incurs because a specified debtor fails to make payment when due under the original or amended terms of a debt instrument. A credit derivative is treated as a financial guarantee based on the provisions of IAS 39 if the requirements of IAS 39.9 for the financial guarantee are met. Credit derivatives that do not meet the definition of a financial guarantee are allocated in accordance with the general valuation rules for the HfT category and valued at fair value.

Financial guarantees at HSH Nordbank are provided in the form of warranties, bank guarantees and letters of credit. Corresponding contingent liabilities are based on past events that may result in possible liabilities in the future. These liabilities arise as a result of the occurrence of unspecified future events where the amount required to meet them cannot be estimated with sufficient reliability. Financial guarantees are stated in accordance with the net method. If the premium payment to HSH Nordbank is distributed over the term of the financial guarantee, the guarantee will be stated as zero and the premium payment recognised on an accrual basis. If HSH Nordbank is the holder of a contract, the financial guarantee will be presented as collateral for the Group.

II. Notes on selected items relating to financial instruments in the statement of financial position

1. Cash reserve

Cash on hand, balances with central banks, treasury bills and discounted treasury notes are stated under cash reserve.

Both initial and subsequent measurement of assets (LaR) stated under cash reserve takes place at nominal value, which is equivalent to fair value due to its short-term nature.

Treasury bills and discounted treasury notes recognised under AfS are measured at fair value.

2. Loans and advances

Primarily assets from the loans and receivables (LaR) category are recognised in the statement of financial position under loans and advances to banks and loans and advances to customers. In addition, financial instruments in the categories DFV and AfS are recognised here. Carrying amounts of receivables which are an element of micro fair value hedge accounting are adjusted by the change in value attributed to the hedged risk.

Loans and receivables of the category LaR are stated gross (before deduction of impairments). Allowances for impairments are stated in a separate item loan loss provisions, shown under receivables as a deduction. Financial instruments in the DFV and AfS categories are stated net. Where loans and receivables have been acquired or incurred with the intention of trading, they are stated under trading assets.

Interest income from loans and advances to banks and customers is recorded under interest income from lending and money market transactions. This also includes early repayment penalties from premature repayment of receivables. Premiums and discounts are accrued using the effective interest rate method. Accrued interest is also allocated to this item in the statement of financial position.

If, in the case of non-genuine securitisation transactions, our loans and advances are not derecognised and the risk on such loans and advances remains fully with HSH Nordbank, we recognise any necessary loan loss provisions solely on our original loans and advances.

3. Positive and negative market value of hedging derivatives

This item shows the market value of derivatives which have a positive or negative fair value and which are used in hedge accounting. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets or Trading liabilities.

4. Reconciling asset and liability items from the fair value hedge portfolio

The asset-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for assets. Similarly, the liability-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for liabilities.

5. Trading assets and trading liabilities

Only financial assets classified as HfT are stated under trading assets. These include primary financial instruments held for trading purposes, particularly fixed income securities and pro rata interest, and also equities and other trading portfolios such as precious metals. Loans and loan commitments with hard syndication conditions are also reported here. A significant component continues to be derivatives with a positive market value which are either trading derivatives or not designated as a hedging derivative because they do not meet the requirements of hedge accounting.

Measurement gains and losses are recognised in Net trading income. Interest and dividend income is recognised as Net interest income and commission income and expenses are recognised in Net commission income.

In a similar way to trading assets, trading liabilities only include financial obligations belonging to the category held for trading (HfT), which includes derivatives with a negative market value which are either trading derivatives or which have not been designated as hedging derivatives because they do not meet the requirements of hedge accounting. Delivery commitments from short sales of securities and pro rata interest from these are also stated in this category.

6. Financial investments

Financial investments include particularly securities in category AfS, and also securities or holdings in categories LaR and DFV. This item includes fixed-interest securities not held for trading including accrued interest, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, and holdings in joint ventures and associates not carried at equity. Realised gains and losses from financial investments are shown in the income statement in net income from financial investments to the extent they are not DFV holdings. Net interest income from financial investments is shown in Net interest income. If the disposal of equity holdings or interests in affiliated companies was decided and initiated at the balance sheet date and it is highly probable that it can be completed within the following twelve months, they are reclassified as non-current assets held for sale and disposal groups.

7. Financial investments accounted for under the equity method

Shares in associates included in the consolidated financial statements under the equity method are reported in this item. Such ownership interests are measured in accordance with the guidelines of IAS 28 in conjunction with IAS 31.

For the impairment testing of financial investments accounted for under the equity method the total carrying amount of the investment measured under the equity method is assessed for impairment as a single asset in accordance with IAS 36. Its realisable amount is always compared with the carrying amount for this purpose, if there are indications on applying IAS 39 that the investment could be impaired.

The realisable amount is defined as the greater of fair value less costs to sell and value in use. (See also Note 6.III.1 for details on the calculation of the value in use.)

8. Liabilities

Liabilities include financial liabilities in categories LIA and DFV. They are recognised as liabilities to banks, liabilities to customers and securitised liabilities.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs, which generally corresponds to the transaction price. In subsequent periods securities categorised as LIA are measured pursuant to IAS 39.47 at amortised cost applying the effective interest method. Changes in the measurement of LIA financial instruments are only recorded when the relevant instrument is sold. Differences between acquisition costs and repayment amount (e.g. premiums and discounts) are allocated according to the effective interest rate method and taken to net interest income. Current gains and losses from measuring DFV financial instruments are stated under net trading income.

The carrying amount of hedged liabilities which fulfil the requirements of micro fair value hedge accounting are adjusted by the gains and losses arising from fluctuations in fair value attributable to the hedged risk.

Repurchased own debentures are set off against securitised liabilities.

9. Subordinated capital

No obligation to other creditors for premature redemption of subordinated liabilities is possible. In the case of liquidation or insolvency, subordinated liabilities may only be repaid after the claims of all senior creditors have been met. Subordinated liabilities, silent participations and profit-sharing certificates are shown under subordinated capital, due to their different nature from other liabilities. Silent participations are structured as so-called hybrid financial instruments without exception and so are some profit-sharing certificates (cf. Note 6.I.E.).

Based on their contractual structure and financial character, the participations of the typical silent partner represent debt, which is why they are stated under subordinated capital.

Subordinated capital categorised as LIA is recognised and measured initially at fair value (taking the transaction costs into account) and at amortised acquisition cost subsequently. Premiums and discounts are allocated on a constant effective interest rate basis.

Current gains and losses from measuring subordinated capital categorised as DFV are stated under net trading income.

See Note 6.I.E. with regard to the treatment of hybrid financial instruments in the year under review.

III. Notes on other items in the statement of financial position

1. Intangible assets

Software acquired or developed in-house and acquired goodwill are accounted for under Intangible assets. In accordance with IAS 38.21, HSH Nordbank capitalises software development costs if the production of the in-house software is likely to generate an economic benefit and the costs can be reliably determined. If the criteria for capitalisation are not met, expenses are recognised in profit or loss in the year they are incurred. Since HSH Nordbank does not apply the full goodwill approach, goodwill arises on acquisition of subsidiaries, when the cost of acquisition exceeds the Group's share in the remeasured net assets (shareholders' equity) of the company acquired.

The initial measurement of intangible assets is made at acquisition or production costs in accordance with IAS 38.24. They are subsequently measured at amortised acquisition or production cost.

Software developed in-house is subject to linear depreciation over two to ten years.

If there are indications of impairment, intangible assets are subject to an impairment test. For this test the carrying amount of these intangible assets is compared with the realisable amount. The realisable amount is defined as the greater of fair value less costs to sell and value in use. An asset is impaired if its carrying amount exceeds its realisable amount. Intangible assets with an indefinite useful life, intangible assets not ready for use as well as goodwill are subject to an annual impairment test even if there are no signs which suggest impairment.

Examination of the value of goodwill is carried out on the basis of cash-generating units. Cash-generating units of HSH Nordbank for non-strategic investments are defined based on the internal management level (global head structure). Each global head unit forms an own cash-generating unit. A company is regarded as a non-strategic investment if underlying subsidiaries are integrally involved in the business activities of the respective global heads. However, if the value in use is expected to be realised by cash inflows or an increase in value of a subsidiary alone, then the subsidiary itself continues to be a cash-generating unit (so-called strategic investment). Where the anticipated benefit can no longer be determined, a write-down is made.

The value in use of a cash-generating unit is determined on the basis of forecasted and discounted net cash flows. Net cash flows are determined on the basis of Group planning for a five-year period, allowing for a subsequent trend of 1.0 % (previous year: 1.0 %). The planned cash flows are based on a risk-adequate discount rate. For impairment tests, capitalisation rates between 9.4 % and 10.4 % (previous year: 10.6 %) were used.

2. Property, plant and equipment

Land and buildings, plant and equipment and leasing assets under operating leases where HSH Nordbank acts as lessor are stated under this item. Property, plant and equipment is stated at cost of acquisition or production less linear depreciation in line with its expected useful life. Subsequent costs of acquisition or production are capitalised provided they increase the economic utility of the asset concerned. Interest paid to finance acquisition costs of property, plant and equipment is recorded as an expense in the period concerned.

Physical wear and tear, technical obsolescence and legal and contractual restrictions are taken into consideration when determining useful life. For property, plant and equipment, linear depreciation is calculated over the following periods:

CATEGORY OF PROPERTY, PLANT AND EQUIPMENT

	Useful life in years
Buildings	50
Leasehold improvements	[1]
Other operating equipment	4 – 13
Leasing assets	25

[1] Calculation of residual life is based on the remaining term of the rental agreement.

Property, plant and equipment is reviewed at each reporting date for signs which suggest impairment.

Gains and losses from the disposal of property, plant and equipment are shown under Other operating income in the income statement. Repairs, servicing and other maintenance costs are recorded as an expense in the period concerned.

3. Investment property

Under the item Investment property properties are disclosed that are held to earn rental income or make capital gains but are not used for own operations. For mixed use properties a percentage allocation of carrying amount is made. Own-used properties are reported under property, plant and equipment; rented-out or empty parts are reported as investment property. The properties are recognised at acquisition cost and depreciated on a straight-line basis. A useful life of 50 years is used for depreciation purposes. The capitalised income method is used in determining the fair value of investment properties. Non-observable inputs (such as rents or operating expenses) are used for this or rents for similar properties are adjusted and used in internal estimates.

4. Non-current assets held for sale and disposal groups and liabilities relating to disposal groups

Non-current assets whose carrying amounts will be predominantly or primarily realised through a sale and not through continuing use must be classified as held for sale in accordance with IFRS 5 on the condition that a sale has already been decided on and initiated as of the reporting date, and is extremely likely to be completed within the following twelve months.

A disposal group is a group of assets which are sold to the same purchaser in a single transaction and at a single price. A disposal group can also include liabilities, if these are taken over by the purchaser together with the assets. HSH Nordbank recognises as disposal groups and liabilities relating to disposal groups specifically the assets and liabilities of consolidated subsidiaries which meet the requirements of IFRS 5 for classification as held for sale.

Non-current assets and disposal groups held for sale are to be measured at the lower of carrying amount or fair value less sale costs. Financial instruments continue to be measured according to the requirements of IAS 39.

5. Provisions

Provisions are created where the Group has existing legal and actual obligations resulting from previous events and it is likely that meeting the obligation will require an outflow of resources and a reliable assessment of the amount of the obligation can be made. Provisions are examined and redetermined at least quarterly.

Pension provisions

The majority of employees of HSH Nordbank AG as well as employees of several domestic subsidiaries are entitled to benefits from different staff pension plans, which include both defined contribution and defined benefit plans.

In the case of defined contribution plans, contributions are paid to external pension providers, with employees also contributing a share. HSH Nordbank AG also participates in a multi-employer plan which is run by BVV Versorgungskasse des Bankgewerbes e.V. HSH Nordbank AG has no obligations to pensioners beyond the contribution payments. There are also policies with Provinzial Nord Lebensversicherung AG for direct insurance policies partly financed by employees. As the insurance company is required to be a member of Protektor Lebensversicherungs-AG, the insured employees are protected against its insolvency, so that HSH Nordbank AG is not burdened even in the event of Provinzial Nord Lebensversicherung AG's insolvency. These direct insurance policies represent insured benefits and are treated as defined contribution plans.

In the case of the defined benefit plans, the amount of benefit depends on various factors, such as age, salary and length of service. Pension plans include specifically retirement and disability pensions and survivor benefits. They are based primarily on employment contracts of Landesbank Schleswig-Holstein Girozentrale, the retirement plan of Hamburgische Landesbank Girozentrale, retirement pension guidelines of the Hamburgische Landesbank Girozentrale relief fund, the pension plan of Hamburgische Landesbank Girozentrale and Section 2 (4) of the Investment Bank Act in the version of 23 January 1998. The pension payment amount depends on the final salary paid immediately prior to retirement, the salary trend up to retirement is irrelevant (no performance components). The pension plans provide for ongoing pension payments and no capital payments. Minimum guarantees are not provided for. Pension provisions for defined benefit plans are equivalent to the net present value of the pension entitlements earned as of the reporting date, factoring in anticipated wage and salary increases and the trend in annuities. Calculations are based solely on actuarial reports based on IAS 19, which are prepared by independent actuaries using the projected unit credit method.

The defined benefit plans were closed in 2002 so that only defined contribution plans have been in force since then.

Actuarial gains and losses are recognised under Other comprehensive income and under equity in retained earnings in the year in which they arise. Pension provisions are discounted as long-term liabilities. The interest expense included in expense for retirement pensions is recognised as part of net interest income.

The following assumptions are made in calculating direct benefit pension liabilities:

ACTUARIAL ASSUMPTIONS

	2013	2012
Discount rate		
Domestic	3.59 %	3.5 %
Foreign (weighted)	3.59 %	3.5 %
Salary growth (weighted)	2.0 %	2.0 %
Adjustment rate for pensions		
Domestic		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules (weighted)	2.0 %	2.0 %
Employment contract 4 (weighted)	2.0 %	2.0 %
Mortality, disability, etc.	Based on the 2005 G tables of K. Heubeck	Based on the 2005 G tables of K. Heubeck

Actuarial assumptions are subject to a sensitivity analysis as described in Note 41.

Defined benefit pension plans are partly financed from assets and qualified insurance policies used exclusively for pensions (plan assets). Plan assets are measured at fair value and recognised in the statement of financial position as reducing provisions. HSH Nordbank has decided, especially for Germany, to use the internal financing effect of the pension provisions and to only cover a relatively small portion of the pension obligations with plan assets.

Other provisions

Other provisions include, for example, provisions in the lending business, for restructuring, litigation risks and costs, for personnel expenses (without pensions) and other provisions.

Provisions in the lending business are created, among other reasons, for any sudden calls to pay under warranty bonds, guarantees and letters of credit. The parameters used for the calculation are presented in the section Loan loss provisions and impairment of financial instruments (Note 6.I.C).

Provisions for restructuring include restructuring expenses incurred by the Bank in connection with the implementation of the measures required to implement the catalogue of conditions and commitments of the EU. Provisions were created to the extent HSH Nordbank had developed and communicated a sufficiently detailed plan for such measures and had started to implement such plan. As soon as the obligation is sufficiently certain or can be quantified – e.g. through the signing of agreements – it is transferred to other liabilities or provisions for pensions and similar obligations as a matter of principle.

Aside from additions to the relevant provisions, restructuring expense also includes expenses for additional measures that do not meet the requirements for the creation of a provision under the liability recognition provisions of IAS 37. This affects in particular expenses for the restructuring of future business activities as defined in the catalogue of conditions and undertakings of the EU and depreciation of assets recognised in the balance sheet the value in use of which has declined for the Bank.

Provisions for litigation costs comprise expected payments for court costs as well as for non-court costs in connection with litigation such as attorneys' fees and other costs, for example. For litigation in progress, only costs for the current jurisdictional level may be included within the provision.

Provision for litigation risks are to be created when HSH Nordbank is the defendant in an action and the probability that the Bank will lose the action is presumed to be greater than 50 %. Provisions include only payments for probable liability for damages and fines.

Under provisions for personnel expenses, in general all outstanding benefits within the personnel expenses are presented with the exception of pension obligations. In HSH Nordbank, these are in particular provisions for variable performance-related pay, anniversary payments, partial retirement and long-term credits for hours. Provisions for personnel expenses likewise include benefits in connection with the termination of employment explicitly set out in IAS 19.

Other provisions mainly include provisions for archiving costs and discretionary benefits.

In accordance with IAS 37, provisions are mainly determined based on the best estimate of the expenditure necessary to meet the obligations identifiable on the reporting date. Long-term provisions are reported at present value to the extent discounting effects are significant. For discounting purposes, interest rates that are valid on the reporting date and are term-appropriate are used based on risk-free interest curves. Addition of accrued interest to be performed during the reporting year is reported under net interest income.

6. Income taxes

Current tax assets and liabilities are stated at the amount of the anticipated refund from, or payment to, the tax authorities, applying the tax provisions of the countries in question.

Deferred tax assets are created for all deductible timing differences between the value of an asset or liability as measured by IFRS standards and its assigned value in tax terms, provided it is probable that taxable income will be available against which such differences can be utilised. Deferred tax liabilities are created for all taxable temporary differences. Deferred taxes on tax loss carryforwards are stated as the amount likely to be used in future. Deferred taxes are calculated using the tax rates and rules anticipated to be valid at the time when the deferred tax assets are to be realised. The effects of tax rate changes on deferred taxes are taken into account on adoption of the legislative amendment. Deferred tax assets are recognised and measured as deferred income tax claims and deferred tax liabilities as deferred income tax liabilities.

The basis for capitalising deferred tax assets is the general bank planning for the next five years, which is used to derive tax results planning. For the further planning horizon, the result for the last planning year is continued. Despite possible estimation uncertainties due to the current economic crisis and its consequences, no impairment is anticipated for deferred tax assets.

Expenses and income from deferred taxes are in principle recognised on an accrual basis in the income statement under income taxes, separate from actual tax expenses and income. In doing so, the accounting treatment of the underlying situation is taken into account. Deferred taxes are recognised in the income statement if the item in the statement of financial position itself is recognised in profit or loss. Deferred taxes are charged or credited directly to Equity in OCI, if the underlying item itself is charged or credited directly to equity (IAS 12.61A).

At each reporting date HSH Nordbank makes an assessment as to whether the realisation of future tax benefits is sufficiently probable to recognise deferred tax assets. Amongst other things, this requires a management assessment of the tax benefits that arise from the existing tax strategies and future taxable income as well as the consideration of other positive and negative factors. The deferred tax assets disclosed could decrease if the estimates of the planned taxable income and the tax benefits achievable under the existing tax strategies are revised downwards or if changes to current tax legislation restrict the timing and extent of the recognition of future tax benefits.

7. Other assets and other liabilities

All remaining assets and liabilities not allocable to any other item are stated under Other assets or Other liabilities. These include accrued assets/liabilities amongst other things.

The general recognition and measurement criteria for assets are observed. Initial recognition is at cost. For financial instruments included in this item the provisions of IAS 39 apply.

IV. Leasing transactions

In accordance with IAS 17 a distinction is made between finance and operating leases. The allocation depends on whether substantially all the risks and rewards are transferred to the lessee or not.

A finance lease is considered to be present where the economic risks and rewards as defined by IAS 17 lie with the lessee; consequently, the leased asset is reported in the latter's statement of financial position. All other leasing arrangements are classified as operating leases. The classification is made at the beginning of each lease.

1. Finance leases

In the case of finance leases, HSH Nordbank acts solely as lessor and recognises a receivable in the amount of the net investment value either under loans and advances to banks or loans and advances to customers, depending on the lessee.

Leasing rates due are divided into a repayment part which is not recognised in profit or loss and an interest part which is. The part taken to profit or loss is recognised in Net interest income.

2. Operating leases

As lessor HSH Nordbank states leasing objects as assets measured at amortised cost under property, plant and equipment or as investment properties. Leasing instalments received are stated under other operating income, and the corresponding depreciation stated in administration expenses. HSH Nordbank reports rental expenses from contracts where HSH Nordbank acts as lessee as rental expenses under administration expenses.

V. Currency translation

The consolidated financial statements of HSH Nordbank AG are drawn up in euros. The euro is the functional currency of the overwhelming majority of the individual financial statements included in the consolidated statements. However, some Group companies have another functional currency.

The following principles are applied when translating foreign currency items within single entity financial statements and for translating the financial statements of Group companies which do not draw up their accounts in euros.

1. Presentation of foreign currency transactions in the consolidated financial statements

Initial measurement of assets and liabilities from all foreign currency transactions takes place at the spot rate for the transaction.

In subsequent measurement, monetary items are translated based on the spot mid-rate as of the reporting date. Non-monetary items that are stated in the statement of financial position at fair value are translated using the spot mid-rate applicable at the time of measurement and any other non-monetary items at the historical rate.

Expenses and income in foreign currency arising from the measurement of items in the statement of financial position are translated using the rates applied for translating the items in question. The transaction rates are used for all other expenses and income.

For monetary and non-monetary items measured at fair value, currency translation differences are always recognised in the income statement of the period when the result arose. An exception is currency translation gains and losses from the measurement of non-monetary AFS financial instruments recognised at fair value, which are recognised in OCI.

2. Translation of financial statements prepared in foreign currency for inclusion in the consolidated financial statements

Assets and liabilities from financial statements denominated in foreign currencies are translated at the period-end rate. Average rates for the reporting period are used to translate expenses and income. With the exception of the revaluation reserve reported to be included in the financial statements, which is translated at the closing rate, equity is translated at historic rates (date of the transaction).

Any differences arising from this method of translation are reported under OCI and under equity in the currency reserve.

NOTES ON THE INCOME STATEMENT

7. NET INTEREST INCOME

NET INTEREST INCOME

(€ m)	2013	2012
Interest income from		
Lending and money market transactions	2,032	2,520
Fixed-interest securities	474	588
Trading transactions	11	14
Derivative financial instruments	3,341	5,193
Unwinding	214	233
Disposal of receivables	4	11
Current income from		
Equities and other non-fixed-interest securities	10	12
Associated companies	1	10
Equity holdings	6	12
Other holdings	12	8
Interest income	**6,105**	**8,601**
of which attributable to financial instruments not classified as HfT or DFV	2,487	3,257
Interest expenses for		
Liabilities to banks	392	503
Liabilities to customers	848	1,069
Securitised liabilities	670	873
Subordinated capital	92	229
Other liabilities	4	7
Disposal of receivables	9	20
Derivative financial instruments	3,007	4,848
Interest expenses	**5,022**	**7,549**
of which attributable to financial instruments not classified as HfT or DFV	1,340	2,069
Net income from re-estimating interest and repayment cash flows	3	631
Net income from discounting and compounding	–150	–163
Interest expenses on hybrid financial instruments	–	–
Net income from hybrid financial instruments	**–147**	**468**
of which attributable to financial instruments not classified as HfT or DFV	–147	468
Total	**936**	**1,520**

Interest income and expenses relating to trading and hedging derivatives are disclosed under interest income and expenses from derivative financial instruments.

Net interest income includes income and expenses arising from the amortisation of the adjustment items for portfolio fair value hedge relationships and corresponding proceeds from the closing of the underlying transactions which contributed to the adjustment items.

In case of unchanged payment expectations, a change in the present value of impaired loans and advances (unwinding) occurs over time. The interest income from such loans and advances is calculated as the present value by adding accrued interest using the original effective interest rate.

The term hybrid financial instruments covers silent participations, profit participations and bonds measured at amortised acquisition cost. Their interest depends on the profit or loss of the Bank.

The total of current participation in losses (not allowing for anticipated reversals of impairment losses) relating to the 2013 financial year was € 159 million (previous year: € 157 million).

Net income or loss from hybrid financial instruments includes both the effects on profit/loss resulting from the application of IAS 39 AG8 as well as the current interest income from the instruments that fall under the scope of application of this standard.

The cumulative net income from hybrid financial instruments amounts to € 564 million as at 31 December 2013 (previous year: € 711 million). € 1,424 million are attributable to the result from re-estimating interest and repayment cash flows (previous year: € 1,421 million) and € –860 million are attributable to the income/loss from discounting and compounding (previous year: € –710 million).

The difference between the valuation for tax purposes of financial instruments and the measurement of such instruments under IAS 39 AG8 results in deferred tax assets of € 42 million (previous year: € 39 million deferred tax liabilities).

8. NET COMMISSION INCOME

NET COMMISSION INCOME

(€ m)	2013	2012
Commission income from		
Lending business	78	85
Securities business	65	74
Guarantee business	19	19
Payments and account transactions as well as documentary business	22	22
Other commission income	10	12
Commission income	**194**	**212**
Commission expenses from		
Lending business	15	10
Securities business	56	67
Guarantee business	7	2
Payments and account transactions as well as documentary business	4	3
Other commission expenses	8	11
Commission expenses	**90**	**93**
Total	**104**	**119**

Financial instruments not classified as HfT or DFV accounted for € 107 million (previous year: € 123 million) of Net commission income.

9. RESULT FROM HEDGING

The change in value attributable to the hedged risk for designated underlying and hedging transactions in effective hedging relationships is reported under the item Result from hedging. The item contains the corresponding profit contributions from micro and portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

RESULT FROM HEDGING

(€ m)	2013	2012
Fair value changes from hedging transactions	–120	302
Micro fair value hedge	–64	–46
Portfolio fair value hedge	–56	348
Fair value changes from underlyings	129	–296
Micro fair value hedge	64	39
Portfolio fair value hedge	65	–335
Total	**9**	**6**

10. NET TRADING INCOME

Net trading income comprises realised income/loss and the valuation result for financial instruments classified as held for trading (HfT) or designated at fair value (DFV). Interest income and expenses for financial instruments of these categories are shown under Net interest income.

Gains and losses on currency translation are recorded in this income statement item as a matter of principle. The results from the translation of loan loss provisions denominated in foreign currency not hedged against foreign exchange risk are disclosed in the loan loss provisions.

Other products comprises the income from foreign exchange transactions, credit derivatives and commodities.

NET TRADING INCOME

(€ m)	Bonds and interest rate derivatives		Equities and equity derivatives		Other products		**Total**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Realised net income								
Held for trading	304	373	–20	–4	41	24	325	393
Designated at fair value	2	–161	15	2	–	–	17	–159
Subtotal	**306**	**212**	**–5**	**–2**	**41**	**24**	**342**	**234**
Valuation result								
Held for trading	–181	–459	121	184	–33	–3	–93	–278
Designated at fair value	76	–16	–136	–178	–	–	–60	–194
Subtotal	**–105**	**–475**	**–15**	**6**	**–33**	**–3**	**–153**	**–472**
Total	**201**	**–263**	**–20**	**4**	**8**	**21**	**189**	**–238**

Net trading income includes net income from foreign currency of € 16 million (previous year: € 10 million).

During the reporting period € 144 million (previous year: € 139 million) of the changes in fair value of the financial assets categorised as designated at fair value (DFV) related to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € –13 million (previous year: € –366 million) is attributable to changes in the credit spread.

In the period under review, changes in value related to changes in the credit spread rather than to market interest rate changes for liabilities in the category DFV amounted to € –68 million (previous year: € –108 million). In cumulative terms, a total of € 24 million (previous year: € 107 million) is attributable to changes in the credit spread.

11. NET INCOME FROM FINANCIAL INVESTMENTS

In addition to any realised gains and losses from financial investments classified as loans and receivables (LaR) and available for sale (AfS), write-downs and write-ups and portfolio valuation allowances are reported under this item. In the case of financial investments classified as AfS, write-ups are only recognised in the income statement for debt instruments up to a maximum of the amortised cost.

In the year under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 151 million (previous year: € 97 million) were disposed of. This resulted in realised income of € 62 million (previous year: € 12 million). Remaining instruments of this kind were written down by € 8 million (previous year: € 19 million).

NET INCOME FROM FINANCIAL INVESTMENTS

(€ m)	**2013**	2012
Classified as AfS		
+ Realised gains/losses (–)	129	193
– Write-downs	27	26
+ Write-ups	10	7
Subtotal	**112**	**174**
Classified as LaR		
+ Realised gains/losses (–)	48	19
– Write-downs	8	183
+ Write-ups	113	77
Subtotal	**153**	**–87**
– Additions to portfolio valuation allowances (LaR portfolios)	–	43
+ Reversal of portfolio valuation allowances (LaR portfolios)	11	9
Subtotal	**11**	**–34**
Total	**276**	**53**

12. NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

As at the 31 December 2013 balance sheet date, the HSH Nordbank Group owns shares in seven associates and one joint venture (previous year: six associates and two joint ventures) that are included in the consolidated financial statements under the equity method (see Note 4).

The pro rata net income assigned to the Group from financial investments accounted for under the equity method as at 31 December 2013 is summed up below.

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	**2013**	2012
Pro rata net income for the period	–	–4
Other income/expenses from addition/disposal of financial investments accounted for under the equity method	–	–6
Impairments	–15	–4
Total	**–15**	**–14**

The total net income from financial investments accounted for under the equity method amounted to € – 15 million (previous year: € – 14 million). The total amount of the impairment losses included therein is attributable to the shares held in Relacom Management AB that are accounted for under the equity method once again in the year under review (cf. Note 28).

A review of the value of the remaining shares measured using the equity method under IAS 39 as at 31 December 2013 did not result in the need to recognise an additional impairment loss.

Given the full impairment for some of the financial investments accounted for under the equity method, HSH Nordbank's share in the current losses of these companies, amounting to € – 13 million (previous year: € – 19 million), was no longer recorded in the current period. The accumulated non-recognised pro rata share in the losses of these companies amounts to € – 27 million (previous year: € – 44 million).

Net income from financial investments accounted for under the equity method is disclosed in the segment report as a part of Net income from financial investments. The results of Relacom Management AB are presented in the segment Restructuring Unit.

13. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	**2013**	2012
– Expenses from allocations to valuation allowances	2,706	2,389
+ Income from the reversal of valuation allowances	664	1,061
Result from changes in valuation allowances	**–2,042**	**–1,328**
– Expenses from allocations to provisions in the lending business	68	243
+ Income from reversal of provisions in the lending business	350	180
Result from changes in provisions in the lending business	**282**	**–63**
– Direct write-downs	106	44
+ Payments received on loans and advances previously written down	102	155
+ Foreign currency income from loan loss provisions denominated in foreign currency	138	57
+ Income from the disposal of receivables	–	–
Result from other changes in loan loss provisions	**134**	**168**
Result from changes in loan loss provisions before compensation	**–1,626**	**–1,223**
Compensation under the second loss guarantee	**744**	**567**
Total loan loss provisions	**–882**	**–656**

With regard to the compensation item related to HSH Finanzfonds AöR please refer to Note 2.

Direct write-downs of € 106 million (previous year € 44 million) relate entirely to Loans and advances to customers.

Loan loss provisions in on-balance-sheet lending business relate exclusively to loans and advances classified as LaR. The following table shows the net changes:

NET CHANGES IN LOAN LOSS PROVISIONS

(€ m)	**2013**	2012
Individual valuation allowances	–2,167	–1,377
Portfolio valuation allowances	125	49
Net change in valuation allowances	**–2,042**	**–1,328**
Provisions for specific risks	281	–76
Provisions for portfolio risks	1	13
Net change in provisions in the lending business	**282**	**–63**

14. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES

(€ m)	2013	2012
Personnel expenses	327	357
Operating expenses	331	313
Depreciation on property, plant and equipment and amortisation on intangible assets	74	151
Total	**732**	**821**

PERSONNEL EXPENSES

(€ m)	2013	2012
Wages and salaries	260	299
Social security contributions	41	40
Expenses for pensions and support	26	18
Total	**327**	**357**

Please refer to Note 41 for detailed information on expenses for pensions and support as well as expenses for defined contribution plans.

OPERATING EXPENSES

(€ m)	2013	2012
IT costs	110	86
Costs for external services and project work	73	59
Legal service costs	43	53
Expenses for land and buildings	36	42
Obligatory contributions and expenses related to corporate law	6	10
Costs of advertising, PR and promotional work	8	9
Expenses on plant and equipment	1	2
Other expenses	54	52
Total	**331**	**313**

Depreciation on property, plant and equipment and amortisation on intangible assets are broken down as follows:

DEPRECIATION

(€ m)	2013	2012
Scheduled depreciation on		
Plant and equipment	5	12
Property	2	3
Acquired software	10	13
Software developed in-house	14	15
Leasing assets	4	9
Technical equipment and machinery	3	–
Unscheduled depreciation on		
Plant and equipment	–	–
Property	4	11
Technical equipment and machinery	32	28
Assets held for sale and disposal groups	–	60
Total	**74**	**151**

15. OTHER OPERATING INCOME

OTHER OPERATING INCOME

(€ m)	2013	2012
Income		
from legal disputes	58	–
from reversal of other provisions and release of liabilities	49	53
from leasing transactions	9	8
from investment property (rental income)	6	–
from write-ups on property, plant and equipment and investment property	3	–
from interest on receivables from the tax office	–	24
from the repayment of subordinated issues	–	261
Total income	**125**	**346**
Expenses		
from additions to other provisions	81	63
interest expenses pursuant to Section 233 AO	39	53
from the amortisation of goodwill	30	–
from unscheduled depreciation on assets	18	52
for investment property	3	–
incurred in connection with the acquisition of buildings	–	27
Total expenses	**171**	**195**
Income/loss arising on the deconsolidation of companies	31	–2
Income from disposal of property, plant and equipment	9	–5
Income arising on the updating of compensation claims of minority interests in partnerships	–	–10
Other income and expenses (netted)	28	57
Total	**22**	**191**

Unscheduled depreciation on assets relates to assets held by the HSH Real Estate Group that were sold in the 2013 financial year (see Note 31).

€ 13 million of the income arising on the deconsolidation of companies is attributable to the sale of all shares held in HSH Real Estate GmbH on 31 August 2013 (see Note 4).

A further € 16 million of the income relates to the fully consolidated company AGV Irish Equipment Leasing No. 4 Limited. This income results from the economic separation of assets and liabilities (silo 2) attributable to another bank (see Note 4).

16. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING

(€ m)	2013	2012
Personnel expenses	20	5
Operating expenses	56	52
Income from the reversal of provisions and the release of liabilities	20	14
Total	**–56**	**–43**

The restructuring result as at 31 December 2013 reflects both the ongoing implementation of the restructuring programme adopted in 2011 and additional measures initiated by the Bank in November 2013 in order to counter the increased cost pressure and to realise efficiency gains. In this context, the focus is placed on savings in operating costs and changes in the organisational structure.

17. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES

(€ m)	2013	2012
Financial Market Stabilisation Fund (SoFFin)	–	18
HSH Finanzfonds AöR	414	284
Total	**414**	**302**

The guarantee facility issued by the bank rescue fund, SoFFin, was fully reduced through maturities in 2012 according to plan. In June 2013 HSH Nordbank AG has replenished the guarantee granted by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to € 10 billion. € 69 million of the one-off payment for the replenishment of the second loss guarantee was recognised on a pro rata temporis basis in 2013 (see Note 2).

18. INCOME TAXES

INCOME TAXES

(€ m)	2013	2012
Corporate tax and solidarity surcharge		
Domestic	1	4
Foreign	3	1
Current income tax	**4**	**5**
Income tax from previous years	194	97
Subtotal current income tax	**198**	**102**
Income from deferred tax		
from temporary differences	3	–330
from losses carried forward	42	169
from consolidation	8	–2
Subtotal deferred income tax	**53**	**–163**
Income tax expense (+)/income (–)	**251**	**–61**

Taxes for previous years amounting to € 194 million are primarily attributable to additions to provisions for current domestic taxes at the parent company level.

RECONCILIATION INCOME TAXES

(€ m/%)	2013	2012
Group net loss	–814	–124
Income taxes	251	–61
Income before taxes incl. income from transfer of losses	–563	–185
Domestic income tax rate to be applied in %	31.68	31.69
Imputed income tax expenses in the financial year	**–178**	**–59**
Tax effects due to		
Appreciation/depreciation deferred taxes on losses carried forward	148	220
Differing effective tax rates in Germany and abroad	10	–38
Non-deductible expenses	67	69
Corrections to trade taxes	–	–51
Changes in tax rate	–2	–3
Taxes for previous years	375	97
Tax-free income	–169	–337
Depreciation deferred taxes on temporary differences and miscellaneous	–	41
Total tax expense (+)/income (–)	**251**	**–61**

In calculating taxes for 2013, a rate of 31.68 % (previous year: 31.69 %) was used for domestic taxes.

Income taxes in the financial year are characterised by provisions recognised for tax risks resulting from a changed risk assessment and by the change in deferred tax assets on loss carryforwards. As in the previous year non-deductible expenses and tax-exempt income had a further major impact.

19. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

Net gains and losses from financial instruments include both realised gains and measurement gains within Net trading income and Net income from financial investments together loan loss provisions with regard to business shown on the statement of financial position, broken down into IAS 39 categories. Neither net interest nor net commission income is included in this item.

NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

(€ m)	**2013**	2012
Designated at Fair Value (DFV)	–43	–353
Available for Sale (AfS)	112	174
Loans and Receivables (LaR)	–1,000	–715
Held for Trading (HfT)	232	115
Total	**–699**	**–779**

Derecognition of the fair value changes cumulated in equity associated with value adjustments and sales of financial instruments categorised as AfS is shown in Note 47.

20. EARNINGS PER SHARE

To calculate Earnings per share, the Group net result attributable to HSH Nordbank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review. As in the previous year, HSH Nordbank has not issued any dilutive forms of capital as at 31 December 2013, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

EARNINGS PER SHARE

	2013	2012
Attributable Group net result (€ m) – undiluted/diluted	–812	–120
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	297
Earnings per share (€)		
Undiluted	–2.69	–0.40
Diluted	–2.69	–0.40

NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

21. CASH RESERVE

CASH RESERVE

(€ m)	**2013**	2012
Cash on hand	14	14
Balances at central banks	4,455	6,349
of which at the Deutsche Bundesbank	1,593	6,043
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	382	382
of which eligible for refinancing at the Deutsche Bundesbank	375	375
Total	**4,851**	**6,745**

22. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS

(€ m)	**2013**			2012		
	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Payable on demand	677	2,556	3,233	794	3,398	4,192
Other loans and advances	1,556	367	1,923	3,808	353	4,161
Total before loan loss provisions	**2,233**	**2,923**	**5,156**	**4,602**	**3,751**	**8,353**
Loan loss provisions	–	126	126	–	134	134
Total after loan loss provisions	**2,233**	**2,797**	**5,030**	**4,602**	**3,617**	**8,219**

€ 851 million (previous year: € 1,839 million) of Loans and advances to banks have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 3,136 million (previous year: € 3,682 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

23. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS

(€ m)	2013			2012		
	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Retail customers	1,057	40	1,097	1,008	48	1,056
Corporate clients	29,978	32,350	62,328	32,852	40,387	73,239
Public authorities	5,041	613	5,654	5,648	627	6,275
Total before loan loss provisions	**36,076**	**33,003**	**69,079**	**39,508**	**41,062**	**80,570**
Loan loss provisions	3,130	3,262	6,392	2,595	2,776	5,371
Total after loan loss provisions	**32,946**	**29,741**	**62,687**	**36,913**	**38,286**	**75,199**

Of Loans and advances to banks, holdings of € 43,586 million (previous year: € 51,569 million) have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 1,445 million (previous year: € 1,354 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 131 million (previous year: € 155 million). The gross investment value of the leasing transactions is € 115 million (previous year: € 130 million). Further details on leasing transactions can be found in Note 58.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

24. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	**2013**	2012
Valuation allowances for loans and advances to banks	126	134
Valuation allowances for loans and advances to customers	6,392	5,371
Valuation allowances in the lending business	**6,518**	**5,505**
Compensation under the second loss guarantee	–2,714	–1,924
Loan loss provisions for items in the statement of financial position	**3,804**	**3,581**
Provisions in the lending business	145	455
Loan loss provisions for items in the statement of financial position and off-balance-sheet risks in the lending business	**3,949**	**4,036**

The individual and portfolio valuation allowances are determined without taking the hedging effect of the second loss guarantee into account, to start with. The hedging effect is then mapped in the balance sheet through the recognition of a compensation item, which directly reduces loan loss provisions (see Note 2).

The development of loan loss provisions for banks during the period under review was as follows:

DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO BANKS BEFORE COMPENSATION

(€ m)	Individual valuation allowances		Portfolio valuation allowances		Total	
	2013	2012	**2013**	2012	**2013**	2012
As at 1 January	**133**	**187**	**1**	**1**	**134**	**188**
Additions	5	11	–	2	5	13
Reversals	1	15	–	2	1	17
Utilisation	2	62	–	–	2	62
Reclassifications	–7	14	–	–	–7	14
Unwinding	–1	–1	–	–	–1	–1
Exchange rate changes	–2	–1	–	–	–2	–1
As at 31 December	**125**	**133**	**1**	**1**	**126**	**134**

Loan loss provisions for customers during the period under review developed as follows:

DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS BEFORE COMPENSATION

(€ m)	Individual valuation allowances		Portfolio valuation allowances		Total	
	2013	2012	**2013**	2012	**2013**	2012
As at 1 January	**4,867**	**4,212**	**504**	**564**	**5,371**	**4,776**
Additions	2,669	2,376	32	–	2,701	2,376
Reversals	506	996	157	48	663	1,044
Utilisation	647	435	–	–	647	435
Reclassifications	7	–15	–	–	7	–15
Unwinding	–214	–232	–	–	–214	–232
Changes in the scope of consolidation	–	–3	–	–	–	–3
Exchange rate changes	–144	–40	–19	–12	–163	–52
As at 31 December	**6,032**	**4,867**	**360**	**504**	**6,392**	**5,371**

The valuation allowances relate exclusively to items classified as loans and receivables (LaR). The total volume of loans impaired amounts to € 14,383 million (previous year: € 13,191 million).

25. POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

The positive fair value of derivatives used in hedge accounting is accounted for in this item. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets. Hedge accounting is used solely for interest rate risks.

POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

(€ m)	**2013**	2012
Positive fair value of derivatives used in micro fair value hedges	152	271
Positive fair value of derivatives used in portfolio fair value hedges	1,135	1,899
Total	**1,287**	**2,170**

Of hedging derivatives, holdings of € 1,197 million (previous year: € 2,059 million) have a residual maturity of more than one year.

Changes in this item are directly related to changes in the item Negative fair value of hedging derivatives. The overall changes in this item are mainly due to changes in portfolio compositions and movements in interest rates in the EUR and USD capital markets.

26. TRADING ASSETS

Only financial assets classified as HfT are stated under Trading assets. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value which are either not designated as a hedge derivative or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting.

Trading assets of € 8,520 million (previous year: € 10,999 million) have a residual maturity of more than one year.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

TRADING ASSETS

(€ m)	**2013**	2012
Debentures and other fixed-interest securities		
Money market instruments		
from public-sector issuers	4	–
negotiable and listed	4	–
Money market instruments	**4**	**–**
Bonds and debentures		
from public-sector issuers	1,548	481
negotiable and listed	1,548	481
from other issuers	475	117
negotiable and listed	409	92
negotiable and not listed	66	25
Bonds and debentures	**2,023**	**598**
Debentures and other fixed-interest securities	**2,027**	**598**
Shares and other non-fixed-interest securities		
negotiable and listed	4	5
Shares and other non-fixed-interest securities	**4**	**5**
Positive fair value of financial derivatives		
interest rate-related business	5,781	9,686
currency-related business	143	232
other business	1,055	1,191
Positive fair value of financial derivatives	**6,979**	**11,109**
Other, including promissory notes held for trading	34	34
Receivables from syndicated transactions	5	71
Total	**9,049**	**11,817**

27. FINANCIAL INVESTMENTS

Financial investments include specifically financial instruments not held for trading classified as AfS and LaR and, to a lesser extent, as DFV. This item includes bonds and other fixed-interest securities, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, holdings in joint ventures and associates not carried at equity in the consolidated financial statements.

FINANCIAL INVESTMENTS

(€ m)	**2013**	2012
Debentures and other fixed-interest securities	20,750	21,483
negotiable and listed	19,050	19,885
negotiable and not listed	1,700	1,598
Shares and other non-fixed-interest securities	322	387
negotiable and listed	33	36
negotiable and not listed	135	156
Equity holdings	180	183
negotiable and listed	3	3
negotiable and not listed	96	23
Interests in affiliated companies	3	14
Total	**21,255**	**22,067**

Financial investments of € 19,329 million (previous year: € 19,608 million) have a residual maturity of more than one year.

Individual valuation allowances with regard to debentures and other fixed-interest securities amount to € 358 million (previous year: € 556 million) and with regard to shares and other non-fixed-interest securities they amount to € 18 million (previous year: € 19 million).

Portfolio valuation allowances amount to € 52 million (previous year: € 64 million).

Changes in individual and portfolio valuation allowances are recognised directly in Net income from financial investments.

This portfolio also contains shares and other non-fixed-interest securities measured at cost of € 134 million (previous year: € 154 million). Equity capital instruments accounted for at cost that relate to shares in affiliated companies and equity holdings amount to € 180 million (previous year: € 195 million). There are currently no concrete disposal plans for these equity instruments.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

Developments with regard to equity holdings and interests in affiliated companies are presented below:

DEVELOPMENT IN EQUITY HOLDINGS AND INTERESTS IN AFFILIATED COMPANIES

(€ m) **2013**	Equity holdings	Interests in affiliated companies	**Total**
Acquisition costs as at 1 January 2013	**365**	**31**	**396**
Additions	81	7	88
Disposals	139	10	149
Reclassifications	2	–10	–8
Exchange rate changes	–2	–	–2
Changes in the scope of consolidation	–	1	1
As at 31 December 2013	**307**	**19**	**326**
Impairment loss as at 1 January 2013	**182**	**16**	**198**
Additions	1	8	9
Disposals	53	8	61
Reclassifications	–2	–	–2
Exchange rate changes	–1	–	–1
As at 31 December 2013	**127**	**16**	**143**
Carrying amount as at 31 December 2013	**180**	**3**	**183**
Carrying amount as at 1 January 2013	**183**	**15**	**198**

Reclassifications were made from equity holdings and interests in affiliated companies to the Non-current assets held for sale and disposal groups line item in the carrying amount of € 6 million.

DEVELOPMENT IN EQUITY HOLDINGS AND INTERESTS IN AFFILIATED COMPANIES

(€ m) 2012	Equity	Interests in affiliated companies	Total
Acquisition costs as at 1 January 2012	**435**	**153**	**588**
Changes in the scope of consolidation	–	5	5
Acquisition costs as at 1 January 2012 following adjustments	**435**	**158**	**593**
Additions	9	2	11
Disposals	17	43	60
Reclassifications	–64	–86	–150
Changes in the scope of consolidation	2	–	2
As at 31 December 2012	**365**	**31**	**396**
Impairment loss as at 1 January 2012	**230**	**88**	**318**
Additions	16	5	21
Disposals	5	8	13
Reclassifications	–58	–68	–126
Changes in revaluation gains and losses recognised directly in equity	–1	–	–1
As at 31 December 2012	**182**	**17**	**199**
Carrying amount as at 31 December 2012	**183**	**14**	**197**
Carrying amount as at 1 January 2012	**205**	**65**	**270**

The HSH Nordbank Group holds shares in 28 associates and joint ventures which are not consolidated under the equity method but rather are accounted for as equity holdings under IAS 39 in 23 cases and as Non-current assets held for sale under IFRS 5 in five cases. The complete list of these equity holdings is set out in Note 63.

Financial information regarding the non-consolidated associates and HSH Nordbank Group joint ventures is presented here:

NON-CONSOLIDATED ASSOCIATES/JOINT VENTURES

(€ m)	2013	2012
Total assets	804	1,131
Total liabilities	636	557
Revenues	57	94
Net income/loss for the year	17	36

28. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Shares in associates and joint ventures included in the consolidated financial statements under the equity method are reported in this item.

As at the reporting date, 31 December 2013, the HSH Nordbank Group owns shares in seven associates and one joint venture that are included in the consolidated financial statements under the equity method (previous year: six associates and two joint ventures.). The carrying amount of these equity holdings was € 0 million as at 31 December 2013 (previous year: € 0 million).

An overview of the associates and joint ventures included in the consolidated financial statements under the equity method can be found in Note 4. Net income from financial investments accounted for under the equity method is disclosed in Note 12.

All of the shares in the associate GARDEUR Beteiligungs GmbH accounted for under the equity method were sold with effect from 30 September 2013.

In contrast to 31 December 2012 the shares in Relacom Management AB, Stockholm, are again consolidated under the equity method in the present consolidated financial statements. Following deconsolidation in the first quarter of 2012 HSH Nordbank increased its shareholding in the company by 1.87 % to 21.17 % with effect from 27 May 2013 as part of a restructuring measure undertaken by the participating financing banks, whereby the Bank has a significant influence over the company again. Based on the economic reason for the share increase we have reviewed the recognition of the shares held in Relacom Management AB measured under the equity method for impairment in accordance with IAS 39 already as at 30 June 2013. This review resulted in the identification of the need to recognise an impairment loss of the full amount of the shareholding and an expense of € – 15 million was recognised in Net income from financial investments accounted for under the equity method.

In addition, NOBIS Asset Management S.A., Luxembourg, was included for the first time in the financial year 2013 using the equity method. Due to the intention to sell these shares in the short term they were reclassified as of 26 November 2013 as shares held for sale. The shares are disclosed in accordance with IFRS 5 as at the balance sheet date.

The shares in Railpool Holding GmbH & Co. KG previously accounted for under the equity method are classified as held for sale as at 13 December 2013 due to the intention to sell these shares in the short term and are disclosed separately in accordance with IFRS 5. A summary of the financial information as to the associates included in the consolidated financial statements under the equity method is presented here. This information reflects the figures of the companies determined in accordance with local accounting standards (100 %).

ASSOCIATES ACCOUNTED FOR UNDER THE EQUITY METHOD – FINANCIAL INFORMATION

(€ m)	**2013**	2012
Total assets	414	392
Total liabilities	–642	–420
Sales revenue	618	52
Net income/loss for the year	–14	–11

JOINT VENTURES ACCOUNTED FOR UNDER THE EQUITY METHOD – FINANCIAL INFORMATION

(€ m)	**2013**	2012
Total current assets	4	33
Total non-current assets	12	537
Total current liabilities	–1	–58
Total non-current liabilities	–15	–537
Sales revenue	10	45
Expenses	–1	–68

The HSH Nordbank Group is not subject to any material contingent liabilities in respect of entities included in the consolidated financial statements under the equity method.

Belgravia Shipping Ltd. only provided us with financial statements of the company as at 30 September 2013, which were used as the basis for inclusion in the consolidation as at 31 December 2013. All measurement information up to the financial statement reporting date was taken into account for consolidation purposes. There were no material transactions or other events between this financial statement reporting date and the reporting date of HSH Nordbank.

The financial year for PRIME 2006-1 Funding Limited Partnership ended 30 September 2013. These financial statements were used for applying the equity method as at 31 December 2013 as there were no subsequent material transactions that would have required an adjustment.

As at 31 December 2013, three associates and two joint ventures were not included in the consolidated financial statements under the equity method, as the equity interests are classified as non-current assets held for sale and are accounted for under IFRS 5.

Please see Note 27 for a summary of financial information related to financial investments not accounted for under the equity method.

29. INTANGIBLE ASSETS

The Intangible assets item comprises software developed in-house or acquired.

INTANGIBLE ASSETS

(€ m)	**2013**	2012
Software	43	61
Developed in-house	26	39
Acquired	17	22
Software in development	2	4
Developed in-house	2	2
Acquired	–	2
Total	**45**	**65**

Changes in the carrying amount of intangible assets are shown below:

DEVELOPMENT IN INTANGIBLE ASSETS

(€ m)		Software		Software in development		
2013	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	**Total**
Acquisition costs as at 1 January 2013	**255**	**96**	**177**	**2**	**2**	**532**
Additions	30	–	3	1	–	34
Disposals	–	1	11	–	–	12
Reclassifications	–	1	2	–1	–2	–
Changes in the scope of consolidation	–78	–	–	–	–	–78
As at 31 December 2013	**207**	**96**	**171**	**2**	**–**	**476**
Amortisation as at 1 January 2013	**255**	**57**	**155**	**–**	**–**	**467**
Additions	30	14	10	–	–	54
Disposals	–	1	11	–	–	12
Changes in the scope of consolidation	–78	–	–	–	–	–78
As at 31 December 2013	**207**	**70**	**154**	**–**	**–**	**431**
Carrying amount as at 31 December 2013	**–**	**26**	**17**	**2**	**–**	**45**
Carrying amount as at 1 January 2013	**–**	**39**	**22**	**2**	**2**	**65**

DEVELOPMENT IN INTANGIBLE ASSETS

(€ m)		Software		Software in development		
2012	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	**Total**
Acquisition costs as at 1 January 2012	**261**	**95**	**188**	**2**	**1**	**547**
Additions	–	–	3	1	1	5
Disposals	6	–	13	–	–	19
Reclassifications	–	1	–1	–1	–	–1
As at 31 December 2012	**255**	**96**	**177**	**2**	**2**	**532**
Amortisation as at 1 January 2012	**261**	**42**	**156**	**–**	**–**	**459**
Additions	–	15	13	–	–	28
Disposals	6	–	13	–	–	19
Reclassifications	–	–	–1	–	–	–1
As at 31 December 2012	**255**	**57**	**155**	**–**	**–**	**467**
Carrying amount as at 31 December 2012	**–**	**39**	**22**	**2**	**2**	**65**
Carrying amount as at 1 January 2012	**–**	**53**	**32**	**2**	**1**	**88**

In the year under review no research costs were incurred in connection with the implementation of software developed in-house (previous year: € 0 million).

The allocation of the purchase price of the mergers with K/S Angered and the Life Insurance Fund Elite (cf. Note 4) mapped as of 1 and 13 January 2013 respectively resulted in goodwill in the amount of € 30 million, which was allocated to the cash-generating Restructuring Unit. An unscheduled impairment test carried out at the time of the business combinations for this cash-generating unit indicated that a future economic benefit can no longer be realised by the goodwill. As a result of this impairment test the allocated goodwill was fully written off and the amortisation is disclosed under Other operating income. Following value adjustment goodwill of € 0 remains at Group level.

30. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT

(€ m)	**2013**	2012
Land and buildings	80	82
Plant and equipment	61	59
Leasing assets	55	12
Assets under construction	–	1
Technical equipment and machinery	19	106
Total	**215**	**260**

Further details on the existing leasing business can be found in Note 58.

Under the item Investment property all property (land or buildings) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank. Real estate leased as lessor in the operating leasing business is also included in this item.

INVESTMENT PROPERTY

(€ m)	**2013**	2012
Investment property	68	39
Total	**68**	**39**

The fair value of investment property amounted to € 75 million (previous year: € 38 million). The fair values of investment property are allocated without exception to level 3 of the fair value hierarchy. Market-based and income-based valuation techniques are used to determine fair value.

The development in property, plant and equipment and investment property in the financial year was as follows:

DEVELOPMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(€ m) **2013**	Land and buildings	Plant and equipment	Assets under construction	Investment property	Leasing assets	Technical equipment and machinery
Acquisition costs as at 1 January 2013	**85**	**145**	**1**	**55**	**24**	**199**
Additions	–	9	–	1	–	–
Disposals	–	8	–	11	–	–
Reclassifications	–	1	–1	–13	–	–
Exchange rate changes	–	–	–	–1	–1	–6
Changes in the scope of consolidation	–	–1	–	58	58	–95
As at 31 December 2013	**85**	**146**	**–**	**89**	**81**	**98**
Depreciation as at 1 January 2013	**3**	**86**	**–**	**16**	**12**	**93**
Additions	2	5	–	4	4	35
Disposals	–	5	–	6	–	–
Reclassifications	–	–	–	–9	–	–
Write-ups	–	–	–	–	–2	–
Exchange rate changes	–	–	–	–	–1	–4
Changes in the scope of consolidation	–	–1	–	16	13	–45
As at 31 December 2013	**5**	**85**	**–**	**21**	**26**	**79**
Carrying amount as at 31 December 2013	**80**	**61**	**–**	**68**	**55**	**19**
Carrying amount as at 1 January 2013	**82**	**59**	**1**	**39**	**12**	**106**

A carrying amount of € 4 million in respect of investment property was reclassified to Non-current assets held for sale and disposal groups.

Further details on depreciation can be found in Note 14.

DEVELOPMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(€ m) 2012	Land and buildings	Plant and equipment	Assets under construction	Investment property	Leasing assets	Technical equipment and machinery
Acquisition costs as at 1 January 2012	**20**	**150**	**–**	**218**	**224**	**3**
Additions	78	6	1	28	–	3
Disposals	7	9	–	2	–	2
Reclassifications	–6	–1	–	–149	–196	196
Exchange rate changes	–	–	–	–	–4	–
Changes in the scope of consolidation	–	–1	–	–40	–	–1
As at 31 December 2012	**85**	**145**	**1**	**55**	**24**	**199**
Depreciation as at 1 January 2012	**3**	**85**	**–**	**120**	**68**	**1**
Additions	–	12	–	14	9	28
Disposals	–	9	–	–	–	–
Reclassifications	–	–1	–	–93	–65	65
Changes in the scope of consolidation	–	–1	–	–25	–	–1
As at 31 December 2012	**3**	**86**	**–**	**16**	**12**	**93**
Carrying amount as at 31 December 2012	**82**	**59**	**1**	**39**	**12**	**106**
Carrying amount as at 1 January 2012	**17**	**65**	**–**	**98**	**156**	**2**

31. NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)	**2013**	2012
Loans and advances to banks	–	141
Loans and advances to customers	15	–
Financial investments	–	32
Investment property	–	1
Other assets	10	12
Total	**25**	**186**

This item mainly contains loans and advances to customers and other assets for which it is highly likely that they will be sold within the next twelve months in the course of the strategic realignment.

In August of the financial year 2013 the HSH Real Estate Group, which was assigned to the Restructuring Unit segment, was sold as planned. The sale is a consequence of the implementation of the conditions imposed by the EU proceedings. Unscheduled depreciation of € 19 million to fair value was recognised for the disposal group. The expense is mainly disclosed under Other operating income.

All cumulative income and expenses relating to these assets are disclosed in the statement of comprehensive income as well as in the statement of changes in equity.

32. CURRENT TAX ASSETS

CURRENT TAX ASSETS

(€ m)	**2013**	**2012**
Domestic	23	67
Foreign	36	38
Total	**59**	**105**

33. DEFERRED TAX ASSETS

Deferred tax assets arose due to temporary differences in the tax base of the following items in the statement of financial position and tax losses carried forward:

DEFERRED TAX ASSETS

(€ m)	2013	2012
Assets		
Loans and advances to banks	41	–
Loans and advances to customers	377	181
Loan loss provisions	203	400
Trading assets	33	45
Positive adjustment item from portfolio fair value hedges	21	–
Financial investments	68	124
Property, plant and equipment	3	14
Other assets	99	100
Liabilities		
Liabilities to banks	–	54
Liabilities to customers	76	103
Securitised liabilities	172	220
Negative fair values of hedging derivatives	293	295
Negative adjustment item from the portfolio fair value hedge	304	490
Provisions	169	258
Other liabilities	177	292
Tax losses carried forward	216	258
Subtotal for deferred tax assets	**2,252**	**2,834**
of which long term	113	119
Netting off deferred tax liabilities	–1,030	–1,567
Total	**1,222**	**1,267**

Deferred tax assets on tax loss carryforwards were recognised in the amount of € 216 million (previous year: € 258 million). HSH Nordbank Group's medium term income planning shows that the Bank will have sufficient taxable income available in the future against which the underlying loss carryforwards can be utilised.

In addition, there were unused tax loss carryforwards of € 3,885 million as at the reporting date (previous year: € 3,243 million). Deferred taxes of € 923 million (corporation tax) and € 609 million (trade tax) respectively were not recognised by the parent company in Germany on loss carryforwards.

Of the deferred tax assets, € 1,139 million (previous year: € 1,137 million) were incurred in Germany and 83 million (previous year: € 130 million) were incurred abroad.

The difference between the valuation for tax purposes of hybrid financial instruments (Note 6.I.E) and the measurement of such instruments under IAS 39 A8 results in deferred tax assets of € 42 million (previous year: € 39 million of deferred tax liabilities).

34. OTHER ASSETS

OTHER ASSETS

(€ m)	2013	2012
Unamortised balance of the one-off payment to HSH Finanzfonds AöR for the replenishment of the guarantee	207	–
Tenant loans	23	20
Receivables from insurance contracts	20	–
Prepaid expenses	10	10
Receivables from fund transactions	2	4
Receivables from other taxes	3	3
Receivables from participations and affiliated companies	2	3
Other assets	97	100
Total	**364**	**140**

Other assets in the amount of € 92 million (previous year: € 33 million) have a residual term of more than one year.

35. LIABILITIES TO BANKS

LIABILITIES TO BANKS

(€ m)	2013			2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	643	477	1,120	688	384	1,072
Other term liabilities	12,187	4,905	17,092	21,980	6,882	28,862
Total	**12,830**	**5,382**	**18,212**	**22,668**	**7,266**	**29,934**

Liabilities to banks of € 10,803 million (previous year: € 13,692 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2013 to € – 8 million (previous year: € – 13 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

36. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS BY CUSTOMER GROUP

(€ m)	2013	2012
Corporate clients	33,717	35,888
Public authorities	6,599	4,860
Retail customers	381	560
Total	**40,697**	**41,308**

LIABILITIES TO CUSTOMERS

(€ m)	2013			2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Savings deposits with agreed notice periods of						
3 months	34	1	35	57	1	58
> 3 months	2	–	2	3	–	3
Other liabilities						
Payable on demand	9,631	1,137	10,768	7,597	1,261	8,858
Term liabilities	27,533	2,359	29,892	28,710	3,679	32,389
Total	**37,200**	**3,497**	**40,697**	**36,367**	**4,941**	**41,308**

Liabilities to customers of 15,154 million (previous year: 15,763 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2013 to € – 261 million (previous year: € – 344 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

37. SECURITISED LIABILITIES

SECURITISED LIABILITIES

(€ m)	2013	2012
Debentures issued	28,459	30,938
Money market securities issued	102	521
Total	**28,561**	**31,459**

Securitised liabilities of € 22,816 million (previous year: € 23,652 million) have a residual maturity of more than one year.

Debentures issued include € 560 million of hybrid financial instruments (previous year: € 527 million). The carrying amount of these hybrid financial instruments was determined based on assumptions (see Note 6.1.E.).

In the item Securitised liabilities repurchased own debentures in the amount of € 3,443 million (previous year: € 4,471 million) were deducted.

The difference between the carrying amount of Securitised liabilities categorised as designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € – 608 million at 31 December 2013 (previous year: € – 586 million).

38. NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

This item shows the negative fair values of derivatives used in hedge accounting. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading liabilities. Hedge accounting is used solely for interest rate risks.

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

(€ m)	2013	2012
Negative fair value of derivatives used in micro fair value hedges	138	191
Negative fair value of derivatives used in portfolio fair value hedges	796	752
Total	**934**	**943**

Negative fair values of hedging derivatives of € 914 million (previous year: € 925 million) have a residual maturity of more than one year.

Changes in this item are directly related to changes in the item Positive fair value of hedging derivatives (see Note 25). The overall changes in this item are mainly due to changes in portfolio compositions and movements in interest rates in the EUR and USD capital markets.

39. TRADING LIABILITIES

Only financial liabilities classified as HfT are disclosed under Trading liabilities. Mainly included in this category are derivatives with a negative fair value which are either not designated as hedging derivatives or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting.

TRADING LIABILITIES

(€ m)	**2013**	2012
Negative fair values from derivative financial instruments		
Interest-rate-related business	6,402	10,627
Currency-related business	123	159
Other business	577	664
Total	**7,102**	**11,450**

Trading liabilities of € 6,667 million (previous year: € 10,878 million) have a residual maturity of more than one year.

For details of collateral transferred please see Note 59.

40. PROVISIONS

PROVISIONS

(€ m)	**2013**	2012
Provisions for pension obligations and similar obligations	855	854
Other provisions		
Provisions for personnel expenses	54	61
Provisions in the lending business	145	455
Provisions for restructuring	130	149
Provisions for litigation risks and costs	49	80
Miscellaneous	127	65
Total	**1,360**	**1,664**

Provisions of € 1,290 million (previous year: € 1,586 million) have a residual maturity of more than one year.

Provisions with a maturity of less than one year mainly relate to Provisions for personnel expenses and Other provisions.

Provisions for restructuring in the amount of € 85 million (previous year: € 101 million) relate to personnel expenses and € 45 million (previous year: € 48 million) to operating expenses.

Changes in pension provisions are presented in Note 41.

Other provisions changed as follows:

CHANGES IN OTHER PROVISIONS

(€ m) **2013**	For personnel expenses	In the lending business	For restructuring	For litigation risks and costs	Miscel-laneous	**Total**
As at 1 January 2013	**61**	**455**	**149**	**80**	**65**	**810**
Additions	36	68	45	29	97	275
Reversals	3	350	15	7	10	385
Compounding	–	2	–1	–	–	1
Reclassifications	–23	–	–14	–	–1	–38
Changes in exchange rates	–1	–3	–1	–	–	–5
Changes in the scope of consolidation	–	–	–	–	14	14
Utilisation in the financial year	16	27	33	53	38	167
As at 31 December 2013	**54**	**145**	**130**	**49**	**127**	**505**

Reclassifications were mainly made from provisions to pension provisions in the amount of € 11 million and to liabilities in the amount of € 27 million.

CHANGES IN OTHER PROVISIONS

(€ m) **2012**	For personnel expenses	In the lending business	For restructuring	For litigation risks and costs	Miscel-laneous	**Total**
As at 1 January 2012	**66**	**393**	**276**	**108**	**106**	**949**
Additions	47	243	33	14	86	423
Reversals	5	180	14	35	8	242
Compounding	1	6	1	1	2	11
Reclassifications	–2	–	–63	–	–109	–174
Changes in exchange rates	–	–3	–	–	–	–3
Changes in the scope of consolidation	–	1	–1	–	–	–
Utilisation in the financial year	46	5	83	8	12	154
As at 31 December 2012	**61**	**455**	**149**	**80**	**65**	**810**

Provisions in the lending business are composed of the following items:

PROVISIONS IN THE LENDING BUSINESS

(€ m)	2013	2012
Specific loan loss provisions for		
Contingent liabilities	47	38
Irrevocable loan commitments	28	347
Other credit risks	14	13
Subtotal	**89**	**398**
Portfolio loan loss provisions for		
Contingent liabilities	44	46
Irrevocable loan commitments	12	11
Subtotal	**56**	**57**
Total	**145**	**455**

41. PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS

In recognising and measuring direct benefit pension plans, the net present value of the obligations is reduced by the fair value of the plan assets.

PROVISIONS FOR PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS

(€ m)	2013	2012
Net present value of obligations, wholly or partly financed through funds	13	12
Net present value of obligations not financed through funds	850	850
Net present value of pension obligations and similar obligations	**863**	**862**
Fair value of plan assets	8	8
Pension plan deficit (provisions for pension obligations and similar obligations)	**855**	**854**

The net present value of defined benefit pension provisions has changed as follows:

CHANGES IN NET PRESENT VALUE

(€ m)	2013	2012
Net present value as at 1 January	**862**	**676**
Actuarial gains (–)/losses	–	–
due to changed financial assumptions	–4	163
due to experience-based adjustments	–11	–7
Interest expense	29	30
Past service cost	5	5
Plan settlements	–	–27
Current service cost	12	9
Benefits paid	–41	–36
Reclassifications	11	49
Net present value as at 31 December	**863**	**862**

The fair value of plan assets has changed as follows:

CHANGE IN FAIR VALUE OF PLAN ASSETS

(€ m)	2013	2012
Fair value of plan assets as at 1 January	**8**	**32**
Employer's contributions	–	1
Transfer of plan assets	–	–25
Fair value of plan assets as at 31 December	**8**	**8**

The change in actuarial gains and losses resulting from the change in financial assumptions in the previous year was mainly attributable to the significant change in the discount rate, which hardly moved in the reporting period.

The actuarial losses for the financial year before deferred taxes recognised under OCI amounted to € 15 million (previous year: loss of € 156 million). Allowing for deferred taxes, this results in a gain of € 10 million (previous year: loss of € 105 million), which in OCI and disclosed in retained earnings on an accumulated basis. As at 31 December 2013 the balance of actuarial gains/losses in retained earnings amounted to € 15 million (previous year: € 0 million) before tax and € 10 million (previous year: € – 1 million) after tax.

The net present value of plan settlements is attributable to the transfer of pension obligations to an insurance company. The pension obligations were transferred at the occasion of the closure of the London branch. No risk remains with the Bank following the transfer of the obligations.

Restructuring provisions were recognised in 2011 for personnel-related measures in connection with the implementation of the EU conditions. The early retirement agreements concluded in 2012 as part of this were transferred in the previous year from restructuring provisions to pensions and similar obligations (€ 49 million).

The decrease in plan assets in the previous year is due to the transfer of pension obligations to an insurance company as a result of closing the London branch. Plan assets were also transferred in this context.

BREAKDOWN OF PLAN ASSETS

(€ m)	**2013**	2012
Qualified insurance policies	7	7
Debentures and other fixed-interest securities	1	1
Other assets	–	–
Shares and other non-fixed-interest securities	–	–
Property	–	–
Total	**8**	**8**

The debentures and other fixed-interest securities included in the plan assets are traded on an active market.

Expenses of € 46 million were incurred for direct benefit pension plans in the 2013 reporting year (previous year: € 44 million).

Pension obligations represent future amounts to be paid and are uncertain both as to the amount and the date they fall due. Future fluctuations in the present value of the pension obligations can result particularly from a change in the actuarial assumptions such as the discount rate and life expectancy.

An increase or decrease in the actuarial assumptions (see Note 6) would have had the following impact on the present value of pension obligations as at 31 December 2013:

SENSITIVITY OF PENSION OBLIGATIONS

(€ m)	Increase	Decrease
Discount rate (+/–0.5 %)	–60	67
Inflation trend[1] (+/–0.25 %)	–28	29
Life expectancy (+1 year)	31	–

[1] A variation in the inflation trend affects the salary trend. An assumption regarding future salary levels has a direct influence on future pension levels because of the fully dynamic pension commitments. The salary and pension trends were therefore not separately varied.

The average duration of the pension obligations determined as at 31 December 2013 was used as the basis for the sensitivity calculations. The impact of the major assumptions on the present value of the pension obligations is presented. As the sensitivity analyses are based on the average duration of the expected pension obligations and expected payment dates are therefore not taken into account, the figures represent only approximate values. Furthermore, where a change in an actuarial assumption is analysed, the other assumptions are kept constant.

The HSH Nordbank Group expects to make payments of € 46 million to beneficiaries under direct benefit pension commitments for the 2014 financial year (previous year: € 39 million).

The weighted average duration of the direct benefit pension obligation is 17.6 years as at 31 December 2013 (previous year: 17.3 years).

Expenses for defined contribution pension plans without taking into account payments to statutory pension schemes in the 2013 reporting period were € 3 million (previous year: € 3 million).

42. LIABILITIES RELATING TO DISPOSAL GROUPS

LIABILITIES RELATING TO DISPOSAL GROUPS

(€ m)	2013	2012
Liabilities to banks	–	52
Provisions	–	120
Other liabilities	–	11
Total	**–**	**183**

There were no liabilities relating to disposal groups in the reporting year.

Comments on non-current assets held for sale and disposal groups are set out in Note 31.

43. CURRENT TAX LIABILITIES

INCOME TAX LIABILITIES

(€ m)	2013	2012
Current tax liabilities		
Income tax liabilities to tax authorities	1	–
Provisions for income taxes	201	108
Total	**202**	**108**

Liabilities to tax authorities include liabilities on income taxes due to domestic and foreign tax authorities.

Provisions for income taxes include tax liabilities for which no legally binding tax assessment notice has been received.

44. DEFERRED TAX LIABILITIES

For temporary differences in the tax bases of the following items in the statement of financial position deferred tax liabilities were created:

DEFERRED TAX LIABILITIES

(€ m)	**2013**	2012
Assets		
Cash reserve	14	18
Loans and advances to banks	–	4
Loans and advances to customers	–	115
Financial investments	162	–
Trading assets	–	1
Positive fair value of hedging derivatives	408	688
Positive adjustment item from the portfolio fair value hedge	–	127
Property, plant and equipment	9	13
Other assets	6	28
Liabilities		
Liabilities to banks	42	–
Trading liabilities	54	579
Provisions	7	–
Other liabilities	355	8
Subtotal	**1,057**	**1,581**
Netting off deferred tax assets	–1,030	–1,567
Total	**27**	**14**

There were no timing differences as at the reporting date for which deferred tax liabilities had not been recognised.

The deferred tax liabilities of € 27 million (previous year: € 14 million) primarily relate to countries other than Germany.

45. OTHER LIABILITIES

OTHER LIABILITIES

(€ m)	2013	2012
Collateral provided for assumed liabilities	839	974
Outstanding payments for the second loss guarantee	102	72
Liabilities for outstanding invoices	57	34
Other tax liabilities	27	11
Deferred income	15	26
Liabilities for restructuring	13	26
Personnel liabilities	11	13
Liabilities from open bearer notes	–	15
Other	90	164
Total	**1,154**	**1,335**

Other liabilities in the amount of € 849 million (previous year: € 976 million) have a residual term of more than one year.

The collateral provided for assumed liabilities serves to hedge leasing transactions of our customers with third parties.

46. SUBORDINATED CAPITAL

HSH Nordbank Group discloses its subordinated liabilities, silent participations and profit participation capital under this item.

SUBORDINATED CAPITAL

(€ m)	2013	2012
Subordinated liabilities	4,110	4,230
Maturing in less than two years	2,050	123
Silent participations	1,146	1,131
Profit participation capital	32	30
Maturing in less than two years	13	14
Total	**5,288**	**5,391**

Subordinated capital of € 5,216 million (previous year: € 5,240 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2013 to € 0 million (previous year: € – 30 million).

Hybrid financial instruments included under Subordinated capital include all silent participations as well as all profit participation capital with a carrying amount of € 32 million (previous year: € 30 million). The carrying amount of these hybrid financial instruments was determined based on assumptions (see Note 6.I.E).

The following material subordinated liabilities were in circulation as at the reporting date 31 December 2013:

CARRYING AMOUNT OF MATERIAL SUBORDINATED LIABILITIES IN CIRCULATION

Bearer securities over € 80 million

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
14.02.2007	499	499	€	HSH Nordbank	1.02	14.02.2017
14.02.2007	431	431	€	HSH Nordbank	1.06	14.02.2017
25.05.2005	297	297	€	HSH Nordbank	3.63	23.12.2015
30.06.2005	257	355	USD	HSH Nordbank	0.42	30.12.2015
23.05.2005	138	138	€	HSH Nordbank	0.57	23.12.2015
15.10.2002	105	105	€	LBSH [1]	0.61	15.10.2015
21.03.2001	104	144	USD	LBSH [1]	0.65	21.03.2031
30.06.2005	100	100	€	HSH Nordbank	0.46	30.12.2015
22.01.2001	92	92	€	HLB [2]	0.60	22.01.2041
25.11.1999	86	86	€	LBSH [1]	0.60	25.11.2039
30.10.2000	80	80	€	HLB [2]	0.61	30.10.2040

Registered securities over € 80 million

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
26.08.1997	87	12.595	JPY	HLB [2]	6.42	26.08.2017

[1] Landesbank Schleswig-Holstein.
[2] Hamburgische Landesbank.

As at the reporting date 31 December 2013 there were the following material silent participations:

CARRYING AMOUNT OF MATERIAL SILENT PARTICIPATIONS

Over € 30 million

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
19.02.2002	351	351	€	HSH N Funding I	7.41	perpetual
17.06.2005	267	368	USD	HSH N Funding II	7.25	perpetual
24.07.2000	86	86	€	LBSH [1]	7.63	perpetual

[1] Landesbank Schleswig-Holstein.

As at the reporting date 31 December 2013 there was the following material profit participation capital:

CARRYING AMOUNT OF MATERIAL PROFIT PARTICIPATION CAPITAL

Registered securities over € 15 million

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
24.01.2000	17	17	€	HLB [1]	7.35	31.12.2016

[1] Hamburgische Landesbank.

47. EQUITY

EQUITY

(€ m)	2013	2012
Share capital	3,018	3,018
Capital reserve	594	594
Retained earnings	1,768	1,876
Cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI	15	–
Deferred taxes on cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI	–5	–
Revaluation reserve	27	–31
Currency conversion reserve	–64	–59
Other net income from financial investments accounted for under the equity method	3	–
Other net income from non-current assets held for sale and disposal groups	3	–
Group net profit/loss	–812	–120
Total before non-controlling interests	**4,537**	**5,278**
Non-controlling interests	–13	–6
Total	**4,524**	**5,272**

Share capital

The share capital of HSH Nordbank AG is divided into 301,822,453 registered shares each representing a notional € 10,00 of share capital. All the issued shares have been fully paid up.

The direct and indirect shares held by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg amount to 85.38 %. At the reporting date HSH Finanzfonds AöR, held equally by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein, is the largest shareholder with a direct share of voting rights of 65.00 %. Further direct and indirect voting shares held by the Free and Hanseatic City of Hamburg amounted to 10.80 % as at the balance sheet date and the further direct and indirect shares of the Federal State of Schleswig-Holstein were 9.58 %. The direct share of the Savings Bank Association for Schleswig-Holstein as at 31 December 2013 was 5.31 %. As at 31 December 2013, the nine groups of investors advised by J.C. Flowers & Co. LLC held 9.31 % of the voting rights in total. The ownership structure has not changed compared to the previous year.

HSH Finanzfonds AöR, with its registered offices in Hamburg, has notified us in accordance with Section 20 (1) of the German Stock Corporation Act (AktG) that it directly owns more than one-quarter of the shares of HSH Nordbank AG, and at the same time owns a majority interest within the meaning of Section 16 (4) AktG. The shares of HSH Nordbank AG held by Finanzfonds AöR are apportioned to the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein in accordance with Section 16 (4) AktG. Furthermore, the shares of HSH Nordbank AG held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, a subsidiary of the Free and Hanseatic City of Hamburg, are also apportioned to the Free and Hanseatic City of Hamburg in accordance with Section 16 (4) AktG.

Neither HSH Nordbank AG nor any company dependent on it or majority-owned companies hold treasury stock. There are no cross-shareholdings as defined by Section 19 AktG.

CHANGES IN ORDINARY SHARES

(number of shares)	2013	2012
Number at the beginning of the year	301,822,453	263,508,277
Capital increase	–	38,314,176
Number at end of the year	**301,822,453**	**301,822,453**

Retained earnings and dividends

The item Retained earnings mainly shows amounts allocated from previous year profits and the profits of the current year. There are no statutory reserves or legal reserve within the meaning of Section 150 (2) of the German Stock Corporation Act (AktG).

As was the case for the previous financial year 2012, no dividend payments were made for previous years during the current financial year 2013.

Revaluation reserve

The effects of the measurement of AfS financial instruments disclosed at fair value directly in equity are recorded in the revaluation reserve.

The changes in value associated with deferred taxes shown in the revaluation reserve are also presented in the revaluation reserve pursuant to IAS 12.61A.

The development of the revaluation reserve is broken down as follows:

DEVELOPMENT OF THE REVALUATION RESERVE

(€ m)	2013	2012
As at 1 January	**–31**	**–208**
Addition/release of revaluation reserve due to measurement	101	188
Changes due to foreign currency effects	–6	–2
Subtotal	**64**	**–22**
Transfers to the income statement	–37	–9
Available for Sale due to impairment	4	10
Available for Sale due to disposal	–47	–24
Available for Sale due to reclassification	6	5
Transfers to the income statement from currency effects	–	–
Available for Sale due to disposal	–	–
As at 31 December	**27**	**–31**
Of which deferred taxes not recognised in the income statement	–42	–43

Deferred taxes of € 1 million (previous year: € – 104 million) were recognised in the revaluation reserve in the year under review. As of the balance sheet date, deferred taxes in the revaluation reserve amounted to € – 42 million (previous year: € – 43 million).

Currency conversion reserve

Assets and liabilities in financial statements of subsidiaries in foreign currencies are translated at the reporting date exchange rate in preparing the consolidated financial statements, while average rates for the reporting period are used to translate expenses and income. Equity is translated at historical rates, with the exception of revaluation reserves in consolidated financial statements reported in foreign currencies, which are translated at the reporting date exchange rate.

Any differences arising from this method of translation compared to complete translation at the reporting date exchange rate are reported in this item under equity.

Capital management

The capital management of HSH Nordbank aims to comply with regulatory minimum capital ratios. The minimum capital ratios agreed on the basis of the EU state aid decision in September 2011 must also be complied with. In addition to these minimum requirements, capital management is used as the basis for complying with the capital ratios planned and ensures that the Bank's capital base meets the risk-bearing capacity requirements. The common equity Tier 1 capital ratio and maintenance of the risk-bearing capacity are key parameters for capital management.

The regulatory capitalisation is in accordance with the provisions of the German Banking Act and German Solvency Regulation as well as the requirements of the German banking supervision. With effect from 1 January 2014 the Bank has been applying the rules of the European Capital Requirements Regulation (CRR) for the purposes of determining the capital of the regulatory group. HSH Nordbank determines the capital requirements for counterparty risk in accordance with the approach permitted by BaFin and which is based on internal ratings (Advanced IRBA). The capital base is reported to the regulatory authorities quarterly. The regulatory minimum ratios were complied with on each reporting date in the course of the year under review.

REGULATORY FIGURES [1]

(in %)	2013	2012
Tier 1 capital ratio (incl. market risk position)	15.9	11.4
Total ratio/regulatory capital ratio	24.2	17.8

[1] Figures before adoption of the annual financial statements of HSH Nordbank AG.

The regulatory capital commitment was monitored closely both at Bank and division level in the course of the financial year.

SEGMENT REPORTING

48. SEGMENT REPORT

(€ m/%)	Shipping, Project & Real Estate Clients		Corporates & Markets		Corporate Center		Consolidation Core Bank		Total Core Bank	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Net interest income	570	611	139	169	–137	491	47	–158	619	1,113
Net commission income	45	53	53	46	–7	–5	–16	–12	75	82
Result from hedging	–	–	–	–	–	–	9	6	9	6
Net trading income	58	29	165	156	1	–24	–180	–246	44	–85
Net income from financial investments [1]	54	–3	13	17	87	–2	–5	3	149	15
Total income	**727**	**690**	**370**	**388**	**–56**	**460**	**–145**	**–407**	**896**	**1,131**
Loan loss provisions	–609	–401	–39	–8	–2	–12	255	109	–395	–312
Administrative expenses	–253	–234	–230	–251	30	27	7	–9	–446	–467
Other operating income	12	20	11	7	–22	251	–1	–1	–	277
Net income before restructuring	**–123**	**75**	**112**	**136**	**–50**	**726**	**116**	**–308**	**55**	**629**
Result from restructuring	–	–	–	–	–	–	–41	–28	–41	–28
Expenses for government guarantees	–	–	–	–	–	–	–120	–92	–120	–92
Net income before taxes	**–123**	**75**	**112**	**136**	**–50**	**726**	**–45**	**–428**	**–106**	**509**
Cost/income ratio (CIR) %	35	34	62	65					50	41
Return on equity before tax %	–13	9	26	43					–5	20
Average equity	984	854	437	315	203	150	668	1,174	2,292	2,493

(€ bn)	**31.12. 2013**	31.12. 2012	**31.12. 2013**	31.12. 2012	**31.12. 2013**	31.12. 2012	**31.12. 2013**	31.12. 2012	**31.12. 2013**	31.12. 2012
Segment assets	**28**	**32**	**24**	**29**	**16**	**17**	**1**	**1**	**69**	**79**

[1] Including net income from financial investments accounted for under the equity method.

(€ m/%)	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Net interest income	283	408	34	–1	317	407	936	1,520
Net commission income	29	37	–	–	29	37	104	119
Result from hedging	–	–	–	–	–	–	9	6
Net trading income	240	199	–95	–352	145	–153	189	–238
Net income from financial investments[1]	112	24	–	–	112	24	261	39
Total income	**664**	**668**	**-61**	**-353**	**603**	**315**	**1,499**	**1,446**
Loan loss provisions	–978	–812	491	468	–487	–344	–882	–656
Administrative expenses	–286	–354	–	–	–286	–354	–732	–821
Other operating income	22	–86	–	–	22	–86	22	191
Net income before restructuring	**-578**	**-584**	**430**	**115**	**-148**	**-469**	**-93**	**160**
Result from restructuring	–	–	–15	–15	–15	–15	–56	–43
Expenses for government guarantees	–	–	–294	–210	–294	–210	–414	–302
Net income before taxes	**-578**	**-584**	**121**	**-110**	**-457**	**-694**	**-563**	**-185**
Cost/Income Ratio (CIR) %							49	57
Return on equity before tax %							–11	–4
Average equity	2,606	2,551	–	–	2,606	2,551	4,898	5,044

(€ bn)	**31.12. 2013**	31.12. 2012	**31.12. 2013**	31.12. 2012	**31.12. 2013**	31.12. 2012	**31.12. 2013**	31.12. 2012
Segment assets	**37**	**50**	**3**	**2**	**40**	**52**	**109**	**131**

[1] Including net income from financial investments accounted for under the equity method.

Segment reporting is in accordance with the provisions of IFRS 8. The segments are based on the internal organisational structure in alignment with product and customer groups. For reasons of comparability, the segment results of the previous year have been adjusted in accordance with the organisational changes implemented in 2013.

HSH Nordbank's Core Bank consists of the segments Shipping, Project & Real Estate Financing, Corporate & Markets as well as Corporate Center. Results of the Shipping, Energy & Infrastructure and Real Estate Clients divisions are reported under the Shipping, Project & Real Estate Financing segment. Net income in this segment is earned primarily from loan and financial products as well as financing-related services. In addition to the Products and Capital Markets product departments the Corporates & Markets segment includes the Corporates, Savings Banks & Institutional Clients as well as Wealth Management customer departments (until 30 June 2013 Private Banking). The segment thus combines the development, structuring, sale and trading of financial products, the sale of loan products and finance-related services as well as the servicing of corporate and private clients, savings banks, banks and insurance companies. The Corporate Center segment includes the administration and service divisions as well as other positions of the Overall Bank.

The Restructuring Unit of HSH Nordbank manages the winding down of credit and capital market transactions that are not continued in the Core Bank. The Special Loans division manages restructuring cases held in the loan portfolios. The Workout division is responsible for the liquidation of and realisation of collateral on especially onerous loan commitments. The focus is placed here on finding alternative portfolio solutions that can enable the risk potential to be reduced whilst minimising the effect on income. The Wind-Down-Assets division manages the remaining loan portfolios as well as the capital markets portfolios.

The basis for the segment reporting is internal reporting to management. Income and expenses were assigned to the segments in which they originated.

Geographical information as well as information on products and services is not collected for management reporting, whereby disclosures – in accordance with IFRS 8.32 and 8.33 – are not made.

The cost/income ratio and return on equity (RoE) are not shown in the segment report for the segments Corporate Center and Restructuring Unit. The ratios for the Corporate Center segment are not shown, as the ratios would only provide little information for the divisions organised under this segment. In the case of the Restructuring Unit, the segment involves business areas which are non-strategic and are currently being wound down. This segment is not managed on the basis of these ratios.

Net interest income is calculated in accordance with Fund Transfer Pricing (FTP). The planned investment and financing profit is distributed among the business segments on the basis of economic capital committed. The transformation contribution is allocated to the customer departments of the Core Bank on the basis of average receivables.

Total income recognised in the segments is exclusively generated from business conducted with external customers.

Costs arising at the Corporate Center are allocated to the business segments as part of the internal cost allocation.

Net income elements not allocated to divisions are reported in the consolidation columns of the Core Bank and the Restructuring Unit.

Measurement and disclosure differences and differences in the mapping of economic hedging relationships are mainly shown under net interest income in the consolidation columns.

Net trading income in the consolidation columns include, amongst other things, credit rating effects on own issues of HSH Nordbank measured at fair value, differences in the mapping of economic hedging relationships as well as changes in the value of interest rate/currency derivatives recognised in net trading income, especially EUR/USD basis swaps.

Loan loss provisions are shown in the segments in which they originated. Effects on the basis of the hedging effects of the second loss guarantee are disclosed in the consolidation columns.

The cash reserve was allocated as the 2013 year end to the Core Bank (Corporates & Markets segment) in accordance with the management responsibility. In previous years the cash reserve had been allocated to the Core Bank and Restructuring Unit based on their share in segment assets. The previous year's figures were adjusted for comparative purposes.

Average (reported) equity capital was allocated to the segments on the basis of economic capital tied up. The cost/income ratio is the ratio of administrative expenses to total income. Return on equity is the ratio of net income before taxes to average equity. See Note 15 for comments on the depreciation of goodwill. See Note 12 for comments on companies consolidated under the equity method recognised as part of net income from financial investments.

NOTES ON FINANCIAL INSTRUMENTS

49. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m) **2013**	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	**Total**
Assets							
Cash reserve	4,469	382	–	–	–	–	4,851
Loans and advances to banks	4,959	86	111	–	–	–	5,156
Loans and advances to customers	67,625	146	1,177	–	–	–	68,948
Receivables under finance leases	–	–	–	–	–	131	131
Positive fair values of hedging derivatives	–	–	–	–	–	1,287	1,287
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	151	151
Trading assets	–	–	–	9,049	–	–	9,049
Financial investments	6,436	12,670	2,149	–	–	–	21,255
Non-current assets held for sale and disposal groups	15	–	–	–	–	–	15
Other assets	99	–	–	–	–	–	99
Total assets	**83,603**	**13,284**	**3,437**	**9,049**	**–**	**1,569**	**110,942**
Liabilities							
Liabilities to banks	–	–	143	–	18,069	–	18,212
Liabilities to customers	–	–	2,557	–	38,140	–	40,697
Securitised liabilities	–	–	4,717	–	23,844	–	28,561
Negative fair values of hedging derivatives	–	–	–	–	–	934	934
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	961	961
Trading liabilities	–	–	–	7,102	–	–	7,102
Liabilities relating to disposal groups	–	–	–	–	–	–	–
Subordinated capital	–	–	103	–	5,185	–	5,288
Other liabilities	–	–	–	–	1,090	–	1,090
Total liabilities	**–**	**–**	**7,520**	**7,102**	**86,328**	**1,895**	**102,845**

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m) **2012**	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	**Total**
Assets							
Cash reserve	6,363	382	–	–	–	–	6,745
Loans and advances to banks	8,190	41	122	–	–	–	8,353
Loans and advances to customers	79,146	–	1,269	–	–	–	80,415
Receivables under finance leases	–	–	–	–	–	155	155
Positive fair values of hedging derivatives	–	–	–	–	–	2,170	2,170
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	403	403
Trading assets	–	–	–	11,817	–	–	11,817
Financial investments	10,095	9,683	2,289	–	–	–	22,067
Non-current assets held for sale and disposal groups	156	29	–	–	–	–	185
Other assets	140	–	–	–	–	–	140
Total assets	**104,090**	**10,135**	**3,680**	**11,817**	**–**	**2,728**	**132,450**
Liabilities							
Liabilities to banks	–	–	215	–	29,719	–	29,934
Liabilities to customers	–	–	2,987	–	38,321	–	41,308
Securitised liabilities	–	–	5,203	–	26,256	–	31,459
Negative fair values of hedging derivatives	–	–	–	–	–	943	943
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	1,545	1,545
Trading liabilities	–	–	–	11,450	–	–	11,450
Liabilities relating to disposal groups	–	–	–	–	63	–	63
Subordinated capital	–	–	133	–	5,258	–	5,391
Other liabilities	–	–	–	–	1,335	–	1,335
Total liabilities	**–**	**–**	**8,538**	**11,450**	**100,952**	**2,488**	**123,428**

50. RECLASSIFICATION UNDER IAS 39 (2008)

HSH Nordbank Group exercised the option of reclassifying assets under IAS 39 (2008 revision) as LaR where they meet the relevant requirements, were not intended for short-term sale at the time of reclassification and are due to be held for the foreseeable future. The assets were reclassified in 2008 and 2009 due to the global financial crisis and the consequences it has had on the valuation of securities holdings. The reclassifications were performed in accordance with IAS 39.50D or IAS 39.50E respectively.

The reclassification as LaR measures fair value at the time of reclassification at cost or amortised cost, respectively. At the time of reclassification an effective interest rate was determined which is used for subsequent measurement of the amortised acquisition cost. For reclassification of financial instruments from AfS to LaR the revaluation reserve recognised up to the point of reclassification is reversed through net interest income on a pro rata temporis basis in accordance with IAS 39.54 a).

During the third quarter of 2008, financial instruments were reclassified from the categories HfT and AfS into LaR. These reclassifications are shown in the following table:

(€ m)		2013		2012	
	Carrying amount as at the time of reclassification	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Reclassified from HfT to LaR	1,020	29	28	126	123
Reclassified from AfS to LaR	1,765	–	–	–	–
Total financial assets reclassified as LaR	**2,785**	**29**	**28**	**126**	**123**

The effective interest rate applied in the case of financial instruments in the HfT category was between 0.03 % and 14.72 % and between 2.97 % and 9.75 % for financial instruments in the AfS category. Anticipated repayments amounted to € 2,861 million.

More assets were reclassified in the second quarter of 2009. These are shown in the following table:

(€ m)		2013		2012	
	Carrying amount as at the time of reclassification	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Reclassified from HfT to LaR	399	29	29	268	274
Reclassified from AfS to LaR	6,336	2,136	2,156	3,963	4,025
Total financial assets reclassified as LaR	**6,735**	**2,165**	**2,185**	**4,231**	**4,299**

The effective interest rate applied in the case of financial instruments in the HfT category was between 1.21 % and 5.06 % and between 0.87 % and 5.00 % for financial instruments in the AfS category. Anticipated repayments amounted to € 6,859 million.

The decrease in carrying amounts and fair values of all reclassified financial instruments was due to extensive changes in holdings. At the time of reclassification as HfT, the carrying amount of the financial instruments affected was € 1,342 million and the carrying amount of assets classified as AfS was € 5,988 million. The changes in holdings result from sales as well as maturities. The sales were carried out following the realignment of the HSH Nordbank Group and were neither planned nor anticipated at the time of the restructuring.

Shown below is the impact all holdings reclassified to date would have had on the income statement and revaluation reserve if they had not been reclassified.

For financial instruments reclassified from HfT the valuation result in the income statement for the current reporting period would have been € 3 million (previous year: € 18 million) for the financial instruments reclassified in the 2008 financial year and € – 2 million (previous year: € 0 million) for the financial instruments reclassified in the 2009 financial year.

For financial instruments reclassified from AfS the valuation result in the income statement for the current reporting period would have been € 0 million (previous year: € 0 million) for the financial instruments reclassified in the 2008 financial year and € – 36 million (previous year: € 107 million) for the financial instruments reclassified in the 2009 financial year.

Shown below is the actual impact of all holdings reclassified to date on the income statement of the current reporting period:

(€ m)	**2013**			2012		
	From HfT	**From AfS**	**Total**	From HfT	From AfS	Total
Net interest income	8	52	60	14	135	149
Net trading income	–	–3	–3	–1	–24	–25
Net income from financial investments	7	–	7	2	3	5
Subtotal	**15**	**49**	**64**	**15**	**114**	**129**

51. RESIDUAL MATURITY BREAKDOWN OF FINANCIAL INSTRUMENTS

When determining the residual maturities of financial liabilities for purposes of presenting liquidity risk, the contractually agreed maturity dates of non-discounted cash flows are used as the basis.

(€ m) **2013**	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	**Total**
Liabilities						
Liabilities to banks	1,162	1,910	4,169	9,970	1,678	18,889
Liabilities to customers	13,188	8,038	4,150	9,321	11,578	46,275
Securitised liabilities	5	1,879	4,147	20,256	4,786	31,073
Negative fair values of hedging derivatives	–	88	154	562	146	950
Trading liabilities	–	180	433	3,205	3,332	7,150
thereof derivatives	–	180	433	3,205	3,332	7,150
Subordinated capital	–	6	147	3,847	3,059	7,059
Contingent liabilities	2,707	–	–	–	–	2,707
Irrevocable loan commitments	6,911	–	–	–	–	6,911
Total	**23,973**	**12,101**	**13,200**	**47,161**	**24,579**	**121,014**

(€ m) 2012	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Liabilities to banks	1,064	10,167	4,663	12,958	2,502	31,354
Liabilities to customers	11,540	13,331	4,878	9,486	12,136	51,371
Securitised liabilities	–	3,661	4,504	20,937	5,294	34,396
Negative fair values of hedging derivatives	–	89	124	577	164	954
Trading liabilities	–	245	559	4,675	6,017	11,496
thereof derivatives	–	245	559	4,675	6,017	11,496
Subordinated capital	–	53	188	3,811	2,593	6,645
Contingent liabilities	2,917	–	–	–	–	2,917
Irrevocable loan commitments	4,992	–	–	–	–	4,992
Total	**20,513**	**27,546**	**14,916**	**52,444**	**28,706**	**144,125**

Interest rate swaps, cross-currency interest rate swaps and equity swaps are presented on the basis of their future net payment obligations. Other derivatives are assigned to maturity bands by overall maturity at their carrying amount.

Liquidity management is described in detail in the Risk report section of the Group management report.

52. DISCLOSURE OF FAIR VALUE IN ACCORDANCE WITH IFRS 7 AND IFRS 13

I. Fair values of financial instruments

The fair values of the financial assets and liabilities are disclosed by classes of financial instruments and compared with the respective carrying amount below.

FAIR VALUES OF FINANCIAL INSTRUMENTS
ASSETS

(€ m)	2013			2012		
	Carrying amount	**Fair value**	**Difference**	Carrying amount	Fair value	Difference
Held for Trading (HfT)						
Trading assets	9,049	9,049	–	11,817	11,817	–
Designated at Fair Value (DFV)						
Loans and advances to banks	111	111	–	122	122	–
Loans and advances to customers	1,177	1,177	–	1,269	1,269	–
Financial investments	2,149	2,149	–	2,289	2,289	–
Available for Sale (AfS)						
Cash reserve	382	382	–	382	382	–
Loans and advances to banks	86	86	–	41	41	–
Loans and advances to customers	146	146	–	–	–	–
Financial investments[1]	12,670	12,464	–206	9,683	9,980	297
of which equity instruments measured at cost	314	–		349	349	–
Non-current assets held for sale and disposal groups	–	–	–	29	29	–
Loans and Receivables (LaR)						
Cash reserve	4,469	4,469	–	6,363	6,363	–
Loans and advances to banks	4,833	4,863	30	8,056	8,101	45
Loans and advances to customers	61,233	61,975	742	73,775	74,198	423
Financial investments	6,436	6,382	–54	10,095	9,919	–176
Non-current assets held for sale and disposal groups	15	15	–	156	156	–
Other assets	99	99	–	140	140	–
No IAS 39 category						
Positive fair value of hedging derivatives	1,287	1,287	–	2,170	2,170	–
Receivables under finance lease transactions	131	131	–	155	155	–
Value adjustments from the portfolio fair value hedge	151	–	–151	403	–	–403
Total assets	**104,424**	**104,785**	**361**	**126,945**	**127,131**	**186**

[1] € 314 million of the difference between the carrying amount and fair value is attributable to equity instruments measured at cost in accordance with IAS 39.46 (c). Another difference between the carrying amount and fair value of financial investments classified as available for sale (AfS) is attributable to the fact that the adjustment item created for these transactions from the portfolio fair value hedge is disclosed separately. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

The effective portions of the hedging relationship recognised through profit or loss are disclosed under the Value adjustments from the portfolio fair value hedge item, of which € 108 million is accounted for by financial investments classified as available for sale (AfS) and € 43 million by loans and advances to banks and customers classified as LaR.

FAIR VALUES OF FINANCIAL INSTRUMENTS LIABILITIES

(€ m)	**2013**			2012		
	Carrying amount	**Fair value**	**Difference**	Carrying amount	Fair value	Difference
Held for Trading (HfT)						
Trading liabilities	7,102	7,102	–	11,450	11,450	–
Designated at Fair Value (DFV)						
Liabilities to banks	143	143	–	215	215	–
Liabilities to customers	2,557	2,557	–	2,987	2,987	–
Securitised liabilities	4,717	4,717	–	5,203	5,203	–
Subordinated capital	103	103	–	133	133	–
Other liabilities (LIA)						
Liabilities to banks	18,069	18,260	191	29,719	30,109	390
Liabilities to customers	38,140	39,315	1,175	38,321	39,968	1,647
Securitised liabilities	23,844	23,849	5	26,256	26,382	126
Liabilities relating to disposal groups	–	–	–	63	63	–
Other liabilities	1,090	1,090	–	1,335	1,335	–
Subordinated capital	5,185	4,790	–395	5,258	4,268	–990
No IAS 39 category						
Negative fair values of hedging derivatives	934	934	–	943	943	–
Value adjustments from the portfolio fair value hedge	961	–	–961	1,545	–	–1,545
Total liabilities	**102,845**	**102,860**	**15**	**123,428**	**123,056**	**–372**

The fair value of financial instruments for which there is an active market is measured by the stock exchange or market price at the reporting date. If there is no active market for financial instruments, the fair value is calculated by applying recognised measurement procedures and models. For receivables and liabilities measured at amortised cost, fair value is determined by discounting cash flows taking into account rating-related spreads as well as the loss given default (LGD) of loans. In the case of receivables with a default rating, the measurement of fair value is made on the basis of expected future cash flows. For current receivables and liabilities (e.g. current accounts) the carrying amount is shown at fair value.

The carrying amounts of loans and advances to banks and loans and advances to customers classified as LaR are shown less the reported loan loss provisions, since fair value also reflects possible impairments.

II. Fair value hierarchy for financial instruments measured at fair value

Assets and liabilities show the following breakdown by level in the fair value hierarchy under IFRS 13. For assets and liabilities recognised and measured at fair value, the fair values are broken down by class of financial instrument in the three levels in the hierarchy.

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			
2013	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve				
AfS	7	375	–	382
of which debt instruments	7	375	–	382
Loans and advances to banks				
AfS	–	41	45	86
of which debt instruments	–	41	45	86
DFV	–	35	76	111
of which debt instruments	–	35	76	111
Loans and advances to customers				
AfS	–	–	146	146
of which debt instruments	–	–	146	146
DFV	–	83	1,094	1,177
of which debt instruments	–	83	1,094	1,177
Positive fair value of hedging derivatives	–	1,287	–	1,287
of which interest rate derivatives	–	1,287	–	1,287
Trading assets (HfT)	440	7,506	1,103	9,049
of which debt instruments	436	1,557	–	1,993
of which contractually linked instruments	–	69	–	69
of which equity and near-equity instruments	4	–	–	4
of which interest rate derivatives	–	4,983	270	5,253
of which cross-currency interest rate derivatives	–	529	–	529
of which currency derivatives	–	124	19	143
of which credit derivatives	–	18	2	20
of which other derivatives	–	35	80	115
of which structured derivatives	–	187	732	919
of which other trading portfolios	–	4	–	4
Financial investments (excl. equity instruments measured at cost)				
AfS	7,537	4,788	139	12,464
of which debt instruments	7,499	4,592	7	12,098
of which contractually linked instruments	–	195	–	195
of which equity and near-equity instruments	38	1	132	171
DFV	–	1,281	868	2,149
of which debt instruments	–	1,239	495	1,734
of which contractually linked instruments	–	42	353	395
of which equity and near-equity instruments	–	–	20	20
Total	**7,984**	**15,396**	**3,471**	**26,851**

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			
2012	Level 1	Level 2	Level 3	**Total**
Cash reserve				
AfS	–	382	–	382
Loans and advances to banks				
AfS	–	–	41	41
DFV	–	44	78	122
Loans and advances to customers				
DFV	–	114	1,155	1,269
Positive fair value of hedging derivatives	–	2,170	–	2,170
Trading assets (HfT)	239	10,137	1,441	11,817
Financial investments				
AfS	8,299	885	499	9,683
DFV	929	417	943	2,289
Assets held for sale and disposal groups	–	–	–	–
AfS	–	–	29	29
Total	**9,467**	**14,149**	**4,186**	**27,802**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
2013	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	26	117	143
of which debt instruments	–	26	117	143
Liabilities to customers				
DFV	–	443	2,114	2,557
of which debt instruments	–	443	2,114	2,557
Securitised liabilities				
DFV	–	2,563	2,154	4,717
of which debt instruments	–	2,560	2,154	4,714
of which contractually linked instruments	–	3	–	3
Negative fair values of hedging derivatives	–	934	–	934
of which interest rate derivatives	–	934	–	934
Trading liabilities (HfT)	–	6,279	823	7,102
of which interest rate derivatives	–	5,726	432	6,158
of which cross-currency interest rate derivatives	–	229	–	229
of which currency derivatives	–	95	28	123
of which credit derivatives	–	1	–	1
of which other derivatives	–	50	78	128
of which structured derivatives	–	178	285	463
Subordinated capital				
DFV	–	87	16	103
of which debt instruments	–	87	16	103
Total	**–**	**10,332**	**5,224**	**15,556**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
2012	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	95	120	215
Liabilities to customers				
DFV	–	588	2,399	2,987
Securitised liabilities				
DFV	–	2,634	2,569	5,203
Negative fair values of hedging derivatives	–	943	–	943
Trading liabilities (HfT)	–	10,306	1,144	11,450
Subordinated capital				
DFV	–	115	18	133
Total	**–**	**14,681**	**6,250**	**20,931**

Of the financial instruments allocated to level 3, € 2,767 million of assets (previous year: € 3,063 million) and € 4,701 million of liabilities (previous year: € 5,697 million) are in economic hedging relationships (at micro level), so that uncertainties and risk positions due to non-observable parameters offset each other at the level of hedging relationships (at micro level) involved.

During the period under review financial instruments measured at fair value were transferred from one hierarchy level to another. These transfers are shown below with the carrying amounts at the time of transfer for each class of financial instruments.

TRANSFER, ASSETS

(€ m) **2013**	**Transfer to level 1**	**Transfer from level 1**	**Transfer to level 2**	**Transfer from level 2**	**Transfer to level 3**	**Transfer from level 3**
Loans and advances to banks						
AfS	–	–	41	–	–	–41
of which debt instruments	–	–	41	–	–	–41
Trading assets (HfT)	–	–200	354	–4	4	–154
of which debt instruments	–	–200	200	–	–	–
of which contractually linked instruments	–	–	67	–	–	–67
of which interest rate derivatives	–	–	42	–	–	–42
of which credit derivatives	–	–	13	–1	1	–13
of which structured derivatives	–	–	32	–3	3	–32
Financial investments (excl. equity instruments measured at cost)						
AfS	–	–2,270	2,271	–4	4	–1
of which debt instruments	–	–2,088	2,088	–4	4	–
of which contractually linked instruments	–	–182	182	–	–	–
of which equity and near-equity instruments	–	–	1	–	–	–1
DFV	–	–913	936	–	–	–23
of which debt instruments	–	–913	918	–	–	–5
of which contractually linked instruments	–	–	18	–	–	–18
Total	**–**	**–3,383**	**3,602**	**–8**	**8**	**–219**

TRANSFER, ASSETS

(€ m) **2012**	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Loans and advances to banks						
DFV	–	–	44	–	–	–44
Loans and advances to customers						
DFV	–	–	–	–10	10	–
Trading assets (HfT)	147	–	21	–147	–	–21
Financial investments						
AfS	445	–1	5	–445	–	–4
DFV	203	–	108	–252	66	–125
Total	**795**	**–1**	**178**	**–854**	**76**	**–194**

TRANSFER, LIABILITIES

(€ m) **2013**	**Transfer to level 1**	**Transfer from level 1**	**Transfer to level 2**	**Transfer from level 2**	**Transfer to level 3**	**Transfer from level 3**
Liabilities to banks						
DFV	–	–	10	–28	28	–10
of which debt instruments	–	–	10	–28	28	–10
Liabilities to customers						
DFV	–	–	8	–59	59	–8
of which debt instruments	–	–	8	–59	59	–8
Securitised liabilities						
DFV	–	–	314	–	–	–314
of which debt instruments	–	–	314	–	–	–314
Trading liabilities (HfT)	–	–	97	–	–	–97
of which interest rate derivatives	–	–	32	–	–	–32
of which structured derivatives	–	–	65	–	–	–65
Total	**–**	**–**	**429**	**–87**	**87**	**–429**

TRANSFER, LIABILITIES

(€ m) **2012**	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Liabilities to banks						
DFV	–	–	–	–19	19	–
Liabilities to customers						
DFV	–	–	63	–5	5	–63
Securitised liabilities						
DFV	1	–	98	–15	14	–98
Trading liabilities (HfT)	–	–	12	–	–	–12
Total	**1**	**–**	**173**	**–39**	**38**	**–173**

IFRS 13 and the accounting standard IDW RS HFA 47 adopted in December 2013 specify the principles to be applied in determining the fair value. These also include guidelines for assigning input factors to the fair value hierarchy levels. HSH Nordbank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities, for which the OTC market is the relevant market. Average prices determined on the basis of binding offers or transaction-based prices are level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities that were measured as at 31 December 2013 on the basis of such average prices were accordingly transferred to level 2 of the fair value hierarchy, provided that they had been hitherto assigned to level 1.

Furthermore, transfers were also made from level 3 to level 2 (for example, products with inflation components) as well as from level 2 to level 3 as part of model validations.

The following shows the reconciliation for all assets and liabilities recognised and measured at fair value and allocated to level 3 in the fair value hierarchy. The data is presented by class of financial instrument from the start to the end of the period. The table takes into account all movements of assets and liabilities which were or are allocated to level 3 during the reporting period.

Income relating to liability items is shown with a negative sign and expenses without a sign in the reconcilitations.

RECONCILIATION, ASSETS

(€ m)				Change in balance affecting income	
2013	**1 January 2013**	Less equity instruments measured at cost	**1 January 2013 following adjustment**	Realised net income (income statement)	Net income not recognised in profit or loss
Balance sheet line item/category/instrument type					
Loans and advances to banks					
AfS	41		41	–	–4
of which debt instruments	41		41	–	–4
DFV	78		78	–1	–
of which debt instruments	78		78	–1	–
Loans and advances to customers					
AfS	–		–	–14	–7
of which debt instruments	–		–	–14	–7
DFV	1,155		1,155	–76	–
of which debt instruments	1,155		1,155	–76	–
Trading assets (HfT)	1,441		1,441	–233	–
of which contractually linked instruments	67		67	4	–
of which interest rate derivatives	480		480	–167	–
of which currency derivatives	31		31	–12	–
of which credit derivatives	15		15	–	–
of which other derivatives	33		33	–11	–
of which structured derivatives	815		815	–47	–
Financial investments (excl. equity instruments measured at cost)					
AfS	499	–349	150	–1	–
of which debt instruments	–	–	–	–1	5
of which contractually linked instruments	–	–	–	–	1
of which equity and near-equity instruments	499	–349	150	–	–6
DFV	943		943	–6	–
of which debt instruments	541		541	–18	–
of which contractually linked instruments	360		360	14	–
of which equity and near-equity instruments	42		42	–2	–
Non-current assets held for sale and disposal groups					
AfS	29		29	–	–
of which equity and near-equity instruments	29		29	–	–
Total	**4,186**	**–349**	**3,837**	**–331**	**–11**

	Quantitative change in balance			Transfers						
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**31 December 2013**	Net income from assets held as at 31 December 2013
										–
	–	–	–4	–41	–	52	1	–	45	–
	–	–	–4	–41	–	52	1	–	45	–
	6	–7	–	–	–	–	–	–	76	–1
	6	–7	–	–	–	–	–	–	76	–1
	167	–	–	–	–	–	–	–	146	–14
	167	–	–	–	–	–	–	–	146	–14
	–	–	–	–	–	17	–2	–	1,094	–76
	–	–	–	–	–	17	–2	–	1,094	–76
	62	–2	36	–154	4	–24	–27	–	1,103	–194
	–	–	–	–67	–	–	–4	–	–	–
	4	–1	–	–42	–	–1	–3	–	270	–140
	–	–1	1	–	–	–	–	–	19	–12
	–	–	–	–13	1	–	–1	–	2	–
	58	–	–	–	–	–	–	–	80	–11
	–	–	35	–32	3	–23	–19	–	732	–31
	–	–	–	–1	4	–	–13	–	139	–3
	–	–	–	–	4	–	–1	–	7	–3
	–	–	–	–	–	–	–1	–	–	–
	–	–	–	–1	–	–	–11	–	132	–
	–	–1	–8	–23	–	–19	–18	–	868	–10
	–	–	–8	–5	–	–	–15	–	495	–19
	–	–	–	–18	–	–	–3	–	353	12
	–	–1	–	–	–	–19	–	–	20	–3
										–
	–	–16	–	–	–	–	–	–13	–	–
	–	–16	–	–	–	–	–	–13	–	–
	235	**–26**	**24**	**–219**	**8**	**26**	**–59**	**–13**	**3,471**	**–298**

RECONCILIATION, ASSETS

(€ m) 2012	1 January 2012	Change in balance affecting income: Realised net income (income statement)	Change in balance affecting income: Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Loans and advances to banks			
AfS	37	–	7
DFV	123	29	–
Loans and advances to customers			
DFV	1,094	66	–
Trading assets (HfT)	1,284	180	–
Financial investments			
AfS	643	–16	–15
DFV	784	52	–
Non-current assets held for sale and disposal groups			
AfS	80	128	–
Total	**4,045**	**439**	**–8**

	Quantitative change in balance			Transfers						
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassifi-cation	Exchange rate changes	Changes in the scope of consolidation	**31 Decem-ber 2012**	Net income from assets held as at 31 December 2012
	–	–	–2	–	–	–1	–	–	41	5
	–	–25	–	–44	–	–	–5	–	78	8
	1	–4	–	–	10	–11	–1	–	1,155	65
	56	–38	1	–21	–	–	–21	–	1,441	387
	10	–78	–7	–4	–	–31	–8	5	499	1
	304	–134	–	–125	66	–	–4	–	943	60
	–	–208	–	–	–	30	–	–1	29	–
	371	**–487**	**–8**	**–194**	**76**	**–13**	**–39**	**4**	**4,186**	**526**

RECONCILIATION, LIABILITIES

(€ m)

2013	1 January 2013	Change in balance affecting income: Realised net income (income statement)	Change in balance affecting income: Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Liabilities to banks			
DFV	120	−2	–
of which debt instruments	120	−2	–
Liabilities to customers			
DFV	2,399	−84	–
of which debt instruments	2,399	−84	–
Securitised liabilities			
DFV	2,569	87	–
of which debt instruments	2,569	87	–
Trading liabilities (HfT)	1,144	−282	–
of which interest rate derivatives	623	−167	–
of which currency derivatives	46	−17	–
of which other derivatives	33	−20	–
of which structured derivatives	442	−78	–
Subordinated capital			
DFV	18	−2	–
of which debt instruments	18	−2	–
Total	**6,250**	**−283**	**–**

	Quantitative change in balance				Transfers						
	Purchases	Sales	New business	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**31 December 2013**	Net income from held as at 31 December 2013
											–
	–	–19	–	–	–	–10	28	–	–	117	3
	–	–19	–	–	–	–10	28	–	–	117	3
	72	–193	–	–130	–130	–8	59	4	–5	2,114	89
	72	–193	–	–130	–130	–8	59	4	–5	2,114	89
	–33	6	77	–94	–94	–314	–	–3	–141	2,154	–111
	–33	6	77	–94	–94	–314	–	–3	–141	2,154	–111
	91	–5	–	2	2	–97	–	–24	–6	823	261
	11	–3	–	1	1	–32	–	–	–1	432	142
	–	–1	–	–	–	–	–	–	–	28	17
	64	–	–	1	1	–	–	–	–	78	15
	16	–1	–	–	–	–65	–	–24	–5	285	87
	–	–	–	–	–	–	–	–	–	16	–
	–	–	–	–	–	–	–	–	–	16	–
	130	**–211**	**77**	**–222**	**–222**	**–429**	**87**	**–23**	**–152**	**5,224**	**242**

RECONCILIATION, LIABILITIES

(€ m) **2012**	**1 January 2012**	Change in balance affecting income Realised net income (income statement)	Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Liabilities to banks			
DFV	103	5	–
Liabilities to customers			
DFV	2,965	223	–
Securitised liabilities			
DFV	2,743	247	–
Trading liabilities (HfT)	1,151	–7	–
Subordinated capital			
DFV	18	–	–
Total	**6,980**	**468**	**–**

	Quantitative change in balance				Transfers						
	Purchases	Sales	Issues, new business	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**31 December 2012**	Net income from liabilities held as at 31 December 2012
	–	–	–	–7	–	19	–	–	–	120	4
	86	–719	–	–97	–63	5	–	–1	–	2,399	184
	4	–44	105	–313	–98	14	–	–89	–	2,569	202
	53	–28	–	–9	–12	–	–	–4	–	1,144	141
	–	–	–	–	–	–	–	–	–	18	–
	143	**–791**	**105**	**–426**	**–173**	**38**	**–**	**–94**	**–**	**6,250**	**531**

The following tables show the items containing realised and unrealised gains and losses in the income statement and equity (statement of comprehensive income).

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)	Realised/unrealised net income (income statement)					Net income from assets held as at 31 December 2013				
2013	Net interest income	Net trading income	Net income from financial investments	Total	Revaluation reserve	Net interest income	Net trading income	Net income from financial investments	Total	Other comprehensive income for the period
Balance sheet line item/ category/instrument type										
Loans and advances to banks										
AfS	–	–	–	–	–4	–	–	–	–	–2
of which debt instruments	–	–	–	–	–4	–	–	–	–	–2
DFV	–	–1	–	–1	–	–	–1	–	–1	–
of which debt instruments	–	–1	–	–1	–	–	–1	–	–1	–
Loans and advances to customers										
AfS	3	–	–17	–14	–7	3	–	–17	–14	–7
of which debt instruments	3	–	–17	–14	–7	3	–	–17	–14	–7
DFV	–	–76	–	–76	–	–	–76	–	–76	–
of which debt instruments	–	–76	–	–76	–	–	–76	–	–76	–
Trading assets (HfT)	69	–302	–	–233	–	68	–262	–	–194	–
of which contractually linked instruments	–	4	–	4	–	–	–	–	–	–
of which interest rate derivatives	31	–198	–	–167	–	30	–170	–	–140	–
of which currency derivatives	–	–12	–	–12	–	–	–12	–	–12	–
of which other derivatives	–	–11	–	–11	–	–	–11	–	–11	–
of which structured derivatives	38	–85	–	–47	–	38	–69	–	–31	–
Financial investments (excl. equity instruments measured at cost)										
AfS	–	1	–2	–1	–	–	–	–3	–3	1
of which debt instruments	–	1	–2	–1	5	–	–	–3	–3	6
of which contractually linked instruments	–	–	–	–	1	–	–	–	–	1
of which equity and near-equity instruments	–	–	–	–	–6	–	–	–	–	–6
DFV	–	–6	–	–6	–	–	12	–22	–10	–
of which debt instruments	–	–18	–	–18	–	–	6	–25	–19	–
of which contractually linked instruments	–	14	–	14	–	–	8	4	12	–
of which equity and near-equity instruments	–	–2	–	–2	–	–	–2	–1	–3	–
Total	**72**	**–384**	**–19**	**–331**	**–11**	**71**	**–327**	**–42**	**–298**	**–8**

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)	Realised/unrealised net income (income statement)					Net income from assets held as at 31 December 2012				
2012	Net interest income	Net trading income	Net income from financial invest- ments	**Total**	Revalu- ation reserve	Net interest income	Net trading income	Net income from financial invest- ments	**Total**	Other compre- hensive income for the period
Balance sheet line item/ category/instrument type										
Loans and advances to banks	–	–	–	–	7	–	–	–	–	5
AfS	–	29	–	29	–	–	8	–	8	–
DFV										
Loans and advances to customers	–	66	–	66	–	–	65	–	65	–
DFV	36	144	–	180	–	46	341	–	387	–
Trading assets (HfT)										
Financial investments	–	–	–16	–16	–15	–	–	–1	–1	2
AfS	–	52	–	52	–	–	60	–	60	–
DFV					–					
Non-current assets held for sale and disposal groups										
AfS	–	–	128	128	–	–	–	–	–	–
Total	**36**	**291**	**112**	**439**	**–8**	**46**	**474**	**–1**	**519**	**7**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised net income (income statement)					Net income from liabilities held as at 31 December 2013				
2013	Net interest income	Net trading income	Net income from financial investments	**Total**	Revaluation reserve	Net interest income	Net trading income	Net income from financial investments	**Total**	Other comprehensive income for the period
Balance sheet line item/ category/instrument type										
Liabilities to banks										
DFV	1	1	–	2	–	–	3	–	3	–
of which debt instruments	1	1	–	2	–	–	3	–	3	–
Liabilities to customers										
DFV	3	81	–	84	–	–2	91	–	89	–
of which debt instruments	3	81	–	84	–	–2	91	–	89	–
Securitised liabilities										
DFV	–3	–84	–	–87	–	–2	–109	–	–111	–
of which debt instruments	–3	–84	–	–87	–	–2	–109	–	–111	–
Trading liabilities (HfT)	12	270	–	282	–	12	249	–	261	–
of which interest rate derivatives	8	159	–	167	–	8	134	–	142	–
of which currency derivatives	–	17	–	17	–	–	17	–	17	–
of which other derivatives	–	20	–	20	–	–	15	–	15	–
of which structured derivatives	4	74	–	78	–	4	83	–	87	–
Subordinated capital										
DFV	–	2	–	2	–	–	2	–	2	–
of which debt instruments	–	2	–	2	–	–	2	–	2	–
of which contractually linked instruments	–	–	–	–	–	–	–	–	–	–
Total	**13**	**270**	**–**	**283**	**–**	**8**	**236**	**–**	**244**	**–**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised net income (income statement)					Net income from liabilities held as at 31 December 2012				
2012	Net interest income	Net trading income	Net income from financial invest-ments	**Total**	Revalu-ation reserve	Net interest income	Net trading income	Net income from financial invest-ments	**Total**	Other compre-hensive income for the period
Balance sheet line item/ category/instrument type										
Liabilities to banks										
DFV	–	5	–	5	–	–	4	–	4	–
Liabilities to customers										
DFV	–24	247	–	223	–	1	183	–	184	–
Securitised liabilities										
DFV	–2	249	–	247	–	–	202	–	202	–
Trading liabilities (HfT)	–65	58	–	–7	–	–44	185	–	141	–
Total	**–91**	**559**	**–**	**468**	**–**	**–43**	**574**	**–**	**531**	**–**

III. Fair value hierarchy for financial instruments not measured at fair value

The following tables show the distribution of fair values by asset and liability class to the individual levels of the fair value hierarchy as defined under IFRS 13 for financial instruments not measured at fair value on the balance sheet.

HIERARCHY LEVELS, ASSETS

(€ m)	Assets not recognised at fair value			
2013	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve (LaR)	–	4,469	–	4,469
Loans and advances to banks (LaR)				
of which debt instruments	–	4,696	167	4,863
Payable on demand	–	3,203	–	3,203
Other receivables	–	1,493	167	1,660
Loans and advances to customers (LaR)				
of which debt instruments	–	7,976	53,999	61,975
Retail customers	–	26	956	982
Corporate clients	–	3,581	52,414	55,995
Public authorities	–	4,369	629	4,998
Financial investments (LaR)	220	4,660	1,502	6,382
of which debt instruments	220	2,655	12	2,887
of which contractually linked instruments	–	2,005	1,490	3,495
Non-current assets held for sale and disposal groups (LaR)	–	15	–	15
of which debt instruments	–	15	–	15
Other assets (LaR)	–	99	–	99
of which debt instruments	–	99	–	99
Total	**220**	**21,915**	**55,668**	**77,803**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities not recognised at fair value			
2013	Level 1	Level 2	Level 3	**Total**
Liabilities to banks (LIA)	–	17,465	795	18,260
of which debt instruments	–	17,465	795	18,260
Liabilities to customers (LIA)	–	38,896	419	39,315
of which debt instruments	–	38,896	419	39,315
Securitised liabilities (LIA)	–	23,678	171	23,849
of which debt instruments	–	23,678	171	23,849
Subordinated capital (LIA)	–	4,222	568	4,790
of which debt instruments	–	4,222	568	4,790
Other liabilities (LIA)	–	1,090	–	1,090
of which debt instruments	–	1,090	–	1,090
Total	**–**	**85,351**	**1,953**	**87,304**

IV. Information on significant unobservable inputs

Quantitative information on significant unobservable inputs

The following overview contains quantitative information on significant unobservable inputs.

FAIR VALUE

(€ m) **2013**			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(weighted) average margin
Loans and advances to banks	AfS	Debt instruments	45	–	DCF method	Spread (bps)	60 – 700	350
	DFV	Debt instruments	76	–	Option pricing model	Interest rate volatility	11% – 77%	29%
						Basket correlation	50% – 95%	80%
Loans and advances to customers	AfS	Debt instruments	146	–	DCF method	Spread (bps)	60 – 700	350
	DFV	Debt instruments	1,094	–	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate correlations	–3% – 98%	41%
					Price	Price	38 – 92	84
Trading assets/ trading liabilities	HfT	Interest rate derivatives	270	432	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatility	11% – 77%	29%
						Interest rate correlation	–3% – 98%	41%
						Interest rate FX correlation	–20% – 23%	2%
		Currency derivatives	19	28	Option pricing model	FX correlation	39% – 75%	52%
		Credit derivatives	2	–	Option pricing model			
		Other derivatives	80	78	Option pricing model	Securities FX correlations	–66% – 17%	–25%
						Securities correlations	–21% – 86%	22%
						Return on dividends	0% – 4%	2.5%
		Structured derivatives	732	285	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	11% – 77%	29%
						Interest rate correlation	–3% – 98%	41%
						Interest rate FX correlation	–20% – 23%	2%
						Return on dividends	0% – 4%	2.5%
						FX correlation	39% – 75%	52%

FAIR VALUE

(€ m) **2013**			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(weighted) average margin
Financial investments	AfS	Debt instruments	7	_	Price	Price	29 – 52	41
		Equity and near-equity instruments	132	_	DCF method	Spread (bps)	350 – 700	500
	DFV	Debt instruments	495	–	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	11% – 77%	29%
		Contractu-ally linked instruments	353	–	Price	Price	69 – 98	95
		Equity and near-equity instruments	20	–	Option pricing model	Return on dividends	0% – 4%	2.5%
					Price	Price	38 – 92	84
Liabilities to banks	DFV	Debt instruments	–	117	Option pricing model	Interest rate volatilities	11% – 77%	29%
						Interest rate FX correlation	–20% – 23%	2%
						Return on dividends	0% – 4%	2.5%
Liabilities to customers	DFV	Debt instruments	–	2,114	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	11% – 77%	29%
						Interest rate correlation	–3% – 98%	41%
						Interest rate FX correlation	–20% – 23%	2%
						Return on dividends	0% – 4%	2.5%
					Price	Price	81 – 92	85
Securitised liabilities	DFV	Debt instruments	–	2,154	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	11% – 77%	29%
						Interest rate correlation	–3% – 98%	41%
						Interest rate FX correlation	–20% – 23%	2%
						FX correlation	39% – 75%	52%
						Return on dividends	0% – 4%	2.5%
Subordinated capital	DFV	Debt instruments	–	16	Option pricing model	Interest rate volatilities	11% – 77%	29%
			3,471	**5,224**				

The correlation and volatility ranges shown for derivatives cover derivatives with different types of underlyings, tenors and exercise prices.

The overview also includes financial instruments, whose change in value resulting from inputs non-observable in the market does not give rise to any P&L effect due to economic hedging relationships (at the micro level). Changes in value attributable to the respective relevant inputs are offset for these financial instruments by the changes in value of the hedging derivatives.

Sensitivities of fair values in relation to unobservable inputs
The following describes how the fair values of financial instruments can change as a result of fluctuations in significant unobservable inputs.

Correlation
Correlation can represent an important unobservable input for the measurement of derivatives. It is a measure of the degree to which two reference values move in relation to each other. Correlation is an important input for the model-based determination of the fair value of derivatives with more than one underlying. Financial instruments of this type include, for example, derivatives with several currencies ("FX basket") or several shares as the underlyings ("equity basket" derivatives). Currency correlations describe the relationship between the changes in value of several currencies. Share correlations express the relationship between yields on different shares. A high degree of correlation means that there is a high relationship between the changes in value in the respective underlyings.

Depending on the type of derivative changes in correlation can have a positive or negative effect on the fair value. For example, in the case of a "best of two" derivative, an increase in the correlation between two underlyings results in a decrease in the fair value of the derivative from the perspective of the purchaser.

Volatility
Volatilities can also represent an important unobservable input for the measurement of options. They express how strongly the value of the underlying fluctuates over time. The amount of volatility depends on the underlying, its tenor and the exercise price agreed for the option.

The fair value of options typically increases if the volatility increases. The sensitivity of the fair value of options to changes in volatility can vary considerably. For example, the sensitivity of the fair value to changes in volatility is comparatively high, if the price of the underlying is close to the agreed exercise price ("at-the-money"). By contrast, sensitivity to changes in volatility is lower, if the price of the underlying is far from the exercise price ("far out-of-the-money" or "far in-the-money").

Reciprocal effects between unobservable inputs
Reciprocal effects between unobservable inputs can exist in principle. If several unobservable inputs are used in determining the fair value, the range of the possible characteristics for another unobservable input can be restricted or increased by the characteristic used for one of the relevant unobservable inputs.

Effects of unobservable inputs
If the measurement of a financial instrument is based partly on unobservable inputs, the fair value determined is the best estimated value in accordance with a discretionary decision made by the Bank. However, it remains subjective in that there may be alternative input selection options that cannot be refuted by observable market data. For many of the financial instruments included (e.g. derivatives) the unobservable inputs only represent a subset of the total inputs required for the measurement. The remaining inputs are observable inputs.

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had the effect on the fair value of the financial instruments in question as set out in the following table. Advantageous and disadvantageous changes in fair value arise as a result of the recalculation of fair values based on possible alternative values to the relevant unobservable inputs. In doing so, interest rate volatilities were changed by +/– 5 %, all correlations by +/– 20 % (capped at +/– 100 %), mean reversion by +/– 0.5 % and the dividend yield by +/– 1 %. Furthermore, price parameters and spreads were also changed by +/– 2 % and +/– 50 bp, respectively.

a) Financial instruments for which there are no economic hedging relationships in place (at the micro level)

FAIR VALUE CHANGES LEVEL 3

(€ m) **2013**			**advanta-geous**	**disadvanta-geous**
Loans and advances to banks	AfS	Debt instruments	1	1
	DFV	Debt instruments	–	–
Loans and advances to customers	AfS	Debt instruments	2	2
	DFV	Debt instruments	1	1
Trading assets/trading liabilities	HfT	Interest rate derivatives	3	3
		Currency derivatives	1	1
		Credit derivatives	–	–
		Other derivatives	1	1
		Structured derivatives	1	1
Financial investments	AfS	Debt instruments	–	–
		Equity and near-equity instruments	3	3
	DFV	Debt instruments	–	–
		Contractually linked instruments	1	1
		Equity and near-equity instruments	–	–
Liabilities to banks	DFV	Debt instruments	–	–
Liabilities to customers	DFV	Debt instruments	2	2
Securitised liabilities	DFV	Debt instruments	–	–
Subordinated capital	DFV	Debt instruments	–	–
			15	**15**
thereof measured in profit or loss			9	9
thereof not measured in profit or loss			6	6

There are no hedging derivatives in place for the financial instruments included in the above table that fully hedge the risk relating to changes in fair value caused by changes in unobservable inputs. However, there may be hedging derivatives in place that approximately hedge the changes in fair value.

b) Financial instruments for which there are economic hedging relationships in place (at the micro level)

FAIR VALUE CHANGES LEVEL 3

(€ m) **2013**			**advantageous**	**disadvantageous**
Loans and advances to banks	AfS	Debt instruments	–	–
	DFV	Debt instruments	–	–
Loans and advances to customers	AfS	Debt instruments	–	–
	DFV	Debt instruments	1	1
Trading assets/trading liabilities	HfT	Interest rate derivatives	4	4
		Currency derivatives	–	–
		Credit derivatives	6	6
		Other derivatives	–	–
		Structured derivatives	5	5
Financial investments	AfS	Debt instruments	–	–
		Equity and near-equity instruments	–	–
	DFV	Debt instruments	1	1
		Contractually linked instruments	6	6
		Equity and near-equity instruments	–	–
Liabilities to banks	DFV	Debt instruments	1	1
Liabilities to customers	DFV	Debt instruments	2	2
Securitised liabilities	DFV	Debt instruments	3	3
Subordinated capital	DFV	Debt instruments	–	–
			29	**29**
thereof measured in profit or loss			29	29
thereof not measured in profit or loss			–	–

There are hedging derivatives in place for the financial instruments included in the above table that hedge the risk relating to changes in fair value caused by changes in unobservable inputs. The changes in value shown would not be reflected in the income statement as they are offset by changes in fair value of the hedging derivatives.

FAIR VALUE CHANGES LEVEL 3

(€ m) 2012		advantageous	disadvantageous
Loans and advances to banks	Debt instruments	–	–
Loans and advances to customers	Debt instruments	–	–
Trading assets/trading liabilities	Interest rate derivatives	25	7
	Currency derivatives	–	–
	Credit derivatives	–	–
	Other derivatives	–	–
	Structured derivatives	9	3
Financial investments	Debt instruments	3	1
	Contractually linked instruments	3	1
	Equity and near-equity instruments	1	–
Liabilities to banks	Debt instruments	1	–
Liabilities to customers	Debt instruments	1	–
Securitised liabilities	Debt instruments	2	1
		45	**13**
thereof measured in profit or loss		44	13
thereof not measured in profit or loss		1	–

V. Day one profit and loss

The day one profit and loss reserve developed as follows:

DAY ONE PROFIT AND LOSS

(€ m)	**2013**	2012
Holdings as at 1 January	**37**	**23**
Additions not recognised in profit or loss	1	20
Reversals recognised in profit or loss	8	6
Holdings as at 31 December	**30**	**37**

The day one profit and loss reserve is solely attributable to financial instruments classified as HfT.

VI. Equity instruments measured at cost

For equity instruments which are not listed and whose fair value cannot be determined reliably by other methods, subsequent measurement takes place at cost in accordance with IAS 39.46 (c) in conjunction with IAS 39 A81. These are primarily equity instruments of unlisted companies for which no active market exists and reliable estimates of the parameters determining market value are not possible because future expectations are difficult to forecast.

The portfolio of shares and other non-interest-bearing securities measured at cost amounts to € 134 million (previous year: € 154 million). Equity capital instruments accounted for at cost that relate to shares in affiliated companies and equity holdings amount to € 180 million (previous year: € 195 million). There are currently no concrete intentions to dispose of these equity instruments.

Financial instruments accounted for at cost are disclosed as Financial investments under Assets measured at fair value (AfS).

In the year under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 151 million (previous year: € 97 million) were disposed of. This resulted in a profit of € 63 million (previous year: € 12 million).

53. OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are netted and disclosed as a net amount on the balance sheet, if there is a legal entitlement to do so at the current point in time and there is the intention to settle the claims on a net basis or to settle the associated liability at the time the asset concerned is realised.

Set out below are the financial instruments on the balance sheet that were netted as at the reporting date as well as financial instruments, which are subject to a legally enforceable global netting agreement, irrespective of whether the financial instruments concerned are actually netted on the face of the balance sheet. ISDA master agreements and the Master Agreement for Financial Derivative Transactions (DRV) are the master agreements customarily used by HSH Nordbank. These only provide for the netting of reciprocal claims and obligations in the event of the termination of all individual transactions under a master agreement that is based on specific events and therefore do not permit netting of the assets and liabilities on the balance sheet.

The fair value of the collateral received or provided in this connection is also given in this table. This includes cash collateral as well as financial instruments received or provided as collateral.

FINANCIAL ASSETS

(€ m) **2013**	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	90	89	1	–	–	1
Loans and advances to customers	112	54	58	–	–	58
Derivatives	7,184	–	7,184	4,450	554	2,180

Of the net amount of derivatives disclosed on the balance sheet, Positive market values of hedging derivatives account for € 1,238 million and Trading assets for € 5,946 million.

FINANCIAL LIABILITIES

(€ m) **2013**	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	1,674	89	1,585	–	1,506	79
Liabilities to customers	310	54	256	–	185	71
Derivatives	7,961	–	7,961	4,450	3,316	195

Of the net amount of derivatives disclosed on the balance sheet, Negative market values of hedging derivatives account for € 934 million and Trading liabilities for € 7,027 million.

FINANCIAL ASSETS

(€ m) 2012	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	101	65	36	35	1	–
Loans and advances to customers	120	60	60	2	–	58
Derivatives	11,694	–	11,694	7,416	763	3,515

Of the net amount of derivatives disclosed on the balance sheet, Positive market values of hedging derivatives account for € 2,103 million and Trading assets for € 9,591 million.

FINANCIAL LIABILITIES

(€ m) 2012	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	2,548	65	2,483	35	2,356	92
Liabilities to customers	407	60	347	2	228	117
Derivatives	12,302	–	12,302	7,416	4,269	617

Of the net amount of derivatives disclosed on the balance sheet, Negative market values of hedging derivatives account for € 943 million and Trading liabilities for € 11,359 million.

54. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED EUROPEAN STATES

The following tables contain overviews of HSH Nordbank's commitments in European states where an increased economic risk is assumed. They present the risk directly attributable to the listed European countries. The income statement effects are only shown for the original positions, that is the measurement results of the hedging derivatives are not taken into account.

ASSETS CLASSIFIED AS LAR

(€ m)	Gross carrying amount		Individual valuation allowance		Fair value	
	2013	2012	**2013**	2012	**2013**	2012
Portugal	213	222	5	3	263	259
Country	167	168	–	–	225	210
Corporates/Other	46	54	5	3	38	49
Ireland	260	449	4	7	254	456
Banks	44	138	–	–	44	138
Corporates/Other	216	312	4	7	210	318
Italy	709	944	17	4	636	768
Country	58	60	–	–	51	56
Banks	12	175	–	–	12	17
Corporates/Other	639	709	17	4	573	695
Greece	991	1,451	184	202	803	1,216
Corporates/Other	991	1,451	184	202	803	1,216
Spain	1,523	1,918	52	29	1,473	1,845
Country	166	173	–	–	142	122
Banks	124	735	–	7	130	727
Corporates/Other	1,233	1,011	52	22	1,201	996
Slovenia	108	111	–	–	103	98
Country	90	90	–	–	85	78
Corporates/Other	18	21	–	–	17	20
Hungary	83	110	–	–	82	109
Country	5	24	–	–	6	26
Banks	1	5	–	–	1	5
Corporates/Other	77	81	–	–	75	78
Cyprus	1,702	1,577	409	129	1,289	1,404
Corporates/Other	1,702	1,577	409	129	1,289	1,404
Total	**5,589**	**6,783**	**671**	**374**	**4,903**	**6,155**

FINANCIAL TRANSACTIONS ALLOCATED TO THE HOLDING CATEGORY

(€ m)	HfT		Hedge		DFV		AfS	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Portugal	–	1	–	–	94	89	3	3
Country	–	–	–	–	94	89	–	–
Banks	–	–	–	–	–	–	3	3
Corporates/Other	–	1	–	–	–	–	–	–
Ireland	15	32	6	–	–	–	–	–
Banks	7	18	6	–	–	–	–	–
Corporates/Other	8	14	–	–	–	–	–	–
Italy	18	32	1	1	519	536	135	111
Country	–	–	–	–	488	505	40	35
Banks	–	1	1	1	30	29	95	76
Corporates/Other	18	31	–	–	1	1	–	–
Greece	32	72	–	–	1	–	4	2
Country	–	–	–	–	1	–	4	2
Corporates/Other	32	72	–	–	–	–	–	–
Spain	230	321	28	26	56	59	487	460
Banks	32	234	19	11	55	58	305	302
Corporates/Other	198	86	9	15	1	1	182	158
Hungary	–	–	–	–	–	–	12	12
Country	–	–	–	–	–	–	12	12
Cyprus	3	11	–	–	–	–	–	–
Corporates/Other	3	11	–	–	–	–	–	–
Total	**298**	**469**	**35**	**27**	**669**	**684**	**641**	**588**

The cumulative measurement result recognised directly in equity for financial instruments held in the AfS category amounted to € – 31 million for the selected countries (previous year: € – 99 million). Furthermore, a cumulative measurement result of € – 22 million was recognised through profit or loss (previous year: € – 5 million).

55. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS

I. Credit quality of financial instruments which are neither impaired nor overdue

The table below gives information on the credit quality of financial instruments which were neither impaired nor overdue as of the reporting date. The table provides a breakdown of the financial instruments by category and rating class of the respective counterparty.

CREDIT QUALITY

(€ m)	1(AAA) to 1(AA+)		1(AA) to 1(A–)		2 to 5		6 to 9	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Held for Trading (HfT)								
Trading assets	2,787	1,780	4,108	6,138	1,179	1,639	520	1,133
Designated at Fair Value (DFV)								
Loans and advances to banks	52	47	–	–	59	75	–	–
Loans and advances to customers	1,127	1,195	–	–	–	–	–	–
Financial investments	159	191	821	1,047	1,059	772	29	71
Assets held for sale	–	–	–	–	–	–	–	–
Available for Sale (AfS)								
Cash reserve	382	382	–	–	–	–	–	–
Loans and advances to banks	52	24	26	13	5	2	3	2
Loans and advances to customers	–	–	–	–	11	–	118	–
Financial investments	7,619	5,546	3,776	2,989	694	566	497	399
Assets held for sale	–	18	–	9	–	2	–	1
Loans and Receivables (LaR)								
Cash reserve	4,469	6,363	–	–	–	–	–	–
Loans and advances to banks	1,699	4,254	2,797	3,307	278	348	42	124
Loans and advances to customers	4,608	5,393	5,229	5,556	14,803	16,328	14,184	16,962
Financial investments	3,258	5,183	1,090	2,001	684	1,213	519	545
Assets held for sale	1	14	2	14	4	41	4	43
Other assets	–	–	–	–	–	–	99	140
No IAS 39 category								
Positive fair values of hedging derivatives	343	603	683	1,385	160	108	85	71
Receivables under finance lease transactions	11	13	14	14	39	41	37	42
Value adjustments from the portfolio fair value hedge	40	112	80	257	19	20	10	13
Total	**26,607**	**31,118**	**18,626**	**22,730**	**18,994**	**21,155**	**16,147**	**19,546**

CREDIT QUALITY

(€ m)	10 to 12		13 to 15		16 to 18	
	2013	2012	**2013**	2012	**2013**	2012
Held for Trading (HfT)						
Trading assets	56	334	147	372	252	421
Designated at Fair Value (DFV)						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	45	50	29	–	–
Financial investments	10	–	33	1	38	207
Assets held for sale	–	–	–	–	–	–
Available for Sale (AfS)						
Cash reserve	–	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	17	–	–	–	–	–
Financial investments	2	1	3	10	22	28
Assets held for sale	–	–	–	–	–	–
Loans and Receivables (LaR)						
Cash reserve	–	–	–	–	–	–
Loans and advances to banks	3	3	–	–	–	–
Loans and advances to customers	3,742	5,645	5,293	7,861	2,374	4,481
Financial investments	79	122	190	290	118	279
Assets held for Sale	1	14	2	20	1	11
Other assets	–	–	–	–	–	–
No IAS 39 category						
Positive fair values of hedging derivatives	13	3	3	–	–	–
Receivables under finance lease transactions	10	14	14	20	6	11
Value adjustments from the portfolio fair value hedge	2	1	–	–	–	–
Total	**3,935**	**6,182**	**5,735**	**8,603**	**2,811**	**5,438**

II. Carrying amounts of overdue but unimpaired financial assets

The table below shows the financial assets which were overdue but unimpaired as of the reporting date. The assets are broken down by category. Categories not shown have no overdue assets.

CARRYING AMOUNTS OF OVERDUE BUT UNIMPAIRED FINANCIAL ASSETS

(€ m)	Overdue <3 months		Overdue 3 to 6 months		Overdue 6 to 12 months		Overdue >12 months	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Loans and Receivables (LaR)								
Loans and advances to customers	1,005	1,289	261	796	668	1,239	1,215	559
of which hedged by the second loss guarantee	846	1,191	212	796	613	1,207	1,143	496
Total	**1,005**	**1,289**	**261**	**796**	**668**	**1,239**	**1,215**	**559**

Payments of € 21 million on transactions with a carrying amount volume of € 319 million were received up to ten days after the reporting date of 31 December 2013. Payments are regarded as being in arrears when they are one day overdue.

The overdue, unimpaired credit portfolio is offset by collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

III. Impaired financial assets

The table below shows all impaired financial assets and the associated collateral received as of the reporting date. The financial assets are broken down by category.

IMPAIRED FINANCIAL ASSETS

(€ m)	Gross carrying amount of impaired financial assets		Impairment		Carrying amount of financial assets after impairment	
	2013	2012	**2013**	2012	**2013**	2012
Loans and Receivables (LaR)						
Loans and advances to banks	140	154	125	133	15	21
Loans and advances to customers	14,243	13,037	6,032	4,867	8,211	8,170
Financial investments[1]	853	985	355	523	498	462
Available for Sale (AfS)						144
Financial investments[1]	223	393	166	249	57	–
Total	**15,459**	**14,569**	**6,678**	**5,772**	**8,781**	**8,797**

[1] Financial investments classified as LaR and AfS are shown net in the statement of financial position, i.e. at their carrying amounts less impairment.

The impaired credit portfolio is secured with collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

€ 13,619 million (previous year: € 11,914 million) of the total carrying amount of impaired financial assets of € 15,459 million (previous year: € 14,569 million) is hedged by the second loss guarantee, of which € 60 million is attributable to loans and advances to banks (previous year: € 20 million), € 12,928 million to loans and advances to customers (previous year: € 11,192 million) and € 631 million to financial instruments in the LaR and AfS holding categories (previous year: € 702 million).

Further details on the second loss guarantee can be found in Note 2.

IV. Credit risk exposure

With the exception of Loans and advances to banks and customers, credit risk exposure in accordance with IFRS 7.36 (a) as at the reporting date corresponds to the carrying amount of financial assets as presented in Note 49 as well as off-balance-sheet liabilities as presented in Note 56.

In the case of Loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after value adjustments as presented in Note 24. The maximum default risk of the loans and advances designated at fair value (DFV) is not reduced by associated credit derivatives.

Collateral as well as other risk-reducing agreements are not reflected in these amounts.

V. Collateral received

A) Collateral values of financial assets reducing default risk

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio.

The following table shows the respective carrying amount for each class of financial instrument as well as the value of collateral that reduces default risk.

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)		Value of collateral received		
2013	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
Held for Trading (HfT)				
Trading assets	9,049	313	–	624
Designated at Fair Value (DFV)				
Loans and advances to banks	111	–	60	–
Loans and advances to customers	1,177	–	–	–
Financial investments	2,149	–	–	–
Available for Sale (AfS)				
Cash reserve	382	–	–	–
Loans and advances to banks	86	–	–	–
Loans and advances to customers	146	–	35	–
Financial investments	12,670	–	–	–
Loans and Receivables (LaR)				
Cash reserve	4,469	–	–	–
Loans and advances to banks	4,959	11	557	24
Loans and advances to customers	67,625	26,657	1,683	2,153
Financial investments	6,436	–	–	–
Non-current assets held for sale and disposal groups	15	–	–	–
Other assets	99	2	1	–
No IAS 39 category				
Positive fair value of hedging derivatives	1,287	–	–	–
Value adjustments from the portfolio fair value hedge	151	–	–	–
Receivables under finance leases	131	–	–	–
Contingent liabilities	2,707	275	131	130
Irrevocable loan commitments	6,911	480	55	50
Total assets	**120,560**	**27,738**	**2,522**	**2,981**

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)		Value of collateral received		
2012	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
Held for Trading (HfT)				
Trading assets	11,817	384	33	828
Designated at Fair Value (DFV)				
Loans and advances to banks	122	–	63	–
Loans and advances to customers	1,269	–	–	–
Financial investments	2,289	–	–	–
Available for Sale (AfS)				
Cash reserve	382	–	–	–
Loans and advances to banks	41	–	–	–
Financial investments	9,683	–	–	–
Loans and Receivables (LaR)				
Cash reserve	6,363	–	–	–
Loans and advances to banks	8,190	3	1,105	70
Loans and advances to customers	79,146	29,168	1,833	3,198
Financial investments	10,095	–	–	–
Other assets	140	–	–	3
No IAS 39 category				
Positive fair value of hedging derivatives	2,170	–	–	–
Value adjustments from the portfolio fair value hedge	403	–	–	–
Receivables under finance leases	155	–	–	–
Contingent liabilities	2,917	265	167	118
Irrevocable loan commitments	4,992	484	46	100
Total assets	**140,174**	**30,304**	**3,247**	**4,317**

Above and beyond the collateral values shown in the table above, a sub-portfolio is secured by means of the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR at the beginning of the realignment of the Bank (see Note 2).

B) Thereof collateral received for which there are no restrictions on disposal or realisation even if there is no default in payment

The HSH Nordbank Group received collateral from counterparties with a total fair value of € 1,002 million (31 December 2012: € 1,280 million). The collateral received is split up as follows: € 681 million (31 December 2012: € 857 million) relate to OTC derivatives and structured transactions. The Group received collateral in the amount of € 321 million (31 December 2012: € 423 million) within the framework of genuine repo transactions where it acted as the lender. This includes cash collateral in the amount of € 612 million (31 December 2012: € 806 million). Of the collateral received, an amount of € 275 million (31 December 2012: € 186 million) was resold or pledged. There are no restrictions on disposal or realisation. HSH Nordbank Group is obliged to return all collateral resold or pledged to the guarantor without exception.

The HSH Nordbank Group carries out securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The same conditions and collateralisation methods apply as for collateral transferred and received.

C) Other collateral received

In the reporting period no assets were recognised from the realisation of collateral that are still disclosed on the face of the balance sheet as at the reporting date (previous year: € 0 million).

For further information on the second loss guarantee please refer to Note 2.

For information on the collateral transferred please refer to Note 59.

56. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

CONTINGENT LIABILITIES

(€ m)	**2013**	2012
Contingent liabilities from guarantees and warranty agreements		
Loan guarantees	155	225
Letters of credit	383	341
Other warranties	–	25
Other guarantees	2,169	2,326
Total	**2,707**	**2,917**

IRREVOCABLE LOAN COMMITMENTS

(€ m)	**2013**	2012
Irrevocable loan commitments for		
Open account loans to banks	–	75
Open account loans to customers	6,742	4,683
Guarantees	93	112
Letters of credit	9	20
Other	67	102
Total	**6,911**	**4,992**

Information on collateral transferred is presented in Note 59.

Please refer to Note 2 for more details.

For reasons of practicality no information in accordance with IAS 37.86 and IAS 37.89 is disclosed.

The fair value of irrevocable loan commitments with a nominal volume of € 6,911 million (previous year: € 4,992 million) amount to € 8 million as at the reporting date.

OTHER DISCLOSURES

57. REPORT ON BUSINESS IN DERIVATIVES

Derivative financial instruments are used to a considerable degree in order to hedge risk efficiently, to take advantage of market opportunities and to cover special customer financing needs. The derivatives business of HSH Nordbank Group is predominantly transacted with banks based in OECD countries.

I. Volumes

DERIVATIVE TRANSACTIONS WITH INTEREST RATE RISKS

(€ m)	Nominal values		Positive market values		Negative market values	
	2013	2012	**2013**	2012	**2013**	2012
Interest rate swaps	194,090	218,788	5,023	8,564	5,910	9,896
FRAs	881	2,088	–	–	–	–
Swaptions						
Long positions	2,882	1,175	81	113	4	2
Short positions	3,716	2,011	9	5	152	240
Caps, floors	9,155	10,622	106	154	75	111
Exchange-traded contracts	1,504	384	–	–	–	–
Other forward interest rate transactions	654	3,414	33	36	32	29
Total	**212,882**	**238,482**	**5,252**	**8,872**	**6,173**	**10,278**

DERIVATIVE TRANSACTIONS WITH INTEREST RATE AND FOREIGN EXCHANGE RISKS

(€ m)	Nominal values		Positive market values		Negative market values	
	2013	2012	**2013**	2012	**2013**	2012
Cross-currency interest rate swaps	28,165	30,068	529	814	229	349
Total	**28,165**	**30,068**	**529**	**814**	**229**	**349**

DERIVATIVE TRANSACTIONS WITH FOREIGN EXCHANGE RISKS

(€ m)	Nominal values		Positive market values		Negative market values	
	2013	2012	**2013**	2012	**2013**	2012
Forward exchange transactions	10,240	11,653	103	189	59	55
Currency options						
Long positions	740	653	40	43	–	–
Short positions	743	890	–	–	64	104
Total	**11,723**	**13,196**	**143**	**232**	**123**	**159**

DERIVATIVE TRANSACTIONS WITH EQUITY AND OTHER PRICE RISKS

(€ m)	Nominal values		Positive market values		Negative market values	
	2013	2012	**2013**	2012	**2013**	2012
Equity options						
Long positions	106	173	80	33	–	1
Short positions	91	153	–	–	78	32
Exchange-traded contracts	–	2	–	–	–	–
Commodity-based transactions	820	1,154	35	36	50	33
Total	**1,017**	**1,482**	**115**	**69**	**128**	**66**

CREDIT DERIVATIVES

(€ m)	Nominal values		Positive market values		Negative market values	
	2013	2012	**2013**	2012	**2013**	2012
Guarantor position	76	184	–	1	1	1
Collateral-taker position	586	609	20	26	–	–
Total	**662**	**793**	**20**	**27**	**1**	**1**

DERIVATIVE TRANSACTIONS WITH STRUCTURED PRODUCTS

(€ m)	Nominal values		Positive market values		Negative market values	
	2013	2012	**2013**	2012	**2013**	2012
Structured products	8,449	9,036	920	1,095	448	597
Total	**8,449**	**9,036**	**920**	**1,095**	**448**	**597**

DERIVATIVE TRANSACTIONS IN FAIR VALUE HEDGE ACCOUNTING

(€ m)	Nominal values		Positive market values		Negative market values	
	2013	2012	**2013**	2012	**2013**	2012
Fair value hedges						
Interest rate swaps	31,769	33,440	1,287	2,170	934	943
Total	**31,769**	**33,440**	**1,287**	**2,170**	**934**	**943**

II. Counterparty classification

COUNTERPARTY CLASSIFICATION

(€ m)	Nominal values		Positive market values		Negative market values	
	2013	2012	**2013**	2012	**2013**	2012
OECD banks	219,924	255,991	5,111	8,190	6,771	10,561
Non-OECD banks	201	341	9	27	–	–
Non-banks[1]	67,114	63,944	2,998	4,836	869	1,309
Public authorities	7,428	6,220	148	226	396	523
Total	**294,667**	**326,496**	**8,266**	**13,279**	**8,036**	**12,393**

[1] Including exchange-traded contracts.

III. Maturities

MATURITIES

(€ m)	Positive market values of derivatives		Positive market values of derivatives from fair value hedging		Negative market values of derivatives		Negative market values of derivatives from fair value hedging	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Residual maturity								
Up to 3 months	185	337	32	–	127	176	1	7
3 months to 1 year	320	453	58	111	308	396	19	11
1 year to 5 years	3,106	4,125	778	1,275	3,110	4,519	496	362
Over 5 years	3,368	6,194	419	784	3,557	6,359	418	563
Total	**6,979**	**11,109**	**1,287**	**2,170**	**7,102**	**11,450**	**934**	**943**

58. LEASE RECEIVABLES AND LIABILITIES

Operating leases where HSH Nordbank acts as a lessee serve the purpose of leasing technical facilities and equipment required to operate IT networks, among other purposes.

In the US market HSH Nordbank acts as lessor under finance leases to finance rail vehicles, aircraft and photovoltaic installations, among other things. Furthermore, HSH Nordbank Group is the lessor for the financing of flight simulators within the framework of sale and lease-back transactions.

I. Lessee under operating leases

MINIMUM LEASE PAYMENTS UNDER OPERATING LEASES

(€ m)	2013	2012
Minimum lease payments due		
Up to 1 year	44	41
1 year to 5 years	146	87
Over 5 years	117	51
Total	**307**	**179**

The increase in minimum lease instalments is due to the renewal of IT leasing agreements expired.

EXPENSES FOR LEASE PAYMENTS

(€ m)	2013	2012
Expenses for		
Minimum lease payments	42	45
Total	**42**	**45**

Expenses on assets used under operating leases are disclosed in Administrative expenses (see Note 14).

II. Lessor under operating leases

MINIMUM LEASE PAYMENTS EXPECTED UNDER OPERATING LEASES

(€ m)	2013	2012
Minimum lease payments to be received		
Up to 1 year	2	2
1 year to 5 years	–	2
Total	**2**	**4**

Income from conditional leasing payments was neither recorded in the reporting period nor in the previous year.

III. Lessor under finance leases

FINANCE LEASE TRANSACTIONS

(€ m)	2013	2012
Outstanding lease payments	110	133
+ Guaranteed residual values	12	13
= Minimum lease payments	122	146
+ Non-guaranteed residual values	18	19
= Gross investment	140	165
– Unearned finance income	9	10
= Net investment	131	155
– Net present value of non-guaranteed residual values	10	12
= Net present value of minimum lease payments	**121**	**143**

The gross investments amount and the net present value of the minimum lease payments break down by maturity as follows.

BREAKDOWN OF RESIDUAL MATURITIES

(€ m)	Gross investments in the lease		Net present value of the minimum lease payments	
	2013	2012	**2013**	2012
Minimum lease payments to be received				
Up to 1 year	10	10	33	18
1 year to 5 years	35	40	32	63
Over 5 years	70	80	56	62
Total	**115**	**130**	**121**	**143**

Income from conditional lease payments was neither recorded during the year nor in the previous year.

59. DISCLOSURES ON COLLATERAL TRANSFERRED AND FINANCIAL ASSETS TRANSFERRED WITH RETENTION OF RIGHTS AND/OR OBLIGATIONS

I. Collateral transferred

As at 31 December 2013 HSH Nordbank had assets transferred as collateral which do not meet the requirements of derecognition under IAS 39. The assets transferred as collateral continue to be recognised by the HSH Nordbank Group, as the interest rate risk, credit risk and other material risks as well as the prospects of appreciation and interest income largely reside with the HSH Nordbank Group.

The following table mainly shows the collateral used to collateralise OTC derivative transactions and funds raised at central banks and other credit institutions. Notes on repurchase agreements are separately disclosed below. A small amount of collateral has been transferred in the course of securities lending business.

CARRYING AMOUNTS OF TRANSFERRED COLLATERAL

(€ m)	**2013**	2012
Loans and advances	7,329	8,342
Loans and advances to banks	3,149	3,610
Loans and advances to customers	4,180	4,732
Trading assets/Financial investments	2,894	5,092
Total	**10,223**	**13,434**

The following table shows the carrying amounts of the liabilities related to the collateral transferred:

CARRYING AMOUNTS OF LIABILITIES

(€ m)	**2013**	2012
Liabilities to banks	5,351	7,803
Trading liabilities	3,350	4,503
Contingent liabilities	34	35
Total	**8,735**	**12,341**

The carrying amounts of liabilities to development banks are recognised in the amount of the corresponding loans transferred as collateral.

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. Promissory notes and other receivables from lending are not pledged to the European Central Bank, but are assigned without this being disclosed. It is not possible to resell or pledge in the interim.

In addition, HSH Nordbank concludes repurchase agreements under repo master agreements both on a national and international scale. The associated liabilities are recognised under Liabilities to banks or Liabilities to customers. At the end of the reporting period, the carrying amount of the securities transferred as collateral in the framework of repo transactions was € 2,951 million (previous year: € 5,349 million). The fair value amounts to € 2,970 million (previous year: € 5,169 million). The corresponding liabilities are recognised in the amount of € 2,177 million (previous year: € 4,780 million) with the fair value corresponding to the carrying amount. A net position of € 793 million arose from the fair values of the assets transferred and the associated liabilities (previous year: € 389 million). Collateral transferred under repo transactions can be resold or repledged.

Repo and securities lending transactions are monitored by measuring transactions on a daily basis. If there is a shortfall in collateral the counterparty may require HSH Nordbank to provide additional securities to increase collateral. Where HSH Nordbank has provided collateral and the market situation changes such that the cover provided is excessive, it is entitled to require the counterparty to release collateral. The collateral provided is subject to a full transfer of rights, i.e. the party receiving collateral may act like an owner and in particular may transfer or pledge such collateral. In the case of securities collateral, securities of the same type and quality ("the same sort") must be delivered or returned unencumbered. Where collateral has been provided in the form of securities, it may not be returned in cash.

The above conditions and collateral modalities apply to tri-party repo transactions between HSH Nordbank and its counterparties accordingly. The transactions are executed via a tri-party agent.

II. Financial assets transferred with retention of rights and/or obligations

HSH Nordbank has transferred assets to third parties outside the Group that meet the conditions for full derecognition. The rights and obligations retained under these transfers were of an overall immaterial nature. The risks become transparent by recognition of provisions and/or recording of contingent liabilities. There is a hypothetical repurchase option relating to the sale of an equity holding, which the Bank, however, can only exercise based on the occurrence of certain biometric events. The option has a time value of € 0; it entails no risk.

60. TRUST TRANSACTIONS

The table below shows the volume of trust transactions not recognised in the statement of financial position.

TRUST TRANSACTIONS

(€ m)	**2013**	2012
Loans and advances to banks	1	1
Loans and advances to customers	12	323
Other loans and advances	2	2
Trust assets	**15**	**326**
Liabilities to banks	1	1
Liabilities to customers	12	323
Other liabilities	2	2
Trust liabilities	**15**	**326**

61. RELATED PARTIES

HSH Nordbank does business with related parties and companies. These include HSH Finanzfonds AöR as parent company, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50 %. Furthermore, business relations exist with subsidiaries which are controlled but not consolidated for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of HSH Nordbank AG.

In the course of the normal business operations transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, call and term deposits, derivatives and securities transactions.

I. The parent company and companies with joint management or significant influence on the company

For transactions with HSH Finanzfonds AöR as well as with the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50 %, the Bank makes use of IAS 24.25. According to IAS 24.25 HSH Nordbank is exempt from the disclosure requirement regarding public authorities, unless transactions are involved that have a significant impact on the consolidated financial statements.

The guarantee amount with regard to the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR is identified as a significant transaction within the meaning of IAS 24. Please refer to Notes 2 and 17 for more details.

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES – ASSETS

(€ m)	2013	2012
Loans and advances to customers	18	92
Loan loss provisions	–4	–4
Financial investments	3	14
Other assets	1	1
Total	**18**	**103**

SUBSIDIARIES – LIABILITIES

(€ m)	2013	2012
Liabilities to customers	5	29
Provisions	16	–
Other liabilities	2	–
Total	**23**	**29**

SUBSIDIARIES – INCOME STATEMENT

(€ m)	2013	2012
Net interest income	–	6
Net commission income	–	2
Other operating income	–7	–1
Total	**–7**	**7**

Furthermore, there are contingent liabilities to unconsolidated subsidiaries of € 0 million (previous year: € 3 million) and irrevocable loan commitments of € 801 million (previous year: € 0 million).

There are no other financial liabilities to unconsolidated subsidiaries (previous year: € 0 million).

III. Associates

The following table shows the transactions with associates:

ASSOCIATES – ASSETS

(€ m)	2013	2012
Loans and advances to customers	355	492
Loan loss provisions	–25	–51
Trading assets	2	7
Financial investments	193	223
Other assets	1	2
Total	**526**	**673**

ASSOCIATES – LIABILITIES

(€ m)	2013	2012
Liabilities to customers	44	43
Provisions	–27	–
Total	**17**	**43**

ASSOCIATES – INCOME STATEMENT

(€ m)	2013	2012
Net interest income	21	21
Loan loss provisions	–11	–12
Net trading income	–2	–
Net income from financial investments	–	10
Administrative expenses	–7	–11
Other operating income	–	1
Total	**1**	**9**

There were no contingent liabilities to associates in the year under review (previous year: € 0 million). Irrevocable loan commitments amount to € 19 million (previous year: € 39 million).

Other financial liabilities to associated companies amount to € 79 million (previous year: € 90 million).

IV. Joint ventures

The following table shows the transactions with joint ventures:

JOINT VENTURES – ASSETS

(€ m)	2013	2012
Loans and advances to customers	7	3
Loan loss provisions	–5	–3
Trading assets	1	–
Total	**3**	**–**

JOINT VENTURES – INCOME STATEMENT

(€ m)	2013	2012
Net trading income	1	–
Net income from financial investments	3	–
Total	**4**	**–**

Irrevocable loan commitments to joint ventures amount to € 5 million (previous year: € 0 million).

V. Other related parties and companies

The following table contains information about individuals in key positions at HSH Nordbank AG and their close relatives as well as companies controlled by these individuals.

RELATED PARTIES AND COMPANIES – LIABILITIES

(€ m)	2013	2012
Liabilities to customers	–	1
Total	**–**	**1**

VI. Remuneration of persons in key management positions

In accordance with the decision of the EU Commission of 20 September 2011 concerning state aid provided to HSH Nordbank AG the remuneration of the members of the Management Board of HSH Nordbank AG is limited for each board member to a maximum of € 500,000 per year (total fixed remuneration). Remuneration payable for secondary employment undertaken at the request of the Supervisory Board is set off against the remuneration entitlement set out in the employment contract. Each board member continues to receive pension benefits in the amount of 20 % of the annual fixed income, as well as reasonable benefits in kind.

It is planned to add a variable remuneration component to the Management Board's remuneration system as soon as the Bank is able to pay dividends again and the reorganisation phase pursuant to the decision of the EU Commission of 20 September 2011 regarding the state aid provided to HSH Nordbank AG has been successfully completed.

The Bank does not offer additional long-term incentives such as share option schemes.

The following table shows the remuneration of persons in key management positions.

REMUNERATION OF PERSONS IN KEY MANAGEMENT POSITIONS

(€ k)	Management Board		Supervisory Board		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
Short-term benefits	2,761	1,972	1,245	1,288	4,006	3,260
Termination benefits	–	655	–	–	–	655
Other long-term benefits	–	–	80	80	80	80
Post-employment benefits	500	392	176	950	676	1,342
Total remuneration	**3,261**	**3,019**	**1,501**	**2,318**	**4,762**	**5,337**

VII. Additional disclosures under section 315a HGB

HSH Nordbank is obliged to provide additional disclosures in its consolidated financial statements under Section 315a HGB. Several differences compared to the IFRS disclosures should be borne in mind in this regard: termination benefits are not included in the total remuneration of the active members of the Management Board. This remuneration is disclosed instead under total remuneration of former members of the Management Board. Remuneration of the Supervisory Board consists of additions to provisions for the activities of the Supervisory Board carried out during the financial year excluding value-added tax. In contrast to the IFRS disclosure, salary payments made to employee representatives, which they receive in their capacity as an employee, are not included here.

REMUNERATION OF EXECUTIVE BODIES

(€ k)	**2013**	2012
Total remuneration of all members of executive bodies		
Management Board	3,261	2,364
Supervisory Board	453	471
Total	3,714	2,835
Total remuneration of former members of executive bodies and their surviving dependents		
Management Board	**2,868**	**6,738**

As at 31 December 2013, a total of €k 48,511 (previous year: €k 50,318) was added to provisions for pension obligations relating to former members of the Management Board and their surviving dependents.

As was the case in the previous year, there were no advances, loans and other liabilities to members of the Management Board as at 31 December 2013. For members of the Supervisory Board they amounted to €k 231 (previous year: €k 264). In the 2013 financial year no new loans were granted to members of the Supervisory Board.

The loans granted to members of the Supervisory Board relate to real estate financings and overdraft facilities. Loans to members of the Supervisory Board were granted with maturities from variable to final maturity in 2038. Loans to members of the Supervisory Board were at arm's length conditions with interest rates between 4.75 % and 4.83 % and 7.00 % for overdraft facilities.

Collateral for loans is in the form of land charges for real estate financing; overdraft facilities are open credits. Repayments of loans by members of the Supervisory Board totalled €k 4 in 2013 (previous year: €k 5).

62. OTHER FINANCIAL OBLIGATIONS

The transactions listed below include payment obligations under pending contracts or continuing obligations that cannot be recognised in the balance sheet as well as other financial obligations that could have a material effect on the future financial position of HSH Nordbank AG.

There are shareholder liabilities of € 31 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 34 million).

The maximum funding obligation that would result from membership of the joint liability scheme of the Sparkassen-Finanzgruppe, if a case occurs where support is needed, is € 139 million (previous year: € 83 million). If the resources of the savings bank guarantee fund are insufficient for the financial rescue, the additional funding can be called immediately.

Further obligations in the amount of € 71 million (previous year: € 78 million) result from long-term leases for land and buildings used for business purposes. Additional obligations amounting to € 212 million (previous year: € 74 million) result from leases for IT services.

An additional funding obligation not exceeding € 17 million (previous year: € 17 million) results from the equity interest in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main.

Long-term rental agreements for office space result in annual obligations of approximately € 8 million (previous year: € 7 million).

Under a sale of an equity holding the Bank has undertaken to purchase fund shares at the market price up to a nominal amount of € 44 million and to provide indemnities up to a maximum amount of € 62 million.

As part of its former guarantor function the Bank also has a general liability towards Deka Bank Deutsche Girozentrale together with other former shareholders.

There exist no material other financial obligations apart from those listed above.

63. OTHER FINANCIAL OBLIGATIONS DUE TO THE BANK LEVY (BANKENABGABE)

The German Restructuring Fund Regulation (Restrukturierungsfonds-Verordnung) provides for retrospective charges with respect to the so-called bank levy (Bankenabgabe). Here the difference between the actual bank levy (minimum amount) and the standard amount calculated for the contribution years 2011 through to 2019 can be charged subsequently within a period of two years. The obligation to pay the amount charged subsequently only comes into effect once profits in subsequent financial years are generated up to a level stipulated as reasonable in the Restructuring Fund Regulation. The obligation to pay and the amount of the additional charge is therefore dependent on generating profits in subsequent years.

64. LIST OF SHAREHOLDINGS

The following information is based on German commercial law.

CONSOLIDATED SUBSIDIARIES

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland	99.60	99.60	USD	38,416,201.00	1,861,684.00
2	Anthracite Rated Investments (Jersey) Ltd., St. Helier, Jersey[9]	0.00	0.00		[8]	[8]
3	Avia Management S.à.r.l. (former: Amentum Lux S.à.r.l), Luxembourg, Luxembourg	100.00	100.00	EUR	–57,909.50	21,395.78
4	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	15,464.88	–940.20
5	Capcellence Private Equity Beteiligungen GmbH & Co. KG, Hamburg[1]	100.00	100.00	EUR	120,682,090.35	103,047,453.21
6	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.91	EUR	1,200.00	71,989,283.52
7	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.99	EUR	–76,610.33	9,114,964.40
8	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.90	EUR	4,515.68	1,186,242.30
9	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.97	EUR	4,546.76	1,095,564.49
10	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.99	EUR	15,947,205.34	2,058,595.39
11	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.95	EUR	19,793.45	–736,291.82
12	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.47	EUR	[3]	[3]
13	CHIOS GmbH, Hamburg	100.00	100.00	EUR	25,554.73	–14,144.89
14	DEERS Green Power Development Company, S.L., Zaragoza, Spain[1]	99.00	99.00	EUR	–33,037,134.00	–5,281,007.00
15	DMS Beteiligungs GmbH, Radolfzell[1]	100.00	100.00	EUR	–2,107,647.63	–5,454,469.70
16	DMS Dynamic Micro Systems Semiconductor Equipment GmbH, Radolfzell[1] [7]	100.00	100.00	EUR	1,135,632.70	–4,199,863.55
17	Feronia GmbH, Hamburg	100.00	100.00	EUR	4,186,021.88	1,356,651.36
18	GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG, Hamburg	100.00	100.00	EUR	85,466.63	–20,997.10
19	GODAN GmbH, Hamburg	100.00	100.00	EUR	–923,548.78	–27,882.52
20	HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	7,977,038.85	–541,740.72
21	HSH Care+Clean GmbH, Hamburg[1] [4]	51.00	51.00	EUR	25,000.00	71,289.72
22	HSH Corporate Finance GmbH, Hamburg[2]	100.00	100.00	EUR	8,337,269.85	–2,595,664.81
23	HSH Debt Advisory ApS, Copenhagen, Denmark	100.00	100.00	DKK	4,760,385.00	2,468,376.00
24	HSH Facility Management GmbH, Hamburg[2]	100.00	100.00	EUR	205,600.00	–2,060,791.95
25	HSH Gastro+Event GmbH, Hamburg[1] [4]	100.00	100.00	EUR	25,000.00	–686,189.90
26	HSH Kunden- und Kontenservice GmbH, Hamburg[2]	100.00	100.00	EUR	25,000.00	3,065.86
27	HSH Move+More GmbH, Kiel[1] [4]	51.00	51.00	EUR	25,000.00	72,579.84
28	HSH N Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	448,811.00	–16,199.00
29	HSH N Financial Securities LLC, Wilmington, USA	100.00	100.00	USD	3,806,438.92	–367,055.17
30	HSH N Funding I, George Town, Cayman Islands	66.32	100.00	EUR	1,003,617,222.00	37,081,131.00
31	HSH N Funding II, George Town, Cayman Islands	56.33	100.00	USD	654,305,988.00	36,311,782.00
32	HSH Nordbank Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	163,692,771.81	10,054,425.22
33	HSH N Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,900,495.63	–126,540.98
34	HSH Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	30,850,738.53
35	HSH Restructuring Advisory ApS, Copenhagen, Denmark	100.00	100.00	DKK	2,531,819.00	1,724,443.00
36	HSH Security GmbH, Kiel[2]	100.00	100.00	EUR	50,000.00	–631,613.46
37	ISM Agency, LLC, New York, USA	100.00	100.00		[8]	[8]

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
38	Kontora Family Office GmbH, Hamburg	75.02	75.02	EUR	936,632.06	111,747.76
39	K/S Angered, Hellerup, Denmark[12]	0.00	0.00	DKK	–184,534,095.00	–100,176,231.00
40	Life Insurance Fund Elite LLC, New York, USA	0.00	0.00		[8]	[8]
41	Life Insurance Fund Elite LLC, New York, USA	0.00	0.00		[8]	[8]
42	Neptune Finance Partner II S.à.r.l, Luxembourg, Luxembourg	100.00	100.00	USD	13,311.83	0.00
43	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	375.07	0.00
44	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s., Luxembourg, Luxembourg[5]	100.00	100.00	USD	–71,831,477.33	–16,627,548.72
45	RESPARCS Funding II Limited Partnership, St. Helier, Jersey[1]	0.01	100.00	EUR	–2,593,138.00	–1,224,281.00
46	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong[1]	0.01	100.00	USD	–3,264,141.00	–1,183,783.00
47	Solar Holdings S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	–8,616,874.04	–690,551.08
48	Sotis S.à.r.l., Luxembourg, Luxembourg[1]	100.00	100.00	EUR	61,868.16	22,231.96
49	Teukros GmbH, Hamburg	100.00	100.00	EUR	–2,618,200.56	–845,626.67
50	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung, Hamburg	100.00	100.00	EUR	1,387,057.65	35,326.66
51	2200 Victory LLC, Dover (Kent County), USA	100.00	100.00	USD	31,063,641.00	–2,733,514.00

SUBSIDIARIES CONSOLIDATED SOLELY FOR THE PURPOSE OF SIC 12

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
52	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Wiesbaden	0.00	0.00	EUR	–550,272.70	–22,622.91
53	AGV Irish Equipment Leasing No. 4 Limited, Dublin, Ireland	15.09	15.09	USD	–39,011,607.00	–51,704,681.00
54	CPM Luxembourg S.A., Luxembourg, Luxembourg	3.22	3.22	EUR	31,000.00	0.00
55	CPM Securitisation Fonds S.A., Luxembourg, Luxembourg	3.22	3.22	EUR	31,000.00	0.00
56	Next Generation Aircraft Finance 2 S.à.r.l., Munsbach, Luxemburg[1]	49.00	49.00	EUR	–1,893,923.00	–1,047,608.00
57	Next Generation Aircraft Finance 3 S.à.r.l., Munsbach, Luxembourg[1]	49.00	49.00	EUR	–1,829,224.00	–1,428,333.00
58	Senior Assured Investment S.A., Luxemburg, Luxembourg	0.00	0.00	EUR	31,000.00	0.00
59	Senior Preferred Investments S.A., Luxembourg, Luxembourg	0.00	0.00	EUR	31,000.00	0.00

ASSOCIATES AND JOINT VENTURES CONSOLIDATED UNDER THE EQUITY METHOD

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
60	Amentum Aircraft Leasing No. Five Limited, Dublin, Ireland[1]	49.00	49.00	USD	–10,053,596.00	–857,718.00
61	Amentum Aircraft Leasing No. Six Limited, Dublin, Ireland[1]	49.00	49.00	USD	–9,668,807.00	–309,693.00
62	Amentum Aircraft Leasing No. Three Limited, Dublin, Ireland[1]	49.00	49.00	USD	–13,491,207.00	–320,127.00
63	Amentum Aircraft Leasing No. Two Limited, Dublin, Ireland[1]	49.00	49.00	USD	–1,755,369.00	–1,872,366.00
64	Belgravia Shipping Ltd., London, Great Britain[1]	33.33	33.33	USD	54,275,000.00	–49,000.00
65	PRIME 2006-1 Funding Limited Partnership, St. Helier, Jersey	47.50	0.00	EUR	–12,122,209.00	–12,214,599.00
66	Relacom Management AB, Stockholm, Sweden	21.17	50.00	SEK	1,040,924,000.00	–1,669,869,000.00
67	SITUS NORDIC SERVICES ApS, Copenhagen, Denmark	40.00	40.00	DKK	1,788,516.00	–1,236,806.00

NON-CONSOLIDATED SUBSIDIARIES

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
68	Arbutus GmbH, Hamburg	100.00	100.00	EUR	32,224.21	636.54
69	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1]	51.00	51.00	USD	115.00	–13.00
70	Aviation Leasing OpCo France III, Paris, France[1]	100.00	100.00	EUR	–27,426.00	–34,205.00
71	Aviation Leasing OpCo France IV, Paris, France[1]	100.00	100.00	EUR	21,848.00	13,446.00
72	Bach Holdings LLC, Wilmington, USA	100.00	100.00	USD	439,272.00	0.00
73	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	2,686,645.36	99,760.46
74	CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	6,735.19	–5,060.74
75	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	6,682.35	–5,067.09
76	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH, Hamburg[1]	100.00	100.00	EUR	17,261.77	–7,738.23
77	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	6,757.84	–5,061.24
78	DMS DYNAMIC MICRO SYSTEMS USA CORP., Wilmington, USA[1]	100.00	100.00	USD	[8]	[8]
79	Dynamic Microsystems LLC., Phoenix, USA[1]	100.00	100.00	USD	34,698.00	–63,384.00
80	Dynamic Micro Systems (Shanghai) Trading Co., Ltd., Shanghai, China[1]	100.00	100.00	CNY	–352,555.05	–818,168.31
81	DYNAMIC MICRO SYSTEMS (SINGAPORE) PTE. Ltd., Singapore, Singapore[1]	100.00	100.00	SGD	–22,008.82	–102,008.82
82	European Capital Investment Opportunities Limited, St. Helier, Jersey[1]	51.00	51.00	EUR	84.00	2.00
83	Grundstücksentwicklungsgesellschaft Gartenstadt Wismar mbH & Co. KG, Hamburg	100.00	100.00	EUR	738,918.85	40,796.27
84	Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg	100.00	100.00	EUR	–2,051,051.57	–103,529.67
85	Hamburgische Betriebsverwaltungs-Gesellschaft am Gerhart-Hauptmann-Platz m.b.H., Hamburg	100.00	100.00	EUR	307,385.36	–6,958.31
86	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekt London St. Georges House i. L., Hamburg[1]	62.42	61.22	EUR	239,710.17	5,442.63
87	HSH Containers Security Trustee AB, Stockholm, Sweden	100.00	100.00	SEK	88,676.00	–1,170.00
88	HSH N Structured Situations Limited, St. Helier, Jersey[11]	100.00	100.00	USD	351,241.00	10,805.00
89	ISP Angered Development 1 AB, Stockholm, Sweden[1]	100.00	100.00	SEK	–6,707.00	–99,107.00
90	ISP Angered Development 2 AB, Stockholm, Sweden[1]	100.00	100.00	SEK	[8]	[8]
91	Neptune Ship Finance (Luxembourg) S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	3,186.13	0.00
92	NORDIC BLUE CONTAINER V LIMITED; Majuro, Marshall Islands	100.00	100.00		[8]	[8]
93	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	15,386.45	1,648.95
94	RELAT Beteiligungs GmbH & Co. Vermietungs-KG, Pullach i. Isartal	94.00	55.29	EUR	–463,879.38	201,838.18
95	Verwaltungsgesellschaft Gartenstadt Wismar mbH, Hamburg	100.00	100.00	EUR	41,248.06	2,177.20

NON-CONSOLIDATED SUBSIDIARIES SOLELY FOR THE PURPOSE OF SIC 12

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
96	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart[1] [12]	80.00	0.00	EUR	–401,442.03	–39,589.53
97	OCEAN Funding 2013 GmbH, Frankfurt	0.00	0.00	EUR	[3]	[3]
98	PLUTON Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	94.00	50.00	EUR	–6,257,831.06	237,401.35
99	TEAL FUNDING NO 1 LTD, Dublin, Ireland	0.00	0.00	GBP	–73,766.00	–1,306.00

NON-CONSOLIDATED JOINT VENTURES

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
100	Railpool GmbH, Munich	50.00	50.00	EUR	2,021,309.04	548,336.65
101	Railpool Holding GmbH & Co. KG, Munich[13]	50.00	50.00	EUR	43,620,600.03	492,381.55
102	Regional Jet Leasing 3 C.V., KJ's-Gravenhage, the Netherlands[14]	53.33	53.60	USD	–581,309.00	19,728.00

NON-CONSOLIDATED ASSOCIATES

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
103	Aeolis Wind Power Corporation, Sidney BC, Canada[1]	31.64	31.64	CAD	12,949,786.00	–1,814,531.00
104	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland[1]	49.00	49.00	USD	–4,269,606.00	–111,884.00
105	Amentum Aircraft Leasing No. Eleven Limited, Dublin, Ireland[1]	49.00	49.00	USD	2,145,748.00	830,350.00
106	Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland[1]	49.00	49.00	USD	367,419.00	1,125,765.00
107	Amentum Aircraft Leasing No. Ten Limited, Dublin, Ireland[1]	49.00	49.00	USD	–2,471,294.00	–1,237,171.00
108	BC Wind Power Corporation, Sidney BC, Canada[1]	20.92	20.92	CAD	–123,753.00	–6,714.00
109	Berkenhoff GmbH, Heuchelheim	0.00	0.00		[8]	[8]
110	CAPCELLENCE Mittelstandspartner GmbH, Hamburg	25.00	25.00	EUR	1,724,258.44	4,487,936.51
111	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	33.33	EUR	1,200.00	32,563,512.58
112	Fosse Way Shipping Limited, London, Great Britain[10] [15]	58.85	58.85	EUR	–20,157,791.00	–7,378,507.00
113	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,285,959.98	194,812.23
114	GmbH Altstadt Grundstücksgesellschaft, Wiesbaden[1]	50.00	50.00	EUR	–1,124,152.76	41,546.06
115	Golding Mezzanine SICAV IV Teilfonds 1, Luxembourg, Luxembourg	0.01	0.01	EUR	83,918,828.83	3,049,620.89
116	Golding Mezzanine SICAV IV Teilfonds 2, Luxembourg, Luxembourg	0.01	0.01	EUR	13,467,172.79	731,956.66
117	Golding Mezzanine SICAV V, Luxembourg, Luxembourg	0.02	0.02	EUR	49,285,743.36	–3,265,336.83
118	KAIACA LLC, New York, USA[1] [15]	55.30	55.30		[8]	[8]
119	LAGAN Viking Limited, Hong Kong, Hong Kong[10] [15]	58.85	58.85	EUR	–16,703,329.00	–5,450,042.00
120	Mersey Viking Limited, Hong Kong, Hong Kong[10] [15]	58.85	58.85	EUR	–16,064,914.00	–5,491,872.00
121	NOBIS Asset Management S.A., Luxembourg, Luxembourg[1] [13]	41.24	41.24	EUR	10,555,214.12	4,348,499.46
122	RE-FundMaster, Frankfurt[12]	49.83	49.83	EUR	13,450,492.70	–281,583.83
123	SLK GmbH für Immobilien-Leasing & Co. KG Objekt Berlin Pohlstraße, Pöcking	94.00	40.00	EUR	–1,311,517.87	766,893.51
124	Watling Street Shipping Limited, London, Great Britain[10] [15]	58.85	58.85	EUR	–35,500,396.00	–9,944,435.00
125	Wohn- und Gewerbefonds "Joseph Haydn Residenz" Dresden-Striesen GbR, Munich[1]	20.37	20.37	EUR	0.00	25,462.12
126	4Wheels Management GmbH, Dusseldorf[1]	68.75	40.00	EUR	14,156,425.84	13,784.43

OTHER COMPANIES WITH A SHARE OF 20% OR MORE

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
127	BRINKHOF Holding Deutschland GmbH, Erfurt[1]	100.00	0.00	EUR	[6]	[6]

[1] Indirect holding.
[2] A profit transfer agreement with the company is in place.
[3] No information available due to newly established company.
[4] There is a profit transfer agreement with HSH Facility Management GmbH.
[5] Both direct and indirect holdings.
[6] No information available due to insolvency of the company.
[7] There is a profit transfer agreement with DMS Beteiligungs GmbH.
[8] No data available.
[9] This only refers to a silo of the legal entity, which is attributable to HSH Nordbank AG.
[10] The data are based on the 2011 annual financial statements. The 2012 annual financial statements are not available yet. However, it may be assumed that the figures will be significantly reduced as a result of the sale in 2012 of the only appreciable asset.
[11] Only data as at 31 December 2010 is available.
[12] Only data as at 31 December 2011 is available.
[13] Not included under the equity method, as held for sale (IFRS 5).
[14] Joint control was explicitly agreed by contract, therefore the company is not a subsidiary despite a majority of voting rights.
[15] This is not a subsidiary due to the requirement for a qualified majority of voting rights for important decisions.

FOREIGN EXCHANGE RATES FOR € 1 AS AT 31 DECEMBER 2013

China	CNY	8.3491
Denmark	DKK	7.4593
Great Britain	GBP	0.8337
Canada	CAD	1.4671
Sweden	SEK	8.8591
Singapore	SGD	1.7414
USA	USD	1.3791

65. OTHER DISCLOSURES IN ACCORDANCE WITH GERMAN COMMERCIAL LAW

I. Basic principles

Under the terms of Section 315a (1) HGB, HSH Nordbank is required to observe the standards of the German Commercial Code in preparing and presenting the annual financial statements, as well as the IFRS standards. You may request the unabridged IFRS consolidated financial statements by following this link: www.hsh-nordbank.com. The complete list of equity holdings is set out in Note 64.

II. Number of employees

The average number of employees as of the reporting date is calculated on the basis of staff figures (head count) at quarter-end for all fully consolidated companies:

NUMBER OF EMPLOYEES

	2013			2012
	Male	Female	**Total**	Total
Full-time employees	1,689	741	2,430	2,873
Part-time employees	139	617	756	784
Total	**1,828**	**1,358**	**3,186**	**3,657**
Apprentices/trainees	33	11	44	55

III. Corporate Governance Code

HSH Nordbank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of HSH Nordbank AG have given a declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) that the recommendations of the German Corporate Governance Code Commission together with the restrictions have been complied with and will be complied with until the subsequent declaration is made. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2013 Annual Report.

IV. Auditor's fees

AUDITOR'S FEES

(€ m)	**2013**	2012
Audits KPMG AG	6	9
Of which for previous years	–	1
Other certification and valuation services provided by KPMG AG	5	3
Tax consultancy services provided by KPMG AG	1	–
Other services provided by KPMG AG	1	–
Total	**13**	**12**

V. Seats on supervisory bodies

On the reporting date, no seats were held by members of the Management Board on statutory supervisory bodies of major corporations or financial institutions.

66. NAMES OF BOARD MEMBERS AND DIRECTORSHIPS HELD

I. The Supervisory Board of the HSH Nordbank Group

Dr Thomas Mirow, Hamburg
Chairman (from 28 February 2013)
Former President of the European Bank for Reconstruction and Development, London

Hilmar Kopper, Rothenbach
Chairman
(until 28 February 2013)
Former spokesperson of the Management Board of Deutsche Bank AG

Olaf Behm, Tangstedt
Deputy Chairman
Employee of HSH Nordbank AG

Stefanie Arp, Norderstedt
Employee of HSH Nordbank AG

Sabine-Almut Auerbach, Neumünster
District secretary, ver.di Southern Holstein district

Hans-Werner Blöcker, Helmstorf
Former Managing Director, Vereinigte Asphalt-Mischwerke GmbH & Co. KG

Berthold Bose, Hamburg
Regional financial services representative, ver.di Hamburg district

Detlev Bremkamp, Munich
(until 28 February 2013)
Former member of the Management Board, Allianz AG Holding

Oliver Dircks, Kiel
(from 1 July 2013)
Employee of HSH Nordbank AG

Jürgen Friedland, Kiel
(until 30 June 2013)
Employee of HSH Nordbank AG

Torsten Heick, Rellingen
Employee of HSH Nordbank AG

Oke Heuer, Kiel
Deputy Head of Internal Audit, Savings Banks Association for Schleswig-Holstein

Stefan Jütte, Bonn
Former Chairman of the Management Board of Deutsche Postbank AG

Sabine Kittner-Schürmann, Kiel
Employee of HSH Nordbank AG

Dr Rainer Klemmt-Nissen, Hamburg
Managing Director, HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement GmbH

Lutz Koopmann, Altenholz
Former Chairman of the Management Board, Investitionsbank Schleswig-Holstein

Dr Joachim Lemppenau, Korschenbroich
Former Chairman of the Management Board, Volksfürsorge Versicherung AG

Manfred Lener, Eckernförde
Employee of HSH Nordbank AG

Thomas Losse-Müller, Kiel
(from 28 February 2013)
Secretary of State at the Schleswig-Holstein Ministry of Finance

Rieka Meetz-Schawaller, Kiel
Employee of HSH Nordbank AG

Dr David Morgan, London
Managing Director of J.C. Flowers & Co. UK LLC

Edda Redeker, Kiel
ver.di Northern district

Bernd Wrede, Hamburg
Former Chairman of the Management Board of Hapag Lloyd AG

II. Members of the Risk Committee

Stefan Jütte
Chairman

Dr David Morgan
Deputy Chairman

Olaf Behm

Jürgen Friedland
(until 30 June 2013)

Torsten Heick

Sabine Kittner-Schürmann
(from 29 August 2013)

Dr Rainer Klemmt-Nissen

Hilmar Kopper
(until 28 February 2013)

Manfred Lener

Rieka Meetz-Schawaller

Dr Thomas Mirow
(from 28 February 2013)

Bernd Wrede

III. Members of the Audit Committee

Dr Joachim Lemppenau
Chairman

Lutz Koopmann
(until 28 February 2013)
Deputy Chairman

Thomas Losse-Müller
(from 28 February 2013)
Deputy Chairman

Stefanie Arp

Olaf Behm

Oliver Dircks
(from 29 August 2013)

Jürgen Friedland
(until 30 June 2013)

Oke Heuer

Hilmar Kopper
(until 28 February 2013)

Rieka Meetz-Schawaller

Dr Thomas Mirow
(from 28 February 2013)

IV. Members of the General Committee

Hilmar Kopper
Chairman
(until 28 February 2013)

Dr Thomas Mirow
Chairman
(from 28 February 2013)

Olaf Behm

Oke Heuer

Dr Rainer Klemmt-Nissen

Lutz Koopmann
(until 28 February 2013)

Thomas Losse-Müller
(from 28 February 2013)

Rieka Meetz-Schawaller

Dr David Morgan

V. Members of the Remuneration Monitoring Committee

Dr Thomas Mirow
Chairman

Olaf Behm

Oke Heuer

Dr Rainer Klemmt-Nissen

Rieka Meetz-Schawaller

Thomas Losse-Müller

VI. Members of the Mediation Committee

Hilmar Kopper
Chairman
(until 28 February 2013)

Dr Thomas Mirow
Chairman
(from 28 February 2013)

Olaf Behm

Dr Rainer Klemmt-Nissen

Manfred Lener

VII. The Management Board of the HSH Nordbank Group

Constantin von Oesterreich
Born in 1953
Chairman

Stefan Ermisch
Born in 1966
Chief Financial Officer

Torsten Temp
Born in 1960
Shipping, Project & Real Estate Financing

Edwin Wartenweiler
Born in 1959
Chief Risk Officer

Matthias Wittenburg
Born in 1968
Corporates & Markets

DATE OF RELEASE FOR PUBLICATION

The Management Board of HSH Nordbank has prepared the consolidated financial statements on 25 March 2014 and released these for forwarding to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and approving of these.

Hamburg/Kiel, 25 March 2014

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the HSH Nordbank AG, Hamburg and Kiel, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, together with the group management report for the business year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we wish to point out to the comments in the group management report in the section "Going-concern" as well as to note 1 to the consolidated financial statements. It is stated there that the going concern assumption is based on the presumed final approval by the EU commission of the renewal of capital relief guarantee and amendment of the guarantee agreement following successful preliminary approval in June 2013, and the assumption that approval is only connected to requirements which can be implemented within the framework of a viable business plan. It is further required that the acceptance necessary for the successful implementation of the business model of HSH Nordbank AG by market participants and other relevant stakeholders be maintained.

Hamburg, 25 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Madsen
Wirtschaftsprüfer

König
Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

We hereby affirm that to the best of our knowledge the consolidated financial statements have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, financial position and results of operations of the HSH Nordbank Group and that the group management report presents the course of business, including the results of the business and the HSH Nordbank Group's situation, in such a manner that it gives a true and fair view and describes the main opportunities and risks for the HSH Nordbank Group's foreseeable performance.

Hamburg/Kiel, 25 March 2014

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg

FURTHER INFORMATION

HSH NORDBANK ADVISORY BOARD

HSH Nordbank AG created an Advisory Board for purposes of providing knowledgeable advice to the Management Board in transacting its business as well as promoting contacts between the economy, public administration and the savings banks. The members of the Advisory Board were appointed by the Supervisory Board on the recommendation of the Management Board.

CHAIRMAN

Erck Rickmers
Chairman
E.R. Capital Holding,
Hamburg

DEPUTY CHAIRMAN

Thomas H. Eckelmann
Chairman of the Group Management Board
EUROKAI KGaA,
Hamburg

MEMBERS OF THE ADVISORY BOARD

Dr Jan Behrendt
Managing Partner
Behrendt Wohnungsbau KG (GmbH & Co.),
Hamburg

Götz Bormann
Chairman of the Board of Management
Förde Sparkasse,
Kiel

Jutta Humbert
Managing Partner
NORD DRIVESYSTEMS Gruppe,
Bargteheide

Andreas Keil
Chief Financial Officer
Tipp24 SE,
Hamburg

Jan Christoph Kersig
Managing Director
Kersig GmbH & Co. KG,
Kiel

Dr Johann Killinger
Managing Partner
Buss Group GmbH & Co. KG,
Hamburg
(since 06.02.2014)

Dr Bernd Kortüm
Managing Director
Norddeutsche Vermögen Holding GmbH & Co. KG,
Hamburg

Angela Krüger-Steinhoff
Managing Partner
Steinhoff Familienholding GmbH,
Westerstede

Dirk Lütje
Managing Director
CITTI Handelsgesellschaft mbH & Co. KG,
Kiel

Fritz Horst Melsheimer
President of the Hamburg Chamber of Commerce,
Hamburg

Dr Claus-Georg Nette
Member of the Board of Management
Marquard & Bahls AG,
Hamburg

Dr Arend Oetker
Managing Partner
Dr Arend Oetker Holding GmbH,
Berlin
(since 28.11.2013)

Wolfgang Pötschke
Chairman of the Board of Management
Sparkasse zu Lübeck AG,
Lübeck

Reinhard Sager
Head of the Ostholstein District authority (Landrat),
Eutin

Dieter Schön
Managing Partner
Schön Klinik Verwaltungsgesellschaft mbH,
Prien

Katharina Strümpell
Partner and Authorized Officer (Prokuristin)
Linnhoff Schiffahrt GmbH & Co. KG,
Buxtehude
(since 06.02.2014)

Dr Fritz Süverkrüp
Honorary President
Kiel Chamber of Industry and Commerce

Dr Harald Vogelsang
Speaker of the Board of Management
Hamburger Sparkasse AG,
Hamburg

Christian Wriedt
Chairman of the Executive Board
Körber-Foundation,
Hamburg

MULTI-YEAR OVERVIEW

HSH NORDBANK GROUP 2009 – 2013[1]

		2013	2012	Following adjustment 2011	2010	2009
Income statement	(€ m)					
Net income before restructuring		–93	160	912	601	–718
Net income before taxes		–563	–185	–206	73	–1,325
Group net result for the year		–814	–124	–265	104	–743
Balance sheet	(€ m)					
Equity		4,524	5,272	4,816	5,094	4,442
Total assets		109,022	130,606	135,901	150,945	174,484
Business volume		118,640	138,515	145,409	163,741	192,927
Capital ratios[1]	(%)					
Tier 1 capital ratio		15.3	12.3	13.8	15.2	10.5
Regulatory capital ratio		23.8	19.1	21.3	22.7	16.1
Employees[2]						
Total		3,389	3,750	4,265	3,852	4,188
Germany		3,150	3,411	3,778	3,251	3,490
Abroad		239	339	487	601	698

[1] After having established the annual financial statements.
[2] Headcount.

LIST OF NOTES

LIST OF GRAPHICS

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CONCEPT, TEXT AND PRODUCTION

Kirchhoff Consult AG, Hamburg, Germany

PHOTOS

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Claudia Kempf, Wuppertal, Germany
Thies Rätzke, Hamburg, Germany

PRINTED BY

Max Siemen KG, Hamburg, Germany

NOTE

If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a gender-specific manner, but occurs exclusively for the sake of better readability.

This Annual Report was published on 10 April 2014 and is available for download at www.hsh-nordbank.com.

This is an English translation of the original German version of the Annual Report.

FORWARD-LOOKING STATEMENTS

This Annual Report includes certain forward-looking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, including information relating to possible or anticipated future growth and future economic development.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control. Therefore actual events may differ considerably from those forecast in the forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this Annual Report. Furthermore, we are not obliged to update the forward-looking statements following publication of this information. In addition, information contained in this Annual Report does not represent any kind of offer for the acquisition or sale of any type of securities of HSH Nordbank AG.

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